



Exposure Draft

PSAB Conceptual Framework Revision : Joint Consultation Response Re: Removing Exclusion of Non-Purchased Natural Assets

For: Clean Air Partnership

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May 3, 2021

**Financial Statement
Presentation, Proposed
Section PS 1202**

JANUARY 2021

COMMENTS TO PSAB MUST BE RECEIVED BY
MAY 12, 2021



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Agenda

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1. Why Do We Not Already Value Natural Assets?
2. Proposed PSAB Changes
3. Consultation Response
4. Wider Context
5. Next Steps



Why Do We Not Already Value Natural Assets?

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Natural Infrastructure is Victim to Market Failure:

- Nature is a public good that provides ecosystem services
- Not “traded” in typical markets = no direct monetary value
- People can benefit from ecosystem services even if they do not invest / pay for them.

Costs of damage / benefits of restoration are not factored into traded markets or economic decision-making

We are making decisions that are not economically sound and diminish natural capital.



PSAB Conceptual Framework: Proposed Changes

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- “Recognition exclusions: Currently, the PSA Handbook sets out **exclusions** from recognition in financial statements in the conceptual framework. These exclusions relate to:
 - **natural resources** and Crown lands **that have not been purchased**;
 - developed and inherited intangibles; and
 - works of art and historical treasures.
- *“These exclusions are proposed to be **moved to the financial statement presentation standard, proposed Section PS 1202**, until PSAB considers the topics. Such exclusions are standards-level decisions, not concepts underlying financial statements”.*
- *“PSAB concluded that before these exclusions can be removed, each type of economic resource must be considered individually. Appropriate guidance regarding their recognition and measurement must be provided”.*

Consultation Response Preparation

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- **Informal Working Group**
 - Intact Centre on Climate Adaptation – Joanna Eyquem
 - KPMG – Bailey Church
 - MNAI – Roy Brooke and Michelle Molnar
 - Research Chair in Ecological Economics, UQO – Jérôme Dupras
 - Ouranos – Alain Bourque and Ursule Boyer-Villemaire
- **Support particularly sought from:**
 - Public sector accountants and asset managers
 - Financial sector – investors, insurers, banks, credit rating agencies...
- **Deadline: May 12, 2021**

Background Context

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- **MNAI Led Joint Consultation Response on 2018 proposals**
 - 32 signatories
 - Comments seen by PSAB as relevant to exposure draft
 - Natural assets added as a possible topic on its next project priority survey
- **PSAB's Proposed Timescale for Action on Natural Assets**
 - 2021 Consultation on Strategic Plan for April 1, 2022 - March 31, 2027
("likely to include sustainability theme")
 - March 2022 Strategic Plan finalized
 - Post-March 2022 Project Priority Survey
(natural assets included as a possible topic)

Key Points of Consultation Response (draft)

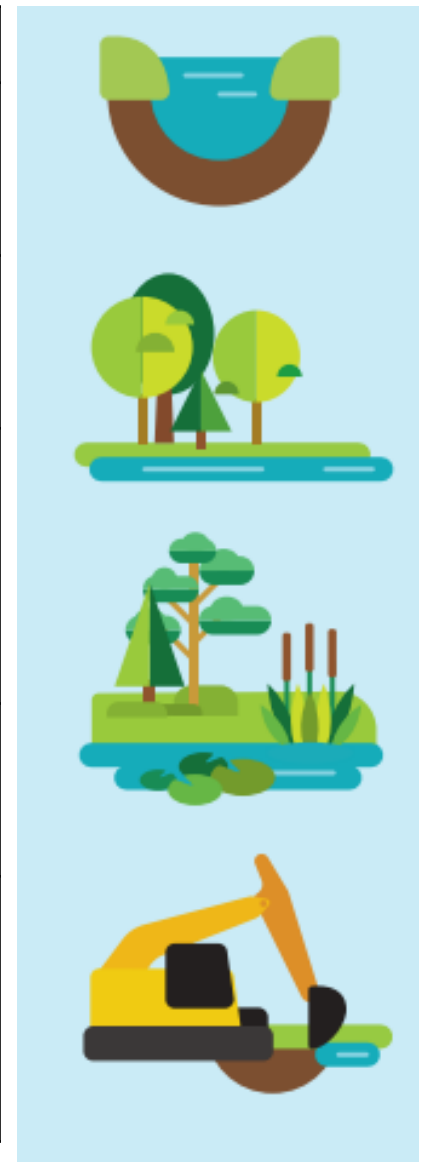
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- Under the proposed changes to the PSAB Conceptual Framework, natural capital will remain explicitly excluded from public sector financial statements, **except** where natural assets have been damaged and have needed to be recreated / restored or have otherwise effectively been ‘purchased’.
- Failure to recognize, in any form, the value of intact ‘inherited’ natural assets has historically led to their **mismanagement**, and deterioration of the services they provide to communities and economies over which public sector bodies have jurisdiction.
- Critical that public-sector entities account for, and value, the carbon sequestration and storage services of natural assets, which can be used to offset greenhouse gas emissions and contribute to fulfilling Canada’s commitment to achieving net-zero emissions by the year 2050.
- Methods of reliable data and measurement **already exist** for valuing natural assets, are tried and tested in Canada and are already being applied by local governments to inform asset management planning, creating a disconnect between asset management and financial reporting.

