

# Climate-related Issues: Questions to Ask Under Existing Public Sector Generally Accepted Accounting Principles (GAAP) and Statements of Recommended Practice (SORPs)

September 2019

## Background

Climate change may affect financial statements of cities in several different ways. Uncertainties about climate-related risks and events may have implications for a city's cash flows, assets, liabilities, reserves, revenue streams and cost of capital. For example:

- impairment or damage due to climate-related events (e.g., increasing frequency and severity of extreme weather) may require a write-down of assets or affect assets' useful lives
- recognition / measurement considerations related to investments in and upgrades of critical infrastructure (e.g., roads, bridges, dams, levees, sewers and drainage systems)<sup>1, 2</sup>

1 Investing in smart infrastructure and services today can help reduce future losses. The Federation of Canadian Municipalities (FCM) estimates that for every CAD \$1 billion invested in disaster mitigation, CAD \$6 billion in costs can be avoided. Federation of Canadian Municipalities. Climate and Sustainability. (<https://fcm.ca/en/focus-areas/climate-and-sustainability>, 2019).

2 The World Bank argues that "building cities that are green, inclusive, and sustainable should be the foundation of any local and national climate change agenda. The World Bank. ([The World Bank. Cities and Climate Change: An Urgent Agenda](#)).

## The task force on climate-related financial disclosures and its relevance to cities

The Task Force on Climate-related Financial Disclosures (TCFD) is a private sector led initiative supported by the G20. It provides a disclosure framework to help investors and other capital providers better understand financial exposure to climate risk and help companies disclose this information in a clear and consistent way.

Although the TCFD framework was designed for the capital markets, it has broad applicability to other organizations, including cities. The TCFD framework connects the direct and indirect impacts of climate-related risks and opportunities to an organization's financial reporting – thus bringing a finance lens to climate change impacts. The disclosure framework provided by the TCFD can help cities understand the potential financial impacts of climate change and prepare, plan, and invest accordingly.

For more information on TCFD, see [www.cpacanada.ca/tcfd](http://www.cpacanada.ca/tcfd)

- increases in the significance and number of asset retirement obligations if city-owned sites are contaminated or do not meet environmental standards as a result of increasing frequency and severity of extreme weather (e.g., flooding causing site contamination)
- changes in insurance liabilities and premiums due to increasing climate-related damage payouts<sup>3</sup>
- increased cost of capital if credit rating agencies do not see a city building climate resilience into its long-term planning and operations<sup>4</sup>
- increased provisions related to service disruptions
- potential going concern implications of climate-related impacts, such as those outlined above.

## Purpose: A tool to help assess financial reporting implications of climate-related impacts

This tool has been developed to help preparers and auditors of a city's financial statements and reports, and those involved in the preparation of budgets and capital plans, better understand how climate-related issues might affect the application of Canadian public sector accounting standards as set out in the CPA Canada Public Sector Accounting Handbook (PSA Handbook). The answers to the questions in this tool are intended to help identify areas that might potentially have a material impact on the financial position and results that a city reports in its financial statements and accompanying note disclosures.

This publication does not attempt to comment on what may constitute compliance with the Canadian public sector accounting standards and should not be used as a substitute for consultation with professional advisors.

## Structure of this tool

While the PSA Handbook focuses only on the financial statements, this information serves as a basis for other financial reports of a government (and its organizations), which may be linked to the financial statements. One example is a city's annual report, which includes the financial statements and other information about the city's performance in the year. In preparing its annual report, a city might consider the recommendations in PSAB's [Statements of Recommended Practice](#)<sup>5</sup> (SORPs).

3 In Canada, annual liabilities of the Disaster Financial Assistance Arrangements (DFAA)—managed by the federal and provincial governments—have risen steadily. These costs increased from around \$100-million annually two decades ago to \$500-million in 2009-10; they reached a current high of \$2-billion in 2013-14. The Parliamentary Budget Office projected that annual DFAA liabilities would average \$902-million over five years, of which \$673-million would be for floods. Based on recent and repeated flooding, those estimates may prove to be conservative. ([https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/DFAA/DFAA\\_EN.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/DFAA/DFAA_EN.pdf)).

4 [...] municipal economics are highly dependent on factors—such as credit ratings and property values—whose volatility can be influenced by proactive risk mitigation. Implementing resilience measures that reduce municipal vulnerability will help ensure financial robustness by maintaining property values, credit ratings, investor confidence and citizen security. Prairie Climate Centre. (<http://prairieclimatecentre.ca/wp-content/uploads/2017/04/pcc-brief-climate-resilient-city-economics-finance.pdf>) Page 5, 2017.

