



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

17 October 2022

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, ON M5V 3H2

Re: Consultation Paper, *Natural Resources*

Thank you for the opportunity to comment on the above Consultation Paper (CP). I am responding on behalf of the Office of the Auditor General of Canada.

While we are supportive overall of the objectives IPSASB is attempting to achieve with its project on Natural Resources, we have significant concerns that the approach taken by the IPSASB on the recognition and measurement of natural resources may be too narrow, resulting in no or limited recognition of natural resources, such that it will not meet the objectives set out in Appendix A of the CP. As noted in Appendix A.2 (c), there is a heightened sense of urgency for public sector entities to prioritize sustainable management as a means to preserve and protect the natural resources entrusted to them. The consequences of inaction or poor policies can be significant, as evidenced by extreme weather events and other climate related impacts seen globally in recent years. With this project, the IPSASB has an opportunity to link sustainability reporting with the accounting for natural resources in a way that has not been done by accounting standard setting bodies to date, that we know of. We think it would be unfortunate if this project led to little to no results.

We cannot dispute the technical arguments made in the CP around recognition and measurement. In other words, if a natural resource meets the definition of an asset and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in General Purpose Financial Reports (GPFRs), it should be recognized in GPFRs. However, we find that the CP comes up short in a number of areas. In our response to the various preliminary views (PVs) and specific matters for comments (SMCs), we have identified the following key themes:

- There seems to be a heavier focus on deriving economic value based on exploitation (i.e. extracting, harvesting, and utilizing) which may ultimately drive behaviour that does not result in protecting and preserving our environment (see our response to SMC 3 and PV 5).
- We see the concept of service potential, inherent in maintaining and protecting natural resources, as being critical. The CP largely focuses on holding natural resources for their financial capacity, which does not address the issue of environmental sustainability and

hence we believe that the discussion around service potential lacks depth and should be broadened in order to meet the project aims outlined in Appendix A. (see our response to PV 5, PV 6, and PV 9).

- The approach taken by the IPSASB seems to be at a micro level (e.g. for living organisms). By considering natural resources at too low a level, other ecosystem components may effectively be ignored. This creates a risk that actions are taken that do not consider the impact (detrimental or otherwise) on all related aspects of a given ecosystem (see our response to SMC 3 and PV 9).
- Application of the concept of control for some natural resources such as free-flowing water and motile organisms seems to be taken to a detailed level of precision whereby the definition of an asset cannot be met. We think this is a narrow interpretation and application of the control concept (see our response to PV 2, PV 5, PV 8, and PV 9).
- Existence uncertainty is a key concept in the CP that seems to be closely linked to the ability to determine a precise quantity. We do not think that existence uncertainty needs to be taken to such a granular level (see our response to PV 6).
- The CP seems dismissive of the possibility of measuring many of the natural resources described in it. At this stage, we think it is premature to draw these types of conclusions without further exploring alternative measurement techniques (see our response to PV 2, PV 7, and PV 9).

By focusing more heavily on exploitation of natural resources, rather than how our natural resources can also be used to preserve and protect the environment, we think the benefits of recognizing natural resources within the financial statements (FS) may ultimately be lost for many of the reasons laid out in CP. However, if public sector entities were to instead value these natural resources in a way that considers the benefits they bring to the environment, many of the arguments made related to the ability to determine precise quantities may be of less importance if the resource exists and a value can be estimated. As laid out in Appendix A, if the objective of this project is to provide information that is useful to users of GPFRs for accountability purposes and for decision-making purposes in order to prioritize sustainable management of the natural environment, we think natural resources need to be valued in a way that reflects this objective. It is this type of reporting that could ultimately lead to better decision-making, increased public awareness and ultimately improve accountability for public sector entities.

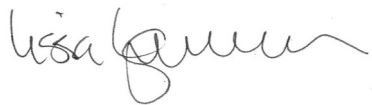
In our view, until public sector entities start accounting for the natural resources they control, we will not be able to make real progress in this area. To that end, we think measurement should be linked to the objectives of recognizing natural resources in the first place (i.e. to preserve and protect the natural environment and not solely to generate cash flows). While we acknowledge that measurement in these circumstances will be challenging, we also think that these measurement challenges can be overcome. In order to tackle some of these challenges, the IPSASB could consider a “pilot” approach where certain types of natural resources, such as those that are more advanced in terms of measurement, could be targeted first. Ultimately, we think that transparency and disclosure of key assumptions will be critical. While measurement uncertainty will undoubtedly be a factor, this is not unlike the measurement of many other assets or liabilities currently recognized in GPFR, such as environmental liabilities, asset retirement obligations or pension liabilities. As a result, we think it would be premature to dismiss the possibility of measurement at this stage of the project.

On that basis, we would encourage the IPSASB to explore alternative measurement techniques for these types of assets such as replacement cost, for example, and develop guidance on ways to measure the benefits of protecting and preserving natural resources rather than focusing solely on exploiting natural resources as we think these benefits will be of far greater importance in the

long-term (refer to our response to PV 5). We would also encourage the IPSASB to consider work that is already being done in this area (including in Canada with the Canadian System for Environmental-Economic Accounts – Natural Resource Asset Accounts)¹. We think that the IPSASB could consider potentially building on this work; developing entirely new guidance in this area may be confusing to users and create additional implementation challenges. We would like to see the IPSASB consider the accounting for natural resources more broadly in terms of both recognition and measurement rather than the narrow focus taken in this CP which seems to value exploitation over preservation and protection of natural resources. Without that shift in focus, we see little to no benefit in pursuing a standard on the recognition and measurement of natural resources.

