



Office of the Auditor General of Ontario

May 2021

# Accounting and Assurance Standards Update



## Helping You to Keep Up with Changing Accounting and Assurance Standards

The Office of the Auditor General of Ontario is pleased to provide this third annual newsletter to make it easier for you to stay informed about changes to the CPA Canada Handbook that might affect your organization.

The ongoing COVID-19 pandemic continues to present unique financial reporting implications. In this issue, we update our summary of accounting considerations for the public sector.

This newsletter focuses on the most relevant accounting and assurance standard changes, prepared in an easy-to-read reference format.

We track four key areas of interest: Public Sector Accounting Standards (PSAS); PSAS for Government Not-for-Profit Organizations; International Financial Reporting Standards (IFRS); and Assurance Standards. This edition contains updates to PSAS, IFRS and Assurance Standards. We encourage Government Not-for-Profit Organizations to review PSAS updates as these may also apply.

We hope you will find this newsletter useful. Please share your thoughts about it with Rebecca Yosipovich, Director, Professional Practices, and David Catarino, Director, Accounting Centre of Excellence, so we can make future editions even better.

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# Financial Reporting Implications of the COVID-19 Pandemic

All entities will need to consider the impact of the ongoing COVID-19 pandemic on financial reporting this year. The unprecedented nature of the COVID-19 pandemic continues to present unique financial risks and uncertainties. Identification and analysis of the ongoing impact of the pandemic on financial reporting continues to be important.

The nature and extent of the impact will vary from entity to entity, depending on a number of factors, including the nature of the entity's operations and reporting deadlines as well as the applicable financial reporting framework. Below is a list of the more common issues that may be encountered in the public sector.

## Covid-19 Payments and Revenues

Those entities that have made or committed to special transfers or payments in the future as a result of COVID-19 will need to ensure that related expenditures are recorded in the appropriate period. PS 3410, *Government Transfers*, and PS 3200, *Liabilities*, should be consulted to ensure that the financial statements reflect the correct amounts. Similarly, entities that receive special payments related to COVID-19 should review the guidance in PS 3410 to determine the appropriate period to record these revenues.

## Impairment

Impairment of assets may also need to be considered. Additional attention will be needed in the area of collectability. There is an increased risk that counterparties experienced financial difficulties as a direct result of the pandemic and may defer or make partial payments.

The carrying amount of non-financial assets, such as property, plant and equipment, intangible assets and right-of-use assets may be impacted by changes to future cash flows, especially for entities reporting under IFRS standards.

## Going Concern

While the pandemic has disrupted normal operations for many, it is not expected that going concern will be a significant issue within the public sector.

## Measurement Uncertainty and Estimates

As a result of the uncertainty associated with the pandemic, entities are likely to face challenges related to selecting appropriate assumptions and developing reliable estimates. Additional disclosures may be needed in areas such as measurement uncertainties, judgments and estimates.

# This Edition at a Glance

## Standards Digest

The following future accounting and assurance standards are detailed in this edition:

| Page | Standard   | Key Takeaways and Guidance  | Effective Date* |
|------|--|---|-----------------|
| 9    | PSG-8<br>Purchased Intangibles   | <ul style="list-style-type: none"> <li>• New guideline issued in April 2021.</li> <li>• Permits recognition of intangible assets that are acquired through an arm's length exchange transaction between willing parties.</li> <li>• Recognition prohibition for purchased intangibles that was previously in PS 1000, <i>Financial Statement Concepts</i>, was removed.</li> </ul>  | April 1, 2023   |
| 9    | PS 3160 –<br>Public Private Partnerships   | <ul style="list-style-type: none"> <li>• New standard issued in April 2021.</li> <li>• Recognition, measurement presentation and disclosure of public private partnerships.</li> <li>• Applies to partnerships that involve the public sector entity obtaining control of the infrastructure asset and the private sector partner designing, building, acquiring and/or bettering the infrastructure, financing the transaction past the point the infrastructure is ready for use, and operating and/or maintaining the infrastructure on an ongoing basis.</li> </ul>   | April 1, 2023   |
| 10   | Amendment to<br>PS 1150 –<br>Generally Accepted<br>Accounting Principles<br>(GAAP) | <ul style="list-style-type: none"> <li>• PS 1150 provides guidance on sources to consult if the Public Sector Accounting Standards Handbook and the Public Sector Guidelines do not explicitly address the accounting for an event or transaction.</li> <li>• PS 1150 was amended to direct public sector entities to consult the pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB) for guidance before considering any other authoritative sources of GAAP.</li> <li>• Applies to new transactions or other events for which the entity has no existing accounting policy.</li> <li>• Amendment does not require revision of existing accounting policies.</li> </ul> | April 1, 2021   |
| 10   | PS 3400 –<br>Revenue   | <ul style="list-style-type: none"> <li>• Standard issued in June 2018.</li> <li>• Recognition, measurement and presentation of revenues in the public sector that are not government transfers or taxes.</li> <li>• Two categories of public sector revenues: exchange transactions and unilateral (non-exchange) transactions with different recognition criteria.</li> <li>• In response to the COVID-19 pandemic, the effective date for this standard was deferred from April 1, 2022 to April 1, 2023.</li> </ul>  | April 1, 2023   |