5 The SORPs are included as part of CPA Canada's Standards and Guidance Collection.

This tool has been organized in two parts as follows:

### Part A – Financial statements

- There are existing accounting requirements and considerations in the PSA Handbook that should be evaluated by cities when determining the impact of climate-related issues on the financial statements. This tool offers questions to consider while preparing the financial statements and associated note disclosures. Some questions may only have implications for note disclosures and schedules to the financial statements, while others may have implications for recognition and measurement of items, transactions and other events.

### Part B – Reporting outside of financial statements

- In relation to the SORPs, there are existing disclosure considerations that should be evaluated by cities when determining if climate-related financial disclosures might be appropriate when reporting outside of the financial statements (e.g., in the annual report). Even if all SORP recommendations are not applied, the questions included in Part B may still be useful for preparing an annual report. Consistency between climate-related information included in financial statements and reporting outside of financial statements is important.

There may be overlap in the answers to the questions included in Part A and Part B. The questions are offered to enable preparers, auditors and capital planners to assemble climate-related information before considering the extent to which and how they should be reflected in financial statements, and/or in reports outside of the financial statements.

## A. Financial statements

The following table sets out questions to consider when determining potential recognition, measurement and disclosure implications of climate-related issues. It should be noted that organization of the questions follows the order of the related standards in the PSA Handbook and does not necessarily reflect the sequence of how information should be collected and assessed.

Paragraph number(s)	Section name	Implications for?	Questions to consider
<p><b>PS 1000.07</b></p> <hr/> <p><i>A government financial report should present information that is useful in evaluating the government’s financial condition at the end of the accounting period and its financial performance during the accounting period. Government financial statements are a fundamental component of a government financial report.</i></p> <p>Note: Financial statements report financial position and financial results. Financial position is an aspect of a public sector entity’s financial condition. Annual financial results are one aspect of a public sector entity’s financial performance in the accounting period.</p> <p>PSAB’s SORP-4 defines “financial condition.”</p>	<p><b>Financial Statement Concepts</b></p>	<p><b>Disclosure and possibly recognition</b></p>	<p>This is part of an overall general assessment to be done after the financial statements have been substantially completed.</p> <ul style="list-style-type: none"> <li>• Is there anything missing from the City’s financial statements that is climate-related and is necessary for users to understand the City’s financial position and results?</li> <li>• Does the City have a process in place to remain informed about predicted climate impacts on their jurisdiction and how they might affect the information reported in their financial statements and note disclosures?</li> </ul>
<p><b>PS 1000.20</b></p> <hr/> <p>.... information presented in the financial statements, when used with other information, is useful in gaining an understanding of and assessing:</p> <p>(a) a government’s ability to meet its financial obligations, both short- and long-term;</p> <p>(b) a government’s ability to maintain the level and quality of its services and to finance new programs;</p> <p>(c) future tax and other revenue requirements; .....</p>	<p><b>Financial Statement Concepts</b></p>	<p><b>Disclosure</b></p>	<p>This is part of an overall general assessment to be done after the financial statements have been substantially completed.</p> <ul style="list-style-type: none"> <li>• More specifically than paragraph PS 1000.07, are climate-related financial disclosures required because of their potential effect on the government’s ability to meet its short and long-term obligations, to deliver future services or affect its future tax requirements?</li> </ul> <p><b>See also SORP-1 and SORP-4 in Part B of this tool.</b></p>

Paragraph number(s)	Section name	Implications for?	Questions to consider
<b>PS 1000.28(b)</b>	<b><i>Financial Statement Concepts</i></b>	<b>Disclosure</b>	This is part of an overall general assessment to be done after the financial statements have been substantially completed.
<b>Accountability value</b>			
<p>Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.</p>			<ul style="list-style-type: none"> <li>• Do the financial statements adequately disclose information about climate-related issues to provide accountability to the public?</li> </ul> <p><b>See also SORP-1 in Part B of this tool.</b></p>

