EY's Annual Financial Reporting Developments Series

Government and not-for-profit information session

January 19, 2022

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Building a better working world

Today's presenters

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Sonia Leblanc
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Senior Manager

Diana Brouwer
Partner, Canadian Not-for-Profit Leader
Moderator

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Today's agenda

1. Indirect tax updates

   Jan Pedder, Indirect Tax

2. Registered charities and not-for-profits (NPOs) – income tax update

   Sharron Coombs, Tax Services

3. Annual update on financial reporting standards – Part II and III of the CPA Canada Handbook

   Kathi Aspros, Assurance Services

4. Annual update on financial reporting standards – Public Sector Accounting Standards (including PS 4200)

   Mita Meyers and Sonia Leblanc, Assurance Services

5. ESG issues and upcoming disclosures

   Sunniya Durrani-Jamal, Government and Public Sector

Indirect tax updates

GST/HST updates

1. Federal and provincial updates
2. Audit issues and best practices

Presented by

Jan Pedder
Associate Partner
Indirect Tax

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Federal and provincial updates

Federal government budget

Confirmed GST/HST on cross-border digital products and services

- Non-resident vendors and distribution platform operators supplying digital products and services to consumers are now required to register and collect GST/HST under a simplified system
- Consumer means a person who is not registered for GST/HST
- A registrant must provide vendor/platform with GST number to not be charged. Cannot be for personal use
- $30,000 threshold for registration
- Effective July 1, 2021

Implications for the not-for-profit (NPO) sector:

- Expect requests for GST number from non-resident vendors/platforms
  - Still need to self-assess if not charged and not for use in commercial activities
- If you don't have a GST number, expect to be charged GST/HST
- Make sure that if charged, you don't self-assess

Federal government budget

GST/HST on cross-border sales of goods stored in fulfilment warehouses in Canada

- Non-residents and/or distribution platform operators will be required to register for GST/HST and charge tax under regular system
- $30,000 threshold for registration
- Effective July1, 2021

Implications for the NPO sector:

- Will be fewer situations where GST/HST is not charged on goods from non-resident vendors
- May be more instances where non-resident vendor neglects to provide proper documentation (e.g., GST number)
  - Need to check vendor documentation carefully

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Federal government budget

GST/HST on platform-based short-term accommodation

- Accommodation platform operator must collect GST/HST if the property owner is not registered for GST
- $30,000 threshold for registration
- Regular GST registration for Canadian suppliers and non-resident who carry on business in Canada
- Simplified system for non-resident platform operators
  - If registered under this system, only collect from parties not registered for GST/HST
- Effective July 1, 2020

Implications for the NPO sector:

- Expect requests for GST number from non-resident platforms operators
- If you don't have a GST number, expect to be charged GST/HST
- Make sure that, if charged, you don't self-assess – may need to update for some vendors

Federal government budget

GST/HST relief for face shields and face masks

- Supplies are zero-rated since December 6, 2020
- Face masks and shields must meet certain criteria

Implications for the NPO sector:

- If purchasing qualifying face masks and shields, will result in cost savings
- If selling qualifying face masks and shields, update system so you do not charge GST/HST

British Columbia updates

The following became subject to British Columbia (BC) provincial sales tax (PST) effective April 1, 2021:

- Carbonated beverages that contain sugar, natural sweeteners or artificial sweeteners
- Any beverage dispensed through soda fountains, soda guns or similar equipment
- All beverages dispensed through vending machines (except vending machines wholly dedicated to dispensing beverages other than sweetened carbonated beverages, e.g., coffee or water machines)

Implications for the NPO sector:

- Cost of these beverage for own use increases by 7%
- Must ensure systems are updated to collect PST on sales of these items
- If purchasing for resale, ensure you provide PST number to vendors
- Update your systems to charge PST if selling these products

British Columbia updates

The following persons must register for BC PST effective April 1, 2021:

- Canadian and foreign sellers of software and telecommunication services if sales of these items exceed $10,000 annually

Implications for NPOs:

- If located in BC, expect to be charged PST on many more purchases from non-BC suppliers
- Continue to self-assess PST where you are not charged PST

Saskatchewan updates

All effective January 1, 2020

Electronic distribution platforms:

- Must be registered for PST if platform facilitates taxable sales to Saskatchewan users
- Taxable supplies include goods, software, computer services such as streaming, access to databases, etc.
- Includes a website, internet portal, gateway, application, etc., that allows a person to purchase taxable property and services delivered electronically

Online accommodation platforms:

- Must be registered for PST if platform facilitates supplies of accommodation in Saskatchewan
- Tax applies to accommodation services and any associated or incidental services

Marketplace facilitator:

- Must be registered for PST if facilitates retail sales to Saskatchewan purchasers
- Is a person who makes or facilitates a marketplace for retail sales by marketplace sellers
- A marketplace seller is a person who makes retail sales through a physical or electronic marketplace owned or controlled by a marketplace facilitator

Implications for the NPO sector:

- If located in Saskatchewan, expect to be charged PST on many more purchases from non-Saskatchewan suppliers
- Continue to self-assess PST where you are not charged PST on taxable supplies

Manitoba updates

Effective December 1, 2021

Online marketplaces:

- Must be registered for and collect retail sales tax (RST) on the sales of taxable goods sold by third parties on their electronic platforms

Online accommodation platforms:

- Must be registered for and collect RST on the booking of taxable accommodations

Audio and video streaming services:

- Now considered to be taxable telecommunications services, thereby requiring streaming service providers to collect and remit RST

Implications for the NPO sector:

- If located in Manitoba, expect to be charged RST on many more purchases from non-Manitoba suppliers
- Continue to self-assess RST where you are not charged RST on taxable supplies

Audit issues and best practices

Provincial sales tax

Self-assessment:

- Imported goods and taxable services
- Temporary use of equipment
- Software usage

If not registered, use the following forms to report:

- BC – FIN-405 – due end of month following month of purchase
- Saskatchewan – SK-FI-1215 – due by the 20th of the month following purchase
- Manitoba – MB-RT8 – due by the 20th of the month following purchase

GST/HST – Self-assessment

Importing goods

- Pay 5% at border
- Self-assess provincial portion
- Goods moved from one province to another
  - Remember self-assessment (lower rate province to higher rate province) or rebate (higher rate province to lower rate province)

Services and intangibles

- Self-assess HST (form GST 59 – non-registrant/regular return – registrant)
- Exceptions:
  - Exclusive use in commercial activities
  - Consumed by individual entirely outside Canada (e.g., meals, taxi, hotel)
  - Service in respect of real or tangible personal property outside Canada

