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Via website: <https://www.ipsasb.org/publications/consultation-paper-natural-resources>

Dear Ian

Consultation Paper – Natural Resources

As the representatives of over 300,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to provide feedback on the above Consultation Paper (CP).

We commend the IPSASB for its efforts to develop proposals to address the accounting for natural resources in their natural state, particularly focusing on subsoil, water and living resources. However, for the reasons stated below, rather than pursuing the development of accounting for natural resources as proposed in the CP, we recommend that the reporting of information on natural resources be considered as part of the IPSASB public sector sustainability reporting project.

We acknowledge that there are global concerns around natural resource depletion, overconsumption, and the public sector management of natural resources. As a result, there is an increasing focus on the sustainable consumption of natural resources. More information on the maintenance and consumption of such natural resources could help inform management decisions and policy making that could drive more sustainable practices. The public sector often holds natural resources to protect, preserve, and/or restore them for future generations rather than for financial gain. The relationship is more akin to holding natural resources as custodians rather than holding them as assets with ownership rights. Furthermore, in some jurisdictions, such as Australia and New Zealand, there are cultural and historical sensitivities relating to First Peoples who are considered the original guardians of natural resources.

Considering growing concerns around climate change risks, many governments and public sector entities are prioritising sustainable management of the natural environment in the development of their governance policies. From a public sector perspective accounting for natural resources cannot be merely limited to assigning a monetary value for such resources. Such monetary value cannot be ascribed in isolation, without also considering the non-financial impacts. Hence, we believe sustainability reporting alongside financial reporting will be well placed to capture this information concerning natural resources rather than exclusively through general purpose financial statements (GPFS).

We also note that the financial accounting for natural resources is a challenging topic, notably around the concepts of ownership and control, but also in relation to measurement uncertainty and applying the term “natural state”, that forms part of the proposed definition of natural resources. In our view, due to these challenges many natural resources are unlikely to meet the definition of an asset. However, even if some natural resources meet the definition of an asset, the cost of reliably measuring the asset is likely to be prohibitive. Therefore, we question the benefit of developing an accounting standard for natural resources based on these proposals.

While we consider that non-financial information about natural resources is more useful for accountability and decision-making in relation to the sustainability of natural resources, we caution against simply adding more financial statement disclosure requirements. Instead, as noted above, we recommend that the reporting of information on natural resources is addressed as part of the IPSASB’s public sector sustainability reporting project.

Our responses to the specific questions raised in the CP are included in the **Attachment** to this letter. Our responses should be considered within the context of our overarching view that the natural resources project should be incorporated into the public sector sustainability reporting project. If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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Attachment

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.

It will be important to distinguish natural resources from other types of naturally occurring resources currently accounted for by applying existing accounting standards (e.g., land). However, there is also a need to clarify the terms 'naturally occurring' and 'natural state'. Our concern is that for a resource to be in its natural state, it must not have been subjected to human intervention, which modifies its quantity and/or quality. Therefore, any activity that constitutes human intervention will mean a resource would no longer meet the definition of a natural resource.

However, we note that often some human intervention is carried out with the aim of conserving the resource. Subject to our comments in the cover letter, if the IPSASB is to pursue this project we recommend that the definition of the term "natural state" includes resources which are naturally occurring and have been subjected to human intervention when the objective of that intervention is to protect, preserve, and/or restore the natural state of the resource for future generations, rather than for financial gain.

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?

The main challenge relates to what constitutes human intervention, which would lead to a resource no longer being considered a natural resource. In our view, there are three types of human activities to be considered here:

- Those that substantiate "control" but do not alter the natural state of a natural resource,
- Those that alter the state of a resource so that it no longer meets the definition of a natural resource, and

- Those that are not necessarily considered human intervention as such activities lead to the conservation of natural resources.

Natural resources can also be subject to natural depletion, natural disasters and can be adversely affected by man-made direct or indirect intervention. The CP does not discuss direct versus indirect interventions, or intentional versus unintentional human activities that may have an impact on, or cause damage to, the natural state of a resource. Nor does it discuss human activities that are not caused by the entity that controls the resource. There are very few resources that have not been impacted by human intervention in some way. We strongly urge the IPSASB to clarify when a natural resource remains in its natural state after being exposed to some human intervention or activities.

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?

In our view the natural resources project and the public sector sustainability reporting project are intrinsically linked. One anticipated output of accounting for natural resources arising from these proposals is the provision of information about how natural resources can be used in a sustainable manner. To achieve this in a more holistic manner, we recommend that the natural resources project be subsumed into the public sector sustainability reporting project.

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 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.

