

Public Sector Accounting Discussion Group

Report on the Public Meeting

May 7, 2015

The Public Sector Accounting (PSA) 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 Handbook (PSA Handbook). 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 PSAB. The discussions of the Group do not constitute official pronouncements or authoritative guidance.

This document has been prepared by the staff of PSAB 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

[Section PS 1201: The Term "Net Debt"](#)

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ITEMS PRESENTED AND DISCUSSED

Section PS 1201: The Term “Net Debt”

Net debt is a very important indicator of financial position; however, the concept is not widely understood. In large part, this is due to net debt being associated with market borrowings. Some users do not understand net debt includes all amounts owing such as accounts payable, pensions and market borrowings. They say it sounds like debt with something taken off, perhaps sinking funds, perhaps something else.

The term net debt is explained in the PSA Handbook in Section PS 1201, *Financial Statement Presentation*.

The Free Dictionary by Farlex, available online, provides the following definition of net debt.

A measure of a company's ability to repay all debt if it were called immediately. It is calculated by adding short-term and long-term debt and subtracting all cash and cash equivalents. Many investors use net debt in making investment decisions, as it gives them an idea of a company's financial health and its level of leverage compared to liquid assets. Some industries may have more net debt than others; therefore, investors often compare a company's net debt to others in the same business.

However, the same issues around the term net debt may prevail.

This submission contends that the general understanding of the concept of net debt has not increased since the term was introduced into public sector financial statements over 10 years ago.

This submission proposes that the term net debt needs to change before any type of success can be achieved in ensuring users understand and focus on the concept and importance of net debt. Until that happens, the focus of public sector entity results will continue to primarily be on the annual surplus/deficit and level of issued debt.

Issue – What terms should be used instead of net debt?

Proposal A – “Net liabilities”

This term references the calculation involved in determining whether you have net debt and is intuitive from the statement of financial position.

The PSA Handbook indicates that when a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets". Using the term net liabilities would reflect the same naming logic when a government's liabilities exceed its financial assets.

Proposal B – “Future revenue requirements”

This term is used in Section PS 1100, *Financial Statement Objectives*, and in the publication, “20 Questions about Government Financial Reporting.” It reflects the concept behind, and the significance of, the measure.

Proposal C – Another term that is more intuitive and less confusing than net debt

There may be other terms that would work. The importance is that the term that is chosen is clearer than net debt and is as free from confusion as possible.

The Group’s Discussion

Group members agreed with the presenter’s assessment that the term net debt is not well understood.

One Group member noted that internationally the term net debt is used by other public sector entities. As such, the Group member cautioned about suggesting changes to the term that would place Canadian public sector entities out of step with similar public sector entities around the world. The Group member suggested that a discussion as to how to get people to understand the term needs to occur. Understanding the term is a communication and education challenge.

A few Group members supported Proposal A. The term net liabilities seems reasonable and it appears to make sense. It signals that the indicator includes all liabilities and it takes the focus away from debt. However, the term “net financial liabilities” may be a more appropriate term given that the opposite term is net financial assets and net liabilities is the opposite of net assets.

A few Group members supported Proposal B as the term reflects the reality of the circumstances of the entity. The concern with Proposal B is determining a reasonable term for when financial assets is greater than liabilities as “future expense requirements” may not necessarily reflect the measure.

Other terms proposed by Group members include “net financial position” or “net monetary position”.

One Group member proposed having flexibility in the terminology similar to the flexibility that exists in International Accounting Standard (IAS) 1, *Presentation in Financial Statements*.

Another Group member expressed the view that the terminology is being considered because the meaning of the measure is not well understood. The Group member brought to the Group’s attention the fact that not all public sector entities calculate the measure of net debt, nor do they present a statement of changes in net debt.

One Group member suggested that the lack of understanding of this term may be because in the past not many entities prepared financial statements in accordance with the PSA Handbook. As the number of entities that have to apply PSA standards grows, the number of people using the term will grow. Using the term will improve understanding of the term and its meaning.

Other Group members indicated that the concern with the indicator is whether it truly represents the net debt when:

- a government business enterprise’s debt, which often is significant, is not presented on a gross basis;

- deferred contributions/revenue related to the use of tangible capital assets are included in the measure, which don't represent a future revenue requirement and will not lead to cash outflows; and
- it doesn't include amounts guaranteed by the entity.

