

# Accounting for Extreme Weather: Effects on Tangible Capital Assets

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## Extract, PSA Discussion Group Report on the Public Meeting – November 16, 2023

The submission sought to gather feedback from the Group on measuring and recognizing the financial impact of extreme weather events on a public sector entity's tangible capital assets. The submission offered the following scenarios so the Group could discuss whether [Section PS 3150, Tangible Capital Assets](#), should be updated to specifically include guidance on accounting for the impact of extreme weather events:

- Extreme flooding events;
- Forest fires;
- Freezing rain and cold weather extremes; and
- Extreme heat and record high temperatures.

The Group was asked to discuss the challenges of applying the existing guidance in [Section PS 3150](#) to these events. The submission asked the following.<sup>6</sup>

1. Are there any climate-related impacts that would require a change in the amortization method or useful life of any of the public sector entity's tangible capital assets?<sup>7</sup>
2. Are there any climate-related impacts that would require the write-down or write-off of any of the public sector entity's tangible capital assets?<sup>8</sup>

The Group acknowledged the topic's timeliness, given the future magnitude and expected occurrence of these events. The Group shared the following:

- It is important to assess the impairment in an asset's the service potential following significant damages that have occurred and damages that are expected to occur.

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<sup>6</sup> This submission raises questions in response to those asked about public sector tangible capital assets in the CPA Canada Research Guidance and Support publication (see Group meeting on May 12, 2022) "[Climate-related Issues: Questions to Ask Under Existing Public Sector Generally Accepted Accounting Principles \(GAAP\) and Statements of Recommended Practice \(SORPs\)](#)"

<sup>7</sup> [Paragraph PS 3150.29](#) states: "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." [Paragraph PS 3150.30\(a\)-\(g\)](#) addresses the revision of amortization methods or rates.

<sup>8</sup> [Paragraphs PS 3150.31](#) and [PS 3150.31.34](#) outline the write-down of the tangible capital asset's cost and what to consider when determining a reduction in future economic benefits that is expected to be permanent.

- Some assets may have no market value yet may still possess significant service potential. This may be the case when purchasing land to act as a flood plain. The land should be recognized as a tangible capital asset whose value is solely provided as a component of flood-protection infrastructure.
- Disclosures should be provided in accordance with the future use of the asset. One Group member noted that the purchase of flood plain land could be seen as an improvement rather than an impairment as it involves the best future use of the land based on changes in circumstances.
- Disclosing impacts and risks is at the core of public interest. Public sector entities should disclose both current and potential events and their impacts to tangible capital assets. Most Group members acknowledged it is important to be able to value the asset for its intended use.
- It is important to monitor and assess the condition of assets. Increases in extreme weather events may be detrimental to the useful life of assets that are exposed to the effects of climate change. Disclosures should appropriately reflect the changes in circumstances arising from current and expected weather events.
- Permanent versus temporary impairment can prove difficult to establish when dealing with assets impacted by climate change and extreme weather. While the likelihood of future events may be probable, the Group reflected on the challenges in addressing measurement uncertainty and the professional judgment required when relying on estimates.

The Group encouraged PSAB to consider providing further guidance given the issues raised in the discussion. The Group recognized that what currently exists in [Section PS 3150](#) has been useful. However, componentization of how different classes of assets are impacted by extreme weather events may be appropriate as climate change continues to influence how public sector entities adapt, recognize, and disclose the risks and consequences stemming from such events.<sup>9</sup>

The Group recommended the following:

- Additional application guidance in determining if an asset is permanently versus temporarily impaired. Some Group members noted that with the rise of extreme weather events, having the ability to account for instances where assets may be partially impaired would be helpful. For example, a forest fire would destroy trees, yet forests will regenerate over time.

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<sup>9</sup> [Paragraph PS 3150.12](#) states: “Many tangible capital assets, particularly complex network systems such as those for water and sewage treatment, consist of a number of components. Whether a government decides to record and account for each component as a separate asset will be determined by the usefulness of the resulting information to the government and the cost versus the benefit of collecting and maintaining it.”

- Public sector entities must assess if they plan on repairing, replacing, or bettering an asset following the consequences from these events. The interaction and timing of how costs are allocated depend on the government's intended use for the asset, and guidance or examples of such instances would be helpful.
- Guidance or a statement of recommended practice would be helpful in clarifying areas such as adjustments in the useful life of an asset, appropriateness of amortization rates, and professional judgments involving measurement uncertainty and reliance on estimates.