GST/HST – Documentation

ITCs and rebates

- Issues with wrong name of purchaser or vendor
- Missing GST/HST number more often for non-resident registrant
- Allocation of ITC – document methodology

Sales

- Supplies to related parties:
  - If tax applies, issue proper invoice
- Barters:
  - Supply made by each party – is it taxable?
- Zero-rated exports – need proof of export for goods/sometimes declaration the purchaser is non-resident and in some cases, non-registrant
- Grey area – document decision process

GST/HST ITC documentation requirement

Information required	Total sale under C$30	Total sale between C$30-$149.99 inclusive	Total sale of C$150 or more
Name of supplier	X	X	X
Invoice date	X	X	X
Amount paid or payable	X	X	X
Amount of tax paid or statement that the price includes GST		X	X
Supplier's GST/HST number*		X	X
Recipient's name			X
Description of the goods or services			X
Terms of payment			X

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GST/HST – other audit issues

- Uncollected tax
- Cost and revenue sharing
- Tax collected in error by charities
- Insurance premiums – Ontario (for HST) and Québec (for Quebec sales tax)
- Real property transactions
- Grants

Best practices

- Be prepared:
  - Consider risk and recovery reviews
  - Audit trail
- Have one point of contact and inform staff
- Communicate regularly with auditor
- Try to resolve issues prior to notice of assessment being issued
- Consult with colleagues and professional advisors throughout audit
- Consider appeals

Registered charities and not-for-profit organizations (NPOs)

Income tax update

Registered charities and NPOs

1. Registered charities
   - 2021 federal budget update
   - Proposed legislation – Bill S-216
   - Report on the Charities Program 2018-2020
   - New Canada Revenue Agency (CRA) guidance
   - T3010 return – recent changes and helpful reminders
2. Not-for-profit organizations
   - CRA technical interpretation on reserves
   - Common areas of income tax risk for NPOs

Presented by

Sharron Coombs
Senior Manager
Business Tax Advisory

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Registered charities

2021 federal budget update

Potential disbursement quota reform

- Budget 2021 announced the launch of public consultations regarding potential disbursement quota reform

- Stated reason for undertaking the consultations – to ensure that grant-making and spending on charitable activities keep pace with growth in charities' investment assets
  - The public consultation period ended September 30, 2021
  - Feedback from the public consultation and input from the Advisory Committee on the Charitable Sector will inform any proposed legislative changes
  - Changes were expected to be effective in 2022

- Currently awaiting further announcements with respect to any proposed legislative changes and application date

2021 federal budget update (continued)

Areas on the table for reform

1. Disbursement quota (DQ) rate
   - Currently, the DQ rate is 3.5% of the value, averaged over a 24-month period, of a charity's property not used for charitable activities or administration, provided such unused property exceeds $100,000 for charitable organizations or $25,000 for public/private foundations
2. Certain relieving provisions
   - The carry-over measure that permits a DQ excess to be applied from one year to cover a DQ shortfall realized in the previous year and in the five immediately following years
   - The reduction measure that allows the Minister of National Revenue to approve a DQ reduction under "appropriate circumstances"
   - The accumulation of property measure that allows the Minister of National Revenue to approve an accumulation of property for a particular purpose and permits such property, and income earned in respect of the property, to be excluded from the calculation of the charity's DQ
3. Enforcement tools available to CRA
   - Currently, the only available tool to enforce the DQ rules is the revocation of a charity's registration
   - Revocation is considered disproportionate where non-compliance with the DQ rules alone is involved, and therefore, is rarely used by CRA in these circumstances
   - Consultation to consider which additional tools (e.g., monetary penalties or other intermediate sanctions) should be available to CRA with respect to DQ enforcement

2021 federal budget update (continued)

Preventing abuse of charitable registration status for terrorist financing purposes

- Expanded definition of "ineligible individual" prevents individuals with a known history of supporting terrorism from becoming directors, trustees, or similar officials of registered charities
- Legislation enacted on June 29, 2021

False statements made for the purposes of maintaining charitable registration

- Allows the Minister of National Revenue to suspend a charity's ability to issue official donation receipts for one year or to revoke an organization's charitable status where a false statement amounting to culpable conduct was made for the purpose of maintaining charitable registration
  - Previously, the legislation only allowed for revocation of charitable status where a false statement was made for the purposes of obtaining charitable registration
- Legislation enacted June 29, 2021

Proposed legislation – Bill S-216

Currently, a transfer of funds to a non-qualified donee is grounds for revocation of charitable status

- A charity must exclusively use its resources to either carry on its own charitable activities or make gifts to other qualified donees

Bill S-216 proposes to amend the *Income Tax Act* to permit charities to provide their resources to a person who is not a qualified donee, provided that they take reasonable steps to ensure those resources are used exclusively for a charitable purpose

"Reasonable steps" are proposed to impose the following obligations on the granting charity:

- Collect information necessary to satisfy a reasonable person that the resources will be used for a charitable purpose, including information on the identity, experience and activities of the person receiving the funds
- Establish measures, impose restrictions or conditions, or otherwise take actions necessary to satisfy a reasonable person that the resources will be used for exclusively charitable purposes

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Proposed legislation – Bill S-216 (continued)

Bill S-216 is a senate private member's bill in line with recommendations made in the 2019 Report of the Special Senate Committee on the Charitable Sector:

- The predecessor bill (S-222) was adopted by the senate and received first reading in the house of commons before it was dissolved for the election
- New Bill S-216 was re-introduced on November 24, 2021, was adopted by the senate on December 9, 2021, and is expected to be sponsored through the house of commons by one of the opposition parties when parliament resumes at the end of January 2022
- Any amendments would take effect two years after the day on which the implementing bill receives royal assent

Report on the Charities Program 2018-2020

CRA's Report on the Charities Program 2018-2020 is now available on the CRA website.

