



Update on Public Sector Accounting Standards



March 22, 2018

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Welcome



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Introduction

Update on Public Sector Accounting
Standards

Q&A

Our Presenter



Bailey Church leads the National Public Sector Accounting Advisory service line at KPMG Canada, and as such has provided his expertise for a number of public sector accounting advisory engagements. He has an extensive background serving the Government of Canada, provincial governments, crown corporations, municipalities, not-for-profit organizations and for-profit entities pursuing significant transactions with public sector entities.

His over 17 years of experience includes substantial work in financial management, accounting, financial reporting and auditing matters within the public sector environment. Bailey is a well-known speaker at seminars and conferences across Canada, including the Government Financial Officers Association, the Institute of Internal Auditors, the Financial Management Institute, the Canadian Comprehensive Auditing Foundation, and the Office of the Auditor General. Bailey holds a Bachelor of Commerce degree from Queen's University in Kingston, Ontario.

Bailey will be available following the presentation to take any questions you may have.

Infrastructure Publications



Agenda

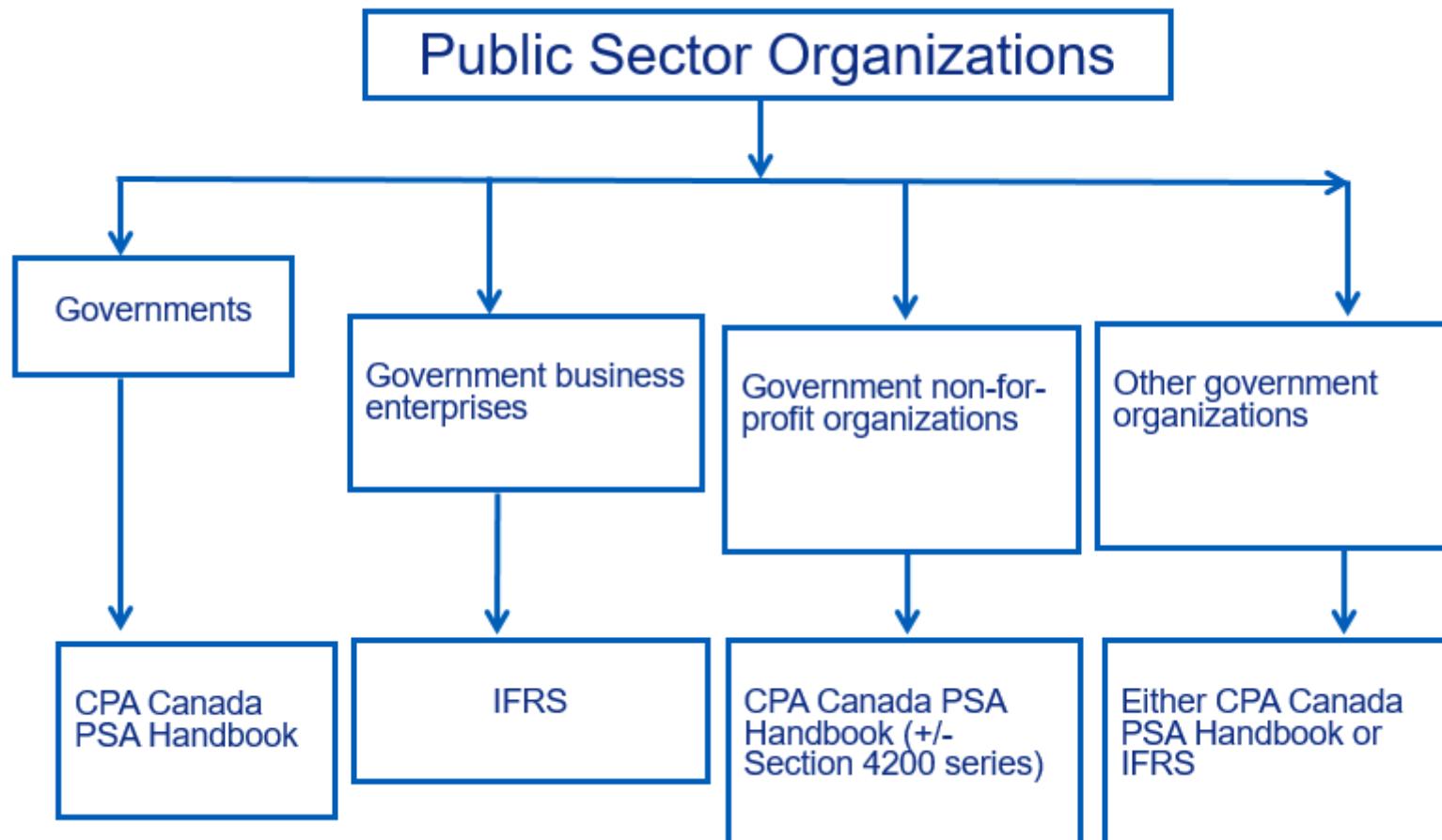
Public Sector Accounting

1. Overview of current changes to the standards
2. Active projects - Exposure drafts
3. Active projects - Other items

Agenda

| CPA Canada Handbook – Accounting | Contents | Effective |
|---|---|--|
| Part I | International Financial Reporting Standards (IFRS) | January 1, 2011 |
| Part II | Accounting Standards for Private Enterprises | January 1, 2011 |
| Part III | Not-for-profit organizations | January 1, 2012 |
| Part IV | Accounting standards for pension plans | January 1, 2011 |
| CPA Canada Public Sector Accounting Handbook | Public Sector Accounting Standards – includes options for use of s.4200 series for government NFPOs | In effect – new sections PS 4200 effective January 1, 2012 |

Public Sector - Applicable Standards



Overview of Current Changes to the Public Sector Accounting Standards - New Standards and Application Date

| Topic | Effective Date years commencing on or after |
|---|---|
| Introduction to PSAS | January 1, 2017 |
| Related party disclosures (PS 2200) | April 1, 2017 |
| Inter-entity transactions (PS 3420) | April 1, 2017 |
| Assets (PS 3210) | April 1, 2017 |
| Contingent assets (PS 3320) | April 1, 2017 |
| Contractual rights (PS 3380) | April 1, 2017 |
| Restructuring transactions (PS 3430) | April 1, 2018 |
| Financial instruments (PS 3450)* | April 1, 2019 |
| Foreign Currency Translation (PS 2601)* | |
| Financial Statement Presentation (PS 1201)* | For entities who previously applied Part V of CICA Handbook, Accounting - April 1, 2012 |
| Portfolio Investments (PS 3041)* (*must be adopted together) | |