Paragraph number(s)	Section name	Implications for?	Questions to consider
<p><b>PS 1000.63</b></p> <hr/> <p>Financial statements are prepared on the assumption that the government is a going concern, meaning it will continue in operation, and will be able to realize assets and discharge liabilities and meet its statutory obligations in the normal course of operations for the foreseeable future.</p>	<p><b><i>Financial Statement Concepts</i></b></p>	<p><b>Disclosure and possibly measurement</b></p>	<ul style="list-style-type: none"> <li>• Are there any climate-related risks that would call into question the City's ability to continue as a going concern? For example, increases in the frequency and severity of storms, wildfires, droughts, and number of record-breaking temperature days affects the ability of cities to provide the services and infrastructure citizens depend on, such as transit, schools and hospitals due to power outages and flooding.</li> <li>• Are there climate-related implications for the City's cost of capital? For example, some credit rating agencies have already warned of credit rating downgrades if cities do not build climate resilience.<sup>6</sup></li> <li>• Based on existing knowledge of the potential impacts of climate change on the City, has the City established reserves and/or has sufficiently healthy reserves to help the City mitigate the effects of climate changes and/or adapt to climate change?</li> </ul> <p><b>If the going concern assumption is not supportable, then there may be measurement implications for this question.</b></p>

6 <https://e360.yale.edu/digest/top-credit-agency-to-cities-and-states-prepare-for-climate-change-or-face-lower-credit-rating>

Paragraph number(s)	Section name	Implications for?	Questions to consider
<b>PS 1201.12-.13</b>	<b><i>Financial Statement Presentation</i></b>	<b>Disclosure and financial statement presentation</b>	This is part of an overall general assessment to be done after the financial statements have been substantially completed.
<p><i>Financial statements should present any information required for the fair presentation of a government's financial position, results of operations, remeasurement gains and losses, change in net debt and cash flow. [APRIL 2012]</i></p> <p>Fair note disclosure is not separable from fair presentation of financial statements generally, because classification and presentation within the statements of financial position, operations, remeasurement gains and losses, change in net debt and cash flow provide the basis for fair disclosure, which is augmented and supported by the accompanying notes. When there are transactions, circumstances or events, of such size, nature or incidence that their disclosure is necessary to understand the government's financial position, results of operations, remeasurement gains and losses, change in net debt and cash flows, a government would provide sufficient information about the extent and nature of such transactions, circumstances or events, so that the effect on the financial statements is transparent and understandable. This information would include the significant terms and conditions of such transactions, as well as the nature of such circumstances or events and their financial effects.</p>			<ul style="list-style-type: none"> <li>Do the financial statements include all necessary information about climate-related issues such that fair presentation is achieved?</li> </ul>

Paragraph number(s)	Section name	Implications for?	Questions to consider
PS 1201.015	<i>Financial Statement Presentation</i>	Disclosure	<p><b>Only climate-related disclosures that are material should be considered for inclusion in the financial statements.</b></p>
	<p>Public Sector Accounting Standards and Guidelines need not be applied to immaterial items. Materiality is a matter of professional judgment in the particular circumstances. Materiality may be judged in relation to the reasonable prospect of its significance in the making of assessments and judgments by the users of financial statements. A material item would be expected to affect assessments of and judgments on government financial operations and management.</p>		<p>Materiality should be considered from both a qualitative and quantitative perspective. From a quantitative perspective, materiality provides a threshold or cut-off point for determining what information to recognize and report or disclose. From a qualitative perspective, an item may be considered material in substance even if the monetary value is not considered significant.</p> <p>Materiality is an entity-specific consideration based on the nature or magnitude (or both) of the items to which the information relates in the context of an individual entity's financial statements.</p> <p>An item may not be individually material, but when combined with other items of similar nature and substance, the items may collectively be material for accountability purposes.</p> <p>A key aspect of this step is understanding the potential size and nature of the current and expected climate change impacts which will be affected by the location and activities of the City. This may require considering the potential effects of climate change using variable assumptions about future climate change-driven events, future regulations and the ability to mitigate these root causes.</p>
PS 1201.089	<i>Financial Statement Presentation</i>	Disclosure and measurement	<ul style="list-style-type: none"> <li>• Are there any losses from asset impairment related to climate change that need to be separately identified and explained? For example, extreme weather events increasing in frequency and severity resulting in unprecedented damages to assets.</li> </ul>
	<p>Losses arising from asset impairment and changes in valuation allowances are accounted for in the statement of operations to ensure that these changes in the carrying value of assets are measured in operating surplus or deficit for the period.</p>		<p><b>See also Tangible Capital Assets, Section PS 3150.</b></p>