Interesting facts from the report include:

Registered charities by designation

- Number of private foundations continues to increase while the number of public foundations continues to decrease:

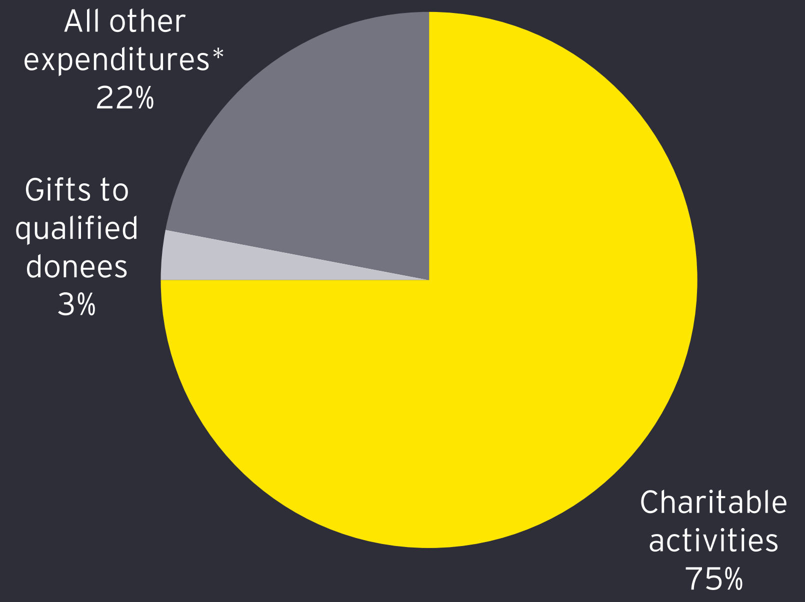
Designation	2019	2018
Charitable organizations	74,757	75,280
Private foundations	5,986	5,805
Public foundations	4,975	5,027

Report on the Charities Program 2018-2020 (continued)

Average revenue of all charities by type (in billions):

- Tax-receipted gifts – $16.9
- Non tax-receipted revenue – $8.4
- Revenue from government – $183.9
- 10-year gifts – $0.7
- Tax-receipted revenue from outside of Canada – $0.1
- Non-tax receipted revenue from outside of Canada – $2.3

Average expenditures of charities by type



* Includes administration, management and fundraising costs

Report on the Charities Program 2018-2020 (continued)

Transformation of CRA's compliance program:

- 2016-2017: Multi-streamed compliance approach was introduced with various non-audit interventions
- Aim was to address lower and mid-risk non-compliance among a broader segment of the charitable sector
- Main focus is now on education
- Audit resources are directed to serious cases of non-compliance

Developments include:

- Charities Education Program
- Outreach including automated phone calls and letter writing
- Projects such as review of specific fields on the T3010 and cryptocurrency usage
- Enhancements to audit program

Breakdown of compliance activities by CRA:

- 2015 to 2016: 37% audits, 63% non-audits
- 2019 to 2020: 4% audits, 96% non-audits

New CRA guidance for registered charities

Two new guidance documents and one policy statement released by CRA in August 2021:

- CG-001 *Upholding Human Rights and Charitable Registration*
- CG-022 *Housing and Charitable Registration*
- CPS-023 *Applicants Assisting Ethnocultural Communities*

These new documents update and replace previous published guidance in these areas

They provide useful guidance to new groups seeking charitable registration as well as to existing charities already operating with these charitable purposes

Examples:

- Discussion of upholding human rights as a charitable activity vs. a partisan political activity
- Assessing the eligibility of individuals who are provided subsidized housing
- Examples of charitable activities by organizations that carry out ethnocultural work

T3010 return – recent changes and helpful reminders

Recent changes

- Current version: T3010 (21) Version A
- Only significant change is the removal of references to *Corporations Information Act Annual Return for Ontario Not-for-Profit Corporations* (Form RC232)
  - Previously, charities subject to the *Ontario Corporations Act* were required to submit Form RC232 as well as Form T1235 *Directors/Trustees and Like Officials Worksheet*
  - Effective May 15, 2021, the CRA no longer collects information on behalf of the Ontario government
  - Charities subject to the Ontario corporate statute must now file using the new Ontario Business Registry at Ontario.ca/businessregistry

T3010 return – recent changes and helpful reminders (continued)

Helpful reminders:

- T3010 can be filed through My Business Account or in paper format
- A complete return includes:
  - Form T3010 *Registered Charity Information Return*
  - Form T1235 *Directors/Trustees and Like Officials Worksheet*
  - Form T1236 *Qualified Donees Worksheet* (if applicable)
  - Form T2081 *Excess Corporate Holdings Worksheet for Private Foundations* (if applicable)
  - Financial statements for the fiscal period (even if the charity was inactive)
- A charity cannot include the following with its T3010 return:
  - Amended governing documents/by-laws
  - Request to change the fiscal period-end
  - Request to change purposes or activities
  - Request for voluntary revocation
  - Request to change or add an authorized representative
  - These requests should be made through My Business Account or on paper (mail or fax)

Not-for-profit organizations

Income tax for NPOs – legislative framework

NPOs that are exempt from income tax under paragraph 149(1)(l) of the *Income Tax Act* must meet certain tests annually to retain their tax-exempt status:

- Not a charity for tax purposes
- Organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose, except profit
- No part of the income of the entity was payable to, or otherwise available for the personal benefit of, any proprietor, member, or shareholder thereof

CRA technical interpretation – reserves of an NPO

CRA external interpretation request No. 2019-0825751E5

Questions to CRA:

- Whether an NPO would cease to qualify for tax-exempt status if it started a secondary business funded by a reserve accumulated from excess member contributions and used the profits from this secondary business to fund its NPO objectives
- Whether the NPO could provide services to non-members of the organization

CRA confirmed that an NPO that intentionally earns a profit from a secondary business will be considered to have a profit purpose and thus will not qualify as a tax-exempt under 149(1)(l), regardless of whether the profits from that secondary business are used to fund the organization's NPO objectives

The accumulation of a reserve large enough to fund a secondary business may be an indication that the NPO has a profit purpose

Relevant factors to consider include:

- How and why the surplus accumulated
- Length of time that the surplus has been accumulated
- Any reasonable steps taken by the organization to reduce the surplus

CRA confirmed that there is nothing in the tax rules preventing an NPO from providing services to non-members, provided that the NPO does not have a profit purpose

Common areas of income tax risk for NPOs

Having a profit purpose, including a “secondary” profit purpose:

- Profits must be unanticipated and incidental
- Cannot budget for a profit
- Cannot operate a “trade or business”

Ongoing accumulation of profits:

- Consider the source of any accumulated surplus
- Surplus should be limited to reasonable operating needs
- Accumulation for a capital project permitted, if structured appropriately
- Avoid using accumulated funds to invest on a long-term basis
- Avoid making loans to non-exempt entities

Providing personal benefits to members:

- Often not permitted in constating documents
- Care must be taken in member-based organizations

Income tax risk mitigation for NPOs

- Review areas of potential income tax risk at least annually or more frequently
- Consider income tax risk when entering into new service lines or contracts
- Review budgets and other internal materials from an income tax perspective
- Seek professional advice

Annual update on financial reporting standards

Part II and III of the CPA Canada Handbook

1. What's new and what's active in Part II, accounting standards for private enterprises (ASPE) that are relevant to not-for-profit organizations (NPOs)