We are pleased to submit to the Board our response below to the specific questions posed in the CP.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lissa Lamarche".

Lissa Lamarche, CPA, CA

Assistant Auditor General

¹ <https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=5114>

Specific questions posed by IPSASB:

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.

No, we do not agree with the IPSASB's preliminary view with respect to the description of a natural resource as we think it will be difficult to apply consistently and may result in some natural resources not scoped into any IPSAS standard.

Paragraph 1.8 specifies that natural state means that the natural resource "must not have been subjected to human intervention, such as cultivation or mineral extraction, which modifies the quality and/or quantity of a natural resource." While this attribute may be straight-forward when applied to some types of natural resources (e.g. unextracted subsoil resources), we think it will be more subjective when applied to other types of natural resources such as water or living organisms given the interconnectivity between human actions and the effect on the quality and/or quantity of natural resources.

For example, human activity has caused and causes pollution in lakes and rivers, which changes the quality of the water. One could therefore conclude that polluted water is not in its natural state. While the pollution clean-up activity might be accounted for, the water itself would potentially not, if it was concluded that it was no longer in its natural state. We do not think this was the intent of the IPSASB.

Furthermore, we note that paragraph 4.3 explains that (emphasis added) "water is no longer in its natural state when human intervention stops or interferes with the natural water cycle or changes or modifies the quantity or quality of water from its natural condition". Paragraph 4.7 shows that some degree of human intervention, in the case of man-made lakes or canals, would still be considered water in its natural state. While we do not disagree with this logic, we would argue that man-made lakes or canals do stop or interfere with the natural water cycle. For that reason, as mentioned above, we think it may be difficult to apply the definition on a consistent basis. We think additional examples would be helpful. Alternatively, IPSASB could deal with the issue by scoping out specific items that are accounted for under different standards with the result being that any other natural resources would be scoped in.

Finally, we think paragraph 1.14 which states that “the accounting for land in its natural state is also excluded from this first phase of the IPSASB’s work on natural resources, as the Board concluded that there is already sufficient guidance regarding land in existing IPSAS” is somewhat unclear. Since many natural resources are located on land in its natural state, it is unclear what exactly is out of scope, the land and any resources on it or only the land. On that basis, we think that IPSASB should clarify this aspect as we think it could lead to no recognition of resources on land that is in its natural state. For added clarity, we think that land that is not scoped into another IPSAS standard should be scoped into this standard.

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?

Yes, we foresee challenges in practice in differentiating between natural resources and other resources subject to human intervention as we think that some human intervention that may affect quantity or quality should not be scoped out of a standard on natural resources. As noted in our response to PV 1, we think that the attribute requiring the resource to be in its natural state could be a very subjective determination and may result in unintended consequences such as the scoping out of a natural resource that would then not be in scope of any IPSAS standard. Excluding some natural resources based on the degree of human intervention may lead to inconsistent application and a lack of comparability between similar entities.

We think that the IPSASB should provide additional examples or consider a different approach. Rather than including an attribute requiring that the resource be in its natural state, the IPSASB could specifically identify those natural resources in scope of other standards with the result being that all other natural resources would be in scope of any standard arising from this project. We think such an approach would be preferable as scoping would be subject to less subjective determinations.

Specific Matter for Comment 2 – Chapter 1

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?

We acknowledge the connection identified by the IPSASB in SMC 2 and agree that the natural resources project focuses on the accounting for natural resources while sustainability reporting considers how natural resources can be used in a sustainable manner. While we do not see any other connections between these two projects, we think the two projects complement each other and are linked such that doing one without the other will not lead to the kind of change that is needed.

Sustainable development is defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”². It covers a wide range of topics, including environmental, social and governance (ESG) aspects³; sustainability reporting generally covers the environmental aspect of ESG. The accounting for natural resources is one component of the environmental aspect of ESG. One of the key principles in paragraph 2.11 of the IPSASB CF is the sustainability of the entity’s service delivery and other operations over the long term. This includes both the financial capacity of the entity and also the operational capacity (e.g. the physical and other resources available to support the provision of services in future periods). Public sector entities are entrusted with a multitude of public assets and are expected to manage those assets in a sustainable manner, of which natural assets is just one type. If sustainability is a financial reporting objective, it follows that accounting for natural resources in a way that supports their protection and preservation is critical.

