February 28, 2025

Ross Smith, Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington St. West
Toronto ON M5V 3H2

RE: Exposure Draft 1 Climate-related Disclosures

Dear Ross:

We are pleased to submit a response to IPSASB's Exposure Draft 1: Climate-related Disclosures.

Overall, we support the direction that IPSASB is headed. However, we would like to highlight an alternative approach to accounting for climate risks that may better fit IPSASB's conceptual framework.

As a firm, we do not benefit from additional consulting revenues if our clients are overwhelmed by new disclosure requirements. We would like the IPSASB to consider the proponents of climate-related disclosures and whether these proponents benefit from the additional costs of implementing climate-related disclosures.

The criticisms of the exposure draft are not new – there is a lack of consistency globally among firms on what to disclose and how to disclose it. While effectively designed disclosures can be audited – they may still present information in a manner that misleads stakeholders ("greenwashing"). For example, if an oil sands company in Alberta has extensive climate disclosures on how it has gone paperless, is this actually meaningful information to stakeholders?

Next, we have seen many climate-related goals created and published by western nations, only to be deferred, scaled back, or simply ignored. Is the accounting community inadvertently rewarding those governments that fail to have any climate-related goals, objectives, or governance? We would like the IPSASB to consider if climate-related disclosures unfairly reward jurisdictions that deny that there is any climate change and do not address the problem formally.

Finally, climate-related disclosures must be standards, in the sense that they are applied consistently and comparably around the world. We do not believe this goal has been achieved yet, and while we appreciate it may take time to adopt, it is not clear if in the end we will have established clear practices that hold both private and public sector entities accountable with transparent reporting on the risks borne by these entities.

IPSASB should explore an insurance approach to <u>accounting</u> for climate change

When we think about the climate-change problem, we must come to terms with an important fact: governments are effectively insurance companies. In Canada, federal, provincial and even municipal laws have various financial aid programs in place to assist when natural disasters such as floods, wildfires, earthquakes, etc. happen. This is a liability (or provision) that exists today and is not being recorded on any public sector financial statement, nor is it disclosed.

Next, let us consider the role of insurance companies in climate change. Natural disasters are not new, and insurers have secondary markets where they can shed excessive ("tail risks"), referred to as reinsurance markets. Reinsurance markets prevent our primary insurance companies from going bankrupt. Reinsurance markets help primary insurers support and pay all the insurance claims that are made when an unforeseen catastrophic event occurs. Our primary insurance companies essentially pay premiums to reinsurance companies, and in exchange reinsurance companies take on the liabilities beyond certain levels of risks so that the primary insurers are never bearing the entire cost of insuring any natural disaster. It is a shared-risk model that is essential for insurance to be sustainable.

With climate change, the frequency of certain natural disaster events has increased in an unpredictable manner. This means the risk being borne by insurance companies (both primary insurance companies as well as re-insurers), as well as the uncertainty on the timing and frequency of those disaster events, have increased over time.

Insurance companies have responded by limiting how much insurance they will provide. For example, certain areas in Canada, residents cannot obtain flood insurance. Alternatively, flood insurance that is provided to residents is often small or limited, another way for insurers to decrease the costs of increasing claims.

When insurance coverage shrinks, and at the same time, the property damage resulting from climate change goes up, it is increasing the size of that unrecorded liability on public sector balance sheets. Governments are the insurers of last resort.

For disaster events that impact entire communities, a government in Canada is seen as having a moral obligation to assist its citizens in their time of need. The IPSASB may view that there is already guidance in the IPSAS handbook for such liabilities and provisions. However, the reality is that without specific guidance on when, and to what extent, to record these liabilities, they will continue to go unrecognized.

The bigger impact of a standard that requires recognition and measurement of future disaster claims is that accounting and measuring these liabilities should compel governments to work with insurance companies to create a shared-risk model where the government is a formal backstop for a national insurance scheme.

In this manner, governments can be reinsurers and limit their own liability through the shared-risk framework, rather than absorb all the residual risk through their moral obligations to society. A national insurance scheme should encourage insurance companies to systematically increase their risk tolerance when it comes to insuring property and casualty risks resulting from natural disasters. When such a framework is in place, it will also reduce and / or limit the public sector's overall liability resulting from climate-change related events.

A national shared-risk insurance scheme to cover natural disasters is not the concern of the IPSASB. However, unrecorded public sector liabilities relating to covering damages relating to climate-change is. We believe this is the relevant project guidance that the IPSASB should be pursuing, rather than the climate-change disclosures proposed in the ED.

We thank the Board for the opportunity to comment.

Sincerely,

Welch LLP

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