2. New standards and status of projects within Part III, accounting standards for not-for-profit organizations (ASNPO)

Presented by

Kathi Aspros
Associate Partner
Assurance, Government and Not-for-Profit Sector

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Agenda

1. Canadian accounting standards for private enterprises (ASPE)
    - Approved amendments and new standard
        - Leases (amendment plus active project)
        - Related party financial instruments and significant risk disclosures
        - Investments
        - Revenue
        - Employee future benefits – use of a funding valuation
        - Agriculture
        - 2021 annual improvements project (final updates)
    - Active projects
        - Financial instruments (IBOR reform)
        - Cloud computing arrangements

2. Canadian accounting standards for NPOs
    - Combinations (new standard)
    - Contributions (active project)

Note: Content is current as of December 31, 2021

ASPE: Amendments and new standard – reminders

ASPE: Amendments and new standards – reminders

Section 3065 *Leases* – Accounting for COVID-19 lease concessions

- Entities can account for COVID-19-related lease modifications:
    - As a new lease (per Section 3065), or
    - Using simplified accounting methods (practical expedient)
- Decision can be made on a lease-by-lease basis
- All three conditions must be met:
    - Rent concession occurred as a direct consequence of the COVID-19 pandemic;
    - The total payments resulting from the rent concession are the same or less than the total payments required by the original lease contract; and
    - Any reduction in lease payments affects only those payments originally due on or before December 31, 2022 (however, such repayments can occur after December 31, 2022)
- Accounting under the practical expedient:
    - Lease expense/revenue recorded in accordance with terms of the original lease
    - Lease payable/receivable recorded for the amount of lease payments deferred
    - If rent concession reduces total rent payable/receivable under original lease contract, such reduction is recognized in net income in period to which lease payments relate

ASPE: Amendments and new standards – reminders (continued)

Section 3065 *Leases* – Accounting for COVID-19 lease concessions (continued)

- Required disclosures relating to COVID-19 rent concessions:
  - The fact that an enterprise has used the practical expedient
  - When the practical expedient has been applied to some but not all leases that meet the criteria for use, the reasons for that
  - For a deferral of lease payments, the aggregate carrying amount of lease payables and lease receivables recognized in the reporting period relating to the deferral
  - For a reduction of lease payments, the total amount recognized in net income for the reporting period relating to the reduced payments

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ASPE: Amendments and new standards – reminders (continued)

Section 3856 *Financial Instruments*

- Effective for years beginning on or after January 1, 2021
- Initial and subsequent measurement guidance for related party financial instruments was added to Section 3856
- Requirement for modifications of all related party financial instruments to be accounted for as an extinguishment; modified instrument measured using the initial measurement concepts for related party financial instruments
- Approach to distinguish between impairment and forgiveness of related party loans
- Require an NPO to recognize forgiveness of a related party financial asset in the statement of operations:
  - Amendments were made simultaneously in Part III, Section 4460 *Disclosure of Related Party Transactions*, to clarify that an NPO applies 3856 in Part II for the accounting and disclosure of financial instruments in a related party transaction
- Disclosure:
  - Requires the financial instrument risk disclosures be prepared using enterprise specific information

We don't expect this to have a significant impact in this sector other than the focus on making the risk disclosures entity-specific.

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ASPE: Amendments and new standards – reminders (continued)

Section 3051 *Investments*

- Effective for years beginning on or after January 1, 2021
- Guidance in Section 3051 *Investments* that related to the cost method was clarified such that it also applies to interests in jointly controlled enterprises (JCE) accounted for using the cost method
- Initial measurement using cost method:
  - Cost is measured at the acquisition date fair value of the consideration transferred in exchange for the investment/interest in the JCE
  - Acquisition-related costs are expensed in the period incurred, except for:
    - Costs to issue debt securities (apply Section 3856 *Financial instruments*)
    - Costs to issue equity securities (apply Section 3610 *Capital transactions*)

ASPE: Amendments and new standards – reminders (continued)

Section 3400 *Revenue*

- Effective for years beginning on or after January 1, 2022
- Section was amended to provide additional guidance on the application of various areas such as:
  - How to determine whether an arrangement consists of a group of contracts or a single contract and identifying the units of account in an arrangement;
  - Allocating consideration in multiple-element arrangements to separate units of account on a relative stand-alone selling price basis and methods for estimating the stand-alone selling price when it is not directly observable;
  - Accounting for revenue under the percentage of completion method;
  - Indicators to consider in determining whether revenue should be reported gross or net;
  - Criteria to use in determining when to recognize revenue for a bill and hold arrangement;
  - Determining when to recognize revenue for upfront non-refundable fees or payments; and
  - Disclosure requirements for contracts in progress at the end of the reporting period accounted for using the percentage of completion method.

While we don't expect this to have a significant impact in the sector, we do recommend you review the standard and your accounting for any revenue streams that are not considered to be contributions.

ASPE: Amendments and new standards – reminders (continued)

Section 3462 *Employee future benefits*

- Effective for fiscal years ending on or after January 1, 2022. Earlier application is permitted but only for all of an enterprise's defined benefit plans.
- Amendments were made to:
  - Remove the accommodation to allow the use of a funding valuation for defined benefit plans **without** a funding valuation requirement
    - There is no longer a policy choice available
    - For defined benefit plans with **no** legislative, regulatory, or contractual requirement to prepare a funding valuation, entities **must** use an accounting valuation
  - Amount required to be funded by contributions
    - The amendments clarify that when legislative, regulatory or contractual requirements stipulate calculations of various components of the funding requirement separately, the aggregate of those components makes up the funding valuation that is reflected in the financial statements
    - That is, Ontario's Provision for Adverse Deviation (PfAD) and Quebec's Stabilization Provision (SP) are components of an Ontario and a Quebec funding valuation, respectively, and therefore must be included in the measurement of the defined benefit obligation

ASPE: Amendments and new standards – reminders (continued)

Section 3462 *Employee future benefits* (continued)

- Transitional relief:
  - Upon transition, an enterprise is not required to:
    - Obtain a new funding valuation on transition, and can wait until one is required
    - Retroactively restate its financial statements for the effects of the amendments—the cumulative effects of applying the amendments are recorded in opening retained earnings at the date the amendments are first applied
- Entities with plans outside of the funded pension plans may be impacted. Revisit your legislative, regulatory or contractual requirements for other plans if you are still able to continue to use the funding approach on those plans or if you will need to adopt the accounting approach.

