

October 17, 2022

IPSASB
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Re: Response to Natural Resources Consultation Paper.

Thank you for the opportunity to respond to the IPSASB Natural Resources Consultation Paper (NRCP).

As with our response to your consultation paper on sustainability, our four cities are submitting a joint response from the group initiative we refer to as the Canadian Municipal Network for TCFD. Although initially formed with the objective of working together to advance the implementation of our climate-related disclosures we have added natural assets to our scope of interest due to its key role in environmental sustainability.

As large Canadian cities our response is from the perspective of urban municipal government entities. There is a Canadian not-for-profit organization known as the Municipal Natural Asset Initiative (MNAI) which has developed a framework for municipal natural asset management. In addition to recommending the application of asset management practices to natural assets, MNAI also is advocating for the value of natural assets to be included in municipal public sector financial statements. MNAI and its partners recently released a paper called "Getting Nature on the Balance Sheet: Recognizing the Financial Value Provided by Natural Assets in a Changing Climate". This framework closely aligns with what we think is required to produce financial reporting that supports our environmental sustainability objectives and believe it has the potential for international applicability.

The Capitals Coalition is an organization who states "Our ambition is that by 2030 the majority of businesses, financial institutions and governments will include the value of all capitals in their decision-making and that this will deliver a fairer, just and more sustainable world." Although the Capitals Coalition covers the full spectrum of natural, social and human capital, it is their Natural Capital Protocol that is relevant to the natural resource consultation discussion.

Our response incorporates the concepts from these two frameworks as they align closely with the direction we think public sector financial reporting needs to go to produce information that assists us in our environmental sustainability objectives.

We have responded in more detail to each of the Preliminary Views and Specific Matters for Comment but would like to make these comments regarding:

Scope

The NRCP addressed sub-soil resources, water and living resources. We advocate for guidance that covers all components of natural capital including air, and soils (aka. land) and other natural and enhanced assets components of green infrastructure not included in the scope of the consultation.

The inclusion of sub-soil resources in a consultation paper about natural resources seems appropriate but unlikely to be applicable for an urban municipal entity. Sub-soil resources, although very important to economic and social sustainability, are not as critical to a sustainable ecosystem as air, water and soil.

The NRCP also excluded natural resources not capable of generating economic benefits and/or of having service potential for the reporting entity from the scope of the project. When considering climate mitigation and adaptation, physical and mental health benefits, tourism and recreation it's likely most urban natural assets will have some level of service potential and therefore don't anticipate many natural assets to be out of scope for consideration of including in GPFS or GPFRs.

Definition of Natural Resource

Our main concern is with the "is in its natural state" criteria for describing a natural resource where "to be in its natural state, a natural resource must not have been subjected to human intervention, which modifies the quantity and/or quality of a natural resource".

In an urban setting this criteria would likely result in the majority of what we consider our natural assets being excluded from the reporting, especially as we plan to increase our asset management practices for these assets. This is counter to our objective of including natural assets in our GPFS so that their existence and sustainability value can be disclosed. A standard is required to address natural resources that have been subject to human intervention but not to the point where the intervention results in them being covered by another existing standard such as IPSAS 12, 17, 27 or 31. Whether this guidance is part of a Natural Resource or separate standard will need to be determined.

We anticipate significant consultation activity over the next several years as IPSASB leads the development of international guidance for sustainability reporting. It is important to keep in mind as this guidance is being developed that the ultimate objective is sustainability. We are only at the beginning of the journey to explore how reporting can assist us in disclosing; the impact of climate change, the impact of climate change on nature and, nature's role and the use of natural assets to mitigate climate impacts and achieve a sustainable ecosystem. We anticipate that the development of this type of reporting guidance will challenge our established frameworks and that further amendments will be required to provide effective sustainability reporting guidance. We look forward to further engagement to support IPSASB

If you have any questions regarding this letter, please contact any of the signatories below.

Sincerely,



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Consultation Responses

Preliminary View 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 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.