\* The effective date is for financial years beginning on or after the date shown.

| Page | Standard                                   | Key Takeaways and Guidance   | Effective Date* |
|------|--|--|-----------------|
| 11   | PS 3280 – Asset Retirement Obligations     | <ul style="list-style-type: none"> <li>Standard issued in August 2018.</li> <li>Recognition and measurement of obligations that arise from permanent removal of tangible capital assets from service.</li> <li>In response to the COVID-19 pandemic, the effective date for this standard was deferred from April 1, 2021 to April 1, 2022.</li> </ul>   | April 1, 2022   |
| 12   | PS 3450 – Financial Instruments            | <ul style="list-style-type: none"> <li>Part of a suite of standards (PS 3450, PS 2601, PS 1201).</li> <li>Recognition, measurement, presentation and disclosure of financial instruments, including derivatives.</li> <li>All financial instruments to be measured in one of two categories: (i) fair value; or (ii) cost or amortized cost.</li> <li>In response to the COVID-19 pandemic, the effective date for this standard was deferred from April 1, 2021 to April 1, 2022.</li> </ul>  | April 1, 2022   |
| 12   | PS 2601 – Foreign Currency                 | <ul style="list-style-type: none"> <li>Part of a suite of standards (PS 3450, PS 2601, PS 1201).</li> <li>Replaces the guidance in section PS 2600, <i>Foreign Currency Translation</i>.</li> <li>Exchange gains/losses on monetary assets and liabilities prior to settlement are recorded in the statement of remeasurement gains and losses.</li> <li>Upon settlement, cumulative unrealized foreign exchange gains/losses are reclassified to the statement of operations.</li> <li>Eliminates hedge accounting for foreign currencies.</li> <li>In response to the COVID-19 pandemic, the effective date for this standard was deferred from April 1, 2021 to April 1, 2022.</li> </ul>   | April 1, 2022   |
| 13   | PS 1201 – Financial Statement Presentation | <ul style="list-style-type: none"> <li>Part of a suite of standards (PS 3450, PS 2601, PS 1201).</li> <li>Replaces PS 1200, <i>Financial Statement Presentation</i>.</li> <li>Introduces statement of remeasurement gains and losses.</li> <li>Remeasurement gains and losses arise from (i) foreign exchange gains and losses on items in the amortized cost category; (ii) unrealized gains and losses on financial instruments measured at fair value.</li> <li>Accumulated remeasurement gains or losses at the end of the period are reported as a separate component of accumulated surplus or deficit.</li> <li>In response to the COVID-19 pandemic, the effective date for this standard was deferred from April 1, 2021 to April 1, 2022.</li> </ul> | April 1, 2022   |