Valuing Natural Infrastructure in Action in Canada

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Where?	What?	How Much? (est.)
White Tower Park in Gibsons, British Columbia	Naturally occurring ponds provide stormwater storage services	\$3.5-million - \$4-million
Metropolitan area of Québec City, Quebec	Wetlands manage excess rainwater and reduce flood damages	\$49.8-million
City of Hamilton, Ontario	Wetland complex restoration to reduce flooding and provide recreation and other services	\$15.3-million to restore (compared with \$28.5-million for engineering solution) Services valued at up to \$44.2-million.
Mill Creek watershed near Moncton, New Brunswick.	Protecting four wetlands covering nearly 1.38 hectares	\$1.4-million in benefits in the event of a one in-100-year flood.
National Capital Region, Ottawa, Ontario / Gatineau, Quebec	Urban and rural forests provide annual erosion control services	Worth an estimated \$327,500 and more than \$5.2-million a year respectively.



Overview of Progress in Canada (last 10 years)

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- Several **municipal-scale initiatives** to inventory and value natural infrastructure
- Evolution from valuation based largely on spatial area, to valuation of certain **functions** (e.g. flood and erosion risk reduction), up to river basin scale
- Practical examples incorporating natural infrastructure into municipal **asset management planning**
- Values of natural assets **cannot be reflected in financial reporting**

Large discrepancy between asset management and financial statements

Town of Riverview, NB

Town of Florenceville-Bristol, NB

Village of Riverside-Albert, NB

Greater Montreal, QC

Greater Quebec City, QC

National Capital Region, ON/QC

Rivière Chaudière, QC

Oshawa, ON

Region of Peel, ON

Town of Oakville, ON

London, ON

York Region, ON

Richmond Hill, ON

Town of Gibsons, BC

District of Sparwood, BC

City of Courtenay, BC

District of West Vancouver, BC

City of Grand Forks, BC

City of Nanaimo, BC

Key Points of Consultation Response (draft)

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- By allowing recognition of the value of natural assets in financial position statements, the PSAB can support public sector bodies in making more financially-sound decisions in the short, medium and long-term.
- It is most strongly recommended that the explicit exclusion of non-purchased natural resources is **removed from the financial statement presentation standard, proposed Section PS 1202**. This would enable public bodies who are already ready to recognize natural asset in their financial statements to do so.
- The current complete exclusion of these assets from financial statements creates a **larger “error” in financial position statements than would be created through use of methods that are not completely standardized**.

This is not « just » an environmental issue....

Insured Catastrophic Losses in Canada

- Degradation of natural infrastructure is a contributing factor reducing resilience to flooding.