One Group member expressed the view that the issue is not with the term but rather the position of the indicator. The Group member noted that users read the bottom of the financial statements first as the most important measures (accumulated surplus/deficit and annual surplus/deficit) are found at the bottom. The Group member is of the view that net debt should be a part of accumulated surplus as accumulated surplus is made up of:

- non-financial assets (assets that provide future services); and
- net financial assets/net debt (a financial measure that indicates that the entity either has excess cash or the requirement to settle liabilities through future revenues).

The Group member also stressed the view that the indicator will get more attention and more understanding as part of accumulated surplus.

Another Group member pointed out that it would be helpful if the importance of all the indicators in the financial statements is balanced, moving the focus away from surplus/deficit and accumulated surplus/deficit as key measures.

A few Group members expressed the view that the statement of changes in net debt adds to the confusion of the indicator. This statement is also not well understood. As a solution, one Group member suggested that the statement should be presented using the direct method. The direct method would provide information with respect to:

- how much debt has been paid;
- how much debt has been issued; and
- changes in the other financial assets and liabilities.

The Chair will bring to PSAB's attention the ideas and thoughts that have arisen from the discussion, including the need to consider whether the calculation of net debt needs be reviewed given that the modified equity basis and the inclusion of deferred contributions are arguably skewing the measure. The Chair indicated that this discussion will be taken into account in developing the conceptual framework.

Sections PS 3200 and PS 3260: Remediation Obligations

Issue 1 – Should a remediation obligation be recognized as a liability when airborne contamination in a workplace exceeds legal tolerances?

Scenario:

Public sector entities may be faced with problems related to air quality resulting from the presence of mould. When eliminated quickly, mould does not generally constitute a health risk. However, the presence of significant mould disperses particles into the air that can cause health problems. For example, *La Presse* stated in June 25, 2013 that at least eight elementary schools were closed at that time in Québec due to problems of poor air quality caused by mould. There are no regulations setting a quantitative maximum threshold for mould and fungal contamination in the air. However, provincial occupational health and safety as well as public health legislations exist and create obligations that are relevant in the matter.

Asbestos is another example of air contamination. When asbestos particles are released they constitute serious health risk. The Canadian Environmental Law Association reported in 2012 that globally, each year, about 125 million people are exposed to asbestos in the workplace. Asbestos is strictly regulated in all jurisdictions in Canada, particularly during construction or maintenance operations that will disturb materials containing asbestos. Employers have a duty to limit employee exposure to airborne asbestos.

Proposal

The presence of mould and asbestos in a physical infrastructure resulting in airborne contamination is outside the scope of Section PS 3260, *Liability for Contaminated Sites*, unless the contaminants are introduced into the soil, water bodies or sediment according to paragraph PS 3260.04.

When a public sector entity has an obligation to remediate mould or asbestos contamination in a workplace, it should assess whether such an obligation creates a liability under Section PS 3200, *Liabilities*, based on the specific facts and circumstances.

When contamination leads to the closure of a building, conditions may indicate that the building no longer contributes to the public sector entity's ability to provide goods and services. In such a case, *Tangible Capital Assets*, paragraph PS 3150.31, would require a write-down to be made.

The Group's Discussion

Most Group members supported the proposal advanced.

One Group member questioned whether mould and asbestos should be assessed within the same framework as the Group member felt that the two present very different situations. Most often, mould occurs unexpectedly. On the other hand, contamination from asbestos is expected when it is disturbed, or when used in the construction of a building. The Group member noted that currently PSAB is working on an asset retirement obligation standard. It is the expectation of this Group member that the asbestos case remain in the Asset Retirement Obligation project.

Another Group member noted that it was not immediately clear why the situations expressed in the submission would be scoped out of Section PS 3260. The Group member questioned whether airborne

contamination that is contained in an infrastructure should be part of the standard given that mould and asbestos situations occur frequently. The Director, Public Sector Accounting, explained that the Contaminated Sites project started out as a proposed standard on all environmental liabilities. As the project progressed, it became clear that such a broad project would be difficult to undertake. It was then decided to only address contaminated sites. Airborne contamination was excluded from the scope of the project as it was determined that it would be difficult to measure, given that it is airborne. The Director further explained that the situations advanced in the submission present a GAAP hierarchy issue. Since currently there is no standard on airborne contamination, preparers must then look to the general liability standard, Section PS 3200, for guidance.