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| Page | Standard  | Key Takeaways and Guidance  | Effective Date*                  |
|------|---|---|----------------------------------|
| 13   | PS 3041 – Portfolio Investments                           | <ul style="list-style-type: none"> <li>• New standard replacing PS 3040, Temporary Investments.</li> <li>• Portfolio investments measured in accordance with PS 3450, Financial Instruments unless they have concessionary terms.</li> <li>• Losses in the value of a portfolio investment that are not a temporary decline should be recognized and recorded in the statement of operations.</li> <li>• In response to the COVID-19 pandemic, the effective date for this standard was deferred from April 1, 2021 to April 1, 2022.</li> </ul>  | April 1, 2022                    |
| 14   | Annual Improvements to Public Sector Accounting Standards | <ul style="list-style-type: none"> <li>• As part of PSAB’s 2018-19 Annual Improvements, the title of PS 3060 was changed from “Government Partnerships” to “Interests in Partnerships”. The definition of a partnership was also amended to include a partnership between two or more government organizations under the same government reporting entity.</li> <li>• The 2018-19 Annual Improvements further amended various standards to reflect the recognition of government components, a separate category within the government reporting entity.</li> <li>• The 2019-2020 Annual Improvements clarified that early adoption of a new or amended standard also requires early adoption of all consequential amendments related to that standard. The 2019-20 Annual Improvements further amended various standards to reflect the requirement to disclose contractual rights in addition to contractual obligations, and to replace the term “contingency” with “contingent assets and contingent liabilities”.</li> </ul> | Various (see details on page 14) |
| 14   | Financial Instruments Narrow Scope Amendments             | <ul style="list-style-type: none"> <li>• Amendment to PS 3450, <i>Financial Instruments</i> that clarifies that bond repurchase transactions are not treated as an extinguishment unless the bond is legally discharged, or is exchanged for a bond with significantly different terms.</li> <li>• Amendment to PS 2601, <i>Foreign Currency Translation</i>, that permits public sector entities to make an irrevocable election upon initial recognition of a financial asset or financial liability arising from a foreign currency transaction. The election would allow public sector entities to recognize any related unrealized foreign exchange gain or loss directly in the statement of operations. PS 1201, <i>Financial Statement Presentation</i>, and PS 3450, <i>Financial Instruments</i>, were also revised to align with this amendment.</li> </ul>  | April 1, 2022                    |

\* The effective date is for financial years beginning on or after the date shown.

| Page | Standard   | Key Takeaways and Guidance  | Effective Date*                  |
|------|--|---|----------------------------------|
| 15   | IFRS 17 – Insurance Contracts  | <ul style="list-style-type: none"> <li>• Replaces IFRS 4, <i>Insurance Contracts</i>.</li> <li>• Profit from insurance contracts is initially recorded as a liability called the contractual service margin.</li> <li>• Contractual service margin is recognized over the insurance contract’s coverage period.</li> <li>• Requires entities to update actuarial assumptions and estimates in measuring insurance contracts in subsequent reporting periods.</li> <li>• Accelerates the recognition of losses on insurance contracts that are expected to be onerous.</li> </ul>  | January 1, 2023                  |
| 15   | Amendments to IFRS 3 – Business Combinations                                   | <ul style="list-style-type: none"> <li>• IASB issued Definition of a Business (Amendments to IFRS 3); guidance is designed to make it easier for entities to decide whether they have acquired a business or a group of assets.</li> </ul>  | See details on page 15           |
| 16   | Amendment to IFRS 9 – Financial Instruments                                    | <ul style="list-style-type: none"> <li>• Amendments to IFRS 9, IAS 39 and IFRS 7 were issued in November 2019 to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as the interbank lending rate (IBOR).</li> <li>• Further amendments were issued in October 2020 to provide temporary exceptions from applying specific hedge accounting requirements in IFRS 9 and IAS 39 to all hedging relationships directly affected by interest rate benchmark reform.</li> <li>• In September 2020, an additional amendment to IFRS 9 clarified which fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.</li> </ul> | Various (see details on page 16) |
| 16   | Amendment to IAS 1 – Presentation of Financial Statements                      | <ul style="list-style-type: none"> <li>• Narrow-scope amendment.</li> <li>• Clarifies the concept of materiality in IAS 1, <i>Presentation of Financial Statements</i> and IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</li> </ul>  | January 1, 2020                  |
| 16   | Amendment to IAS 16 – Property, Plant and Equipment                            | <ul style="list-style-type: none"> <li>• Amendment to clarify that if an item of property, plant and equipment generates sales before it is available for its intended use, the proceeds from these sales cannot be deducted from the cost of the item.</li> </ul>  | January 1, 2022                  |
| 16   | Amendment to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets | <ul style="list-style-type: none"> <li>• Amendment to specify that when an entity assesses whether a contract is onerous, in calculating the costs of the contract it should include both the incremental costs associated with the contract as well as an allocation of other costs directly related to fulfilling the contract.</li> </ul>  | January 1, 2022                  |