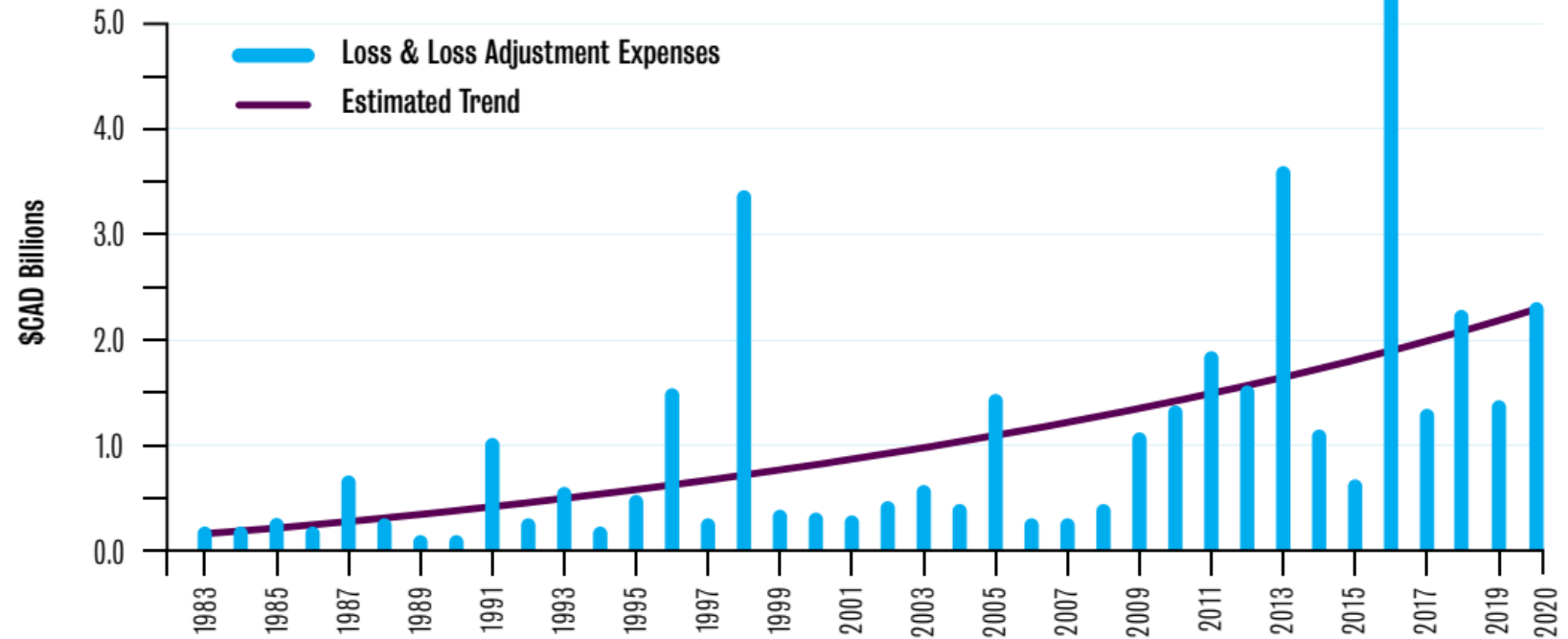


Figure 1: Catastrophic insured loss payments, Canada, 1983 – 2020. Total losses are normalized for inflation (\$2020 CAN) and per-capita wealth accumulation, as of November 2020. Source: CatIQ, PCS, IBC Facts Book.