The presenter asked for the Group's feedback on whether the guidance in Section PS 3260 would be relevant and useful in assisting an entity to assess its situation. Most Group members agreed that Section PS 3260 would be a useful source of guidance. In the absence of a public sector asset retirement obligation standard, one Group member suggested Section 3110, *Asset Retirement Obligations*, in Part II of the CPA Handbook – Accounting and Emerging Issues Committee Abstract EIC-159, "Conditional Asset Retirement Obligations," in the pre-changeover standards in Part V of that Handbook as guidance for the asbestos situation.

The Chair indicated that he will apprise PSAB of the need to ensure that guidance on various types of contamination should be included in the PSA Handbook.

Issue 2 – What constitutes an unexpected event resulting in site contamination?

Paragraph PS 3260.05(d) states: "...a liability for remediation normally results from items such as: ...an unexpected event resulting in contamination..."

Scenario:

A public sector entity stores fuel in an underground tank. There is an inherent risk of site contamination when fuel is stored due to accidental spills and leaks. The entity manages that risk by regularly monitoring the fuel tanks for potential soil or water contamination. The entity may become aware of contamination exceeding either a legal standard or guidelines established by its controlling government and may need to take remediating actions while the site remains in productive use.

View A

Contamination is unexpected when it is not anticipated at the time the asset was acquired. While site contamination resulting from spills and leaks may occur, this situation is within the scope of Section PS 3260 when it was not anticipated at the time the asset was acquired, irrespective of whether the contaminated site remains in productive use. A liability for remediation should be recognized when all the recognition criteria in paragraph PS 3260.08 are met. This correlates with asset retirement accounting that requires the recognition of a liability for expected remediation costs when an asset is acquired.

View B

Spills and leaks are not unexpected events because they are risks inherent to the ongoing use of a fuel storage site. Therefore, the matter is not within the scope of Section PS 3260 because this situation is not unexpected and the contaminated site remains in productive use.

The Group's Discussion

Group members supported View A as it was expressed that the existence of a risk does not necessarily mean that it is expected to happen. It was also noted that in the scenario presented, the risk does not appear to be substantive.

Group members began discussing Section PS 3260 in relation to the Statement of Principles, "Asset Retirement Obligation." One Group member suggested that consideration of expectation helps to separate the scope of Section PS 3260 from the scope of the Statement of Principles. For example, if contamination is expected, a future asset retirement obligation standard would apply. If contamination is not expected then Section PS 3260 would apply. Group members continued to stress the importance of aligning the scope of PS 3260 and the future asset retirement standard to be mutually exclusive. This would allow for contamination that exceeds either a legal standard or guidelines established by the controlling government to be accounted for by one of the two standards.

One Group member expressed the view that depending on the facts and circumstances, an asset retirement obligation might have to be set up part way through the life of the asset rather than at the start of its useful life.

The Chair indicated that he would convey to the Asset Retirement Obligation Task Force, through PSAB, the following feedback:

- the need for clarity and guidance regarding what expected contamination is; and
- the need to contemplate an asset retirement obligation arising during the useful life of the asset.

Section PS 3410: Gas Tax Agreements

Transfers of funds under gas tax funding agreements are within the scope of Section PS 3410, *Government Transfers*. Although there is some diversity in practice under current gas tax agreements, recipients generally account for these transfers as liabilities until spent.

The federal government recently entered into a new 10-year administrative agreement on the federal gas tax fund with provinces and territories. Provincial governments then entered into new agreements with municipalities and government organizations, with many having an effective date of April 1, 2014.

For the most part, provisions in the new provincial agreements are similar and possibly affect when the recipient of the gas tax transfer recognizes revenue.

Significant changes noted in the standard terms of recent gas tax agreements include:

- (a) an increase in the number of eligible categories of expenditure from 7 to 18 ;

- (b) the removal of a clause requiring a proportional repayment of funds used to acquire assets in the event of their disposal within ten years of their acquisition; and
- (c) a direction that any gas tax funds on hand when the new agreement is effective are subject to requirements in the new gas tax agreement, as a result unspent gas tax funds from previous agreements can now be spent on the eligible categories referred to in (a) above and these amounts would not be subject to the proportional repayment referred to in (b) above.

Issue 1 – How should municipalities and government organizations account for the gas tax funding under the new federal agreement?

Three principal views have been identified. As gas tax agreements are only entered into with an eligible recipient, application of the definition of eligibility criteria in Section PS 3410 is not at issue. Rather, it is differences arising in the application of the definition of stipulations, contained in the Glossary to Section PS 3410 and paragraph PS 3410.16 or PS 3410.19 and any applicable supporting provisions that is at issue.

