

Intact Centre on Climate Adaptation
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International Federation of Accountants
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Submitted online to: <https://www.ipsasb.org/publications/consultation-paper-natural-resources>

Re: Comment on International Public Sector Accounting Standards Board Consultation Paper, *Natural Resources*.

Dear Sir / Madam,

Thank you for the opportunity to review and comment on the International Public Sector Accounting Standards Board (IPSASB) consultation paper on Natural Resources.

It is commendable that IPSASB has identified “Natural Resources” to be within scope relative to developing new accounting guidelines and standards. Natural resources play a role in tackling climate change, where they serve “double-duty”, by (1) building community resilience (for example, by soaking up water during major rainfall events that might otherwise contribute to residential flooding) and, (2) reducing greenhouse gases in the atmosphere (through sequestration). Additionally, by definition, preservation and restoration of natural infrastructure provides habitat that enriches biodiversity.

Tackling climate change and reversing biodiversity loss will require investment to preserve, restore and enhance natural resources and the services they provide to public sector entities. Public sector accounting has a role to play in establishing protocols to attach assign financial value to natural resources, and in ensuring that this valuation is presented in a transparent manner to interested stakeholders.

Relative to this submission, our comments on the consultation paper are related to Preliminary View 1 and Specific Matter for Comment 1, relating to consideration of natural resources only if they are in their “natural state”. **We recommend the removal of the requirement of “natural state” from the definition of a “natural resource”** for reasons explained in the following sections.

Preliminary View 1—Chapter 1

The IPSASB's preliminary view is that a natural resource can be generally described as an item which:

- (a) Is a resource as described in the IPSASB's Conceptual Framework;
- (b) Is naturally occurring; and
- (c) Is in its natural state.

Do you agree with the IPSASB's Preliminary View, particularly whether the requirement to be in its natural state should be used to scope what is considered a natural resource?

If not, please provide your reasons.

We do not agree that the requirement to be in its natural state should be used to scope what is considered a "natural resource". The key reason is that such a definition would effectively exclude financially valuable natural resources from consideration in public sector accounting.

The extent of human influence means that natural resources that are located in proximity to (and provide services to) local government public sector entities and their populations have been subject to widespread human intervention. Despite this intervention, these natural resources still provide financially valuable services, including flood and erosion protection, regulation of urban temperatures and carbon storage and sequestration. Applying the lens of "natural state" will screen out valuable natural resources, placing the emphasis of financial value on sub-surface natural resources and remote "virgin" natural resources that provide less direct, financially valuable services to local government public sector entities and people.

Specific Matter for Comment 1—Chapter 1

The IPSASB's preliminary description of natural resources delineates between natural resources and other resources based on whether the item is in its natural state.

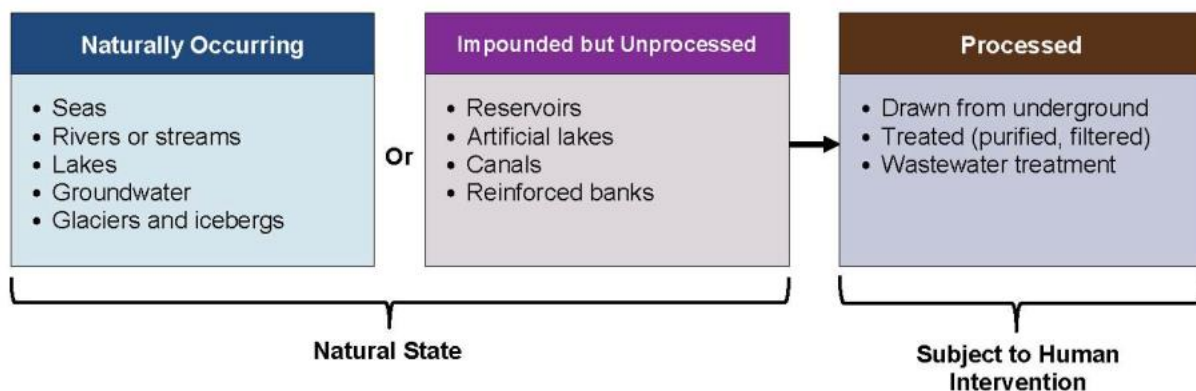
Do you foresee any challenges in practice in differentiating between natural resources and other resources subject to human intervention? If so, please provide details of your concerns. How would you envisage overcoming these challenges?

We foresee significant challenges in practice in differentiating between natural resources and other resources subject to human intervention based on whether the item is in its natural state.