PV 1 Response

We consider this preliminary view will significantly limit the advancement of environmental sustainability reporting for municipal governments primarily due to the "is in its natural state criteria."

The IPSASB Conceptual Framework defines a resource as "an item with service potential or the ability to generate economic benefits". We believe that the "service potential" component of the resource definition represents the greatest opportunity for advancing sustainability through the preservation of nature and the use of natural assets as a financially and sustainable alternative to traditionally engineered constructed assets and therefore is acceptable to use in the criteria for describing a natural resource.

The meaning of "naturally occurring as a resource that came into existence without the action of humankind" is also acceptable to use in the criteria for describing a natural resource.

Our main concern is with the "is in its natural state" criteria for describing a natural resource where "to be in its natural state, a natural resource must not have been subjected to human intervention, which modifies the quantity and/or quality of a natural resource".

In a municipal asset context many natural asset classes are already subject to human intervention and in the future even more human intervention is being contemplated. The whole premise of municipal natural asset management is that we should be applying asset management practices or "intervening" in our natural assets as we currently do for engineered assets, albeit usually to preserve or restore the asset to its natural state. This intervention has the objective of increasing the quantity and/or quality of the natural resource. To apply the "natural state" criteria would exclude many of our natural assets from being included in our financial reporting.

Specific Matter for Comment 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?

SMC 1 Response

As explained in our PV1 response we don't believe the natural state criteria should be used to determine when something is described as a natural resource.

Natural state may be an unnecessary delineation between void of human intervention and subject to human intervention resulting in the resource being covered by another existing standard such as IPSAS 12, 17, 27 or 31.

If natural state is kept as a criteria then a more exhaustive list of examples of intervention would have to be created. For example, we do not consider activities such as tree planting or undergrowth removal in forests to meet the threshold of human intervention but are not sure how the eventual guidance would categorize these activities.

Specific Matter for Comment 2.

The IPSASB noted that the natural resources project and sustainability reporting in the public sector are connected in that this project focuses on the accounting for natural resources while sustainability reporting may include consideration of how natural resources can be used in a sustainable manner.

In your view, do you see any other connections between these two projects?

SMC 2 Response

The connection between these two projects is an example of the trend for comprehensive integrated sustainability reporting similar the frameworks initiated by the IIRC, SASB and CDSB which have recently all merged into the ISSB. The work done under these frameworks should assist IPSASB in defining the connections and interdependencies between the natural, social, human and produced (goods and financial assets) capitals in order to create a roadmap for developing a comprehensive suite of effective general and specific sustainability reporting guidance and standards.

Preliminary View 2.

The IPSASB's preliminary view is that a natural resource should only be recognized in GPFS if it meets the definition of an asset as defined in the IPSASB's Conceptual Framework and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

Do you agree with IPSASB's Preliminary View? If not please provide your reasons.

PV 2 Response

IPSASB's Conceptual Framework is the cornerstone for financial reporting guidance and standards and therefore must be the basis of reporting decisions. However, the Conceptual Framework was designed when financial considerations were by far the primary focus with little or no consideration of non-financial sustainability. We believe that some progress can be made to improve sustainability reporting without amending the Conceptual Framework, for example greater adoption of disclosures recommended in IPSASB's Recommended Practice Guides. However we believe that eventually the Conceptual Framework will have to be modified to better accommodate sustainability reporting.

Preliminary View 3.

The IPSASB's preliminary view is that guidance on exploration and evaluation expenditures, as well as development costs, should be provided based on the guidance from IFRS 6, Exploration for and Evaluation of Mineral Resources, and IAS 38, Intangible Assets.

Do you agree with IPSASB's Preliminary View? If not please provide your reasons.

PV 3 Response

Where existing accounting standards can provide appropriate guidance for an accounting scenario they should be used. We agree these standards give appropriate guidance.

Preliminary View 4.