Public Sector Accounting Standard Changes

Introduction to Public Sector Accounting Standards

- Provide guidance as to the basis of accounting to be used by partnerships effective for years commencing on or after January 1, 2017
 - Government business partnerships with only public sector partners to use Part I (IFRS) of the CPA Canada Accounting Handbook
 - Non-business government partnerships with only public sector partners to use either Public Sector Accounting Standards or Part I (IFRS)
 - Partnerships with one or more private sector partners to use standards determined by the partners
- Government components to apply Public Sector Accounting Standards effective years commencing on or after January 1, 2017
- Includes specific definitions for all types of government organizations, and partnerships, including definitions for public sector entity and government component

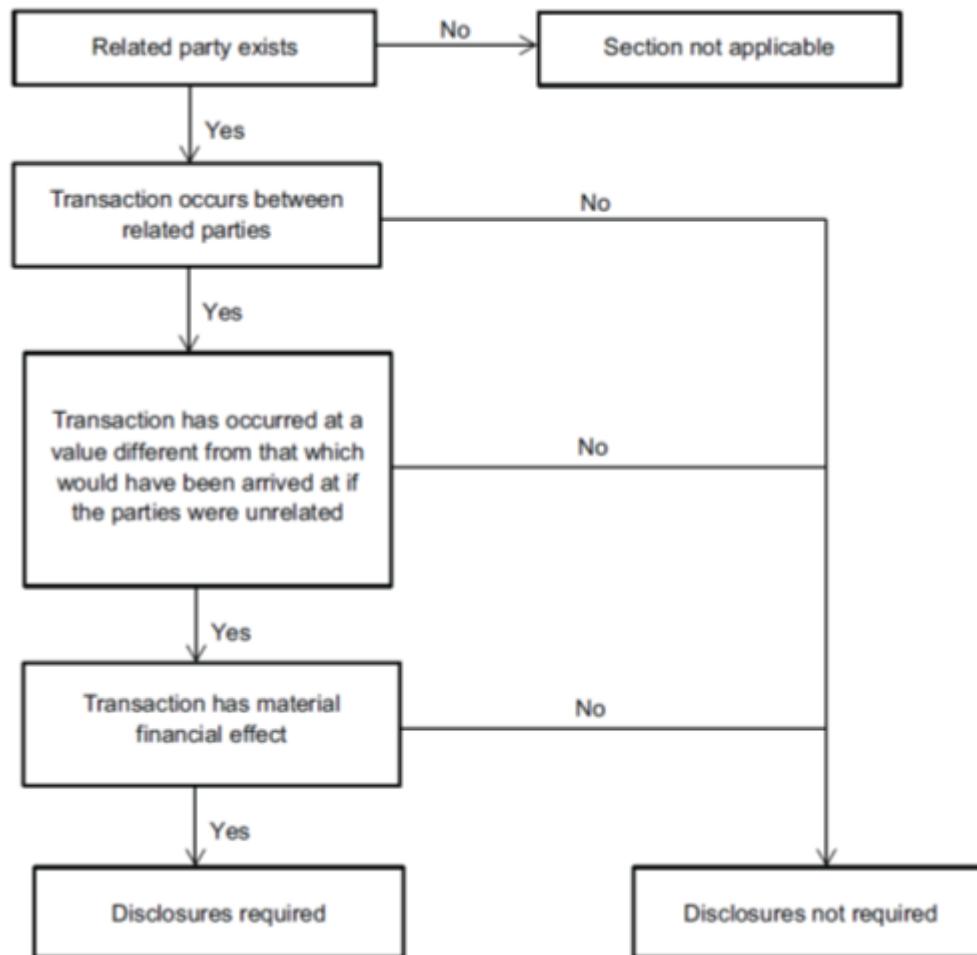
Public Sector Accounting Standard Changes Related Party Disclosures - PS 2200

- Two new handbook sections have been issued – one on disclosure and the other on measurement. The measurement section is entitled Inter-Entity Transactions
- The definition of related party includes control and relates to both entities and individuals
- From the perspective of the entity that is reporting, parties related to it typically include those:
 - a) entities that control it, share control of it or it controls;
 - b) entities that are subject to common control;
 - c) entities that it shares control of with other commonly controlled entities;
 - d) entities that are subject to shared control by other commonly controlled entities;
 - e) entities that it shares control of with other entities;
 - f) entities that are subject to shared control by other commonly controlled entities and other entities;
 - g) individuals who are members of key management personnel or close family members of those individuals; and
 - h) entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual

Public Sector Accounting Standard Changes Related Party Disclosures PS 2200 (cont'd)

- Disclosure of information about the transaction and the underlying relationship is required when they occur at a value different from what would have been recorded if they were not related
- Only transactions occurring that have a material effect on the entity reporting
- Disclose nature and extent and can include contributed goods and services at no cost
- Effective for years commencing on or after April 1, 2017
- Decision tree from the Handbook section is included in the next slide
- Section 4460 for government not for profit organization has been removed and those organizations are to apply PS2200

Public Sector Accounting Standard Changes Related Party Transactions Disclosure PS 2200 (cont'd)



Public Sector Accounting Standard Changes Related Party Disclosures PS 2200 (cont'd)

- Disclosures include:
 - (a) adequate information about the nature of the relationship with related parties involved in related party transactions;
 - (b) the types of related party transactions that have been recognized;
 - (c) the amounts of the transactions recognized classified by financial statement category;
 - (d) the basis of measurement used;
 - (e) the amount of outstanding balances and the terms and conditions attached to them;
 - (f) contractual obligations with related parties, separate from other contractual obligations;
 - (g) contingent liabilities involving related parties, separate from other contingent liabilities; and
 - (h) the types of related party transactions that have occurred for which no amount has been recognized.
- Items of a similar nature should be disclosed in aggregate

Public Sector Accounting Standard Changes

Inter-Entity Transactions PS 3420

- Transactions amongst components of the Government Reporting Entity
- Transactions at carrying amount unless
 - normal course (use exchange amount)
 - fair value consideration (use exchange amount)
 - no or nominal amount (use carrying amount by provider and carrying amount or fair value by recipient)
 - cost allocation (use exchange amount)
- Unallocated cost recognition is optional but if costs are allocated, revenue and expense should be at gross amounts
- Effective for years commencing on or after April 1, 2017
- Decision tree from the Handbook section is included in the next slide

Public Sector Accounting Standard Changes

Inter-Entity Transactions PS 3420 (cont'd)