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| Page | Standard  | Key Takeaways and Guidance  | Effective Date*  |
|------|---|---|--|
| 17   | CAS 701 – Communicating Key Audit Matters in the Independent Auditor’s Report | <ul style="list-style-type: none"> <li>• Introduces new section in the auditor’s report called Key Audit Matters (KAM).</li> <li>• KAM are those matters that, in the auditor’s professional judgment, were of most significance to the audit.</li> <li>• KAM is required for the audit of all listed entities.</li> <li>• Listed entities are entities whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.</li> </ul>  | Various (see details on page 17)   |
| 17   | CAS 540 – Auditing Accounting Estimates and Related Disclosures               | <ul style="list-style-type: none"> <li>• Establish more robust requirements and detailed guidance in relation to accounting estimates and related disclosures.</li> </ul>   | Audits of financial statements for periods beginning on or after December 15, 2019                             |
| 18   | CSRS 4400 – Agreed-upon Procedures Engagements                                | <ul style="list-style-type: none"> <li>• Agreed-upon procedures are procedures that are agreed to by the practitioner and the engaging party (and other parties, if applicable) that leads to a report of factual findings. Unlike an audit or a review, agreed-upon procedures do not provide any level of assurance.</li> <li>• Updates and replaces existing Section 9100, <i>Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements</i>.</li> <li>• Expands on the scope of Section 9100 by including non-financial subject matters.</li> <li>• Requires additional areas in the agreed-upon procedures report.</li> </ul> | Agreed-upon procedures engagements for which the terms of engagement are agreed to on or after January 1, 2022 |

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## Accounting Standards Adoption Timeline

The following timeline shows the effective dates for the future accounting and assurance standards outlined in this edition of the Accounting Standards Newsletter.

|             |           |   |             |
|-------------|-----------|---|-------------|
| <b>2019</b> | CAS 540   | Auditing Accounting Estimates and Related Disclosures                 | December 15 |
|             | IAS 1     | Presentation of Financial Statements (Amendment)                      | January 1   |
| <b>2020</b> | IFRS 3    | Business Combinations (Amendment)                                     | January 1   |
|             | IFRS 9    | Financial Instruments (Amendment)                                     | January 1   |
|             | 2018-2019 | Annual Improvements to Public Sector Accounting Standards             | April 1     |
| <b>2021</b> | PS 1150   | Modification to the GAAP Hierarchy (Amendment)                        | April 1     |
|             | CSRS 4400 | Agreed-upon Procedures Engagements                                    | January 1   |
| <b>2022</b> | IAS 16    | Property, Plant and Equipment (Amendment)                             | January 1   |
|             | IAS 37    | Provisions, Contingent Liabilities and Contingent Assets (Amendments) | January 1   |
|             | PS 1201   | Financial Statement Presentation                                      | April 1     |
|             | PS 2601   | Foreign Currency Translation  | April 1     |
|             | PS 3041   | Portfolio Investments   | April 1     |
|             | PS 3280   | Asset Retirement Obligations  | April 1     |
|             | PS 3450   | Financial Instruments   | April 1     |
|             | PS 3450   | Narrow Scope Amendments to Financial Instruments                      | April 1     |
|             | CAS 701   | Communicating Key Audit Matters in the Independent Auditor's Report   | December 15 |
|             | IFRS 17   | Insurance Contracts   | January 1   |
| <b>2023</b> | PSG-8     | Purchased Intangibles   | April 1     |
|             | PS 3160   | Public Private Partnerships   | April 1     |
|             | PS 3400   | Revenues  | April 1     |

# Public Sector Accounting Standards (PSAS)

## Purchased Intangibles

**Effective Date:\*** April 1, 2023  
**Early Adoption:** Permitted

The Public Sector Accounting Board (PSAB) issued Public Sector Guideline 8, *Purchased Intangibles* in November 2020 to provide general guidance on the recognition of intangibles purchased through an exchange transaction. Purchased intangibles are defined as identifiable non-monetary economic resources without physical substance acquired through an arm's length exchange transaction between knowledgeable, willing parties who are under no compulsion to act. Examples of purchased intangibles include licences, trademarks and film and television rights.

PS 1000, *Financial Statement Concepts* was amended concurrently to remove the recognition prohibition relating to purchased intangibles. PS 1201, *Financial Statement Presentation*, was also amended to remove the requirement to disclose unrecognized purchased intangibles.

Government not-for-profit organizations applying the 4200 series continue to follow the guidance in PS 4230, *Capital Assets Held by Not-for-Profit Organizations*.