Paragraph number(s)	Section name	Implications for?	Questions to consider
<b>PS 1201.106</b>	<b><i>Financial Statement Presentation</i></b>	<b>Disclosure</b>	<ul style="list-style-type: none"> <li>• Are there any significant cash flows in the period relating to climate change that require separate disclosure (e.g., large payouts associated with extreme weather events (including those related to asset replacement) such as flooding and ice storms)?</li> <li>• Where should cash flows associated with climate change be reflected in the statement of cash flow – in operating or capital cash flows? <b>The answer may depend on the materiality of the cash flow and whether it is related to operations or capital assets.</b></li> </ul>
<p>Information about the cash flows of a government enables users of its financial statements to assess the capacity of the government to generate cash and cash equivalents and the needs of the government for cash resources. Cash is generated by revenue raising, by the conversion of other financial assets into cash and cash equivalents, and by external borrowing. A statement of cash flow reports the effects of a government’s activities on its cash resources by showing how a government financed its activities in the accounting period and met its cash requirements. Important uses of such information include evaluating a government’s liquidity and accountability for the use of cash resources as well as assessing future cash requirements. Historical cash flow information may be useful as an indicator of the amount, the timing and the certainty of future cash flows.</p>			
<b>PS 1300.28- .31</b>	<b><i>Government Reporting Entity</i></b>	<b>Disclosure and financial statement presentation</b>	<ul style="list-style-type: none"> <li>• Do any GBEs (e.g., transit authorities, utilities) of the City no longer meet the financial self sustainability (from revenues outside of the government reporting entity) criterion in PS 1300.28 (d) because of climate-related issues? If a GBE no longer meets the GBE definition, the GBE needs to be consolidated by the government (instead of being included on a one-line modified equity basis).</li> <li>• For example, consider a GBE that requires significant government support because of an extreme weather event in order to keep operating; support that the GBE did not require before. One-time government support may not push a GBE out of the GBE definition. However, ongoing support because of climate change impacts (e.g., recurring extreme weather events where government support is required) may change whether the GBE continues to meet the definition, if such support is material to the operations of the GBE.</li> </ul>
<p>A government business enterprise (GBE) is an organization that has all of the following characteristics:</p> <ol style="list-style-type: none"> <li>it is a separate legal entity with the power to contract in its own name and that can sue and be sued;</li> <li>it has been delegated the financial and operational authority to carry on a business;</li> <li>it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and</li> <li>it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.</li> </ol>			<p><b>See also paragraphs PS 3070.48-.56, Investments in GBEs, “When an organization no longer meets the definition of a GBE”.</b></p>

Paragraph number(s)	Section name	Implications for?	Questions to consider
<b>PS 2100.03</b>	<b><i>Disclosure of Accounting Policies</i></b>	<b>Disclosure</b>	<ul style="list-style-type: none"> <li>Does the City have an accounting policy for climate-related financial disclosures that should be set out in Note 1 to the financial statements?</li> <li>How are risks associated with climate change integrated into other accounting policies related to risk disclosure?</li> </ul>
<i>A clear and concise description of all significant accounting policies of a reporting entity should be included as an integral part of its financial statements.</i>			
<b>PS 2120</b>	<b><i>Accounting Changes</i></b>	<b>Disclosure, recognition and measurement</b>	<ul style="list-style-type: none"> <li>Are there any changes in accounting policies related to climate change in the period? For example, are changes in amortization periods for tangible capital assets required as a result of extreme weather events that have reduced the useful lives of the City's assets?</li> <li>Are there any changes in accounting estimates arising from risks associated with climate change or climate-related events in the period?</li> </ul> <p><b>See also Measurement Uncertainty, Section PS 2130, and tangible capital asset impairments related to climate change in Tangible Capital Assets, Section PS 3150.</b></p>
Sets out recognition and disclosure requirements for changes in accounting policies and changes in accounting estimates (and also errors in prior year financial statements).			