Public Sector Accounting Standard Changes - Assets PS 3210

- Guidance on key aspects of the definition of assets
 - They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows
 - The public sector entity can control the economic resource and access to the future economic benefits
 - The transaction or event giving rise to the public sector entity's control has already occurred
- An entity controls the economic resource and access to future economic benefits when it:
 - Can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;
 - Can deny or regulate access to those benefits by others; and
 - Is exposed to the risks associated with the economic resource.
- Information about major categories of assets that are not recognized should be disclosed
- Effective years commencing on or after April 1, 2017
- The section includes a decision tree which is on the next slide

Public Sector Accounting Standard Changes

Contingent Assets PS 3320

- Contingent assets have two basic characteristics
 - An existing condition or situation that is unresolved at the financial statement date
 - An expected future event that will resolve the uncertainty as to whether an asset exists
- Disclosure is required including a description about the nature, extent and basis of the estimate
- Effective years commencing on or after April 1, 2017

Public Sector Accounting Standard Changes

Contractual Rights PS 3380

- Contractual rights to future assets and revenue
- Disclosure is required including a description about the nature, extent and timing
- Effective years commencing on or after April 1, 2017

Public Sector Accounting Standard Changes Restructurings PS 3430

- Establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring
- Assets and liabilities to be measured at their carrying amount
- A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment
- A restructuring transaction differs from a government transfer as the recipient would be required to assume the related program or operating responsibility
- Effective for years commencing on or after April 1, 2018

Public Sector Accounting Standard Changes

Financial Instruments / Foreign Currency / Financial Statement Presentation

- Financial Instruments / Foreign Currency Translation / Financial Statement Presentation
 - Must be applied at the same time
 - Financial Statement Presentation changes related to the statement of remeasurement gains and losses to be presented in a separate statement
- Effective Date
 - Effective for years commencing on or after April 1, 2019, extended from April 1, 2016 last year, for all other organizations including municipal governments
- Early adoption is permitted

Public Sector Accounting Standard Changes

Financial Instruments PS 3450

- Measurement/Recognition Principles
 - New Section PS 3450 Financial Instruments
 - Investments in equities that are traded in an active market are measured at fair value, with changes recognized in operations
 - All other financial instruments are carried at cost or amortized cost
 - Option to record any financial instrument at fair value – Irrevocable election on initial recognition
 - Any investments where managing and reporting performance for a group of financial assets, financial liabilities, or both on a fair value basis

Public Sector Accounting Standard Changes Financial Instruments PS 3450 (cont'd)

- Measurement/Recognition Principles – derivatives
 - Derivatives continue to be measured at fair value
 - Hedge accounting is not permitted
 - Contracts must be reviewed for embedded derivatives
 - Option to value full contract with embedded derivative at fair value rather than separately account for the derivative features

Public Sector Accounting Standard Changes Financial Instruments PS 3450 (cont'd)

- Transaction costs
 - Capitalize transaction costs for instruments carried at cost or amortized cost
 - Expense transaction costs for instruments carried at fair value
- Effective Interest method
 - Interest should be measured using the effective interest method
- Timing of recognition
 - Purchase and sale of investments should be recorded using the trade-date; not the settlement date

Public Sector Accounting Standard Change Financial Instruments - Financial Statement Presentation (cont'd)

Statement of Remeasurement Gains and Losses

| For the year ended December 31 | 20X1 | 20X0 |
|--|--------------|--------------|
| Accumulated remeasurement gains and losses at beginning of year | <u>\$ xx</u> | <u>\$ xx</u> |
| Unrealized gains (losses) attributable to: | | |
| Derivatives | xx | xx |
| Portfolio investments | xx | xx |
| Foreign exchange | xx | xx |
| Amounts reclassified to the statement of operations: | | |
| Derivatives | xx | xx |
| Portfolio investments | xx | xx |
| Foreign exchange | <u>xx</u> | <u>xx</u> |
| Net remeasurement gains and losses for the year | <u>xx</u> | <u>xx</u> |
| Accumulated remeasurement gains and losses at the end of the year | <u>\$ xx</u> | <u>\$ xx</u> |