ASPE: Amendments and new standards – reminders (continued)

2021 annual improvement project (note this covers Part II and Part III of the CPA Canada HB)

- Exposure draft was issued in October 2020 to revisit various accounting standards to clarify guidance and/or wording and to correct for unintended consequences, conflicts or oversights. Final updates were released in April 2021.
- The amendments are effective for fiscal years beginning on or after January 1, 2022 and may be applied retrospectively. Earlier application is permitted.
- The main features include the following:
  - Part II and Part III of the handbook for first time adoption Section 1500 and Section 1501 respectively, was modified to clarify that the standard can be applied again in a future reporting period. The amendments include additional disclosure requirements.
  - Section 1510 *Current assets and current liabilities* required amounts from directors, officers/shareholders and amounts owing to other affiliated organizations be shown separately on the face of the financial statements. The amendment provides an option to disclose these amounts separately in the notes to the financial statements or supporting schedules.
  - Section 1540 *Cash flow statements* was amended to remove the disclosure requirement to disclose, in respect of both business combinations and disposals of business units, the total assets, other than cash or cash equivalents, and total liabilities acquired or disposed of.
  - Section 3856 *Financial instruments* adds some clarity in the example on initial measurement of common shares and a note receivable between related parties in exchange for land and a trade receivable. Some users had felt there was an inconsistency with the related party transactions Section 3840, so this amendment clarifies that.

ASPE:
What's next?

ASPE: What's next?

Financial instruments (IBOR reform)

In September 2021, a Financial Instruments Exposure Draft was issued reflecting proposals made by the AcSB for comment:

- Many jurisdictions, including Canada, are replacing existing interbank offered rates (IBORs) benchmarks with alternative benchmarks
- The AcSB has decided that standard setting is required to provide relief to:
  - Simplify the current accounting analysis for debt modifications solely due to IBOR reform; and
  - Allow hedging relationships to continue upon a change in certain critical terms related to IBOR reform
- The Exposure Draft proposes optional expedients for debt modifications and exceptions to hedge accounting guidance
- Final amendments to the standard are expected to be issued by February 1, 2022 and would be effective for fiscal years ending on or after that date, with earlier application permitted

ASPE: What's next?

Cloud computing arrangements

The AcSB included this project in its 2020-2021 annual plan – covers both private enterprises and not-for-profit organizations.

Research and consultation is underway on the various cloud computing arrangements occurring in practice and the accounting issues related to these arrangements.

The AcSB's most recent discussions involve a proposal that includes:

- Clarifying the application of existing guidance
- Permitting entities to apply a simplified approach to account for cloud computing arrangements as expenses
- Capitalizing directly attributable implementation costs when the arrangement is a software service

Canadian accounting standards for NPOs

Part III – AcSB strategy – reminder

Continue to improve accounting standards for NPOs

Maintain separate standards that address specific needs of users of NPO financial statements:

- Continue to align with Part II for transactions and circumstances not distinctive to NPOs
- Important to monitor Part II

NPOs – new standards

Section 4449 *Combinations by not-for-profit organizations* is a new standard, effective for fiscal years beginning on or after January 1, 2022. Earlier adoption is permitted

- The final standard was released in March 2021
- The main features include the following:
  - A set of criteria to determine whether a combination transaction is considered a merger or acquisition
  - Providing guidance on the accounting requirements for when the transaction is considered a merger, including the issues of recognition, measurement and disclosure

No other new standards currently coming into effect in 2021 or 2022

Voluntary guidance - Revised Framework for Reporting Performance Measures released in December 2021

NPOs: What's next?

Contributions – revenue recognition and related matters

Research ongoing on current practice and various options to account for donor stipulated contributions:

- Consultation paper issued in May 2020 with responses due December 15, 2020
- The AcSB is deliberating next steps

Key matters in the paper:

- The definition of restricted and unrestricted contributions
- The timing of recognition of revenue from contributions
- Specific types of contributions and transactions
- Other related topics including:
  - Presentation and disclosure;
  - Capital asset recognition exemption; and
  - Financial statement concepts.

NPOs: What's next?

Contributions – revenue recognition and related matters

Discussion of stakeholder feedback to date has included:

- Revenue recognition:
  - Recognition of contributions
  - Special types of contributions:
    - Contributed materials and services
    - Contributed capital assets
    - Endowments
    - Bequests
- Asset recognition:
  - Recognition of pledges
  - Capital asset recognition exemption
- Fund accounting presentation

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Annual update on financial reporting standards

Public Sector Accounting Standards (PSAS) including PS 4200

1. On the go at the Public Sector Accounting Board (PSAB):
   - PSAB's Draft 2022-2027 Strategic Plan
   - Conceptual framework and reporting model
   - Government not-for-profit strategy
   - International strategy
   - Employment benefits
2. New standards coming your way:
   - Asset retirement obligations
   - Financial instruments and other impacted standards
   - Revenue
   - Purchased intangibles
   - Public private partnerships

Note: Content is current to November 30, 2021

Presented by

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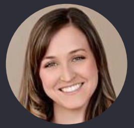
Assurance



Sonia Leblanc
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PSAS:
On the go

PSAB Draft 2022-2027 Strategic Plan

- Outlines the board strategic objective to help guide PSAB to meet public interest mandate over coming years
- Extensive stakeholder consultation will be undertaken as part of strategy development – feedback will guide the board
- Spans 2022 to 2027 with one formal assessment during the period
- Includes revised mission statement and new vision statement
- Focuses on importance as global standard sector and commitment to serving Canada's public sector
- Key factors guiding development:
  - COVID-19 pandemic
  - Relevance and timeliness of accounting standards
  - General acceptance of accounting standards
  - International standards
  - Environment, social and governance reporting (ESG)
  - Technology

- Out for comment May 2021 until October 2021
- PSAB to review feedback in December 2021
- Final plan to be approved in March 2022
- To take effect April 1, 2022
- For period 2022 to 2027

PSAB Draft 2022-2027 Strategic Plan (continued)

Four key strategies:

1. Develop relevant and high quality accounting standards
2. Enhance and strengthen relationships with stakeholders
3. Enhance and strengthen relationships with other standard setters
4. Support forward-looking accounting and reporting initiatives

Conceptual framework and reporting model

- Conceptual framework – 10 chapters
- Reporting model:
  - Changes to the statement of financial position
  - New statement of net financial assets (net financial liabilities)
  - New statement of net assets (net liabilities)
  - Remove statement of change in net debt
  - New guidance related to presentation of budgets
- Issued documents to consult on project in January 2021 – over 200 respondents
- Feedback overall was supportive but many suggestions and recommendations currently being analyzed
- Plan to finalize in 2022
- Effective April 1, 2024 (or later)

International strategy

- PSAB will adapt International Public Sector Accounting Standards (IPSAS) principles when developing future PSAS standards
- PSAB continues to develop standards but they are based on principles of IPSAS standards if a related standard already exists
- Criteria for modifying principles:
  - PSAB will amend a principle in an IPSAS standard if it is contrary to PSAB's conceptual framework
  - PSAB will amend a principle in an IPSAS standard if PSAB finds the IPSAS principle is not appropriate for application in Canada based on the Canadian public interest
- Revised Generally Accepted Accounting Principles (GAAP) hierarchy – position IPSAS to be consulted first in cases where there is no PSAS
- Decision is for prospective standards developed after implementation date of April 1, 2021