View A – Liability until spent

There is only one stipulation. Although the new agreement introduces new spending categories, the new criteria remain sufficiently specific and impose a purpose stipulation that creates a liability. The stipulation continues until the recipient uses the resources to acquire or develop a tangible capital asset. When the recipient of the gas tax transfer makes an eligible expenditure, the amount is recognized as revenue.

View B – Revenue when authorized

Three arguments are advanced in support of this view:

- The purpose stipulation is now so broad that almost any infrastructure project undertaken qualifies.
- There is no longer a provision in the agreement requiring the recipient to use assets purchased to provide services.
- The agreements are vague regarding what will happen to any unspent funds at the end of the agreement. There is not a clear time stipulation and history has shown that unspent funds have not been returned after the expiry of the first agreement.

Therefore, the amount is a transfer without stipulations and is accounted for in accordance with paragraph PS 3410.16, which states: "A transfer without eligibility criteria or stipulations should be recognized as revenue by a recipient government when the transfer is authorized."

View C – Consider the recipient's specific facts and circumstances

Each recipient must consider its own specific facts and circumstances in determining whether stipulations are present. For example, a small municipality may have limited capital needs that do not correspond with the spending categories. In such a case, unspent amounts transferred under the old program might remain unspent, notwithstanding the introduction of new spending categories.

The Group's Discussion

Group members sought clarification with respect to the situation presented. One Group member noted that since the funding flows through the provincial government, the provincial government may impose further eligibility criteria. The role that the provincial government plays in these agreements may lead to different views being expressed. The presenter clarified that it was assumed that the provincial government would not impose additional eligibility criteria from those imposed by the federal government. For the purposes of this discussion, the presenter indicated that the focus is on the stipulations rather than the eligibility criteria.

One Group member noted that a statement in the submission might be misleading. Consequently, an improvement was made to the first sentence of the last paragraph in View B that clarified the standard's intention that stipulations do not always lead to a liability. The presenter indicated that the sentence should be amended to state: "...the amount is a transfer without stipulations that meet the definition of a liability and is accounted for in accordance with paragraph PS 3410.16."

Group members questioned whether the funding has ever been returned to the federal government. Based on the presenter's past experience, municipalities have usually spent the funding received.

Group members also considered whether a municipality's own actions may create a constructive obligation irrespective of the stipulations in the agreement. It was then determined that the issue at hand was going to be assessed based on the presumption that the municipality has not taken any actions that would be seen as constructive obligations.

Group members expressed mixed views. Several members supported View B. These members felt that the stipulations indicated are not substantive enough to result in a liability. The standard indicates that not all stipulations will result in a liability. As a result, the existence of stipulations does not necessarily mean that a liability exists. The existence of stipulations means that professional judgment must be applied. The standard defines stipulations as: "terms imposed by a transferring government regarding the use of transferred resources or the actions a recipient must perform in order to keep a transfer." Some members felt that the terms in the agreement did not appear to meet the definition of a stipulation as there does not appear to be a negative consequence associated with not meeting the terms. Consideration was also given to a municipality's mandate. Some Group members felt that the terms do not create a liability as they don't create anything incremental to what a municipality would have normally done. These members did not feel that the stipulations were sufficiently narrow to create a liability.

It was proposed by a few Group members that when the funding is recognized as revenue, it should be highlighted in accumulated surplus (i.e., designated funds) to indicate to the user that it is designated for a specific purpose. For those members, the accumulated surplus section of the statement of financial position needs to be given greater presence in the PSA Handbook, than it is currently.

Other Group members supported View A. One Group member noted that if the agreement is signed with the provincial government, the provincial government has a role in overseeing the funds and being accountable to the federal government. Consideration needs to be given to how the province manages the gas tax funding. The provincial government may narrow the focus of the terms found in the gas tax

funding agreements by approving specific projects that the municipality could undertake. Projects would need to proceed as approved for a municipality to recognize the funding as revenue. By narrowing the focus of the terms, the stipulations become more specific. Another member noted that even if the number of stipulations has broadened, municipalities would still need to spend the funding on certain infrastructure projects. The funding can't be spent to cover operating costs. This causes the stipulations to be narrow, thus creating a liability.

A few Group members expressed concern with amortizing the funding over the life of the tangible capital asset. In their view, the funding is a liability until spent (i.e., the asset is acquired and the project is complete).

Through the discussion it was identified that there are also differences in the way the provincial governments are accounting for the funding associated with the new gas tax agreements.