## Public Private Partnerships

**Effective Date:\*** April 1, 2023

In April 2021, PSAB issued PS 3160, *Public Private Partnerships*, to provide guidance on the recognition, measurement, presentation and disclosure of public private partnerships. This section applies to partnerships in which the public sector entity obtains control of the infrastructure asset and the private sector partner performs all of the following activities:

- (i) designs, builds, acquires and/or betters infrastructure on behalf of the public sector entity;
- (ii) finances the transaction past the point the infrastructure is ready for use; and
- (iii) operates and/or maintains the infrastructure.

An infrastructure asset is recognized when the public sector entity controls all of the following:

- (i) the purpose and use of the infrastructure;
- (ii) access to the future economic benefits and exposure to the risks of the infrastructure asset; and
- (iii) significant residual interest in the infrastructure, if any, at the end of the public private partnership's term.

Infrastructure assets are recognized at cost. The cost, less any residual value, of an infrastructure asset with a limited life is amortized over its useful life.

Upon recognition of the infrastructure asset, a liability is recognized equal to the infrastructure asset, less any amounts previously paid to the private sector partner. The liability is settled by future payments of cash or other financial assets (financial liability), or by granting rights to the private sector partner to earn revenue from the infrastructure asset (user pay model).

A public sector entity discloses the significant terms of the arrangement, the key rights and obligations for the public sector entity and private sector partner, the accounting policy, and changes in the terms of the public private partnership arrangement occurring during the reporting period.

\* The effective date is for financial years beginning on or after the date shown.

# Public Sector Accounting Standards (PSAS)

## Modification to the Hierarchy of Generally Accepted Accounting Principles – Amendment to PS 1150

**Effective Date:**\* April 1, 2021

In April 2021, PSAB issued an amendment to PS 1150, *Generally Accepted Accounting Principles*. Under this standard, when an event or transaction is not explicitly addressed by a primary source of generally accepted accounting principles (i.e. the Public Sector Accounting Standards Handbook or Public Sector Guidelines), public sector entities are directed to consult other authoritative sources of GAAP. The amendment requires that the pronouncements issued by the International Public Sector Accounting Standards Board (<https://www.ipsasb.org>) be considered first before looking at other authoritative sources of GAAP.

The amendment only applies to new transactions or other events for which the entity has no existing accounting policy. The amendment does not require revision of existing accounting policies.

## PS 3400 – Revenue

**Effective Date:**\* April 1, 2023  
**Early Adoption:** Permitted

In June 2018, PSAB approved Section PS 3400 to provide guidance on the recognition, measurement and presentation of revenues that arise in the public sector, but are outside the scope of PS 3410, *Government Transfers* and PS 3510, *Tax Revenues*.

Section PS 3400 separates public sector revenues into two categories: exchange transactions and unilateral (non-exchange) transactions. The distinguishing feature is the existence of a performance obligation, an enforceable promise to provide a good or service to a payor. Exchange transactions are characterized by one or more performance obligations. By contrast, unilateral transactions, such as fines and penalties, are not associated with a performance obligation.

Revenues from an exchange transaction are recognized as or when the public-sector entity satisfies the performance obligation. Performance obligations may be satisfied at a point in time or over a period of time, depending on which method best depicts the transfer of goods or services to the payor.

Unilateral revenues are recognized when there is the authority and a past event that gives rise to a claim of economic resources.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2022. In November 2020, in response to the COVID-19 pandemic, PSAB deferred the effective date for this section by one year to April 1, 2023.

\* The effective date is for financial years beginning on or after the date shown.

# Public Sector Accounting Standards (PSAS)

## PS 3280 – Asset Retirement Obligations

**Effective Date:**\* April 1, 2022  
**Early Adoption:** Permitted

Section PS 3280 was issued in August 2018 to provide guidance on the recognition and measurement of obligations that arise from asset retirement activities. Asset retirement is the permanent removal of a tangible capital asset from service.

A retirement obligation is recognized as a liability when:

- (i) there is a legal obligation to incur costs to permanently remove a tangible capital asset from service. Legal obligations can arise from legislation, contracts and promissory estoppel;
- (ii) the past transaction giving rise to the liability, such as acquisition, construction, development or normal use, has already occurred;
- (iii) there is an expectation that future economic benefits will be given up; and
- (iv) a reasonable estimate of the liability can be made. The estimate includes costs directly attributable to the retirement activities, including post-retirement operation, maintenance and monitoring.