Without detailed reference conditions for specific natural resources (e.g. rivers, forests, wetlands, salt marshes), definition of "natural state" may be ambiguous, confusing and subjective. For example, the definition of "natural state" contained within the consultation paper as it relates to "Water" appears to include resources, such as canals and reservoirs, that would be considered as "heavily modified water bodies" or "artificial water bodies" under the European Union Water Framework Directive.¹ The inclusion of these resources is welcome, but they

¹ EC (2000). Directive 2000/60/EC of the European Parliament and of the Council establishing a framework for Community action in the field of water policy. OJ L327, 22.12.2000. URL : <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32000L0060>

would not typically be considered as in their “natural state”, and they do not provide the same services to public entities as naturally occurring water bodies like rivers, streams, lakes or wetlands.



In many cases it may be difficult to define whether a natural resource is in its “natural state”, due to the tendency of natural resources to “recover” following human intervention. The absence of historic human intervention may be difficult to determine.

It appears from the consultation paper that a different level of human intervention is viewed as “acceptable” before the natural resource is no longer classed as in its “natural state”, depending on the type of natural resource under consideration. Based on the phrasing of Chapter 5, it seems that if any management activity has ever occurred in a terrestrial habitat (e.g. forest, grassland), the living organisms in the terrestrial habitat would no longer be considered a natural resource in their “natural state”, even if the management activity was for the benefit of the natural resource (e.g. pest or disease control). This appears unreasonable, particularly in comparison with the inclusion of canals and reservoirs as natural resources in their “natural state” under “Water” in Chapter 4, given that these water bodies are entirely artificial.

As a result of human-induced climate change, it could be argued that natural resources are not in their “natural state” when impacted by changed climatic conditions.

We would overcome these challenges through the removal of the requirement of “natural state” from the definition of a “natural resource”. Human intervention does not preclude the provision of financially valuable services from modified natural resources. The modified condition of the natural resource is also already captured in the financial value of the services provided to public sector entities, if it impinges on service provision.

We hope that these comments are useful in refining the IPSASB’s thinking on the recognition, measurement, presentation, and disclosure issues relating to subsoil resources, water, and living resources. We would also recommend that a full list of natural resources is considered. The current focus is limited to elements that may be “used” in a traditional consumptive way, therefore key natural resources, such as soils, are omitted.

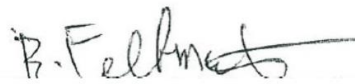
For further information on work in Canada that is directly relevant to this IPSASB project, please see the recent report [“Getting Nature on the Balance Sheet: Recognizing the Financial Value Provided by Natural Assets in a Changing Climate”²](#) (published on October 5, 2022), co-authored by the Intact Centre, KPMG Canada and the Municipal Natural Assets Initiative. Canada’s draft [Methodology for Completing Natural Asset Inventories](#) (posted by CSA Group) may also be of interest.

If we can be of further assistance, please do not hesitate to reach out.

Yours faithfully,



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About the Intact Centre on Climate Adaptation

The Intact Centre on Climate Adaptation (Intact Centre) is an applied research centre based out of the Faculty of Environment at the University of Waterloo. The Centre helps homeowners, communities and businesses reduce risks associated with climate change and extreme weather events. Through extensive engagement, the Intact Centre has become the premier national organization focussed on climate adaptation in Canada. The Centre focuses on translating research, and has developed numerous guidelines and standards on protection from the extreme weather risks: flood, wildfire and extreme heat protection, the use of natural infrastructure for risk mitigation, and factoring physical climate risk into investment management. The Centre’s tools and solutions help mobilize action on adaptation across the country, building resilience and enhancing health and security for Canada.

As a distinguishing characteristic, the Intact Centre address adaptation from all perspectives – physical, financial, economic, and social, by engaging stakeholders across multiple disciplines and sectors. The Centre has created influence and scale with a broad network/following that includes government Ministers/Deputy Ministers, provincial/territorial/ municipal government leads, heads of corporates, and NGO and industry association leadership. The Centre has also been recognized extensively by the media, with 400+ interviews per year on television, radio, and in print (newspapers, magazines, social media). For further information, visit: <https://www.intactcentreclimateadaptation.ca/>

² Eyquem, J. L, Church, B. Brooke, R and Molnar, M. 2022. Getting Nature on the Balance Sheet: Recognizing the Financial Value of Natural Assets in a Changing Climate. Intact Centre on Climate Adaptation, University of Waterloo, URL : https://www.intactcentreclimateadaptation.ca/wp-content/uploads/2022/10/UoW_ICCA_2022_10_Nature-on-the-Balance-Sheet.pdf