PS 3430 – Restructuring Transactions

A Guide for Municipalities

Canada

Saskatchewan

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Note: This guide has been prepared by Ministry of Government Relations staff for guidance purposes only. It is always advisable to consult with your appointed auditor where necessary.

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Introduction

The Public Sector Accounting Standard Board (PSAB) issued the following Public Sector Accounting Standard (PSAS) that took effect for fiscal years beginning on or after April 1, 2018:

- PS 3430 Restructuring Transactions

For municipalities in Saskatchewan, this standard would apply beginning on January 1, 2019 or for the 2019 Financial Statements.

This guide is prepared by Government Relations staff as a high-level summary of the new public sector accounting standard to provide municipal administrators/clerks guidance in preparing their annual financial statements. Sample disclosures have been added within the 2019 financial statement template. The template can be found on the Government of Saskatchewan's website at https://www.saskatchewan.ca/government/municipal-administration/funding-finances-and-asset-management/financial

This guide is not intended to substitute the full extent of the requirements of the new public sector accounting standard contained in the CPA *Canada Public Sector Accounting Handbook*. Therefore, municipalities are advised to consult with their appointed auditors to assess and determine the applicability of the new section to their annual financial statements.

New Public Sector Accounting Standard Effective 2019

PS 3430 Restructuring Transactions

This section establishes standards on **how to account for and report restructuring transactions** by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

What is a restructuring transaction?

A **restructuring transaction** is a transfer of an integrated set of assets and/or liabilities, together with a related program or operating responsibilities.

The key characteristics of restructuring transactions are:

- their non-purchase nature – which is generally reflected by the absence of consideration that is primarily based on, but may not equal to, the fair value of the individual assets and liabilities transferred;
- transfers of an integrated set of assets and/or liabilities that are not random or unrelated but are an integrated set that is somewhat complete in supporting the related program or operation transferred; and
- transfers of program or operating responsibilities previously completed by transferor that related to the assets and liabilities transferred – this distinguishes a restructuring transaction from receipts of contributions, gifts or government transfers.

What are examples of restructuring activities?

Examples of restructuring activities include:

- amalgamation of entities or operations within the government reporting entity;
- amalgamation of local governments;
- annexation or boundary alteration between neighbouring local governments;
- transfers of operations or programs from one entity to another; or
- shared service arrangements entered into by local governments in a region.

Restructurings can be initiated by the entities involved or can be imposed by a higher level of government though legislation or by the controlling government.

Who is a recipient or a transferor?

A **recipient** is an entity that receives assets and/or liabilities, with related program or operating responsibilities, from one or more entities in a restructuring transaction. A recipient may exist before the restructuring, or it may be formed as a result of restructuring.

A **transferor** is an entity that transfers assets and/or liabilities, with related program or operating responsibilities, to one or more entities in a restructuring transaction. A transferor may continue or cease to exist after the restructuring.

There can be more than one transferor and one recipient in a restructuring transaction. An entity can be both a transferor and a recipient if it transfers and receives assets and/or liabilities together with related program or operating responsibilities, to/from one or more entities in a restructuring transaction. An entity may swap assets, liabilities and responsibilities with another entity in a restructuring transaction.

How is a restructuring transaction different from restructuring-related costs?

Transferors and recipients may incur incremental costs that are directly attributable to or result from a restructuring transaction. Payments of such restructuring-related costs are made to parties other than the transferors or recipients of a restructuring transaction.

Restructuring-related costs include, but are not limited to:

- costs to enable a restructuring transaction, such as legal, accounting and professional services costs; and
- costs to achieve the objectives of restructuring, such as those related to exiting an activity, terminating and combining programs, relocating and terminating employees, and terminating contracts.

Restructuring-related costs would be recognized as an expense when incurred in accordance with individual sections of the PSA Handbook.

How should assets and liabilities transferred or received in a restructuring transaction be recognized?

At the restructuring date individual assets and liabilities received in a restructuring transaction are recognized by the recipient if they meet the definitions of assets and liabilities and applicable recognition criteria. They are derecognized by the transferor if they no longer meet the definitions and recognition criteria.

The net effect of a restructuring transaction is the sum of:

1. the increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors and transferred to all recipients; and
2. the amount of any compensation recognized.

It does not include restructuring-related costs or the effects of any restricting related events and transactions.

How should assets and liabilities transferred and received in a restructuring transaction be measured?

Transferor: A transferor may continue or cease to exist after a restructuring. Prior to the restructuring date, a transferor continues to measure the individual assets and liabilities that will be transferred in an upcoming restructuring transaction on the same basis. For example, the transferor does not write down a tangible capital asset that will be transferred in a restructuring transaction simply due to the upcoming restructuring or expected change in use after the restructuring. It only considers any change in the use of the asset prior to the restructuring date to determine whether a write-down is required in accordance with Section PS 3150 Tangible Capital Assets. At the restructuring date the transferor derecognizes the individual assets and liabilities at their carrying amount.

Recipient: At the restructuring date, the recipient recognizes the individual assets and/or liabilities received at their carrying amounts with adjustments, where applicable:

- to conform with Public Sector Accounting standards;
- to align the accounting policies, methods and assumptions to be adopted by recipient (for example, the discount rate used to calculate a defined benefit pension plan liability); and,
- to reflect the recipient's circumstances.