Paragraph number(s)	Section name	Implications for?	Questions to consider
<b>PS 2130.05-.08</b>	<b><i>Measurement Uncertainty</i></b>	<b>Disclosure and possibly recognition</b>	<p>This is a disclosure standard. <b>Changes in estimates would be accounted for in accordance with Accounting Changes, Section PS 2120.</b></p> <p>This whole standard should be considered when evaluating the effects of climate change on measurement uncertainty related to items recognized in the financial statements.</p> <p>Cities have always had to consider measurement uncertainty for estimates included in the financial statements. Climate change has inherent uncertainties in terms of the nature, extent and timing of predicted impacts across multiple time horizons. As such, existing estimates likely need to be re-evaluated over time to consider the climate change impacts being experienced by the City, as well as predicted future impacts. Also, new estimates related to climate change impacts might be required over time as cities continue to experience the impacts of extreme weather events. The materiality of the effect of the measurement uncertainty on the financial statements is the sole criterion for determining whether disclosure of measurement uncertainty in accordance with paragraphs PS 2130.06-.07 would be made.</p> <p>Management should consider information such as the range of reasonably possible amounts; whether the amount could change by a material amount; the impact of other reasonably possible amounts on the government's economic resources, obligations and net assets; and the possible timing of the impact. Judgments about the materiality of measurement uncertainties would be made by considering the effect that different reasonably possible amounts could have on the financial statements. Scenario analysis to determine different plausible scenarios might help in making such judgments.</p>
<p>Sets out disclosure standards for measurement uncertainty arising from items recognized or disclosed in financial statements. The disclosure standards in this Section supplement the standards in other Sections.</p> <p>When a material change in an amount that is recognized or disclosed is reasonably possible in the near term, the notes to the financial statements would provide information about the nature and extent of uncertainty.</p> <p><i>The nature of measurement uncertainty that is material should be disclosed.</i></p> <p><i>The extent of measurement uncertainty that is material should be disclosed when it is reasonably possible that the amount could change by a material amount in the near term.</i></p> <p><i>When disclosure has been made in accordance with paragraph PS 2130.06 or PS 2130.07, the amount of the item subject to measurement uncertainty should be disclosed, except when disclosure of the amount would have a significant adverse effect on the entity. When the amount is not disclosed, the notes should indicate the reason(s) for non-disclosure.</i></p>			
<p>See also paragraphs PS 2130.11-15.</p>			

Paragraph number(s)	Section name	Implications for?	Questions to consider
<b>PS 2400.01</b>	<b><i>Subsequent Events</i></b>	<b>Disclosure, recognition and measurement</b>	<ul style="list-style-type: none"> <li>• Are there any climate-related events occurring after the financial statement date that could require an <b>adjustment in amounts recognized</b> in the financial statements?</li> <li>• Are there any climate-related events occurring after the financial statement date that might require <b>disclosure</b> in the financial statements?</li> </ul>
<p>This Section establishes standards on how to account for and disclose events occurring between the financial statement date and the date of their completion. Financial statements are prepared to reflect a government's financial position at a particular date and changes in financial position for a period ended on that date. However, events occurring after the financial statement date may indicate a need to adjust items or to make specific disclosures in those statements. Therefore, in preparing financial statements, the implications and financial effects of subsequent events would be considered.</p>			
<b>PS 3150.29-.30</b>	<b><i>Tangible Capital Assets (TCA)</i></b>	<b>Disclosure, recognition and measurement</b>	<ul style="list-style-type: none"> <li>• Are there any climate-related impacts that would require a change in the amortization method or useful life of any of the City's tangible capital assets? For example, climate-related impacts could create significant events in the list (a) through (g) (e.g., restrictions on the use of coal-fired power plants that require asset retirements prior to the end of their useful life, or an inability to use transit infrastructure as temperatures exceed safe thresholds for use).</li> </ul>
<p><i>The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.</i></p> <p>Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset include:</p> <ul style="list-style-type: none"> <li>(a) a change in the extent to which the tangible capital asset is used;</li> <li>(b) a change in the manner in which the tangible capital asset is used;</li> <li>(c) removal of the tangible capital asset from service for an extended period of time;</li> <li>(d) physical damage;</li> <li>(e) significant technological developments;</li> <li>(f) a change in the demand for the services provided through use of the tangible capital asset; and</li> <li>(g) a change in the law or environment affecting the period of time over which the tangible capital asset can be used.</li> </ul>			

Paragraph number(s)	Section name	Implications for?	Questions to consider
<p><b>PS 3150.31, .34</b></p> <p><i>When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value.</i></p> <p>A government would write down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:</p> <p>(a) a change in the extent to which the tangible capital asset is used;</p> <p>(b) a change in the manner in which the tangible capital asset is used;</p> <p>(c) significant technological developments;</p> <p>(d) physical damage;</p> <p>(e) removal of the tangible capital asset from service;</p> <p>(f) a decline in, or cessation of, the need for the services provided by the tangible capital asset;</p> <p>(g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and</p> <p>(h) a change in the law or environment affecting the extent to which the tangible capital asset can be used.</p>	<p><b>Tangible Capital Assets (TCA)</b></p>	<p><b>Disclosure, recognition and measurement</b></p>	<ul style="list-style-type: none"> <li>• Are there any climate-related impacts that would require the write-down or write-off of any of the City's tangible capital assets?</li> <li>• For example, are there any conditions in the list (a) through (h) resulting from climate-related events, or conditions arising from any other climate-related events, such as extreme weather events, that would require a write-down or write-off of any of the City's tangible capital assets? If so, disclosure of such write-downs would be required.</li> <li>• Many municipal assets such as buildings, water and wastewater treatment plants, road systems etc. are experiencing faster degradation due to repeated extreme or moderately extreme weather events, and from increasing populations depending on these assets. As a result, climate risk assessments or (building) condition assessments are needed. The assessment should report on how the useful life of the asset or value of the asset will be affected if maintenance or upgrades are conducted, taking into account the impact of anticipated worsening climate conditions over the life of the asset.</li> </ul> <p><b>See also SORP-3, Assessment of Tangible Assets, in Part B of this tool.</b></p>
<p><b>PS 3200.03</b></p> <p><i>Liabilities should be recognized in the financial statements when:</i></p> <p>(a) <i>there is an appropriate basis of measurement; and</i></p> <p>(b) <i>a reasonable estimate can be made of the amount involved. [SEPT. 2004]</i></p>	<p><b>Liabilities</b></p>	<p><b>Disclosure and recognition</b></p>	<ul style="list-style-type: none"> <li>• Are there any climate-related liabilities that have arisen in the year that must be recognized (that are not addressed in other standards)?</li> <li>• Are there any existing climate-related liabilities (for which no standard currently exists) that should be re-evaluated?</li> </ul>