Therefore, without also accounting for natural resources, sustainability reporting in this area may not be sufficient to change the direction of human behaviour. We think accounting for natural resources would add an enhanced level of accountability to sustainability reporting. For example, we note that in the 2021 report from Canada’s Commissioner of the Environment and Sustainable Development (CESD) “Lessons Learned from Canada’s Record on Climate Change”, Lesson 6 notes that “Since 1990, Canada has repeatedly made domestic and international commitments to reduce greenhouse gas emissions, to adapt to the effects of climate change, and to support clean energy technology. However, as documented in the Commissioner’s past climate reports, Canada has consistently failed to meet its climate targets, including specific emission targets set in response to the Kyoto Protocol”⁴. In addition, the 2022 Report on Hydrogen’s Potential to Reduce Greenhouse Gas Emissions states in paragraph 3.21 that “This finding matters because Canada’s greenhouse gas emissions have increased significantly since the United Nations Framework Convention on Climate Change was signed in 1992, making it the worst performer of all G7 nations since that time.”⁵ We think this lack of meaningful results in Canada over the last 30 years could potentially have been different if the environmental benefits of preserving our limited natural resources had been recognized in government FS and the government had to account for reductions in the value of its assets as a result of its actions, policies, or the effects caused by natural disasters or other events. This would also help to raise public awareness around the issue. Therefore, in our view, the two projects complement each other and one without the other will likely not be sufficient.

If the IPSASB ultimately succeeds in issuing a standard that would result in the recognition of natural resources in public sector financial statements, we will be one step further to understanding the impact of government policies, actions or inactions on the state of our natural resources, which in turn should lead to better management of those resources and better decision making on the part of public sector entities.

² Defined in the World Commission on Environment and Development’s 1987 Brundtland report ‘[Our Common Future](#)’

³ [IPSASB’s CP: Advancing Public Sector Sustainability Reporting](#) (page 7)

⁴ https://www.oag-bvg.gc.ca/internet/English/att_e_43948.html

⁵ https://www.oag-bvg.gc.ca/internet/English/parl_cesd_202204_03_e_44023.html

While we agree with the connection the IPSASB has noted in Chapter 1, we think the real connection goes deeper. If the effect of government policies on natural resources is accounted for by public sector entities in a more direct way, we think this could be key to changing the future, otherwise there is a much greater risk that human activity may favour economic growth over service potential in the form of environmental benefits.

Finally, while we find that the IPSASB has made a link between accounting and sustainability reporting, we find that this link may ultimately be broken if recognition is determined too narrowly or measurement of these assets is not feasible. We think the IPSASB has the opportunity to be on the leading edge of change and we would encourage further exploration on how such assets could be recognized and measured using the information already available. Please refer to our response to PV 2, PV 7, PV 8, and PV 9 below where we discuss the level of recognition and information on the measurement of natural resources that is already available in this area.

Preliminary View 2 – Chapter 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 (CF) 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 the IPSASB's Preliminary View?

If not, please provide your reasons.

Yes, we agree that a natural resource should only be recognized in General Purpose Financial Statements (GPFS) if it meets the definition of an asset as defined in the IPSAB's CF and can be measured in a way that achieves the qualitative characteristics and takes account of constraints of information as this is consistent with the recognition of any asset. While some might argue that GPFS are not suited for the recognition of natural resources, we think that GPFS are the best location to recognize natural resources for the following main reasons:

- Natural resources are assets like any other for which a public sector entity may be held accountable. Excluding some assets from the FS and including others would not meet the objectives in the IPSASB CF, in our view.
- Information in other reports is typically not subject to audit and we therefore think that in order to provide relevant, faithfully representative, consistent information, information on natural resources should be provided in the GPFS.
- While measurement of such assets may be challenging, we think such challenges could potentially be overcome over time as new measurement techniques are developed or existing measurement techniques are refined.

Notwithstanding our agreement with PV 2, we are somewhat concerned that many of the PVs in this CP seem to place limits on what may or may not be possible when accounting for natural resources. For example, we find that the CP takes the concept of control for certain natural resources (e.g. water) to a granular level that we do not think is warranted and provides many reasons why measurement may not be feasible (e.g. PV 7, PV 8, and PV 9). While paragraph 4.30 discusses using current operational value to measure the operational capacity (or service potential) of a water resource, it also seems dismissive of this possibility. Without exploring other measurement techniques (like current operational value using the cost approach for example), we think the CP falls short on its objectives.

Cost approach was defined in the IPSASB Exposure Draft (ED) 77, *Measurement* and is similarly defined in Appendix A of IFRS 13, *Fair value measurement* as “a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).” The cost approach has typically been used for real estate that is government owned and not frequently bought and sold and is one of the acceptable measurement techniques mentioned in ED 77 (and IFRS 13). It is therefore unclear why this approach was not explored by the IPSASB in developing its CP. The omission of alternative techniques such as current replacement cost may ultimately lead to no recognition in the GPFS, which in our view diminishes the extent of benefits that could be obtained from this project. While we do not disagree that measurement will be challenging for these types of assets, this is not unlike many other types of assets which are held for public use such as a park or Crown land that is acquired through a non-exchange transaction which would be recognized under IPSAS (IPSAS 17.27). We have seen how measurement challenges from the past have been overcome for certain types of assets (e.g. financial instruments or the determination of fair value for non-financial assets held for their operational capacity rather than financial capacity). We are therefore of the view that challenges associated with measuring natural resources could also be overcome.