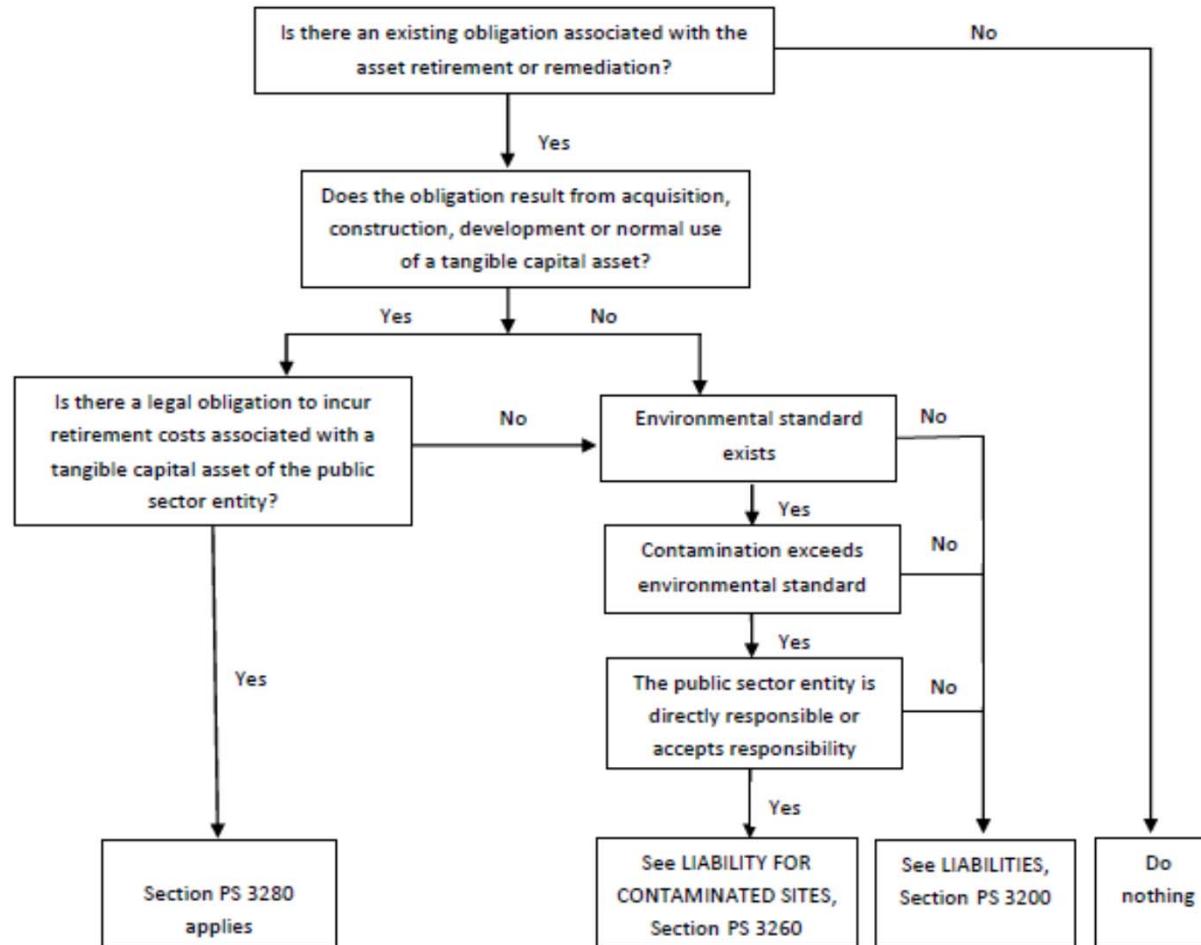
PSAS Exposure drafts

| Topic | Next steps |
|---|--|
| Asset retirement obligations | Exposure Draft replies were due June 15, 2017* Final standard to be released Q3 2018 |
| <p>* The Public Sector Board have released their agenda for their meeting to be held on March 22nd and 23rd which contains discussion and formal vote to approve the final handbook Section PS 3280 <i>Asset Retirement Obligations</i></p> | |
| Revenue | Exposure Draft replies were due August 15, 2017 Final standard to be released Q3 2018 |
| International PSAS Exposure Drafts | |
| Leases | Exposure Draft replies are due by June 30, 2018 |
| Social benefits | Exposure Draft replies are due by March 31, 2018 |

Asset Retirement Obligations

- From the Exposure draft
 - Reporting of obligations associated with the retirement of tangible capital assets
 - Liability is created through acquisition, construction, development and use of an asset
 - Costs directly attributable added to tangible capital assets
 - Amortized to expense on a systematic manner
 - Written off to operations when no longer in productive use
 - Best estimate measurement – generally present value
 - Costs include post-retirement obligation, maintenance and monitoring
 - Recoveries are not netted against the liability
 - Will also replace section PS 3270 – “solid waste landfill closure and post-closure liability.”
- Webcast available from CPA Canada

Asset Retirement Obligations



Asset Retirement Obligations

- The proposed standard would apply to fiscal years beginning on or after April 1, 2021.
- At the CPA Canada Public Sector Accounting Conference October 23rd and 24th, certain members of PSAB's ARO task force presented an overview of stakeholder feedback on the exposure draft.
- Asset retirement obligations related to **asbestos** received significant feedback, with stakeholders questioning when or if future economic benefits would actually be given up by a public sector entity for a building with asbestos.
- The task force expressed the view that the obligation to remove the asbestos arises from existing regulations, and hence formed a current obligation regardless of timing for the sacrifice of future economic benefits. The deferral of the removal until an unspecified future period was not thought to alleviate the current obligation of public sector entity.

Asset Retirement Obligations

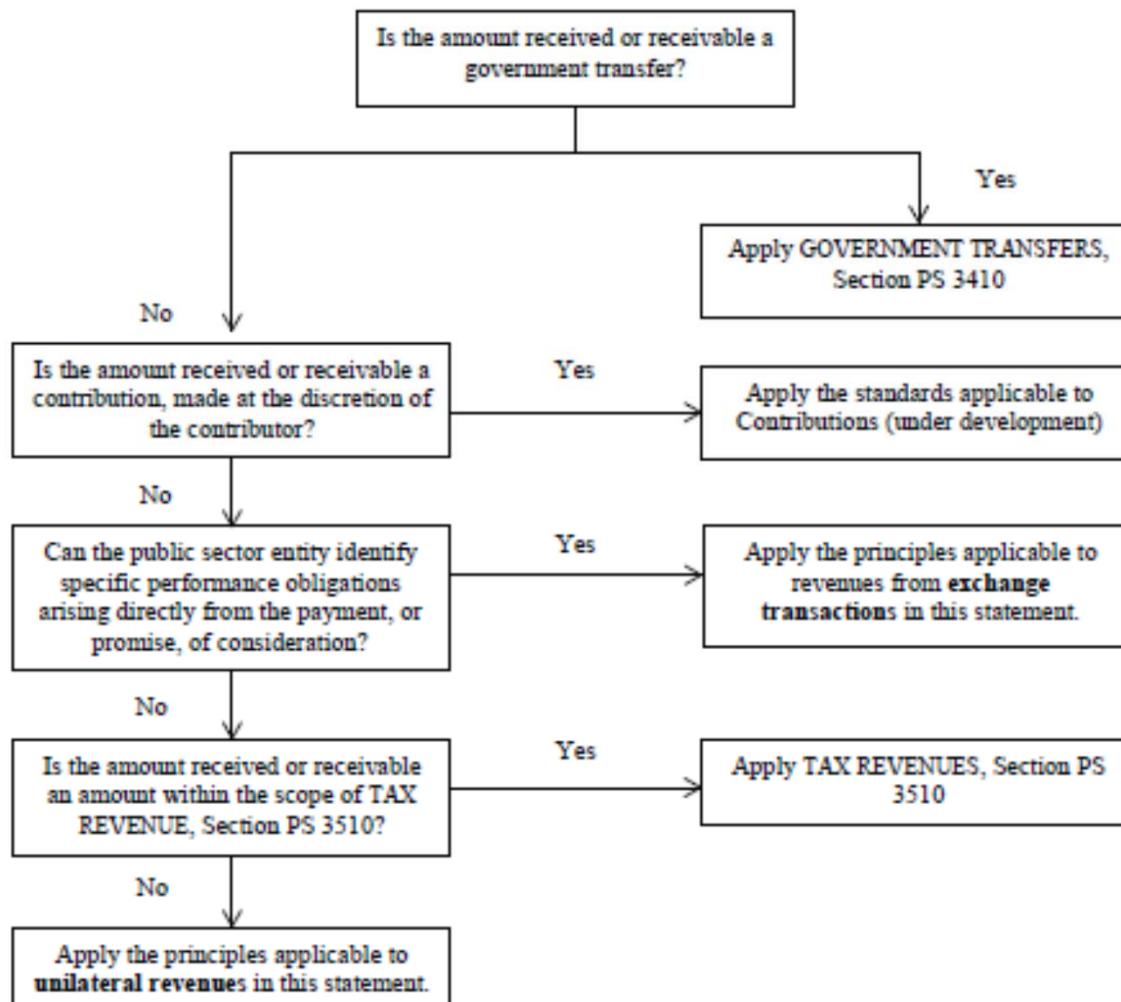
- Stakeholders also commented on the focus of the exposure draft on legal obligations for asset retirement, and questioned whether the scope should be broadened to address other constructive and equitable obligations. The task force commented that, by including obligations from promissory estoppel, the intent was to broaden the scope of potential obligations.
- Stakeholder feedback was also received on impairment of tangible capital assets – do the capitalized retirement obligation costs represent future economic value to the public sector entity? The task force noted that this would be considered in PSAB's broader impairment of non financial assets project.