Natural Assets Store and Capture Carbon

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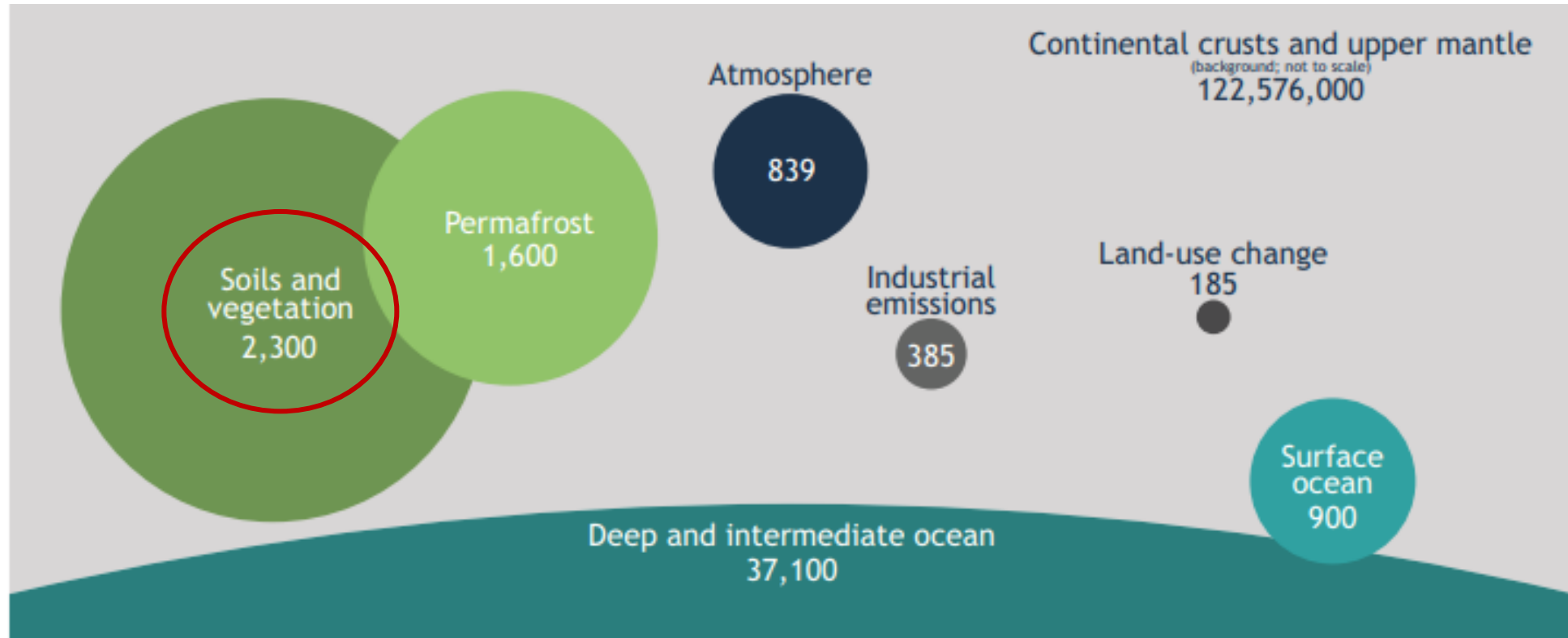
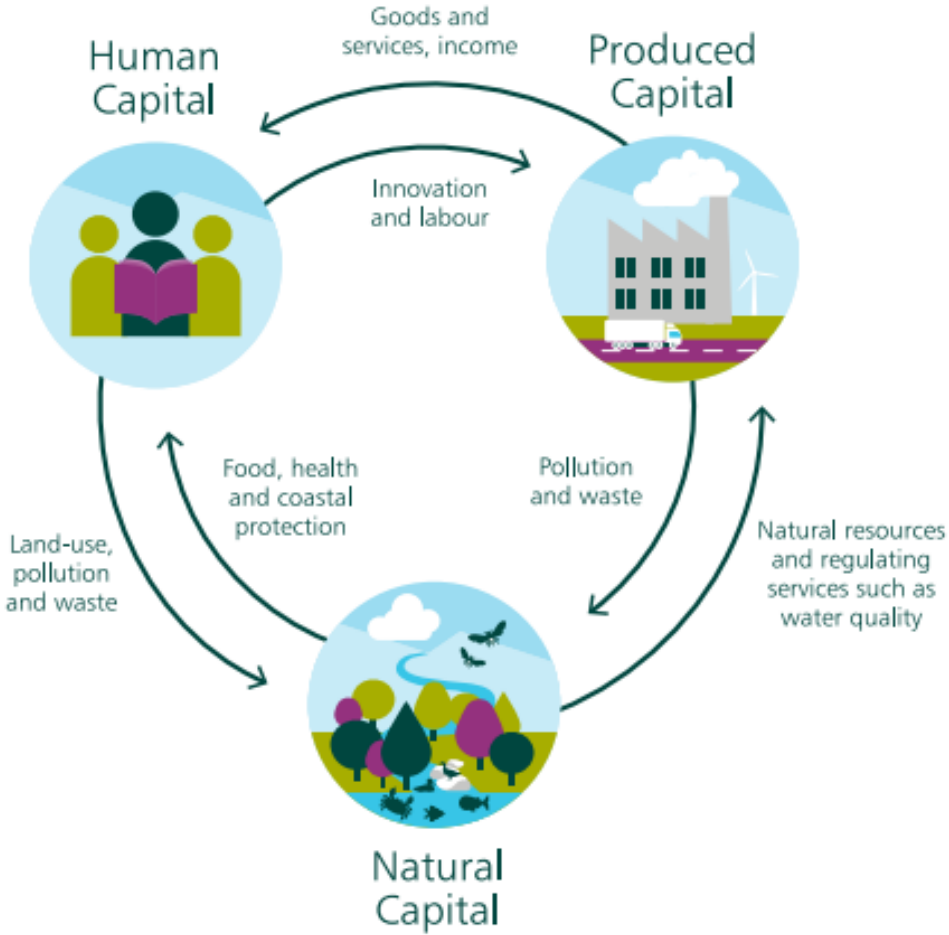
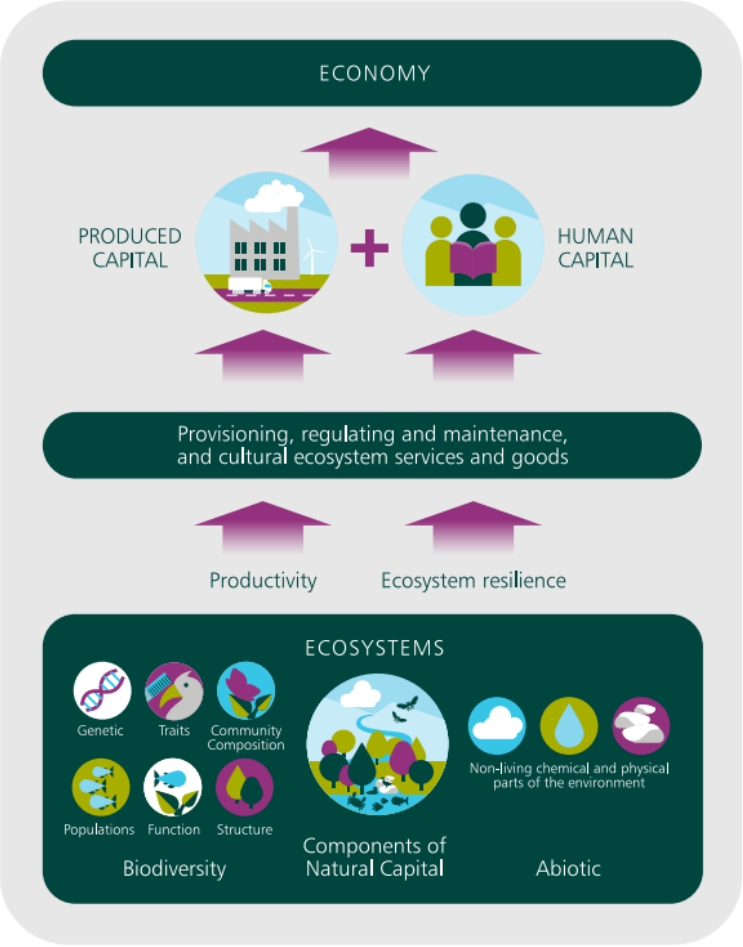