We note that in Canadian public sector accounting standards (PSAS), natural resources and Crown lands that were not purchased are currently not permitted to be recognized in the FS due to practical issues with measuring and valuing them (PS 1100, Appendix A). This decision was made a long time ago and while this decision may have had merit at that time, we are of the view that it would be beneficial for this to be re-visited. Since then, many public sector entities have developed ways to measure natural resources, such as wetlands, on land they control, but they are prevented from recognizing these assets under PSAS. Therefore, we think it is critical that the IPSASB looks at this issue from all angles with a focus on what is needed for the future. We think this is the right time for standard setting bodies to rethink and reimagine their role in holding governments to account for the natural resources entrusted to them. Including natural resources in the GPFS when those natural resources meet the definition of an asset is a step in the right direction. We also note that there is currently a large volume of data being gathered by various groups such as the International Institute for Sustainable Development (IISD) in an effort to find ways to include the measurement of long-term development prospects. We therefore think there may already be information available that could help measure the benefits inherent in these types of assets.

For example, we are aware of a study conducted in 2016 by the National Capital Commission (NCC) in partnership with the David Suzuki Foundation.⁶ The study's aim was to determine the economic value of the NCC's Green Network. The study acknowledged that while the NCC's green space provides direct monetary benefits, such as from wood or agricultural products, they also provide great value in benefits, referred to as ecosystem services, not currently measured according to traditional market metrics. These include items such as carbon storage, wildlife habitat, and erosion control, among others. The study also contended that there are already "well-established methods of calculating the value of such 'ecosystem services', and the study made use of some of these methods to estimate the total economic value of 13 identified ecosystem services provided by the NCC's greenspace."⁷ The study pointed out that ecosystem services are often neglected in decision-making, land-use planning and management. Based on the results of this study we think there are already some well-established measurement techniques for certain types of natural resources and we expect that since the study was undertaken in 2016, these existing measurement techniques have continued to be refined and improved, as has been the case for the measurement of other assets and liabilities recognized in GPFS, such as pension liabilities. We are also aware of the Canadian System for Environmental-Economic Accounts – Natural Resource Asset Accounts (NRAA)⁸, which has been in place in Canada for many years and is based on the United Nations System of Environmental-Economic Accounting (SEEA). The scope of NRAA includes accounting for land, water, marine and other resource assets. A similar system is in place in many other countries. We think the IPSASB should consider whether any of this work could be leveraged in developing any future standard on accounting for natural resources. We think this would be preferred to minimize confusion from users and reduce implementation challenges that might exist if different systems are developed to tackle similar issues.

⁶ https://ncc-website-2.s3.amazonaws.com/documents/natural_capital_economic_value_ncc_green_network_final_dec_1_web.pdf

⁷ Ibid

⁸ <https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=5114>

We acknowledge that there may be trade-offs between the qualitative characteristics of relevance and faithful representation when it comes to measurement of these types of assets, but this is not unlike other estimates included in GPFS. We note that paragraph 3.42 of the IPSASB CF clearly states that “in some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting...the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.” We also note that paragraph 2.27 of the CP states that [emphasis added] “the measurement basis of a natural resource will need to be faithfully representative of the quantity and quality of the resource.” Based on the principles in the CF, we would argue that faithful representation can still be achieved even if the exact quantity and quality is not determinable. We note that paragraph 3.16 of the IPSASB CF clearly states that “the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying appropriate process for developing the estimate.” By emphasizing relevance over accuracy for the measurement of natural resources, this trade-off may in fact lead to a wider range of acceptable measurements. We would therefore encourage the IPSASB to explore this further so as not to prematurely discourage recognition of these assets due to perceived measurement difficulties.

Preliminary View 3 – Chapter 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 the IPSASB’s Preliminary View?

If not, please provide your reasons.

Yes, we agree with the IPSASB’s PV 3 that guidance on exploration and evaluation expenditures, as well as development costs, should be provided based on the guidance from IFRS 6 and IAS 38; however, we think that the definition of exploration and evaluation might be too narrow if it focuses only on development.

We note that paragraph 3.5 of the CP states that “an entity will typically need to conduct exploration and evaluation activities to determine if a site should be developed.” We could foresee conducting these types of activities for reasons other than development of the site. For example, a government might conduct such activities to determine the existence of natural resources for measurement purposes if recognition of natural resources becomes a requirement. Another example might be the Canadian forest service which undertakes a number of activities that could be considered exploration and evaluation linked to the potential recognition of living organisms (such as trees). An example of this type of activity might include insect and disease identification which could help provide inputs to the measurement of these types of resources. Therefore, we think the IPSASB should consider whether limiting the guidance to only those activities that would determine whether a site should be developed would meet the objectives of this project as we think it may drive behaviours focused on developing and exploiting natural resources rather than protecting them.

Preliminary View 4 – Chapter 3

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 the IPSASB's Preliminary View?

If not, please provide your reasons.

Yes, we agree with the IPSASB's PV 4 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*. We think that stripping costs would only apply if a public sector entity was planning to extract the natural resources. On that basis, we see no reason that public sector guidance should differ from private sector guidance.

In Canada, mineral rights are typically retained by the Crown or the provinces and time-limited leases are granted to public or private companies for exploration and extraction of minerals. This may be different than in other jurisdictions such as the US where mineral rights are generally privately owned.⁹ While we do not disagree with PV 4, we think its application would be very limited in Canada as most governments do not participate in mining projects¹⁰.