Upon recognition of the obligation, the carrying amount of the related tangible capital asset is increased by the same amount as the liability. The cost included in the carrying amount of the tangible capital asset is allocated to expense in a rational and systematic manner (e.g., amortization over the remaining useful life of the related tangible capital asset).

If the related asset is no longer in productive use, or if the related asset is not recognized for accounting purposes, the related retirement costs would be recorded as an expense.

PSAB withdrew the guidance on solid waste landfill closure and post-closure liability (Section PS 3270) following the issuance of this standard. Section PS 3270 remains effective until PS 3280 is adopted.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2021. In November 2020, in response to the COVID-19 pandemic, PSAB deferred the effective date for this section by one year to April 1, 2022.

\* The effective date is for financial years beginning on or after the date shown.

# Public Sector Accounting Standards (PSAS)

## PS 3450 – Financial Instruments

**Effective Date:**\* April 1, 2022

**Early Adoption:** Permitted  
(PS 3450, PS 2601 and PS 1201  
are to be adopted together)

For governments and government entities that did not apply the CPA Canada Handbook – Accounting prior to adoption of the CPA Canada Public Sector Accounting Handbook.

Section PS 3450 provides guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives.

The new standard introduces the requirement to measure all financial instruments in one of two categories:

- (i) fair value; or
- (ii) cost or amortized cost.

Under Section PS 3450, investments in equity instruments that are quoted in an active market and derivatives are measured at fair value.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date had previously been extended three times (April 1, 2016, April 1, 2019, and April 1, 2021).

In November 2020, in response to the COVID-19 pandemic, PSAB deferred the effective date for this section by an additional year to April 1, 2022.

## PS 2601 – Foreign Currency Translation

**Effective Date:**\* April 1, 2022

**Early Adoption:** Permitted  
(PS 3450, PS 2601 and PS 1201  
are to be adopted together)

For governments and government entities that did not apply the CPA Canada Handbook – Accounting prior to adoption of the CPA Canada Public Sector Accounting Handbook.

Section PS 2601 replaces the guidance in Section PS 2600, *Foreign Currency Translation*. Under Section PS 2601, exchange gains and losses arising on monetary assets and liabilities prior to settlement are recorded in the statement of remeasurement gains and losses. Once the foreign currency denominated item is settled, the cumulative amount of unrealized foreign exchange gain or losses previously recognized is reclassified to the statement of operations.

The introduction of PS 2601 eliminates the practice of deferring unrealized gains and losses arising from foreign currency translation and the previous guidance surrounding hedge accounting of foreign currencies.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date had previously been extended three times (April 1, 2016, April 1, 2019, and April 1, 2021).

In November 2020, in response to the COVID-19 pandemic, PSAB deferred the effective date for this section by an additional year to April 1, 2022.

\* The effective date is for financial years beginning on or after the date shown.

# Public Sector Accounting Standards (PSAS)

## PS 1201 – Financial Statement Presentation

**Effective Date:**\* April 1, 2022

**Early Adoption:** Permitted  
(PS 3450, PS 2601 and PS 1201 are to be adopted together)

For governments and government entities that did not apply the CPA Canada Handbook – Accounting prior to adoption of the CPA Canada Public Sector Accounting Handbook.

Section PS 1201 replaces PS 1200, *Financial Statement Presentation*.

Section PS 1201 introduces the statement of remeasurement for gains and losses. Remeasurement gains and losses arise from:

- (i) exchange gains and losses on items in the amortized cost category denominated in a foreign currency; and
- (ii) unrealized gains and losses on financial instruments that are measured at fair value.

The accumulated remeasurement gains or losses at the end of the period are reported in the statement of financial position as a separate component of accumulated surplus or deficit.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date had previously been extended three times (April 1, 2016, April 1, 2019, and April 1, 2021).

In November 2020, in response to the COVID-19 pandemic, PSAB deferred the effective date for this section by an additional year to April 1, 2022.

## PS 3041 – Portfolio Investments

**Effective Date:**\* April 1, 2022

**Early Adoption:** Permitted  
(Adopted at the same time PS 3450, PS 2601 and PS 1201 are adopted)

For governments and government entities that did not apply the CPA Canada Handbook – Accounting prior to adoption of the CPA Canada Public Sector Accounting Handbook.

PS 3041 replaces Section PS 3040, *Temporary Investments*. PS 3041 states that portfolio investments are measured in accordance with PS 3450, *Financial Instruments* unless they have concessionary terms such as little or no return on the government investment. Losses in the value of a portfolio investment that are not a temporary decline should be recognized and recorded in the statement of operations.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date had previously been extended three times (April 1, 2016, April 1, 2019, and April 1, 2021).