Figure 1. Global carbon stocks (carbon stored in pools), shown in gigatons.

Natural Capital Supports the Economy



Source: HM Treasury (2021) The Economics of Biodiversity: The Dasgupta Review
<https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

International Progress

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- UN System of Environmental-Economic Accounting—Ecosystem Accounting (SEEA EA) adopted in March 2021
- International Public Sector Accounting Standards Board (IPSASB) Natural Resources Project
- *“Items that are not recognized risk being mismanaged. Because natural resources are such a significant revenue source for many jurisdictions, the lack of recognition and measurement was highlighted as a public interest issue.”*
- **Canada’s PSAB needs to evolve to keep pace**



Statistical bulletin

UK natural capital accounts: 2020

Estimates of the financial and societal value of natural resources to people in the UK.

South Africa: Accounting Standards Board’s Standard of Generally Recognized Accounting Practice Standard for Living and Non-living Resources (GRAP 110) published in 2017. Prescribes the recognition, measurement, presentation and disclosure requirements for living resources; and disclosure requirements for non-living resources.

USA: Federal Accounting Standards Advisory Board (FASAB) introduced guidance (which took effect in 2013) requiring federal entities to report the value of the federal government's estimated royalties and other revenue from federal natural resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable.

Sustainable Finance, ESG and Natural Capital

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BlackRock ups focus on 'natural capital' ahead of AGM season

*“as the world transitions to a low-carbon economy, we ask companies to demonstrate how they are minimizing their negative impacts on, and **ideally enhancing the stock of, the natural capital** on which their long-term financial performance depends”*

Institutional investors are actively looking for investment opportunities in natural capital as part of sustainable finance initiatives.

Banks are forecasting growth in the green loan market in Canada, as an additional financial instrument to green bonds.

Taking advantage of new green financing opportunities will require public bodies to have measured and accounted for the value of their natural capital baseline in order to demonstrate the return on investment, which would logically be reflected in their financial position statements.

Next Steps

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- May 7, 2021 Signatures to be received
- May 11, 2021 Share final signed version to all parties
- May 12, 2021 Submission to PSAB