Preliminary View 5 – Chapter 3

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 the IPSASB's Preliminary View?

Please provide the reasons supporting your view.

Yes, we agree with PV 5 that an unextracted subsoil resource can meet the definition of an asset, before consideration of existence uncertainty.

Paragraph 3.13 states that (emphasis added) "subsoil resources can generate economic benefit through sale or have service potential to perform a variety of activities" and "unless there is existence uncertainty, subsoil resources can generally meet the definition of a resource." In Canada, we think Category A, as described in paragraph 3.17, would apply to most subsoil resources since mineral rights are typically retained by the Crown or the provinces and access is not determined or controlled by holders of surface rights¹¹ (Summary). As noted in the table in paragraph 3.23, Category A jurisdictions would meet the control criterion in the definition of an asset. We agree with this assessment. We think that if a public sector entity can control or deny access to a natural resource, this provides a strong indication of control. We think this logic could also be applied to other natural resources, such as water and living organisms. We also think that service potential should not be limited to circumstances where the subsoil resource will be

⁹ <https://www.lexology.com/library/detail.aspx?g=30de14ee-e5a4-45d3-8ee6-0dd0cb2bffd5>

¹⁰ https://www.fraserinstitute.org/sites/default/files/divergent-mineral-rights-regimes-rev_0.pdf

¹¹ https://www.fraserinstitute.org/sites/default/files/divergent-mineral-rights-regimes-rev_0.pdf

extracted and consumed (as inferred in paragraph 3.33 which seems to presuppose that minerals or fossil fuels are typically removed from their natural state for the purpose of being sold and therefore focuses the measurement discussion on the value of the product being sold) as there may also be benefits to preventing the extraction of these resources, for reasons such as carbon storage for example. We do not see any examples in Chapter 3 of the CP to illustrate what the IPSASB meant by “subsoil resources can have service potential to perform a variety of activities”, as stated in paragraph 3.13, and we think this aspect should be explored further.

To elaborate further, coal, which is mostly made up of carbon, represents a subsoil resource. If you extract coal, and burn it, it can be used for heat (i.e. it has a current use). If we keep extracting it, while it can create heat, it can also end up in the atmosphere which will increase the earth’s temperature. However, there are significant costs to doing so both in terms of dollars and in terms of an increase in extreme events directly caused by an increase in the earth’s temperature. These types of extreme events end up costing governments significant amounts of money. Alternatively, if the coal was kept underground it could be used to avoid an increase in the earth’s temperature, which in turn would lead to potentially lower costs in the future. Therefore, the long-term benefit of keeping the coal underground (i.e. carbon storage) may be greater than the short-term benefit of extracting it for its commercial value.

As a result, we think that the wording in paragraph 3.13 should be expanded to include more specific examples of service potential that could exist for unextracted subsoil resources such as the ability to store carbon and reduce greenhouse emissions. Service potential is defined in paragraph 5.8 of the CF as “the capacity to provide services that contribute to achieving the entity’s objectives”. Governments have many objectives, which may include minimizing the impacts of climate change. Therefore we think that recognizing the benefits of natural resources for their role in minimizing the impact of climate change would also meet the definition of service potential. On that basis and in order to be consistent with the objectives set out in Appendix A, we would encourage the IPSASB to also emphasize this important aspect in any future standard rather than focusing so heavily on extraction / exploitation. Otherwise, there is an increased risk that public sector entities will not act in ways that protect and preserve these natural resources and will instead prioritize short-term economic development ahead of long-term sustainable development.

Preliminary View 6 – Chapter 3

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

Do you agree with the IPSASB’s preliminary view?

Please provide the reasons supporting your view.

Yes, we agree with PV 6 that existence uncertainty can prevent the recognition of unextracted subsoil resources.

However, we find that the discussion in paragraphs 3.28-3.30 seems to focus on existence uncertainty as it relates to the quality or quantity on extraction. We think that existence uncertainty which impacts recognition should be considered separately from uncertainty over quantity or quality which in our view impacts measurement. We think this is especially true if the entity does not intend to extract the subsoil resources, but rather use it for storing carbon as a means to avoid increasing the earth's temperature (refer to our response to PV 5 above). Therefore, we think that if as noted in paragraph 3.28 geological studies are used to determine whether subsoil resources exist, this could be sufficient to support an asset's existence, even if there is uncertainty with respect to quality or quantity.

Preliminary View 7 – Chapter 3

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 the IPSASB's Preliminary View?

If not, please provide the reasons supporting your view.

No, we do not agree with PV 7 that the selection of a measurement basis for subsoil resources that achieves the qualitative characteristics of measurement and takes account of constraints on information in the GPFRs may not be feasible due to the high level of measurement uncertainty. We think this determination should be made by the public sector entity and not by the standard setting body in setting standards for public sector entities since we are of the view that it may be possible to measure subsoil resources and we believe doing so would provide relevant information for financial statement users. We are concerned that setting an upfront expectation on the lack of feasibility of measurement may lead to unintended consequences as noted in our response to PV 2 related to the approach taken by PSAB many years ago which prohibited the recognition of non-purchased natural resources or Crown land. While we do not see IPSASB taking a similar hard line approach to recognition and measurement in this CP, we think that the language used in relation to what may or may not be feasible in terms of measurement could have similar consequences.