Generally, the **carrying amount** of an asset or a liability transferred in a restructuring transaction is the amount reported in the statement of financial position of the transferor at the restructuring date net of valuation allowance. For example, the carrying amount of a tangible capital asset would be its cost less accumulated amortization and any write-downs prior to the restructuring date.

How are the restructuring transactions presented?

Recipient: Discloses the initial amounts recognized for individual assets and liabilities received rather than presenting them in its statement of financial position. The net effect of a restructuring transaction must be presented as a separate revenue or expense item in the Statement of Operations for the period in which the restructuring transaction occurs. The results of operations of the transferred responsibilities from the restructuring date to the end of the reporting period are combined with the results of the recipient's pre-restructuring operations, if any, for the entire reporting period in the statement of operations in the period the restructuring transaction occurs.

Transferor: Separately identifies the revenue and expenses of the programs or operations for which the responsibilities are transferred in the statement of operations in the period the restructuring transaction occurs, including the comparative amounts, if they are significant in relation to the results of operations. Otherwise, it would disclose the information.

Neither a transferor nor a recipient restates its financial position or results of operations prior to the restructuring date to retroactively report the effects of a restructuring transaction in its financial statements as if the restructuring transaction took place prior to the restructuring date.

How should compensation be recognized?

Compensation is a payment made in a restructuring transaction by a transferor to a recipient or vice versa that is not based on the fair value of the individual assets and/or liabilities transferred.

If the compensation is dependent on the occurrence of future events or transactions, the transferor and recipient involved would assess the nature and terms of the compensation against the individual Sections of the PSA Handbook to determine if the compensation results in an asset or liability at the restructuring date.

If the compensation is not dependent on the occurrence of future events or transactions, it is recognized as an expense and revenue at the restructuring date, regardless of when the payment is made.

What note disclosure is required in the reporting period in which the restructuring occurs?

The disclosure requirements take effect from the date a restructuring agreement is reached through to the period in which the restructuring transaction takes place. Both the transferor and recipient must disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

A transferor and a recipient provide a description of the restructuring transaction in the notes including:

- the entities involved and the nature of their relationships if there is any control, common control or shared control relationship among them;
- the reason for the restructuring;
- the restructuring date;
- the nature of assets, liabilities and related responsibilities transferred;
- the nature and terms of any compensation;
- the nature and extent of any contingent liability and contractual obligations transferred;
- the nature of any restructuring-related costs incurred; and
- the nature and, where applicable, terms of other restructuring-related events, arrangements and transactions.

A transferor and a recipient disclose the following information, in aggregate and by recipients / transferors where applicable and significant, in the notes:

- the carrying amount of assets and liabilities transferred and received at the restructuring date by major classifications;
- any adjustments made to the carrying amount of assets and liabilities received and the rationale for the adjustments;
- the amount of any compensation recognized;
- the amount of and the line item in which the net effect of the restructuring transaction is recognized;
- the amount of and the line items in which restructuring-related costs are recognized;
- the amount of and the line items in which the effects of any restructuring-related events and transactions are recognized.

A recipient also discloses the revenue and expense related to the transferred responsibilities that are included in the statement of operations by major classification.

Sample Disclosure:

Note [#] Restructuring Transactions

Recipient:

On *[insert date],* the [*municipality name*] received the transfer of [*insert brief description of assets (and liabilities)*] and the responsibility for the ongoing operation of the asset(s)] from [*insert transferring organization's name*]. The transfer was due to [*brief description of why the restructuring transaction occurred*].

The assets [*and liabilities*] have been recorded as [*e.g., tangible capital assets*], at the [*insert transferring organization's name*] carrying value at the time of the transfer, totaling $XX. This amount has been recorded as revenue [*expense*] during the year. Under the transfer, the [*municipality name*] also assumed responsibility for [*contingent liabilities (describe) and/or contractual obligations (describe) if applicable*].

The [*municipality name*] also received compensation of $XX for [outline the purpose – what it is for – if applicable].

The [*municipality name*] incurred $XX in restructuring costs related to [*brief description of the cause of the costs incurred if significant e.g., legal, accounting, professional services – if applicable*].

From the date of transfer to December 31, 2019, revenues and expenses related to the operation of the assets were as follows: revenue of $XX; salaries of $XX; goods and services of $XX; amortization of $XX; and debt service $XX.

Transferor:

On [*insert date here*], the [*municipality name*] transferred [*insert brief description of assets (and liabilities) and the responsibility for the ongoing operation of the asset(s)*] to [*insert receiving organization's name*]. [*Contingent liabilities (describe) and/or contractual obligations (describe) if applicable*] are also transferred to [*insert receiving organization's name*].

The transfer was due to [*brief description of why the restructuring transaction occurred*].

The carrying amount of the assets [*and liabilities*] transferred of $XX is recorded as an expense (revenue) during the year.

The [*municipality name*] also provided compensation of $XX for [*outline the purpose – what it is for – if applicable*].

The [*municipality name*] incurred $XX in restructuring costs related to [*brief description of the cause of the costs incurred if significant e.g., legal, accounting, professional services – if applicable*].

Resources

- CPA Canada Public Sector Accounting Handbook
- CPA Canada Public Sector Accounting Handbook Basis for Conclusion – Section 3430
- “PSAB at a Glance”, BDO Canada
- “2018-19 Financial Reporting Manual for School Divisions”, Ministry of Education, Saskatchewan
- “Province of Saskatchewan General Revenue Fund 2018-19 Year-end Reporting Requirements and Procedures”