Some Group members noted that as professional accountants, View C is what should be done to assess and evaluate all situations. Based on consideration of the recipient's specific facts and circumstances, a conclusion will be made to either recognize a liability until spent or revenue when authorized.

Issue 2 – In Alberta and Ontario, some agreements include a clause requiring the return of unspent amounts. Would this affect the accounting?

Some variations from the standard provincial agreements have been observed. In Alberta and Ontario, for example, the agreement introduces an obligation to return unspent amounts. If the funding is not used within a specific time period (usually five years), any unexpended funds are considered a debt of the recipient to the transferor or transferor's agent.

View A – Liability until spent

The requirement to return unspent amounts imposes a time stipulation in addition to the purpose stipulation. A purpose stipulation that is not satisfied by the deadline will result in an obligation to refund any unspent amounts. In this case, the funding is accounted for as a liability until an eligible expenditure is made or the funds are returned.

Where the new agreement supersedes a provision in an earlier agreement that allows a recipient to retain unspent amounts, all unspent amounts would be accounted for as a liability until an eligible expenditure is made or the funds are returned.

View B – Revenue when authorized

The repayment obligation (a time stipulation) is not substantive as the purpose stipulation is now so broad that almost any infrastructure project undertaken qualifies. A liability would only be established if the time stipulation has not been met.

The same approach applies to unspent funding attributable to predecessor agreements.

View C – Consider the recipient's specific facts and circumstances

Each recipient must consider its own specific facts and circumstances in determining whether stipulations are substantive. For example, if a small municipality does not carry out sufficient eligible capital projects, it may not be possible to apply all of the gas tax funding received. Another municipality with an active capital project program generally fully applies all of the gas tax funding it receives and for this municipality the time stipulation is not substantive.

The same approach applies to unspent funding attributable to predecessor agreements.

The Group's Discussion

Group members were asked whether the time stipulation changed the view they presented in Issue 1. Group members indicated that adding the time stipulation did change the scenario. For some members, the view did change. For others, the view remained the same. The change of view depended on the substantiveness of the time stipulation.

Some Group members continued to support View A for the same reasons provided in Issue 1. The addition of the time stipulation did not alter their view. A few members changed their view from Issue 1 to supporting View A, noting that the stipulations now have consequences. If the funding is not used within a specific time period, there is an obligation to refund any unspent amounts. The stipulation in this issue appears to meet the definition of a stipulation presented in the standard. Consideration was then given as to whether the stipulation is substantive enough to meet the definition of a liability. Because of the consequence, these Group members felt that the stipulation was substantive enough to create a liability until an eligible expenditure is made or the funds are returned.

Other Group members continued to support View B. One member noted that the time stipulation provides the opportunity for the parties to the agreement to discuss what could be done with the funding. Rarely is money given back, even when there is a time stipulation. Others noted that in situations where the recipient will undoubtedly spend the money and the transferor does not expect to receive any money back, the funding should be recorded as revenue when authorized. Some Group members maintained that if the funding is going to be spent anyway, then the time stipulation is not substantive enough to result in a liability.

It was noted by one member that in Ontario the Association of Municipalities of Ontario may, at its discretion, declare unspent funds as debt. Any unspent funds are not automatically declared as debt.

One Group member supported View C. Although at the start of the discussion it was determined that the issue at hand was going to be assessed based on the presumption that the municipality has not taken any actions that would be seen as constructive obligations, the actions and communications of a municipality are important in determining the accounting for the funding. For example, if a municipality has promised to build a library, the municipality has an obligation to build a library. The specific facts and circumstance of a municipality are critical in evaluating the accounting.

One Group member supported all views and noted that for small municipalities the time stipulation may be substantive. A liability would need to be recognized until spent, supporting View A. For larger municipalities the time stipulation may be fundamentally meaningless. In this situation the funding would be recognized as revenue when authorized, supporting View B. The recipient's specific facts

and circumstances need to be considered to determine the substantiveness of the stipulations, supporting View C.

Additional Discussion

Following consideration of the submission, there was a discussion about the application challenges related to the standard.

Group members recognize that the standard allows for different interpretations to be made. It allows for transactions in similar circumstances to be accounted for differently, which has led to a lack of comparability and consistency. Some Group members questioned whether this is in the public interest.