We are very supportive of the intended objectives of IPSASB's project on natural resources as we think it is consistent with the overall objectives of financial reporting by public sector entities and will provide useful information for accountability and decision-making purposes. Shining a light on the state of natural resources in public sector financial statements should lead to both better management and decision-making as public sector entities would need to explain when these resources are depleted.

We also agree that measurement will not be without its challenges as this is a new area and measurement techniques may not yet be fully developed for measuring such assets. While it may be costly to determine a value for such assets, we think this should be appropriately weighed against the benefits of doing so, in the fight against climate change and holding governments accountable for how they manage their natural resources. In this light, it may be difficult to argue that the costs would outweigh the benefits. In addition, and as noted in our response to PV 2, there may be trade-offs between the qualitative characteristics of relevance and faithful representation when it comes to measurement of these types of assets. Such trade-offs may be necessary in order to achieve the objectives of financial reporting. We think that by emphasizing relevance over accuracy for the measurement of natural resources (a component of faithful representation), this trade-off may in turn lead to a wider range of acceptable measurements. That said, we agree that more work is still needed to determine the best way to measure the value inherent in these types of assets. We think it would be unfortunate if this important project ended without a clear path forward on measurement.

As discussed in our response to PV 2, we are aware that there is already a wealth of data available on natural capital, including measurement techniques, with multiple studies having been done by different stakeholders to show the state of natural capital reserves in different countries, including Canada.¹² Therefore, we are of the view that information needed to measure these types of assets may already be available and should be explored further. We further note that measurement challenges are not new as many assets and liabilities are a challenge to measure. For example, determining the value of a park that is not purchased, for which there is no active market and which cannot be used for any other purpose is challenging and also subject to measurement uncertainty. We have encountered challenges in the past when accounting for the transfer of a specialized asset (such as a park) under IFRS. Prior to IFRS 13, *Fair value measurement*, IAS 16, *Property, plant and equipment* paragraph 33 (now deleted) stated (emphasis added) that “if there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach”. In our response to IPSASB’s ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, we expressed the view that for specialized non-financial assets, the cost approach could be used as outlined in IFRS 13.BC79. Therefore, we think a measurement approach such as this could be applied to natural resources that are held for their service capacity. However, we would note that natural resources do not need to be held for their service capacity to warrant recognition or measurement in GPFS. Measuring an asset using different approaches can yield very different results, however, in our experience this has not prevented measurement of the asset. For unextracted subsoil resources, an entity might be able to use data available from existing mining activities to help measure these types of assets. We think that the IPSASB should be cautious so as not to set an upfront expectation that it may not be feasible to measure these types of assets as we think this might send a message that would discourage some entities from trying to determine a value at all. If this were to happen, we think the project objectives set out in A.4 may not be met.

¹² [IISD – Comprehensive Wealth in Canada – Measuring what matters in the long run](#)

Preliminary View 8 – Chapter 4

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 the IPSASB's Preliminary View?

If not, please provide your reasons supporting your view.

No, we do not agree with all the aspects outlined in PV 8. We agree with (b), (c), and (d), but we have some concerns with (a).

Under the consideration of control over water in seas, rivers, streams, lakes, and groundwater aquifers we note that paragraph 4.16 states that (emphasis added) "an entity is unlikely to demonstrate control over water in seas, rivers, streams, lakes, and groundwater aquifers because: (a) It is unlikely that water in seas, streams, and lakes can be feasibly monitored and managed because the water levels increase or decrease as a result of natural causes such as evaporation, rainfall, infiltration into the water table, ocean currents, or other movements due to gravitational or tidal forces." We think this application of control over water in seas, rivers, streams, lakes, and certain groundwater aquifers is a narrow interpretation of what is required to control these types of resources. It may also be a question of the unit of account. In other words, we think that the unit of account should be at a high enough level to meet the objectives of preserving and protecting these resources. On that basis, we do not think that a public sector entity would necessarily need to control every drop of water to be able to demonstrate control of a lake or other body of water. In particular, we think that rivers, streams, and lakes on Crown lands might be a good example of when a public sector entity could demonstrate control over a body of water. Paragraph 5.11 of the CF states that "control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives." We think that if public sector entities earn revenues by providing access to others in the form of water rights, this may be sufficient to demonstrate control over a body of water, such as a lake. If water levels increase or decrease due to natural causes, this would be part of the characteristics of what is being measured and recognized. This could be compared to the ebb and flow of other assets such as shares in a company. The fact that the value of the shares held changes over time due to market forces outside the control of the entity, does not

preclude us from accounting for those assets in the first place. In the case of a body of water, a measurement model could take into account the impact of natural causes on the quantity of water in a lake or river, for example.

