PSAB
Public Sector
Accounting Board

# PUBLIC SECTOR ACCOUNTING DISCUSSION GROUP

## Report on the Public Meeting
## November 20, 2020

*The Public Sector Accounting Discussion Group is a discussion forum only. The Group's purpose is to support the Public Sector Accounting Board (PSAB) by enabling discussion in a public venue of issues arising from the application of the CPA Canada Public Sector Accounting (PSA) Handbook, as well as emerging issues and issues on which the Board requests advice. The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of the Board. The Group discussions do not constitute official pronouncements or authoritative guidance.*

*This document has been prepared by staff and is based on discussions during the Group's meeting.*

*Comments made in relation to the application of the PSA Handbook do not purport to be conclusions about acceptable or unacceptable application of the PSA Handbook. Only PSAB can make such a determination.*

## ITEMS PRESENTED AND DISCUSSED

### Government not-for-profit organizations (GNFPOs): Changing financial reporting frameworks

The Group was asked to discuss two issues regarding the classification of government organizations as GNFPOs that could affect their financial reporting framework (i.e., the set of generally accepted accounting principles (GAAP) they use in preparing their financial statements).

The Introduction to Public Sector Accounting Standards, paragraph .07, defines GNFPOs as government organizations with all of the following characteristics:

(a) It is a separate entity with the power to contract in its own name and that can sue and be sued.
(b) It has counterparts outside the public sector as defined in paragraph .02.
(c) It is an entity normally without transferable ownership interests.
(d) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
(e) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

#### Issue 1

The first issue asked if the GNFPO definition that requires the entity to have private sector counterparts is still relevant in determining the classification of public sector entities as GNFPOs.

The Group was asked to consider three views:

A. Yes, the requirement remains relevant. An entity with no private sector counterparts should not meet the GNFPO definition, nor be able to use the PSA Handbook's PS 4200 series of standards. Entities without private sector counterparts would be expected to be classified as other government organizations (OGOs).

B. No, the requirement is no longer relevant. The entity's nature and purpose should determine its classification.

C. No, the requirement is no longer relevant. However, to limit use of the PS 4200 series, the private sector counterpart criterion should be replaced with something observable yet limitative. To be classified as a GNFPO an entity would need to have registered charity charitable organization tax status (or equivalent), allowing the classification for financial reporting purposes to align with the entity's tax status.

Most Group members supported View A, while indicating that identifying private sector counterparts can be difficult for some entities with not-for-profit mandates. Some felt that this aspect of the definition should be an indicator of the entity's nature rather than a strict requirement for it to be classified as a GNFPO. Others noted the importance of comparability in reporting across subsectors of the not-for-profit organization (NFPO) classification, such as between universities, regardless of whether they are public or private sector entities.

One Group member noted a preference for GNFPOs using the same GAAP as the controlling government for ease of consolidation without restatement. If the "private sector counterparts" criterion in the definition allows fewer entities to use the PS 4200 series, then it should be retained as it allows more consistency in reporting up and down the consolidation ladder.

There was some support for View B, with two Group members noting the need for separate GNFPO standards to reflect their distinct mandate from that of government organizations. As well, those Group members noted the passion of GNFPO staff and donors for the not-for-profit objectives of their organizations. Two Group members noted the risk of a volume of entities starting to use the PS 4200 series if the "private sector counterparts" requirement was removed was likely low. However, two others noted the ongoing need to distinguish GNFPO objectives from those of government and other types of controlled entities.

Ultimately, the Group concluded that there is merit in retaining the "private sector counterparts" aspect of the GNFPO definition at least until PSAB decides its GNFPO strategy. This includes amendments, if any, to the PS 4200 series or other primary Public Sector Accounting Standards (PSAS) to reflect GNFPO-specific considerations. Changing the GNFPO definition may be premature ahead of finalizing the overall GNFPO strategy.

Some Group members commented that View C was more form than substance. One noted the complexities of the Canada Revenue Agency (CRA) guidance on charities should not be imported into accounting standards. Another noted that not all GNFPOs are registered charities, so using this status as a criterion would not be appropriate.

**Issue 2**

Issue 2 asked about the impact on classifying an entity as a GNFPO if it has a number (or a growing number) of controlled for-profit entities.

Two views were considered:

A. An entity should no longer be classified as a GNFPO when the number/extent of its controlled for-profit entities or activities indicates that its mandate can no longer be considered primarily non-profit.

B. If an entity classified as a GNFPO has many controlled for-profit entities or undertakes significant for-profit activities, it can still be classified as a GNFPO if those for-profit entities/activities are undertaken to finance its non-profit mandate.

Most Group members supported View B while cautioning that professional judgment is necessary when evaluating a GNFPO's circumstances. Group members indicated there was definite merit to considering the extent to which a GNFPO had profit-oriented activities or controlled entities but recognized that NFPOs may have a need to find outside revenue sources to support their non-profit mandate. For example, Indigenous government not-for-profit housing organizations may receive funding from other levels of government for services, but not for related administrative costs. Most Group members agreed that if profits are raised and used for funding the controlling GNFPO's mandate, then they should not negate the entity's classification as a GNFPO.