Revenues

- From the Exposure draft
 - Focused on two categories of revenues: exchange transactions; and unilateral (non-exchange) transactions
 - Excluded from this are:
 - Reporting of contributions and appropriations excluded from scope.
 - Accounting for government transfers, tax revenues, interest, dividends, and gains and restricted assets
 - Exchange transactions are distinguished based on the presence of performance obligations (enforceable promises to provide goods or services)
 - An exchange transaction is evaluated to identify which goods or services are distinct and accounted for as a separate performance obligation
 - Revenue from an exchange transaction is recognized as the public sector entity satisfies a performance obligation
 - Unilateral revenues (such as fines and penalties imposed by a government) are recognized when there is the authority and a past event that gives rise to a claim of economic resources
 - Revenue is not reduced upon initial recognition if collectability is uncertain

Revenues from the Statement of Principles

APPENDIX — DECISION TREE



PSAS Active Projects

| Topic | Next steps |
|---|--|
| Employment benefits | Second invitation to comment was issued in November 2017 with deadline for responses being March 9, 2018. Third invitation to comment being developed. |
| Public private partnerships | Comments requested by October 17, 2017 Exposure Draft expected Q3 2018 |
| Concepts Underlying Financial Performance | TBD SoC and SoP to be released Q2 2018 |
| Financial Instruments – Subsequent Issues | Currently conducting research |

Employee benefits

- Since PS 3250 (Retirement Benefits) and PS 3255 (Post-employment benefits) were issued, there has been a significant change in the type of pension and benefit plans.
- The project has include two phases outlined on the next slide
- A new comprehensive handbook section will be proposed to replace the two existing sections.

Employee benefits

- The first phase will include
 - appropriateness of deferral of changes in benefit obligation and plan assets
 - alternatives of recognizing gains and losses
 - alternatives for valuation of plan assets (market or market-related)
 - a statement of principles was issued with replies due by March 3, 2017
- The second phase will include
 - shared risk plans,
 - multi-employer defined benefit plans and
 - vested sick leave benefits
 - discount rate
- Other improvements to existing guidance will also be considered.

Public Private Partnerships – An overview of P3's in Bermuda"



The King Edward VII Memorial Hospital (KEMH) Redevelopment Project

- In November 2008, BHB started the five year KEMH Redevelopment Project. A Private Partner, Paget Health Services (“PHS”) was selected in 2010 using a Public Private Partnership (“PPP”) to provide Bermuda with a new purpose built acute care facility. PHS will design, build, finance and maintain the new facility according to BHB’s requirements.
- The ACW opened for operation in September 2014.
- The new hospital wing includes 90 single en suite private patient beds, new emergency and diagnostic imaging departments, out-patient services for dialysis and oncology and a new utility hub to support the hospital campus.
- After completion of the competitive procurement process, BHB entered into an agreement to make annual payments to PHS over a period of 30 years, during which time PHS maintains the new facility to BHB’s specifications.
- The Project was the first PPP and largest capital project to be undertaken in Bermuda.
- The Government’s role was critical to the success of the Project.



L.F. Wade (Bermuda) International Airport Redevelopment Project

- The L.F. Wade International Airport was built in 1940. Owing to the current terminal being only a few meters above sea level, it is exposed to high rains which cause flooding and the roof leaks.
- Following careful analysis, the Government selected a concession model whereby the risks of capital development, maintenance and operations are transferred to the private partner during the 30 year period of the concession.
- The Government of Bermuda will not assume any debt for the Airport.
- The Canadian Commercial Corporation (CCC), a crown corporation of the Government of Canada has guaranteed the new airport terminal will be delivered “on time, on spec and on budget”.
- The benefits of the concession to Bermuda include:
 - Stimulating the economy through investing in critical national infrastructure without increasing the national debt;
 - Creating hundreds of jobs in the near future to build the terminal;
 - Increasing long-term employment at the airport pre and post completion;
 - Ensuring the sustainable long-term operations of the Airport;
 - Increasing efficiencies, capacity, and safety of airport operations;
- Financial close was successfully concluded in March 2017. The L.F. Wade International Airport is currently being operated by the private partner, Bermuda Skyport Corporation Limited. The new airport terminal is scheduled to open in 2020.