Related to this, we note that paragraph 4.19 has stopped short of assessing if there is a past event conferring control over water in seas, rivers, streams, lakes, and groundwater aquifers on the basis that (*emphasis added*) “it is unlikely that an entity can demonstrate control over water in seas, rivers, streams, lakes, and groundwater aquifers.” We think this may be somewhat premature at this stage of the project and we do not think that control would necessarily be limited to water in reservoirs, canals and certain ground aquifers as mentioned above. For example, we are aware that there are agencies in Canada which have conducted geological surveys to gain a better understanding of groundwater sources in Canada so that these precious resources can be protected.¹³ With information such as this, we think it may be possible to meet the definition of an asset, including the control aspect if the unit of account is set at the appropriate level, especially for groundwater located on land owned by public sector entities. If resources such as these were included in the FS of public sector entities, we think it would shine a new light on what public sector entities are doing to preserve these limited resources.

Therefore, we are somewhat concerned that setting an upfront expectation that an entity is unlikely to be able to demonstrate control over these types of water sources could undermine the IPSASB’s efforts to create guidance in this area for public sector entities, as these entities may be less inclined to include natural resources in their balance sheets if standard setting bodies do not think it is possible to do so. We think the IPSASB should remain open to the possibility that some countries may be in a better position than others to recognize water in seas, rivers, stream, lakes, and certain groundwater aquifers and still meet the requirements in the CF.

Specific Matter for Comment 3 – Chapter 5

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.

Yes, we think there is sufficient guidance in IPSAS 12, Inventories, IPSAS 17, Property, plant, and equipment and IPSAS 27, Agriculture to determine which standard applies to living organisms subject to human intervention.

Notwithstanding our response above, we are somewhat concerned that applying guidance outside of any future natural resources standard at a micro level (i.e. an individual species (e.g. a maple tree) or natural resource classification (e.g. a tree) may ignore the other related ecosystem components. A more comprehensive way to approach natural resources might be to account for those natural resources at the ecosystem level (e.g. a forest). For example, if you account for the trees in the forest separate from other ecosystem components (e.g. birds or insects), there is a

¹³ <https://www.nrcan.gc.ca/earth-sciences/earth-sciences-resources/geoscience-groundwater-and-aquifers/10909>

greater risk that actions will be taken with respect to the trees without regard for the impact on the other ecosystem components. On that basis, we think the IPSASB should consider whether natural resources such as living organisms should be accounted for at a more macro level (e.g. an ecosystem level). By accounting for living organisms at a more macro level (e.g. the forest), you would account for the trees as well as any other ecosystem components supported by the trees, such as animals, birds, insects, etc. While exact numbers of species may not be known, conservation activities can provide data on the extent of species that are getting low in number which suggests that there is data around wildlife populations, which might enable some sort of valuation of the various ecosystem components. By setting the level of recognition at a more macro level, we think there is greater potential to change behaviour in a way that preserves and protects natural resources rather than exploits them as the impact of exploitation would also highlight the impact on those other ecosystem components. As noted in our cover letter, we would encourage the IPSASB to consider a “pilot” approach where certain types of natural resources, such as those that are more advanced in terms of measurement, could be addressed first. In this way, this issue, and others identified in our response, could be explored and dealt with in a more targeted way.

Preliminary View 9 – Chapter 5

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 the IPSASB’s Preliminary View?

If not, please provide your reasons.

No, we do not agree with all aspects of PV 9. While we agree in part with (a) and (c) in the context of some living resources held for financial capacity as these types of living resources should theoretically already be accounted for under existing IPSASs and would potentially be out of scope of this project (refer to SMC 3 above), we find other aspects discussed in (b) and (c) in the context of living resources to be somewhat limiting.

As mentioned in our response to SMC 3 above, we are concerned that the approach taken in this CP to living organisms considers accounting for natural resources at a micro level rather than the more macro level that would account for other ecosystem components associated with a natural resource classification such as a forest. By setting recognition principles at too low a level (e.g. a tree), there is a risk that actions impacting those assets may be taken without regard to the other

related ecosystem components associated with those assets. For example, we think that the recognition and measurement of trees would potentially ignore the other ecosystem components of a forest. To be of the most value, we think the recognition and measurement of living organisms should be considered at a more macro level. In other words, you may miss the benefits of the forest if you focus solely on the trees. This concept might be likened to how impairment of a cash-generating asset is considered at either an individual asset level or cash-generating unit level in IPSAS 26, *Impairment of cash-generating assets*. We have a similar concern with water that supports an ecosystem. In other words, water held primarily for its financial capacity may ignore other related ecosystem components (e.g. fish) if the accounting for these types of resources is at too low a level (i.e. a micro level) rather than at a more macro level (i.e. ecosystem level).

Related to this we are also concerned that considering whether a living organism is held only for either its financial or operational capacity, will not meet the stated objectives of this project which was undertaken to provide information on natural resources that is useful to users of the entity's GPFs for accountability purposes and for decision-making purposes. Focusing solely on the financial capacity of a natural resource ignores a public sector entity's objectives of also preserving and protecting species at risk, which could lead to negative consequences such as extinction. As a case in point, we note that in the 2022 Report 7 of the CESD on "Protecting Aquatic Species at Risk", it was "found that Fisheries and Oceans Canada's approach to protecting aquatic species assessed as being at risk under the *Species at Risk Act* contributed to significant listing delays and decisions not to list species with commercial value."¹⁴ The impact of this decision not to list species with commercial value "is significant because the loss of a species has an effect on ecosystems and communities. Without a change in approach that enables Fisheries and Oceans Canada to collect sufficient information about all the aquatic species it is responsible for, it will be difficult to take appropriate actions to protect many species."¹⁵ Considering living organisms at a more macro level would have the effect of considering both the financial and operational capacity inherent in an ecosystem rather than focusing only on the financial or operational capacity of a living organism. In reality many living organisms may have both a financial and operational value. By accounting for both, there is greater chance that government entities will make more balanced decisions because the impact of those decisions will be reflected in GPFs.