Government NPO strategy

- Significant consultation on this issue since 2017

- Second consultation paper issued in 2021 where PSAB proposed three options:
  1. Status quo
  2. PSAS incorporating PS 4200 series with potential customization
  3. Applying another source of GAAP

- PSAB recommendation for option 2 – PSAS incorporating PS 4200 with customization
- Nearly 100 responses received and currently being analyzed
- Final strategy decision expected March 2022
- Implementation plan expected June 2022

Employee benefits project

Objective: To replace PS 3250 and PS 3255

- Phased approach being taken – first exposure draft issued August 2021 – comments were due November 2021
- PSAB leveraged IPSAS 39 in development of exposure draft
- Exposure Draft includes guidance on:
  - Deferral provisions:
    - Proposed approach:
      - Immediate recognition of revaluations on the statement of financial position
      - Other side recorded in an other component of net assets with no subsequent recognition in the statement of operations
  - Discount rates:
    - Proposed approach:
      - Assess plans at end of year – funded, unfunded, partially funded
      - Funded – use rate that approximates expected market-based return on plan assets
      - Unfunded – use market yields on provincial government bonds with cash flows in line with payments
      - Partially funded – single discount rate that is based on portion funded vs. unfunded
  - Other topics:
    - Net interest approach
    - Joint defined benefit plans
    - Multi-employer plans

PSAS: Upcoming standards

Upcoming standards and guideline

Date	Standard
April 1, 2022	PS 1201 Financial Statement Presentation PS 2601 Foreign Currency Translation PS 3450 Financial Instruments PS 3041 Portfolio Investments
April 1, 2022	PS 3280 Asset Retirement Organizations
April 1, 2023	PS 3400 Revenue
April 1, 2023	PS 3160 Public Private Partnerships
April 1, 2023	PSG 8 – Purchased Intangibles

Financial instruments and other impacted standards

PS 3450

Adopted by GNPOs following 4200 series in 2012/13

For other entities, effective for periods beginning on or after April 1, 2022

Requires:

- Financial instruments to be classified into fair value or cost/amortized cost categories
- New Statement of Remeasurement Gains and Losses
- Requires financial instrument risk disclosures in addition to other disclosures
- Provides guidance in areas such as derecognition, offsetting and effective interest rate method

A number of narrow scope amendments were issued – all are now included in the standard as of April 2021.

Narrow scope amendment project is now considered complete.

New standards

PS 3280 Asset retirement obligations

The new standard addresses the reporting of legal obligations associated with the retirement of tangible capital assets:

- Applies to government and government organizations
- Includes activities such as removal of asbestos, retirement of landfills (standard replaces PS 3270), retirement of hospital equipment such as MRIs or x-ray machines
- Asset retirement costs associated with an asset controlled by the entity increase the carrying amount of the related asset (or component thereof) and are expensed in a rational and systematic manner. If no longer in use, amounts are expensed

Application of the change may be adopted by one of three ways – prospective, retroactive or modified retroactive

Effective for periods beginning on or after April 1, 2022

Issued in
August 2018

Effective
April 1, 2022

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Asset retirement obligations

Summary of major features

Recognize an obligation as at the financial reporting date when:

- There is a legal obligation to incur retirement costs in relation to an asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

The estimate of a liability should be based on information available at the financial statement date and includes costs directly attributable to asset retirement activities, such as payroll, materials and overhead costs

Obligation is measured using the best estimate of the amount required to retire the asset at the financial statement date, using a present value technique with a discount rate that reflects the time, value of money and the risks specific to the liability

Obligation is measured at each financial reporting date and revised accordingly based on revisions due to passage of time, amount and discount rate

Asset retirement obligations

Implementation

Key action items:

- Document your process, including who you need to involve in the discussions and when
- Obtain a complete listing of assets – could include depreciating and fully depreciated assets; consider what is in use, fully depreciated and/or no longer in use
- Review contracts, agreements, laws and regulations
- Consider what costs should be included and when the costs will be incurred
- Consider discount rate, estimation techniques, assumptions and document, document, document!!!
- Should you capitalize or expense?
- Professional judgment – not having perfect information does not eliminate the need to account for something

Asset retirement obligations

Implementation, continued

Risks:

- Completeness
- Measurement
- Transition method accounting
- Documentation

Things to consider:

- Project team and plan, developing a policy, engaging stakeholders, scoping assets, measurement approaches, financial reporting

Scoping process:

- Review tangible capital asset categories
- Have discussions with/send questionnaire to other stakeholders
- Consider looking at other data sources to assess completeness, i.e., insurance documents, lease documents
- Identify medium-to-high risk assets (those more likely to have asset retirement obligations (AROs))
- Gain an understanding of relevant legislation and regulations that may impact AROs
- Educate and communicate – engage others to ensure they understand requirement and responsibility
- Develop tools, guidance and policy

Asset retirement obligations

Implementation, continued

Measurement:

- Obtain estimates of cost to remediate
- What is a reasonable approach – consider cost/benefit

Timing of retirement activities and discounting:

- Best estimate – some entities are considering present value discounting but determination is based on cost benefit analysis
- If no discounting, current cost at each reporting date

Transition method:

- Prospective method – may be chosen due to decreased complexity, simpler method
- Modified retroactive – may be chosen to manage impacts on accrual based budgeting, manage impact of amortization in the statement of operations especially as they relate to older assets, still uses current assumptions so that it minimizes administrative burden, reduces budgetary pressures, because a portion goes through the opening accumulate deficit, minimizes fiscal impact in year of transition
- Retroactive

Documentation to support auditability:

- Document plan, document interviews, develop your opinions, document position papers and policy choices, engage auditor often and regularly, consider engaging internal audit to support adequacy of documentation

PSG 8 – Purchased intangibles

The new guideline explains the scope of the intangibles allowed to be recognized in financial statements given the removal of the recognition prohibition in PS 1000.

Main features of the guideline are:

- A definition of purchased intangibles
- Examples of items that are not purchased intangibles
- References to other guidance in the PS Handbook on intangibles
- Reference to the asset definition, general recognition criteria and the GAAP hierarchy for accounting for purchased intangibles

Effective for periods beginning on or after April 1, 2023

Retroactive or prospective application is permitted

Implementation considerations: What is in scope? How will finance get involved? What issues might you face?

