

PSAB Conceptual Framework Joint Consultation Response Submission – Draft and Confidential.

Contact: Joanna Eyquem, Director, Intact Centre for Climate Adaptation. E: joanna.eyquem@uwaterloo.ca

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Michael Puskaric
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2
info@psabcanada.ca

Re: “The Conceptual Framework for Financial Reporting in the Public Sector” and “Financial Statement Presentation, Proposed Section PS 1202” -- Consultation Response to Exposure Drafts

Dear Mr. Puskaric,

On behalf of the undersigned organizations, please find attached a consultation response to the exposure drafts that describe proposed revisions to the Public Sector Accounting Board's "Conceptual Framework for Financial Reporting in the Public Sector," and introduce the proposed new standard "Financial Statement Presentation, Section PS 1202."

This submission relates to the recognition of natural assets in Canadian public-sector accounting. Our response explains our position in relation to the need for public-sector accounting to be able to reflect the monetary value of natural assets in Canada, including carbon sequestration and storage, flood protection and biodiversity benefits. In particular, we recommend that the explicit exclusion of non-purchased natural resources be removed from the proposed new Financial Statement Presentation standard, Section PS 1202. The exclusion of natural assets from financial statements means that resources available to public-sector entities are not faithfully represented. The removal of this exclusion -- thereby permitting the inclusion of natural assets -- would not obligate a public-sector entity to recognize its natural assets.

We also recommend that the PSAB undertake a project to develop guidance about the recognition and measurement of natural resources, similar to projects under way at the International Public Sector Accounting Standards Board. With guidance, public-sector entities that are already prepared to recognize natural assets in their financial statements could do so in a consistent manner.

We appreciate the opportunity to comment on this very important undertaking, and would be pleased to provide any additional information that may be required. We also welcome the opportunity to assist PSAB in the development of standards and guidance materials to support public-sector entities to incorporate natural assets in their financial statements.

Yours faithfully,

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Proposed Changes to the PSA Handbook's Conceptual Framework ... and Context

The PSAB notes that its current Conceptual Framework for Financial Reporting in the Public Sector specifies that certain types of assets are to be excluded from recognition in financial statements: "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."

The PSAB is proposing to relocate these exclusions from the Conceptual Framework to its new standard for Financial Statement Presentation, Section PS 1202; it says "such exclusions are standards-level decisions, not concepts underlying financial statements."¹

The PSAB has 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."²

Response

- Canada is rich in natural capital, or natural assets (the stock of natural resources and ecosystems), that deliver economic benefits to public-sector entities. Under the proposed changes to the PSAB Conceptual Framework, this wealth 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 understates the resources available to a public-sector entity to provide services. This conflicts with the financial reporting objective noted in Chapter 6 of the proposed Conceptual Framework: "reporting [an entity's] financial position." Paragraph 6.15 observes: "To make such assessments, users require information about the total economic resources available to serve the public and the total claims on those resources (i.e., economic obligations) at the financial statement date."

By excluding the value of their inherited natural assets, public-sector entities are not providing adequate information about all assets - users do not have information about the state of natural assets, or their potential impairment. This lack of information has historically led to the mismanagement of natural assets, and to the deterioration of the services they provide to the communities and economies over which public-sector entities have jurisdiction. Degraded natural assets may also present otherwise undocumented liabilities.

It is also 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.

- Reliable methods of measurement and data collection already exist for valuing natural assets, are tried and tested in Canada, and are already being applied by local public-sector entities to inform their asset-management planning. Without a recognition of natural assets in financial statements, there is a disconnect between asset management and financial reporting, which contradicts the close linkage established between existing assets and liabilities.

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By allowing the value of natural assets to be recognized in the Statement of Financial Position, the PSAB can support public-sector entities in making more financially sound decisions about the management of natural assets in the short, medium and long term.

- In addition to removing the exclusion of non-purchased natural resources from the PSAB Conceptual Framework, we recommend that **the explicit exclusion of non-purchased natural resources be removed from the proposed new Financial Statement Presentation standard, Section PS 1202**. This removal would enable public-sector entities that are ready to recognize natural assets in their financial statements to do so in a consistent and defined manner.
- The PSAB should regard natural assets as a **priority topic** from now on, and the inclusion of natural assets in the financial statements of public-sector entities should be addressed in the forthcoming 2022-2027 Strategic Plan. Future work could include, for example, incorporating consideration of natural assets within the technical agenda and in a Statement of Recommended Practice. In the absence of timely and concerted action, the risk is that public-sector accounting standards will become less relevant in a world where natural capital is increasingly recognized as a central part of Canada's economy by investors, accountants, economists and public-sector entities.