

June 30, 2021

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 sincerely,



**Joanna Eyquem, P.Geo, ENV SP.,
CWEM, CEnv,**
Managing Director, Climate-Resilient
Infrastructure, Intact Centre on Climate
Adaptation, University of Waterloo



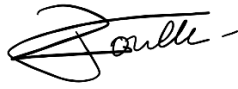
Bailey Church, CPA, CA, CIA
Partner, Professional Practice
KPMG Canada



Roy Brooke
Executive Director,
Municipal Natural Assets Initiative



Sonia Baxendale
President and CEO,
Global Risk Institute



Florian Roule
Senior Director, Strategy and
Partnerships, Head of Sustainable
Finance, Finance Montréal



Kevin Travers
Partner, Infrastructure Government
and Healthcare Practice
KPMG Canada



Jonathan Fowle
Chief External Relations Officer,
Vancouver City Savings Credit Union



Craig Stewart
Vice President, Federal Affairs
Insurance Bureau of Canada



Jennifer Place
Board Chair
Government Finance Officer of Alberta
(GFOA)



Dr Richard Florizone
President & CEO,
International Institute for Sustainable
Development



Dr Susan Black
President and CEO,
The Conference Board of Canada



Mike Wilson
Executive Director,
Smart Prosperity Institute



Sean Kidney
CEO,
Climate Bonds Initiative



Rachel Samson
Clean Growth Research Director,
Canadian Institute for Climate Choices



Blair Feltmate, Ph.D.
Head, Intact Centre on Climate
Adaptation,
University of Waterloo



Robert Siddall, FCPA, FCA
Independent



Julie Gelfand
Former Federal Commissioner of
Environment and Sustainable
Development, Office of the Auditor
General of Canada



Carole Saab
CEO
Federation of Canadian Municipalities



Sandra Califaretti, CPA, CA
Director, Accounting Services
City of Toronto



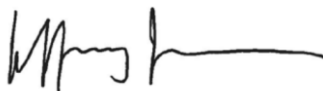
Raoul Cyr, CPA, CA
Directeur Comptabilité et informations
financières,
Ville de Montréal



Julia Aspinall, CPA, CMA
Director, Financial Services
City of Vancouver



Michel Houle, CPA, CMA
VP, Corporate Services and CFO,
National Capital Commission



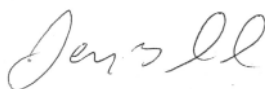
Jeffrey J. Jackson, MBA, CPA, CA
Director of Finance and Treasurer
City of Mississauga



Colleen Sklar
Executive Director,
Winnipeg Metropolitan Region



Mark Medeiros
Acting Treasurer,
City of Brampton



Jerry Blackwood, CPA, CGA
CFO,
Halifax Regional Municipality



Michael Coroneos, CPA, CMA
Deputy City Manager, Chief Financial
Officer & Treasurer,
City of Vaughan



Lisa Helps
Mayor,
City of Victoria



Andy Wardell, CPA, CGA,
General Manager, Finance & Chief
Financial Officer
District of North Vancouver



Moya J. Leighton CPA, CGA, MBA
Town Treasurer & Director of Finance
Town of Halton Hills



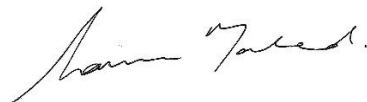
Myriah Foort, BBA, CPA, CA
Chief Financial Officer
Comox Valley Regional District



Jenn Hepting
Chief Financial Officer /
Director of Finance,
City of Colwood



Isabel Gordon, MBA, CPA
Director, Financial Services,
District of West Vancouver



Emanuel Machado
Chief Resiliency Officer
Town of Gibsons



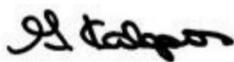
Sarah Pacey
Chief Administrative Officer,
Town of Florenceville-Bristol