On the concept of control over motile organisms, we note that paragraph 5.26 states that "motile organisms such as fish and most animals can move about freely, so it could be more difficult to demonstrate control over these organisms." If a public sector entity owns land for which animals roam freely, we do not think it is necessary to be able to track every individual animal at the same level of granularity that one would likely track them if they were considered inventory. We made a similar argument in our response to PV 8 above in that we did not think it was necessary to account for every drop of water to be able to demonstrate control. Similarly, we think it is not necessary to account for the movement of every animal, but rather the environmental and inherent value of having those animals. If animals die or migrate elsewhere, this becomes a valuation issue rather than a recognition issue. In that sense, we do not think the number of precise organisms is as important as the value they bring. We note that paragraphs 5.28, 5.29, and 5.33 seem to allude that absolute control must be present in order to meet the definition of an asset and you must be able to count the organism. If a public sector entity has access to the

¹⁴ https://www.oag-bvg.gc.ca/internet/English/parl_cesd_202210_07_e_44124.html

¹⁵ Ibid

resource through land ownership or the ability to deny or restrict access through hunting rights or other rights, we think that could be sufficient to demonstrate control over these types of organisms when considered at the appropriate level (i.e. unit of account). As for the past event, if the organism is located on undeveloped land owned or inherited by the public sector entity, we think that should be sufficient to meet the definition of an asset.

As for the discussion on measurement, we note that paragraph 5.36 states that it “may be more difficult or not feasible” to measure living organisms which have operational capacity. While we agree that these types of assets may be difficult to measure, we do not think this should be used as a reason not to try. Financial statements are already full of estimates with measurement uncertainty and we do not think this would be any different. We think that the IPSASB could provide guidance on measurement techniques that could be used to attribute a value to these types of assets, based in part on what is already being done in this space. There are whole fields out there such as economic environmentalists which put environmental values on these types of assets. Refer to the examples provided in our response to PV 2.

Finally, we note that while paragraph 5.35 does acknowledge that living resources such as forests may provide for the “reduction of carbon dioxide in the atmosphere and maintenance of biodiversity”, measurement will be “challenging and may not be feasible based on the technologies which are currently available.” The CP, however, does not expand on what technologies are currently available. We would argue that there are already well-established measurement technologies available as evidenced in our response to PV 2 above. We think it would be unfortunate if this project resulted in little to no recognition of these important natural resources. Some governments may plan to use forests to enhance carbon storage potential, which may also contribute to the reduction of greenhouse gas emissions.¹⁶ Similar to the arguments made above, by putting limits on recognition and measurement of these types of living organisms, there is an increased risk that emission reductions may not be achieved due to wildfire and other forest disturbances. If these assets were recognized, the resulting wildfires or other forest disturbances would also need to be factored in to the overall asset value which would shine a light on further actions that governments might need to take to reduce greenhouse gas emissions if original plans are no longer an option due to the reduction in such a benefit. We think this kind of information is critical to ensuring that governments continue to act in ways that sustain these natural resources to mitigate the effects of climate change. We think that experts such as economic environmentalists could help in measuring these types of benefits and we would encourage the IPSASB to explore this further so that measurement guidance can also be developed in these areas.

¹⁶ https://www.oag-bvg.gc.ca/internet/English/parl_otp_201803_e_42883.html (refer to Exhibit 3)

Preliminary View 10 – Chapter 6

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 the IPSASB's Preliminary View?

If not, please provide your reasons.

Yes, we agree with PV 10 that certain information conventionally disclosed in GPFS should be presented in relation to natural resources. We think that such disclosures are necessary and critical to an understanding of natural resources by financial statement users and therefore we support the IPSASB's proposed disclosure approach in paragraphs 6.7-6.15.

Preliminary View 11 – Chapter 6

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 the IPSASB's Preliminary View?

If not, please provide your reasons.

Yes, we agree with PV 11 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. That said, we think this reporting will be far more impactful and influential if also accompanied by accounting for natural resources as we think this will contribute to better decision making and accountability.

Specific Matter for Comment 4 – Chapter 6

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.

Yes, we think the provision of natural resources-related information proposed in PV 11 should be mandatory. As outlined earlier, we believe that accounting for natural resources is the key to making progress and holding public sector entities accountable for the natural resources entrusted them. If not mandatory, we think this would lead to a lack of comparability with some public sector entities opting to provide this information and others not. If these natural resources are not recognized, we think disclosures outside the FS play an even more important role to help drive focus on this critical topic. It is for these reasons that we think disclosure should be mandatory in order to bring both a minimum level of comparability and contribute towards increased awareness.