Paragraph number(s)	Section name	Implications for?	Questions to consider
<p><b>PS 3260.04</b></p> <hr/> <p>For the purposes of this Section, contamination is the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an <b>environmental standard</b>. .....</p> <p>An <b>environmental standard</b> refers to any guidelines, objectives, criteria or other kinds of limits placed on the presence or discharge of a contaminant into the natural environment.</p>	<p><b>Contaminated Sites</b></p>	<p><b>Disclosure, recognition and measurement</b></p>	<ul style="list-style-type: none"> <li>• Have there been any changes in environmental standards in response to climate change during the period that would require sites controlled by the City to fall under the requirements of this standard (where they did not previously)?</li> <li>• Have any climate-related impacts caused contamination during the period that would require sites controlled by the City to fall under the requirements of this standard (where they did not previously)? For example, increasing frequency and severity of floods caused by climate change can often cause widespread contamination of lands, buildings, water sources, which may fall under existing environmental standards.</li> <li>• Have any climate-related impacts caused additional contamination to sites for which a liability is already recognized in this standard? If so, an adjustment to the existing liability provision may be required.</li> </ul>
<p><b>PS 3280.04-.05</b></p> <hr/> <p>This Section applies to legal obligations, including obligations created by promissory estoppel, associated with the retirement of a tangible capital asset that result from its acquisition, construction, development, or normal use.</p> <p>This Section applies to asset retirement obligations associated with tangible capital assets controlled by a public sector entity that are in productive use and those that are no longer in productive use. Tangible capital assets include leased tangible capital assets reported under PUBLIC SECTOR GUIDELINE, PSG-2, Leased Tangible Capital Assets.</p>	<p><b>Asset Retirement Obligations</b></p>	<p><b>Disclosure, recognition and measurement</b></p>	<ul style="list-style-type: none"> <li>• Have any climate-related events occurred during the period that would create, increase or decrease any asset retirement obligations of the City in relation to its tangible capital assets?</li> </ul> <p>These may be related to contamination that is not covered in Contaminated Sites, Section PS 3260. <b>When there is contamination of tangible capital assets related to climate-related events, such as extreme weather, consideration should be given to the scope of both Sections PS 3260 and PS 3280 and which standard would apply.</b></p>

Paragraph number(s)	Section name	Implications for?	Questions to consider
<p><b>PS 3300.03, .07</b></p>	<p><b><i>Contingent Liabilities</i></b></p>	<p><b>Disclosure, recognition and measurement</b></p>	<ul style="list-style-type: none"> <li>• Does the City have any contingent liabilities arising from climate-related impacts during the period that would require recognition and disclosure?</li> <li>• Did the City have any climate-related impacts during the period that resolve uncertainties and result in the confirmation of a liability?</li> <li>• Does the City have an awareness of the predicted climate impacts on their jurisdiction and whether they could impact the evaluation of contingent liabilities for the City?</li> </ul>
<p><b>Contingent liabilities</b> are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the government’s control occurs or fails to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability.</p> <p><b>Existing condition or situation</b> For a contingent liability to be present there must be an existing condition or situation (event) at the financial statement date that indicates that a government may have a liability. The existing condition or situation could be, for example, an existing loan guarantee or an ongoing legal case.</p>			
<p><b>PS 3400.35, .52, .63</b></p>	<p><b><i>Revenue</i></b></p>	<p><b>Disclosure and recognition</b></p>	<p>Cities may already be using other methods to recognize some of the revenue addressed in this new Section.</p> <ul style="list-style-type: none"> <li>• Does the City have revenue streams—with or without performance obligations—that will be affected by climate-related impacts?</li> <li>• Would climate-related impacts decrease the City’s ability to deliver, or prevent the City from delivering, services from which it derives revenue?</li> <li>• Do any revenue transactions involve variable consideration to be provided to the City for which the amount of the consideration may vary because of climate-related impacts?</li> </ul>
<p><i>Revenue from transactions with performance obligations should be recognized when (or as) the public sector entity satisfies a performance obligation by providing the promised goods or services to a payor. [APRIL 2022]</i></p> <p><i>Revenue from transactions with no performance obligations should be recognized when a public sector entity:</i></p> <p>(a) <i>has the authority to claim or retain an inflow of economic resources; and</i></p> <p>(b) <i>identifies a past transaction or event that gives rise to an asset. [APRIL 2022]</i></p> <p>When consideration is variable, an estimate may be needed. Consideration may be variable for several reasons, such as discounts offered, rebates, incentive programs or price concessions. Consideration may also be variable due to uncertainty related to the occurrence or non-occurrence of a future event.</p> <p>The illustrative examples in Appendix C of the Section may help cities consider the impact on their revenue streams.</p>			