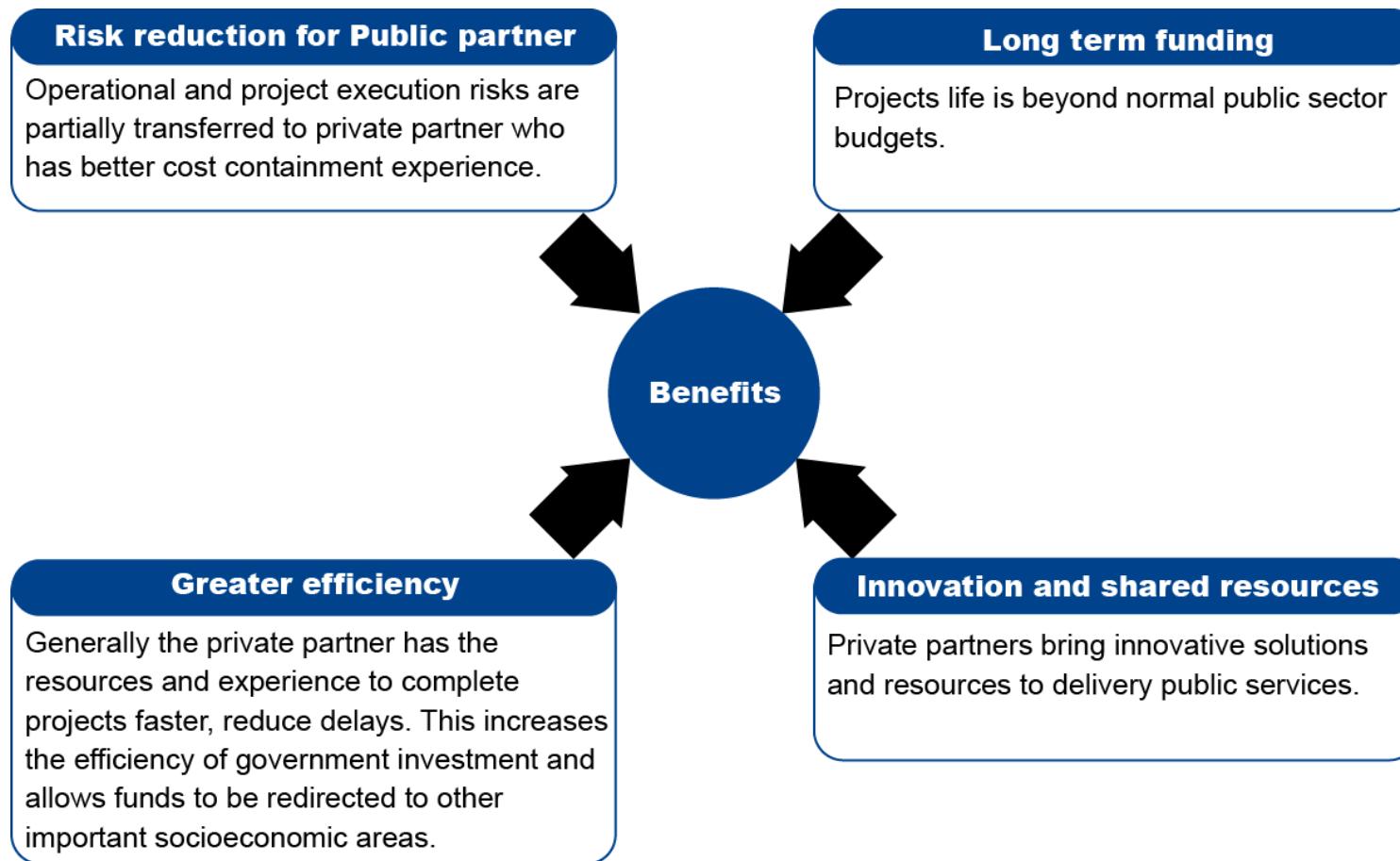
What is a Public Private Partnership

Defining features

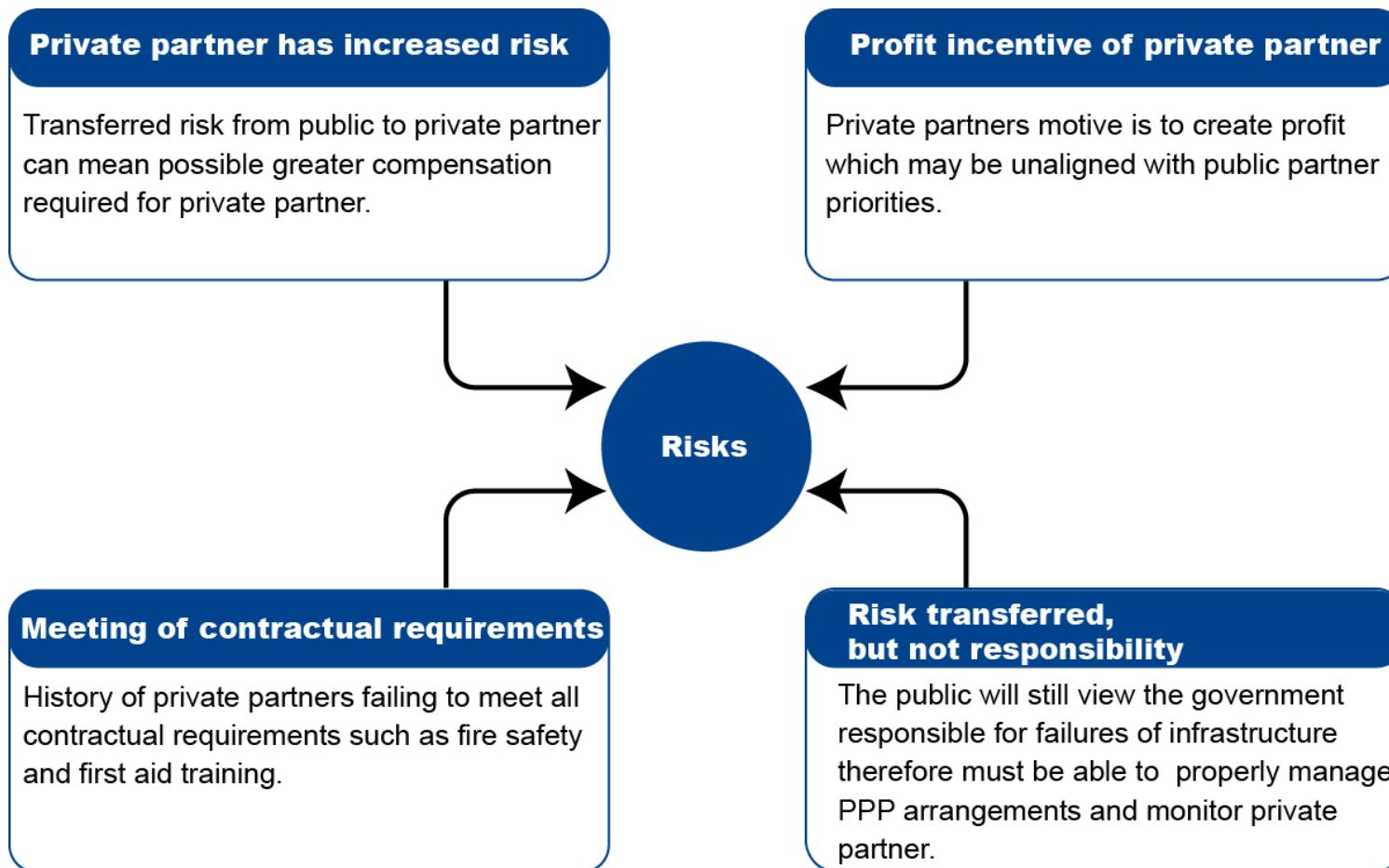
- A cooperative venture between the public and private sectors built on the expertise of each partner that best meets clear defined public needs
- A long term performance based approach for procuring public infrastructure
- Private sector assumes a share of the responsibility:
 - delivery and the performance of the infrastructure,
 - designing the concept,
 - architectural and structural planning
 - long term maintenance