Issued in
November 2020

Effective
April 1, 2023

Revenue

PS 3400

The new standard addresses the accounting and reporting of revenue not previously addressed in the PSAS handbook:

- Applies to government and government organizations
- Provides a framework for recognizing revenue by distinguishing between revenue from transactions that include performance obligations (exchange) and those that do not (unilateral)
- Building permits are in scope but development charges are out of scope (PS 3100 continues to apply)

Application of the change may be adopted prospectively or retroactively

Effective for periods beginning on or after April 1, 2023

Issued in
November 2018

Effective
April 1, 2023

Public Private Partnerships

PS 3160

PS 3160 reflected in the Handbook in spring 2021

Effective date of April 1, 2023

Key impacts:

- Recognition of public private partnership infrastructure
- New estimates and judgments will be required
- Enable better informed decisions
  - Developing clear principles for recognizing assets and liabilities; and
  - Identifying how to measure the resulting infrastructure asset and liability

Public Private Partnerships (continued)

PS 3160

Key topics:

- Control of asset:
  - Purpose and use of infrastructure
  - Access to future economic benefits/exposure to risks
  - Significant residual interest
- Measurement of asset/liability:
  - Initially measured at cost
  - Corresponding liability measured at same amount of the asset
  - Systematic recognition of operating and maintenance costs
- Presentation and disclosure:
  - Disclosure requirements simplified (not to overlap with other standards)
  - Focus on specific terms that would be useful to users of the financial statements (e.g., termination rights)

Appendix A – proposed statement of financial position

- Net debt relocated to its own statement
- New categories of financial and non-financial liabilities
- Statement restructured
- Third component of net assets added

Statement of financial position		
As at March 31		
	20X3	20X2
Financial assets	**xx**	xx
Non-financial assets	**xx**	xx
Total assets	**xx**	xx
Financial liabilities	**xx**	xx
Non-financial liabilities	**xx**	xx
Total liabilities	**xx**	xx
Net assets (net liabilities) is composed of:	**xx**	xx
Accumulated surplus (deficit)	**xx**	xx
Accumulated remeasurements	**xx**	xx
Accumulated other	**xx**	xx
	xx	xx

New

New

Appendix A – proposed statement of changes in net assets (net liabilities)

- All revenue and expenses are reflected
- Most revenue and expense will be recognized in surplus/deficit
- Only PSAB can designate a revenue or expense to be recognized in accumulated other or accumulated remeasurements

New

Statement of changes in net assets (net liabilities)		
For the year ended March 31		
	20X3	20X2
Accumulated surplus (deficit)		
Surplus (deficit)	**xx**	xx
Opening balance	**xx**	xx
Ending balance	**xx**	xx
Accumulated remeasurements		
Change in accumulated remeasurements	**xx**	xx
Opening balance	**xx**	xx
Ending balance	**xx**	xx
Accumulated other	**xx**	xx
Change in accumulated other	**xx**	xx
Opening balance	**xx**	xx
Ending balance	**xx**	xx
Total net assets (net liabilities)	**xx**	xx

Appendix A – proposed statement of changes in net assets (net liabilities) continued

- Option to include a calculation of the change in the above indicator plus the reasons for the change in the indicator
- Option to control the narrative regarding the indicator and why it changed

New

Statement of net financial assets (net financial liabilities)		
As at March 31		
	20X3	20X2
Financial assets	**xx**	xx
Financial liabilities	**xx**	xx
Net financial assets (net financial liabilities)	**xx**	xx

Staying informed

Staying informed

Through your auditor on upcoming changes and impacts to your organization

Subscribe to *The Standard* – tailored email about AcSB's and PSAB's NPO activities

www.frascanada.ca/subscribe

Through the CPA Canada website

Website: www.frascanada.ca

For private sector NPOs:

www.frascanada.ca/standards-for-not-for-profit-organizations

For private sector (will have applicability to NPOs): https://www.frascanada.ca/en/aspe

For public sector NPOs: www.frascanada.ca/standards-for-public-sector-entities

ESG issues and upcoming disclosures

1. Why ESG
2. ESG disclosures: Public and private sectors
3. Upcoming global ESG disclosure standards
   - Climate crisis
   - Biodiversity
4. Key takeaways
5. Implications for the public sector

Presented by

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Senior Manager
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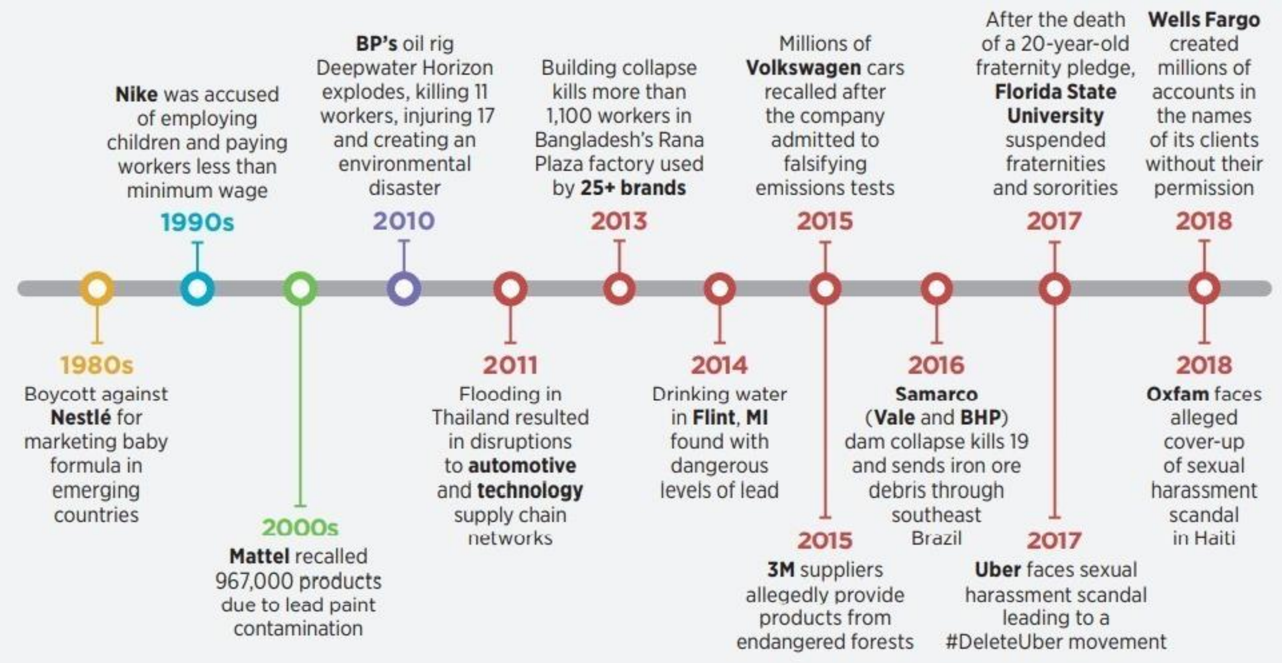
Why ESG

ESG issues and why are we talking about them?