## B. Reporting outside of financial statements

In addition to the PSA Handbook, PSAB also issues Statements of Recommended Practice (SORPs). SORPs are not mandatory. The Introduction to SORPs states:

- .01 The Public Sector Accounting Board (PSAB) issues Statements of Recommended Practice (SORPs) with respect to matters of reporting supplementary information beyond that presented in financial statements.
- .02 SORPs do not form part of the CPA Canada Public Sector Accounting Handbook or generally accepted accounting principles, nor are they designed to become GAAP in the future. For practical purposes, SORPs may be filed within the Handbook.
- .03 SORPs provide general guidance to a government or government organization (entity) choosing to provide supplementary information beyond that contained in its financial statements. SORPs address specific aspects of supplementary reporting on topics such as financial condition and financial and non-financial performance.
- .04 SORPs represent reporting practices that are encouraged but not mandatory or prescriptive. They are intended to provide issuers of such information with a common framework for developing a consistent approach to reporting supplementary information. While it is acknowledged that there are many other areas of supplementary reporting that are not covered by existing SORPs, when an entity chooses to report on those areas covered by SORPs, it is encouraged to use the frameworks provided.
- .05 The supplementary information does not necessarily need to accompany or be issued with the financial statements, or cover the same fiscal period(s).

If a city uses the SORPs in preparing its annual report, it may want to consider the questions in the following table when determining whether climate-related financial disclosures outside of the financial statements (e.g., annual report) would be appropriate.



Paragraph number(s)	SORP name	Questions to consider in determining whether climate-related financial disclosures may be appropriate
30	<b><i>SORP-1 Financial Statement Discussion and Analysis</i></b>	<ul style="list-style-type: none"> <li>• Are there any significant climate-related impacts affecting the financial statements that should be disclosed?</li> <li>• Are there any known climate-related risks and uncertainties that would affect the financial position and results of the City that should be disclosed?</li> <li>• Are there any significant climate-related trends that could have an impact on financial assets, liabilities, net debt, tangible capital assets, net assets, revenues, expenses/expenditures, net revenues, (expenses/expenditures), and cash flows that should be disclosed?</li> <li>• Beyond the financial statements, does the annual report provide sufficient information about climate-related impacts to provide accountability to the public?</li> <li>• In an annual report, disclosure of climate-related risk mitigation strategies and commitments might be needed for accountability purposes.</li> </ul>

Financial statement discussion and analysis should include:

- (a) a highlights section that provides a brief, concise summary of the significant events affecting the financial statements; and
- (b) an analysis section that:
  - i. includes information on known significant risks and uncertainties inherent in the government's financial position and changes in financial position, and briefly outlines the strategies, policies and techniques adopted to manage those risks and uncertainties;
  - ii. identifies and explains:
    - significant variances between current year actual results and budget;
    - significant variances between current year actual results and prior year actual results; and
    - changes that have occurred but are not readily apparent from the quantitative analysis; and
  - iii. includes an analysis of significant trends related to financial assets, liabilities, net debt, tangible capital assets, net assets, revenues, expenses / expenditures, net revenues, (expenses / expenditures), and cash flows.