Some Group members expressed the view that the standard needs further clarity. These Group members stressed that they are not advocating for rules-based standards, but rather for principles that are clear enough to lead to the same accounting for government transfers in similar facts and circumstances. These Group members made the following suggestions:

- provide guidance that would assist public sector entities interpret the standard in the same way for similar situations;
- provide clarity regarding what a liability is;
- provide clarity as to the relevance of a public sector entity's mandate or expected normal behaviour in terms of determining the substantiveness of a stipulation;
- include the requirement that stipulations leading to liabilities must be narrow and specific and have negative consequences; and
- if there is a move to recognize this funding as revenue, allow public sector entities to explain what is included in their accumulated surplus (i.e., money designated for capital), on the face of the statement of financial position.

Other Group members indicated that the standard is fine. It allows professional judgment to be used. The disclosure included in the financial statements should assist users of financial statements to understand how the entity has accounted for its government transfers. One Group member indicated that it would be difficult to achieve the goal where similar entities will account for things in the same way as there may be differences in individual facts and circumstances. Another Group member suggested that the standard is good as all the possible alternatives may not necessarily be better. Group members recognized that if changes to the standard lead to more sovereign governments legislating their own accounting rules, the situation would not be better than it currently is. One Group member suggested that the best way to deal with the standard is through discussions such as those held by the PSA Discussion Group, trying to bring an evolution of thinking where there is a greater, albeit never perfect, consensus on how transactions and other events should be accounted for in relation to principles in the PSA Handbook.

It was suggested that as part of the Post-implementation Review of Section PS 3410, information should be gathered that will help determine the magnitude of the application challenges. This would help decide what action, if any, should be taken on the standard.

The Chair acknowledged that the discussion will benefit the ongoing post-implementation review of the standard.

PSG-2: Contractual Obligations

Public Sector Guideline PSG-2, *Leased Tangible Capital Assets*, includes disclosure requirements that apply to public sector entities with leased tangible capital assets. Part of the requirements relate to the disclosure of the contractual obligations and contingencies related to leased capital assets.

The reference to contractual obligations in paragraphs 26 and 27 of PSG-2 may create confusion, as Section PS 3390, *Contractual Obligations*, defines contractual obligations as: "obligations of a government to others that will become liabilities in the future when the terms of those contracts or agreements are met."

Section PS 3390 goes on to state: "Contractual obligations are distinct from liabilities as there has been no past transaction or event obligating the government to a future sacrifice of economic benefits at the financial statement date."

When a lease agreement gives rise to a leased tangible capital asset, a government recognizes a tangible capital asset and a liability. In such a case, entering into the lease agreement is the past event requiring the recognition of a liability and the government no longer has a contractual obligation related to the recorded liability.

Issue – Use of the term contractual obligations in paragraphs 26 and 27 of PSG-2 conflicts with the meaning of the same term, defined in Section PS 3390

To avoid confusion, the disclosure requirements in paragraph 27 need to be harmonized with the definition of contractual obligations in Section PS 3390. Disclosure requirements that support amounts recognized in the financial statements need to be distinguished from those that describe contractual obligations that are not yet recognized in the financial statements.

The Group's Discussion

The Director, Public Sector Accounting, explained that the intent of the contractual obligations and contingencies section of the Guideline was to address other activities or responsibilities in the leased tangible capital asset agreement that give rise to contractual obligations and contingencies.

The majority of Group members agreed that there is a conflict with the use of the term "contractual obligation" between PSG-2 and Section PS 3390, although this has not caused application or implementation issues that they are aware of. In particular, the conflict appears to be evident in paragraph 27(d). The future minimum lease payments are not contractual obligations that will become liabilities in the future when the terms of the contracts or agreements are met. The future minimum lease payments are current liabilities.

The presenter suggested that the issue may be resolved by revising PSG-2. One Group member suggested that the Guideline could be revised by listing the individual items that should be disclosed and removing references to "contractual obligations". The Group member also suggested that PSAB

consider making the revision through an annual improvement process that would resolve minor issues in a timely manner without opening up an entire standard and/or guideline.

Another Group member pointed out that there are certain situations, such as contractual agreements that promise to advance money, that are not contemplated in Section PS 3390. These types of agreements lead to the recognition of a receivable. The Director, Public Sector Accounting, indicated that Section PS 3380, *Contractual Rights*, and Section PS 3390 only deal with those items that have an effect on operations. Those contractual rights or obligations that only affect financial position are not contemplated in the two standards.

The Chair will recommend to PSAB that the Guideline be corrected through an annual improvements process. The Chair noted that the broader issues around the definition of contractual obligations need to be dealt with separately from an annual improvements process.