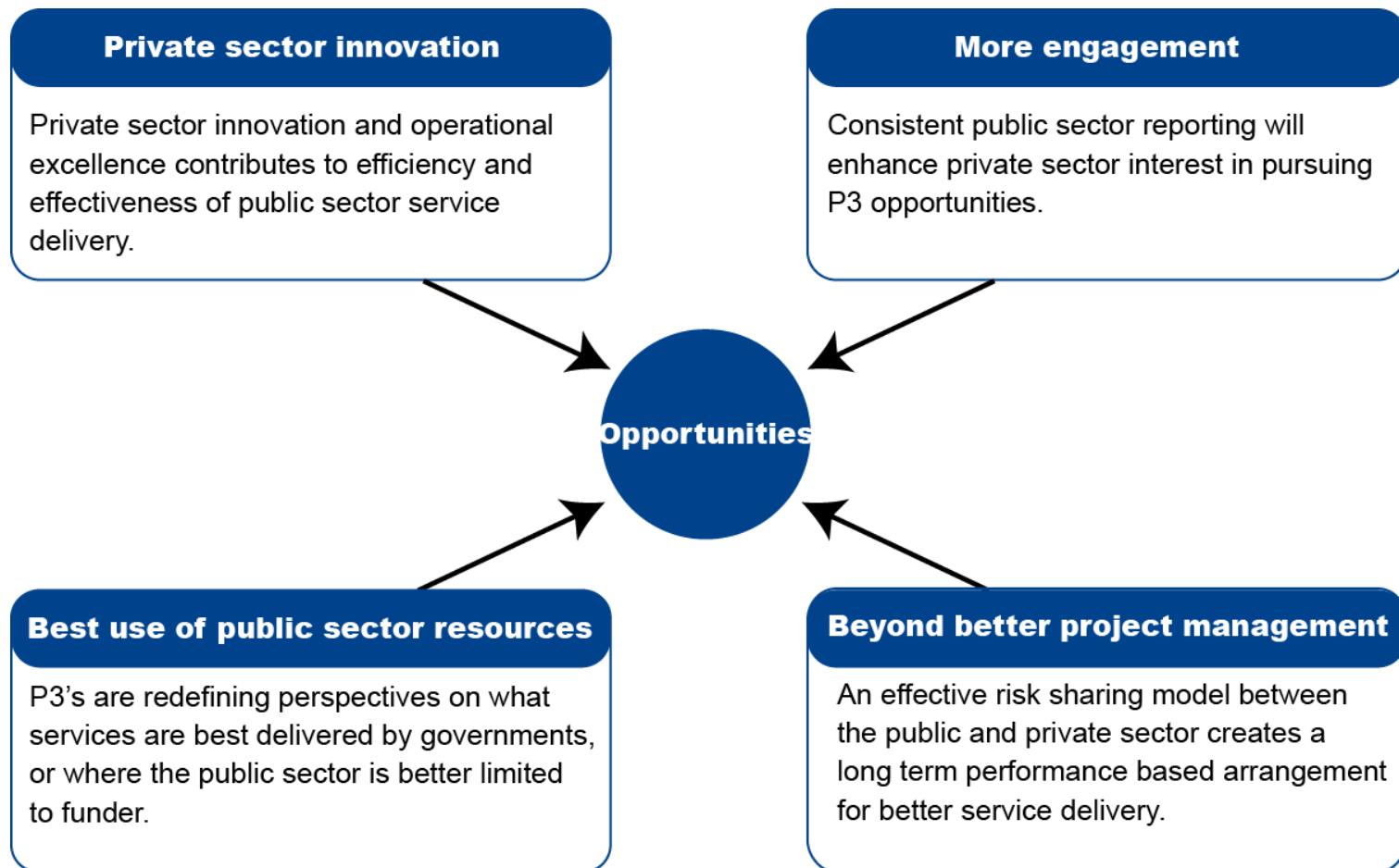
Public Private Partnerships - Benefits



Public Private Partnerships - Risks



Public Private Partnerships - Opportunities



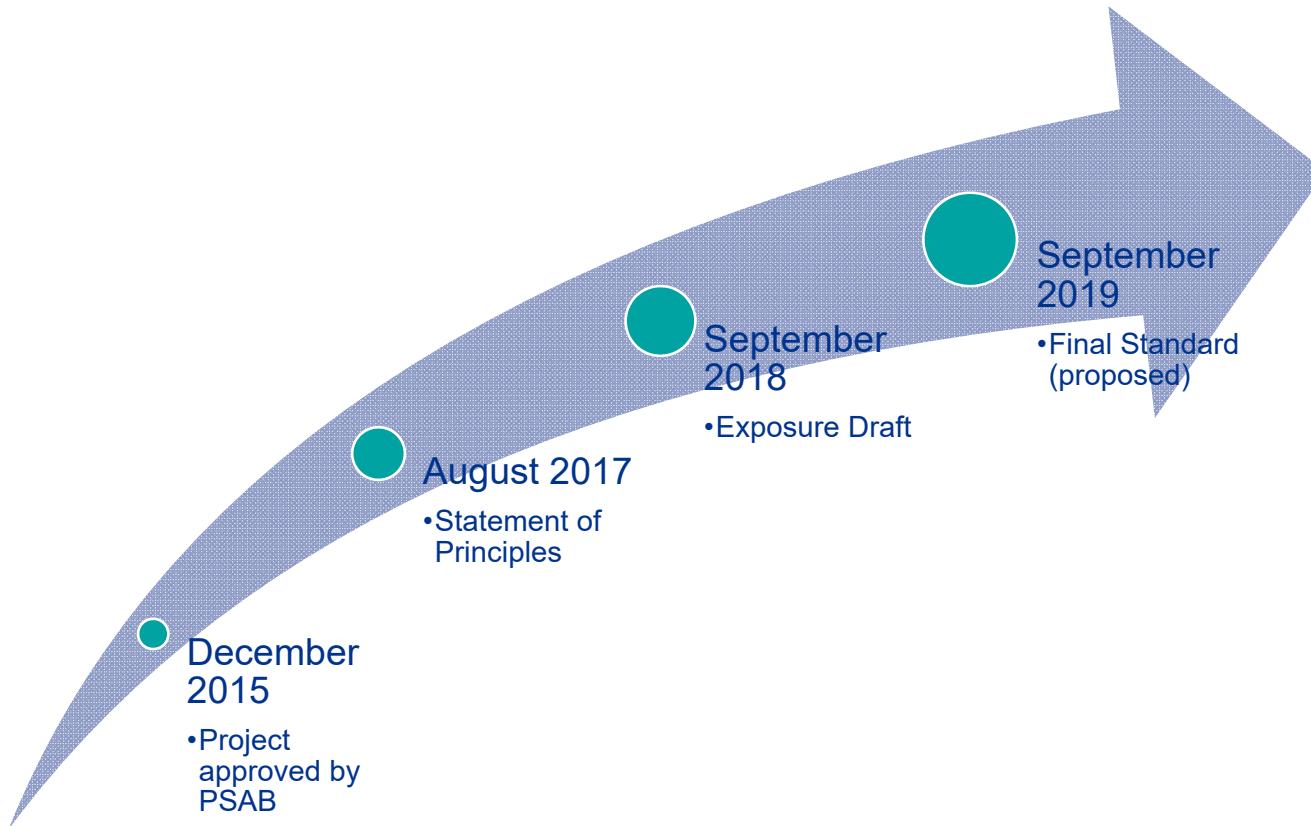
Conditions for Success



What is PSAB doing about it



P3 Project Timeline



Principles - Scope

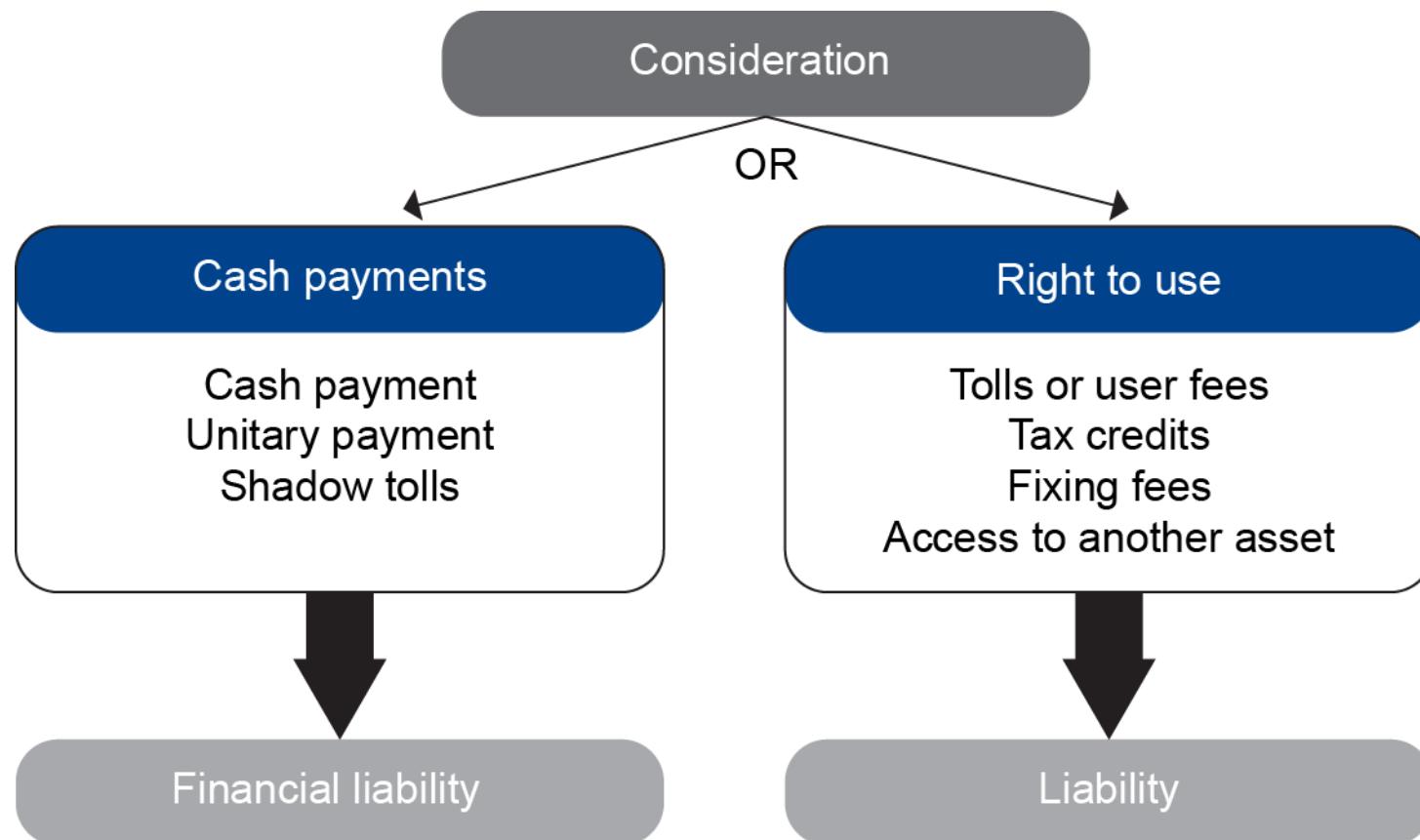
| Governance/ownership models | | | | | | | | | |
|--|------------------|-------------------|------------------------------|--|---|---|-------------------|------------------------------------|-----------------------|
| Public Ownership/Control | | | Public Private Partnership | | | Private Control/Ownership | | | |
| Traditional (Design/ Bid/Build) | Design/ Build | Build/ Finance | Design/ Build/ Finance | Design/ Build/ Finance/ Operate | Design/ Build/ Finance/ Maintain | Design/ Build/ Finance/ Operate/ Maintain | Sale Leaseback | Build/Own/ Operate/ Transfer | Build/Own/ Operate |
| Tangible Capital Assets, PS Section 3150 | | | No guidance | | | PSG-5 | | FS Concepts | |

Principles - Recognition

Infrastructure is recognized when the public sector entity controls:

- the purpose and use of the infrastructure;
- access to the infrastructure and at what price, if any, the private sector can charge to provide an associated service; and
- any significant residual interest in the infrastructure at the end of the term of the arrangement.

Principles - Credit classification



Principles - Measurement

Measurement

Acquired infrastructure

- Initial measurement of the acquired infrastructure is at its cost to the public sector entity

Existing infrastructure

- Initial measurement of the existing infrastructure is at its carrying amount

Discount rate

- Prescriptive or non-prescriptive
- Gov't borrowing rate or rate in contract

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

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