Paragraph number(s)	SORP name	Questions to consider in determining whether climate-related financial disclosures may be appropriate
1, 7, 17, 41	<b><i>SORP-3 Assessment of Tangible Capital Assets</i></b>	<ul style="list-style-type: none"> <li>• Are there any climate-related impacts that would impact the physical condition, including useful life, of the tangible capital assets controlled by the City?</li> <li>• Are there any narrative disclosures that should be provided regarding changes in the physical condition of the tangible capital assets controlled by the City as a result of climate-related impacts?</li> </ul>
<p>This Statement of Recommended Practice (SORP) provides guidance to governments or government organizations that choose to prepare and present a report on the physical condition of their tangible capital assets, including leased tangible capital assets. The guidance provides a basis for exercising professional judgment as to the nature and extent of the information to be reported.</p> <p>The report should provide an assessment of the physical condition of all of the government's tangible capital assets.</p> <p>The report should provide the following information for each category of tangible capital assets:</p> <ul style="list-style-type: none"> <li>(a) the net carrying amount or cost;</li> <li>(b) the average physical condition rating;</li> <li>(c) the average age and useful life; and</li> <li>(d) its nature and extent.</li> </ul> <p><b>NARRATIVE DISCLOSURE</b></p> <p>The report should discuss:</p> <ul style="list-style-type: none"> <li>(a) trends in changes in the physical condition;</li> <li>(b) any effects of known plans on the changing physical condition;</li> <li>(c) the basis of measurement, measurement scale and effects of changes; and</li> <li>(d) definitions underlying information reported.</li> </ul> <p><b>Physical condition</b> is one of a number of attributes that could be used to assess the condition of tangible capital assets. Physical condition of the asset is its ability to meet its intended purpose over its expected useful life.</p> <p><b>Physical condition assessment</b> is the technical assessment of the physical condition of a tangible capital asset using a systematic method designed to produce consistent, relevant and useful information. The objective of a physical condition assessment is to provide sufficient information on asset condition to allow informed strategic asset planning and management decisions to be made.</p>		

Paragraph number(s)	SORP name	Questions to consider in determining whether climate-related financial disclosures may be appropriate
7, 8, 18, 22-27	<i>SORP-4 Indicators of Financial Condition</i>	<ul style="list-style-type: none"> <li>• Is there anything missing from the City's annual report (outside of the financial statements) that is climate-related and is necessary for users to understand the City's financial condition?</li> <li>• Are there any climate-related impacts that would impact on the City's financial condition in terms of its sustainability, flexibility and vulnerability? Scenario analysis<sup>7</sup> may be used to inform a city's materiality assessment of climate-related risks. This may require considering the potential effects of climate change using variable assumptions about future climate change-driven events, future regulatory regimes and the ability to mitigate these root causes.</li> <li>• Are there implications for the City's cost of capital due to climate-related impacts? For example, some credit rating agencies have warned of credit rating downgrades if cities don't build in climate resilience.</li> <li>• Would the potential for credit rating downgrades affect the sustainability of the City?</li> </ul>

**Financial condition** is a broad, complex concept with both short- and long-term implications that describes a government's financial health in the context of the overall economic and financial environment. Financial condition is a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.

An assessment of a government's financial condition needs to consider, at a minimum, the elements of sustainability, flexibility and vulnerability.

**Sustainability** is the degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates.

Sustainability is an important element to include in an assessment of financial condition because it describes a government's ability to manage its financial and service commitments and debt burden. It also describes the impact that the level of debt could have on service provision. For example, a government whose net debt grows at a faster rate than the gross domestic product (GDP) increases the risk that service levels cannot be sustained.

**Flexibility** is the degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.

Flexibility provides insights into how a government manages its finances. A government that increases its current borrowing reduces its future flexibility to respond when adverse economic circumstances develop. Similarly, increasing taxation or user fees reduces its ability to do so in the future as a government approaches the limit that citizens and businesses are willing to bear.

**Vulnerability** is the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.

Vulnerability is an important element of financial condition because it provides insights into a government's reliance on funding sources outside its direct control or influence and its exposure to risks. A government whose vulnerability is relatively low has greater control over its financial condition.

<sup>7</sup> The TCFD recommendations include scenario analysis under different climate change trajectories. For more information on climate-related scenario analysis, see the TCFD's Technical Supplement on the Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities: (<https://www.fsb-tcfd.org/publications/final-technical-supplement/>).

## Conclusion

Climate change impacts are inherently uncertain and as a result, those responsible for the financial statements and other reports outside of the financial statements will need to re-evaluate these impacts at the end of each reporting period to ensure all material climate-related issues have been included.

## Comments

Readers are invited to submit comments on this publication to:

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This publication was produced with support from Natural Resources Canada's Climate Change Adaptation Program.



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