The IPSASB's Preliminary View is that IPSAS 12, IPSAS 17, and IPSAS 31 should be supplemented as appropriate with guidance on the accounting for costs of stripping activities based on IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.

Do you agree with IPSASB's Preliminary View? If not please provide your reasons.

PV 4 Response

Where existing accounting standards can provide appropriate guidance for an accounting scenario they should be used. We agree with supplementing these standards so they give appropriate guidance.

Preliminary View 5.

The IPSASB's preliminary view is that, before consideration of existence uncertainty, an unextracted subsoil resource can meet the definition of an asset.

Do you agree with IPSASB's Preliminary View? If not please provide the reasons supporting your view.

PV 5 Response

We agree.

Preliminary View 6.

The IPSASB's preliminary view is that existence uncertainty can prevent the recognition of unextracted subsoil resources.

Do you agree with IPSASB's Preliminary View? If not please provide the reasons supporting your view.

PV 6 Response

We agree.

Preliminary View 7.

The IPSASB's preliminary view is that the selection of a measurement basis for subsoil resources that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs may not be feasible due to the high level of measurement uncertainty. Based on this view, the recognition of subsoil resources as assets in the GPFS will be challenging.

Do you agree with IPSASB's Preliminary View? If not please provide the reasons supporting your view.

PV 7 Response

We agree.

Preliminary View 8.

Based on the discussions in paragraphs 4.11-4.31, the IPSASB's preliminary views are:

- (a) It would be difficult to recognize water in seas, rivers, streams, lakes, or certain groundwater aquifers as an asset in the GPFS because it is unlikely that they will meet the definition of an asset, or it is unlikely that such water could be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs;

- (b) Water impounded in reservoirs, canals, and certain groundwater aquifers can meet the definition of an asset if the water is controlled by an entity;
- (c) Where water impounded in reservoirs and canals meets the definition of an asset, it may be possible to recognize the water in GPFS if the water can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs; and
- (d) In situations where the financial capacity or operational capacity of a water resource cannot be reliably measured using currently available technologies and capabilities, the resource cannot be recognized as an asset in the GPFS.

Do you agree with IPSASB's Preliminary View? If not please provide the reasons supporting your view.

PV 8 Response

We reluctantly agree that in most cases the criteria of control would make seas difficult to recognize water as an asset. Ultimately humankind will have to find a way to recognize the value of the commons and secure their preservation.

We do not agree with the preliminary view for rivers, streams, lakes, or certain groundwater aquifers as we believe that naturally occurring/un-impounded water in a municipal setting in conjunction with the physical earth structure can meet the definition of an asset and measured in a way that achieves the required qualitative characteristics. As part of the MNAI several Canadian municipalities have defined and measured natural water assets but have not incorporated into their GPFS because current accounting standards do not permit it.

We agree that impounded water can meet the definition of an asset and in certain situations meet the measurement criteria.

Specific Matter for Comment 3.

Living organisms that are subject to human intervention are not living resources within the scope of this CP. The accounting treatment of those living organisms, and activities relating to them and to living resources, is likely to fall within the scope of existing IPSAS.

In your view, is there sufficient guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS to apply for these items necessary? If not, please explain the reasons for your view.

SMC 3 Response

We agree there is sufficient guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS applies when a living organism has been subject to human intervention.

Please refer to our comments to Preliminary View 1 and Specific Matter for Comment 1 on the issues with using the natural state/human intervention criteria to determine a natural resource.

Preliminary View 9.

Based on the discussions in paragraphs 5.18-5.41, the IPSASB's preliminary views are:

- (a) It is possible for a living resource held for financial capacity to meet the definition of an asset, be measurable in a way that achieves the qualitative characteristics and takes account of the constraints on information in the GPFRs, and thus meet the criteria to be recognized as an asset in GPFS;
- (b) If a living resource with operational capacity meets the definition of an asset, an entity will need to exercise judgment to determine if it is feasible to measure the living resource in a way which achieves the qualitative characteristics and takes account of the constraints on information in the GPFRs, and so meet the criteria to be recognized as an asset in the GPFS; and
- (c) In situations where the financial capacity or operational capacity of a living resource cannot be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs using currently available technologies and capabilities, the living resource cannot be recognized as an asset in the GPFS.