Kevin Wilkinson, CPA, CA, MBA
Controller,
Windsor-Detroit Bridge Authority



Will Cole-Hamilton
Steering Committee,
Climate Caucus



Gabriella Kalapos
Executive Director
Clean Air Partnership



Edward McDonnell
CEO,
Greenbelt Foundation



Gerard McDonald, MBA, P.Eng., ICD.D
Chief Executive Officer,
Engineers Canada



Andrea Waldie, P.Geo., FGC
Chief Executive Officer
Geoscientists Canada



Dan Huang RPP, MCIP
President
Canadian Institute of Planners



Michael Leering P.Eng.
Director, Environment and Business
Excellence Standards
CSA Group



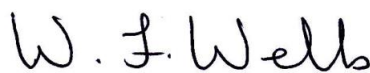
Christopher Chen
Executive Director
Asset Management Ontario



Jennifer Court
Executive Director
Green Infrastructure Ontario



Catherine Lavoie
Présidente-directrice générale
Centre d'expertise et de recherche en
infrastructures urbaines (CERIU)



Wally Wells P.Eng.
Executive Director
Asset Management BC



Daisy Foster
Managing Director,
Atlantic Infrastructure Management
(AIM) Network



Bernadette O'Connor
Manager, Municipal Asset
Management, Canada
WSP Canada Inc.



Jeff Atherton, P.Eng.
Senior Asset Management Consultant
AECOM Canada Ltd



Ron Scheckenberger, P.Eng.
Principal,
Wood Canada Ltd



Jennifer Petruniak, PMP.
Technical Lead, Environmental
Services
Dillon Consulting



Al Beaver
Executive Director.
Wildland Fire Risk Management Ltd



Robert Smith
Principal,
Midsummer Analytics



Alain Bourque
Directeur général
Ouranos - Consortium sur les
changements climatiques



Jérôme Dupras, Ph.D.
Professeur agrégé, Titulaire, Chaire de
recherche du Canada en économie
écologique, Université du Québec en
Outaouais



Dr Saul Klein
Dean, Gustavson School of Business,
University of Victoria



Susan Nesbitt, Ph.D. P.Eng.
Professor, Co-Director, Urban Systems
Master of Engineering Leadership,
The University of British Columbia



Deborah Harford
Executive Director
Adaptation to Climate Change Team,
Simon Fraser University



Robert Wilson
Director of Conservation Finance,
Nature Conservancy of Canada



Meghan Leslie
President and CEO,
WWF-Canada



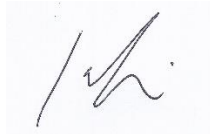
Jay Ritchlin
Director-General, Western
Canada/National Nature portfolio lead
David Suzuki Foundation



Marcy Sullivan, CPA, CA
Chief Financial Officer
Ducks Unlimited Canada



Laura Cui, CPA, CGA
National Director of Finance,
Canadian Parks and Wilderness
Society (CPAWS)



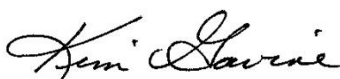
Lara Ellis
Senior Vice-President, Policy and
Partnerships,
ALUS



Antoine Verville
Directeur général,
Regroupement des organismes de
bassins versants du Québec



Martin Vaillancourt
Directeur général,
Regroupement national des conseils
régionaux de l'environnement du
Québec



Kim Gavine
General Manager,
Conservation Ontario



Deborah Martin-Downs
CAO
Credit Valley Conservation



Hassaan Bassit
President and CEO,
Conservation Halton



DG Blair
Executive Director,
Stewardship Centre for BC

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.

- 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 removal of this exclusion -- thereby permitting the inclusion of natural assets -- would not obligate a public-sector entity to recognize its natural assets.
- 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.

Endnotes

¹ Public Sector Accounting Board. 2021. "Exposure Draft -- The Conceptual Framework for Financial Reporting in the Public Sector," p. iv. Accessed at: <https://www.frascanada.ca/en/public-sector/documents/psab-ed-conceptual-framework>

² Public Sector Accounting Board. 2021. "Exposure Draft -- The Conceptual Framework for Financial Reporting in the Public Sector," p.111. Accessed at: <https://www.frascanada.ca/en/public-sector/documents/psab-ed-conceptual-framework>