In November 2020, in response to the COVID-19 pandemic, PSAB deferred the effective date for this section by an additional year to April 1, 2022.

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# Public Sector Accounting Standards (PSAS)

## Annual Improvements to Public Sector Accounting Standards

**Effective Date:\*** Various  
(as indicated in summary)

Each year, PSAB issues annual improvements to correct minor inconsistencies or areas requiring clarification in the Public Sector Accounting Handbook ("Handbook").

In September 2019, PSAB issued the 2018-2019 Annual Improvements. The 2018-19 improvements included revisions to various standards as a result of the introduction of the government-component category. Previously, government components (such as departments) were included as part of the term "government organizations". This reflects the recognition of government components as a separate category within the government reporting entity.

The 2018-19 annual improvements also include a revision to PS 3060. The title of PS 3060 was changed from "Government Partnerships" to "Interests in Partnerships". The definition of a partnership was amended to include a partnership between two or more government organizations under the same government reporting entity. In addition, PSAB removed all references to the due process that PSAB must follow in its standard-setting process from the Handbook. PSAB's due process is outlined separately in its Due Process Manual.

The 2018-19 annual improvements are effective for fiscal years beginning on or after April 1, 2020.

In November 2020, PSAB issued the 2019-2020 Annual Improvements to clarify that early adoption of a new or amended standard also requires early adoption of all consequential amendments related to that standard. Other amendments include revisions to individual standards to reflect the requirement to disclose contractual rights in addition to contractual obligations, and to replace the term "contingency" with "contingent assets and contingent liabilities".

## Financial Instruments – Narrow Scope Amendments

**Effective Date:\*** April 1, 2022  
**Early Adoption:** Permitted

In April 2020, PSAB issued amendments to PS 3450, *Financial Instruments*. The main change related to the treatment of bond repurchase transactions. The amendment clarifies that bond repurchase transactions are not treated as an extinguishment unless the bond is legally discharged, or is exchanged for a bond with significantly different terms. Other amendments include the addition of new guidance to the transitional provisions of this standard.

In April 2021, PSAB amended PS 2601, *Foreign Currency Translation*, to allow public sector entities to make an irrevocable election upon initial recognition of a financial asset or financial liability arising from a foreign currency transaction. If this election is made, public sector entities would recognize any related unrealized foreign exchange gain or loss directly in the statement of operations. As a result of this revision, PS 1201, *Financial Statement Presentation*, was also amended to clarify that exchange gains or losses associated with this election would not be recognized in the statement of remeasurement gains and losses. PS 3450, *Financial Instruments* was also amended to require disclosure of the carrying amounts of the related financial assets or financial liabilities.

\* The effective date is for financial years beginning on or after the date shown.

# International Financial Reporting Standards (IFRS)

## IFRS 17 – Insurance Contracts

**Effective Date:**\* January 1, 2023  
**Early Adoption:** Permitted  
(with adoption of IFRS 9)

IFRS 17 was issued by the IASB (International Accounting Standards Board) in May 2017 to replace IFRS 4, Insurance Contracts. Under IFRS 4, entities were permitted to continue to use accounting policies for insurance contracts that were in place prior to the entity's adoption of IFRS. IFRS 17 increases comparability across reporting entities by standardizing accounting for insurance contracts.

Under IFRS 17, profit from insurance contracts is initially recorded as a liability called the contractual service margin. The contractual service margin is recognized over the insurance contract's coverage period.

IFRS 17 also requires entities to update actuarial assumptions and estimates in measuring insurance contracts in subsequent reporting periods. It also accelerates the recognition of losses on insurance contracts that are expected to be onerous.

The standard was originally approved by the IASB for fiscal years beginning on or after January 1, 2021. In March 2020, the IASB deferred the effective date of IFRS 17 to fiscal years beginning on or after January 1, 2023. The IASB also announced that it will extend the exemption currently in place for some insurers regarding the application of IFRS 9 Financial Instruments to enable them to implement both IFRS 9 and IFRS 17 at the same time.

## Amendment to IFRS 3 – Business Combinations

**Effective Date:**\* See summary  
**Early Adoption:** Permitted

In December 2018, the Accounting Standards Board issued *Definition of a Business (Amendments to IFRS 3)*. The guidance is designed to make it easier for entities to decide whether they have acquired a business or merely a group of assets. This amendment is effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first reporting period beginning on or after January 1, 2020.