Do you agree with IPSASB's Preliminary View? If not please provide your reasons.

PV 9 Response

We agree that it is possible for a living resource to meet the definition of an asset and that its recognition will depend on whether it is feasible to measure the living resource in a way which achieves the qualitative characteristics and takes account of the constraints on information in the GPFRs or not.

Preliminary View 10.

Based on the discussion in paragraphs 6.7-6.15, the IPSASB's preliminary view is that certain information conventionally disclosed in GPFS should be presented in relation to natural resources.

Do you agree with IPSASB's Preliminary View? If not please provide your reasons.

PV 10 Response

We agree that disclosing certain information in relation to natural resources similar to that conventionally disclosed in GPFS is consistent with the objectives of the Conceptual Framework. However, if it's in relation to an unrecognized asset that would add an unnecessary administrative burden to the preparation of the GPFS and would be preferable to include that information in the GPFR.

Preliminary View 11.

Based on the discussion in paragraphs 6.16-6.20, the IPSASB's preliminary view is that certain information conventionally found in broader GPFRs should be presented in relation to recognized or unrecognized natural resources that are relevant to an entity's

long-term financial sustainability, financial statement discussion and analysis, and service performance reporting.

Do you agree with IPSASB's Preliminary View? If not please provide your reasons.

PV 11 Response

We agree that disclosing certain information in relation to natural resources similar to that conventionally disclosed in GPFR where it is relevant to an entity's long-term financial sustainability, financial statement discussion and analysis, and service performance reporting is consistent with the objectives of the Conceptual Framework.

Specific Matter for Comment 4.

The proposals in paragraphs 6.16-6.20 (Preliminary View 11) are largely based on the IPSASB's RPGs. While these proposals are expected to be helpful to users of the broader GPFRs, the information necessary to prepare these reports may be more challenging to obtain compared to the information required for traditional GPFS disclosures. As noted in paragraph 6.17, the application of the RPGs is currently optional.

In your view, should the provision of the natural resources-related information proposed in Preliminary View 11 be mandatory? Such a requirement would only be specifically applicable to information related to natural resources.

Please provide the reasoning behind your view.

SMC 4 Response

At this point in time we do not support mandatory sustainability reporting for natural resources, climate-related or other sustainability reporting.

The sustainability reporting domain is nascent. The merging of multiple frameworks and the transition of responsibility to accounting standard setter organizations only recently occurred. Standard setters are only just beginning the process to develop sustainability guidance. We believe a period of non-mandatory evolutionary reporting will be the most productive path forward.

As acknowledged, while the information may be helpful to users there will be challenges and costs related to preparing such information. Mandatory reporting at this point may focus organizations on minimal compliance which is unlikely to achieve the financial reporting objectives. Those organizations with the capability and desire should lead the way so that we can collectively learn from their experience and produce useful information in a cost effective way.

For reference we are providing the links to our most recent climate-related financial disclosures included in our annual financial reports.

City of Edmonton

Task Force for Climate-related Financial Disclosures: page 105

<https://www.edmonton.ca/sites/default/files/public-files/2021FinancialAnnualReport.pdf>

City of Montreal

Unaudited Climate-related Financial Disclosure: page 79

https://portail-m4s.s3.montreal.ca/pdf/rapport_annuel_financier_2021_ang_vf.pdf

City of Toronto

Our climate-related financial disclosures: page 100

<https://www.toronto.ca/wp-content/uploads/2022/08/8f03-City-of-Toronto-YE-2021-AFR-08-15-2022.pdf>

City of Vancouver

Task Force for Climate-Related Financial Disclosures (TCFD): page 43

<https://vancouver.ca/files/cov/2021-financial-statements.pdf>