- ESG – The environment, social and governance issues that can impact an entity's operations and be impacted by them
- Why – ESG issues can descend into risks or create opportunities that affect the reputation, supply chain, product mix, operations and geographic footprint of an organization
- What's new – Although not new, ESG risks have gained prominence globally due to their frequency, interconnectedness and complexity, and are now at the forefront of the UN's Sustainable Development Goals, the World Economic Forum's annual Global Risk report, and risk management ratings by agencies such as Morgan Stanley Capital International



Source: 2018, The Committee of Sponsoring Organizations of the Treadway Commission and World Business Council for Sustainable Development

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Climate change: A key ESG issue

- Within ESG, given its time-sensitive nature, avoiding a climate crisis is top of the international agenda
- At COP26, the role of finance in delivering the goals of the Paris Agreement has risen to the forefront
- It has been estimated that a total of $100 trillion needs to be mobilized to combat the climate crisis and deliver the low carbon transition globally, with much of this coming from the private sector

1 The race to net zero

$130 trillion

450 firms across 45 countries are signatories to the Glasgow Financial alliance for Net Zero , which has committed $130t towards Net Zero.

2 Regulatory drivers

Regulation becoming stricter: On Finance Day, it was announced in UK, new mandatory requirements for large listed and FS companies to **publish transition plans** by 2023.

3 Government action

Public and blended finance commitments, including developed countries mobilizing

$80 billion

of climate finance for developing countries in 2019 (still below $100b target)

4 Global standards

Disclosures and reporting increasingly in focus, with momentum growing for a **global climate disclosure standard** leading to the International Financial Reporting Standards (IFRS) foundation announcement of a new International Sustainability Standards Board (ISSB) at COP26.

5 Mobilizing capital

Decision on Article 6 at COP26 sets rules for a robust and accountable carbon market for trading emissions, expected to jump start evolution of voluntary carbon markets.

6 Biodiversity

COP26 highlighted our dependence on nature, with biodiversity and climate both intrinsically linked strategic risks, that are most effectively managed together in a joined-up way.

ESG disclosures in Canada: Public sector and private sector

- In 2019, the Bank of Canada listed climate change for the first time as a vulnerability in Canada's financial system
- Canada also tied its pandemic bailout funding to the Task Force on Climate Related Financial Disclosure (TCFD) aligned reporting
- The Government of Canada (Budget 2021) announced its commitment to:
  - Engage with provinces and territories to endorse adoption of climate related disclosure across the economy
  - Require Crown corporations holding more than $1 billion in assets to report on their climate-related financial risks in calendar year 2022; and Crown corporations with less than $1 billion in assets to begin reporting by 2024
- Given this direction, CFOs will need to be prepared to build quantifiable ESG metrics into financial risk management - and not rely solely on financial metrics of performance
- Management also needs to ensure robust processes are in place to verify the accuracy of information that is publicly disclosed
- Issue: While ESG reporting has improved transparency of information, it lacks comparability, and hence usefulness for funding agencies and or investors

Solution: A standardized system of ESG metrics will help drive funding and investment towards more sustainable public and private operations

Upcoming global ESG disclosure standards

The ESG standards landscape

Navigating the alphabet soup of ESG standards

Three dynamics to watch on global climate disclosure standards:

Convergence vs. alignment: “Building block” approach

Growing support for a building block approach to ESG standard setting, select jurisdictions can build on a global **baseline standard** by developing local standards and rules

ESG standards are a tool, but not enough on their own

Entities should ensure that their ESG reporting has **robust processes and controls** with a supporting audit trail, similar to what exists for financial reporting.

Organizations need institutional capacity to address this

Entities can prepare for future disclosures by ensuring the board is overseeing **ESG integration** into strategy and finance functions and ensuring ESG reporting has proper processes, controls and data outputs.

ISSB: Global baseline of sustainability disclosure standards

As world leaders met in Glasgow for COP26, the IFRS Foundation Trustees announced three significant developments:

1. **Formation of a new International Sustainability Standards Board**
   To develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs

2. **Commitment by leading investor-focused sustainability disclosure organisations to consolidate into the new board**
   The IFRS Foundation will complete consolidation of Climate Disclosures Standards Board and the Value Reporting Foundation by June 2022

3. **Publication of prototype climate and general disclosure requirements developed by the Technical Readiness Working Group**
   The TRWG has consolidated key aspects of these organizations' content into an enhanced, unified set of recommendations for consideration by the ISSB

How does the ISSB fit in with other organisations developing sustainability reporting standards?

International Financial Reporting Standards (IFRS) Foundation

TRWG created by IFRS Foundation trustees

International Accounting Standards Board (IASB)

Work in close cooperation

International Sustainability Standards Board (ISSB)

TRWG worked on recommendations for ISSB

Technical Readiness Working group (TRWG)

Members:

- Climate Disclosure Standards Board (CDSB)
- International Accounting Standards Board (IASB)
- Task Force for Climate-Related Disclosures (TCFD)
- Value Reporting Foundation (VRF)
- World Economic Forum (WEF)

The CDSB and VRF (including the Sustainability Accounting Standards Board and the International Integrated Reporting Council will be consolidated into the ISSB along with their technical expertise, content, staff and other resources

Note: The ISSB will set sustainability standards for the private sector, and the International Public Sector Accounting Standards Board is expected to follow suit

Key takeaways

Key Takeaways

- The ISSB has been established to develop global ESG standards for the private sector and will begin with climate disclosure standards for "investors and broader stakeholders"
- Public consultations will be undertaken during 2022, including with jurisdictions in both developed and emerging markets
- It is up to each jurisdiction to take a decision on making the ISSB standards mandatory
- The ISSB will work with the IASB to ensure alignment and coherence on ESG and accounting standards
- The IPSASB and the Chartered Professional Accountants of Canada are closely following developments at ISSB and are expected to issue guidance on ESG disclosure for public sector entities – without getting ahead of ISSB

Implications for the public sector

Implications for the public sector

ESG risks need to be addressed by the government and public sector in terms of:

- Policy
- Legislation
- Regulation
- Standards
- Financial and non-financial reporting
- Budgets and Investments
- Operations

All have implications for crisis response and continuing service delivery

Global sustainability standards will have an impact on the Canadian public sector standards

Given large investment needs of maintaining existing infrastructure and investing in new infrastructure, may necessitate leveraging private finance to supplement public finance.

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Thank you!

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