\* The effective date is for financial years beginning on or after the date shown.

# International Financial Reporting Standards (IFRS)

## Amendments to IFRS 9 – Financial Instruments

**Effective Date:\*** Various  
(as indicated in summary)  
**Early Adoption:** Permitted

In November 2019, the Accounting Standards Board issued amendments to IFRS 9, IAS 39 and IFRS 7 designed to support the provision of useful financial information during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as the interbank lending rate (IBOR). These amendments were effective for fiscal years beginning on or after January 1, 2020.

In October, 2020, the Accounting Standards Board issued further amendments to provide temporary exceptions from applying specific hedge accounting requirements in IFRS 9 and IAS 39 to all hedging relationships directly affected by interest rate benchmark reform. The amendment is effective for annual periods beginning on or after January 1, 2020.

As part of the Annual Improvements to IFRS Standards 2018-2020, in September 2020, the Accounting Standards Board issued an amendment to clarify which fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. This amendment is effective for annual periods beginning on or after January 1, 2022.

## Amendment to IAS 1 – Presentation of Financial Statements

**Effective Date:\*** January 1, 2020  
**Early Adoption:** Permitted

Materiality is an important concept in helping financial statement preparers determine what information should be presented in the financial statements. In October 2018, as part of its *Better Communication in Financial Reporting* project, the IASB issued amendments to IAS 1 and IAS 8 to clarify the concept of materiality.

## Amendment to IAS 16 – Property, Plant and Equipment

**Effective Date:\*** January 1, 2022  
**Early Adoption:** Permitted

In September 2020, the Accounting Standards Board issued an amendment to IAS 16. If an item of property, plant and equipment generates sales before it is capable of being operated in the manner intended by management, the related proceeds cannot be deducted from the cost of the item. The proceeds from the sales should be recognized in the statement of profit and loss instead.

## Amendment to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

**Effective Date:\*** January 1, 2022  
**Early Adoption:** Permitted

In September 2020, the Accounting Standards Board issued an amendment to IAS 37 to specify that when an entity assesses whether a contract is onerous, in calculating the costs of the contract it should include both the incremental costs associated with the contract as well as an allocation of other costs directly related to fulfilling the contract.

\* The effective date is for financial years beginning on or after the date shown.

# Assurance Standards

## CAS 701 – Communicating Key Audit Matters in the Independent Auditor’s Report

**Effective Date:** Various  
(as indicated in summary)  
**Early Adoption:** Permitted

In June 2017, the Auditing and Assurance Standards Board (AASB) issued CAS 701 to provide guidance on the implementation of a new section in the auditor’s report called Key Audit Matters. Key Audit Matters (KAM) are those matters that, in the auditor’s professional judgment, were of most significance to the audit. The goal of KAM is to provide greater transparency to users about the audit.

At the time CAS 701 was issued, the AASB determined that KAM should be included at the auditor’s discretion or if required under law or regulation and is effective for audits of financial statements for periods ending on or after December 15, 2018.

In November 2019, the AASB announced that Key Audit Matters are required for the audit of all listed entities effective for periods ending on or after December 15, 2022. Listed entities are entities whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

## CAS 540 – Auditing Accounting Estimates and Related Disclosures

**Effective Date:** Audits of financial statements for periods beginning on or after December 15, 2019  
**Early Adoption:** Permitted

The AASB approved amendments to CAS 540, *Auditing Accounting Estimates and Related Disclosures* in October 2018. The amendments establish more robust requirements and detailed guidance in relation to accounting estimates and related disclosures. Consequently, it may be necessary for auditors to request additional information when auditing estimates prepared by management.

# Assurance Standards

## CSRS 4400 – Agreed-upon Procedures Engagements

**Effective Date:** Agreed-upon procedures engagements for which the terms of engagement are agreed to on or after January 1, 2022  
**Early Adoption:** Permitted

CSRS 4400 updates and replaces existing Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements*. Agreed-upon procedures are procedures that are agreed to by the practitioner and the engaging party (and other parties, if applicable) that leads to a report of factual findings. Unlike an audit or a review, agreed-upon procedures do not provide any level of assurance.

CSRS 4400 expands on the scope of Section 9100 by including non-financial subject matters. It also requires additional areas in the agreed-upon procedures report.