Some Group members noted that evaluating this classification would consider changes in the entity's mandate (by the entity or controlling government), or in the extent of its profits. One Group member noted the evaluation should also consider if the controlling government is leaving profits in the GNFPO to help fund its mandate or taking profits out of the organization. Another indicated that the distinction between whether the GNFPO has profit-oriented activities itself or establishes a separate corporate entity for those activities might also be a consideration, especially if the corporate entity created is a government business enterprise. However, it is possible that creating such an entity may be in order to pay taxes on its profits so that the controlling GNFPO retains not-for-profit status. Looking through the structure to the substance of the entity's role in the mandate of the GNFPO is important.

Two Group members noted that the CRA guidance around registered charity business activities was helpful. The CRA is generally of the view that an NFPO can engage in commercial activities and earn an unintentional profit. However, if it is unable to undertake not-for-profit activities without its profitable activities, the organization has a profit purpose and cannot be an NFPO. Two Group members indicated that guidance comparable to this in the accounting standards would be helpful. A GNFPO may need ancillary revenues to manage long-term goals related to its non-profit mandate and to innovate future service delivery.

## Future considerations: Roundtable on emerging issues

The session's objective was to leverage the ideas of the Discussion Group to advise PSAB of possible considerations as it develops its future strategies and technical agenda. One Group member offered some broad opening considerations to position the conversation, including societal debates over the relevance of institutions and the concept of truth. In this environment, it bears asking how financial reporting standards contribute to economic and social stability as well as quality of life. Sustainability, in many senses, is a key part of economic and social stability. Without it, they are not achievable. The Group was encouraged to think about long-range issues to support PSAB during strategic planning.

Members brought significant ideas to the table, with the following broad themes:

**I. PSAB must consider the full scope of the stakeholder groups using PSAS and ensure they are relevant for each group's needs, specifically:**

1. **Sovereign governments:** Do not lose focus on their needs/issues.
2. **Local governments:** Future technical projects need to address local governments' specific issues; for example, a full review of accounting for growth (e.g., development fees).
3. **Indigenous governments:** Engage more fully with this stakeholder group (consider how and when). Acknowledge their issues (e.g., government business enterprise (GBE) issues, including their interest in using CPA Canada Handbook – Accounting Standards for Private Enterprises for smaller GBEs[1]). Consider if there is a need for customized reporting. Commitment to this stakeholder group must be sustained. Consider their unique characteristics, including inherent rights and title implications. Additionally, consider how Indigenous communities plan over generations rather than just fiscal periods.
4. **GNFPOs:** Decide and implement PSAB's GNFPO strategy.

**II. Newer transactions/new accounting challenges:**

1. Accounting for data (intangible? When to recognize and how to measure?).
2. Intangibles including cloud computing arrangements.
3. Digitization and transformation of organizations:
   - implications for financial reporting of doing business differently;
   - integrated projects to be conducted by PSAB bridging related topics for which digitization has implications (e.g., intangibles, infrastructure, impairment, etc.); and
   - capital versus operating distinction is not as clear for digital assets.
4. Green infrastructure.
5. The environment/natural capital.

**III. Existing concerns:**

[1] For example, see issues discussed at the November 2018 PSA DG Meeting in the meeting report, which can be found here: www.frascanada.ca/en/psab/committees/psadg/archived-meeting-reports

1. Active PSAB projects, such as pensions, conceptual framework and the reporting model are important. The Board should try to complete them in a timely manner to address current application challenges.
2. Pandemic costs and debts, such as loans, commitments, and fiscal sustainability.
3. Roll out of the international strategy, including ensuring that any International Public Sector Accounting Standards (IPSAS) leveraged are appropriate for each major stakeholder group.
4. Going concern questions, including:
   - flags for issues;
   - impact on net debt;
   - when to deal with a going concern issue in the financial statements;
   - impairment; and
   - when public sector specific guidance is needed (different risks, some organizations more fragile).
5. Examples of topics to address in PSAB's technical agenda include:
   - leases;
   - rate regulated accounting;
   - reconsidering hedge accounting for financial instruments;
   - reconsidering replacement cost measurement attribute for tangible capital assets; and
   - componentization of infrastructure assets.
6. Consider doing fewer projects faster.
7. Consider implications of many new standards for smaller governments and entities as changes can be overwhelming. Give longer transitional periods for new standards. Space out effective dates to allow easier implementation by smaller governments and entities.

**IV. Expanded reporting:**

**1.** Sustainability reporting, including:

- Fiscal sustainability and sustainability of future service provision;
- Infrastructure deficit;
- Climate change; and

- Commitments to international sustainability agreements – financial statement implications (e.g., risk-sharing, liabilities, and commitments).

2. Reporting risks and uncertainties, including:
   - Disclosures of nature and implications of risks and uncertainties;
   - Estimation uncertainties; and
   - Transparency to users.

**Possible non-authoritative guidance:**

1. Understanding debt and deficits; and
2. Fiscal sustainability.

**Possible future submission topics:**

1. Regulatory charges, including carbon-price levy (or “carbon tax”);
2. Componentization of infrastructure assets;
3. Use of foundations;
4. Natural capital; and
5. How do accounting standards contribute to global stability (e.g., financial, social)?