We agree with the IPSASB's preliminary view that a natural resource should only be recognised if it meets the definition of an asset and the recognition criteria, achieves the qualitative characteristics, and falls within the boundaries of the constraints on information in GPFS as provided for in the IPSASB's Conceptual Framework (CF). However, we also agree with the view that most natural resources will not meet these requirements. Our reasons are as follows:

- Because of the attributes of natural resources as per paragraph 1.5 of the CP, control over such assets is often arbitrarily subject to conventions, government direction, licensing or legislation.
- Paragraph 2.8 of the CP notes that “control” and “human intervention” are not necessarily the same concepts. Determining whether natural resources are controlled by a reporting entity or have been subject to human intervention could be a prohibitively costly exercise for preparers, due to the complexity of the assessment involved.
- Ascertaining which entity “controls” a natural resource would be even more challenging in a jurisdiction where the rights of the First Peoples are recognised and respected. For example, in New Zealand, according to Te Ao Māori (the Māori worldview) human interaction with natural resources is often more akin to a custodial relationship. In accordance with this view, public sector entities may hold resources “in trust” on a long-term basis.
- In jurisdictions similar to Australia, where the public sector exists across multiple layers of government authority (for example: federal government, state governments, local governments) it can be extremely challenging to identify which layer of government exercises control over specific natural resources.
- It is also not clear how to justify the occurrence of a “past event” in relation to a natural resource. Generally, a past event, according to the definition of an asset, is an exchange or non-exchange event/transaction. In limited circumstances where a natural resource may meet the definition of an asset, we believe it is unlikely that recognition criteria will be met, that is, that an asset shall be measured reliably for it to be recognised as an asset. In our view, it is common for significant measurement uncertainty to exist in relation to natural resources due to a lack of an appropriate measurement basis and the significant costs incurred to arrive at a reliable measurement.
- We also believe recognising certain natural resources as an asset may contradict the accounting requirements for contingent assets in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* (IPSAS 19). Paragraph 39 of IPSAS 19 states that an entity shall not recognise a contingent asset.
- We are not convinced that information arising from the proposals in the CP would meet the qualitative characteristics of financial information in the CF. In particular, we believe meeting the qualitative characteristics of relevance and faithful representation would be most challenging while also taking account of the cost-benefit constraint.
- We note that the IPSASB has expressed a preliminary view of introducing disclosures for natural resources that do not satisfy the recognition criteria of an asset. We are concerned about this approach as it could contribute to disclosure overload.
- As per paragraph C.1 and BC 5.18 of the CF, the sovereign power of the government to issue a license over a natural resource is not an asset. If this is the case, it is not clear how the natural resource itself could be an asset. We are also concerned about capturing all economic benefits of a natural resource. Another challenge relates to completeness, as

there are complex and indeterminate amounts of direct and indirect economic benefits of a natural resource. Hence, reliably capturing all economic benefits and measuring them would be a challenging and expensive undertaking.

Preliminary View 3 – Chapter 3

The IPSASB's preliminary view is that guidance on exploration and evaluation expenditures and 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.

We agree with the IPSASB's preliminary view that guidance on exploration and evaluation expenditure, as well as development costs, should be provided based on IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 38 *Intangible Assets* and IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Australian public sector financial statement preparers adopt local equivalent standards of IFRS 6 and IFRIC 20 to account for extractive activities and related expenditures.

We suggest that the IPSASB follows the [IASB project on extractive activities](#) closely in developing any accounting requirements for extractive activities in the public sector. The IASB is researching what information is needed by users of financial statements about exploration and evaluation expenditure and activities, why they do not currently get that information, and a cost-benefit analysis.

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.

See our response to Preliminary View 3 – Chapter 3.

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.

Paragraph 5.6 of the CF defines an asset as a resource presently controlled by the entity as the result of a past event. We consider the existence and control of a natural resource (e.g., subsoil resource) as key factors to meet the definition of an asset. With advanced technology and professional advice, an unextracted subsoil resource could meet the definition of an asset before the reliable measurement recognition criterion is established. In our view, due to the nature of unextracted subsoil resources it is highly unlikely that this recognition criterion could be satisfied.

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.

We agree with the IPSASB's preliminary view that existence uncertainty can prevent the recognition of unextracted subsoil resources on the basis that the inflow of economic benefits or service potential is not virtually certain. This is consistent with the accounting requirements for contingent assets in IPSAS 19, paragraph 39.

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 GPFs 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.

We believe the IPSASB's preliminary view should go further and state that it is highly unlikely that subsoil resources will be able to be recognised as assets.

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 GPFs;
- (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 GPFs; 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.

- (a) Water in some seas, rivers, streams, lakes, and groundwater aquifers may meet the definition of an asset. However, we agree with the IPSASB’s preliminary view that it would be unlikely. We concur with the statement in paragraph 4.16 of the CP, that it would be challenging to monitor and reliably measure such water due to continuous changes in water levels as part of the natural water cycle. In Australia, some water authorities have recognised reservoirs as assets on their financial statements. However, they are also the largest value asset and are therefore likely to meet cost–benefit considerations. The measurement is often a complex process performed by an independent expert valuer. The independent valuation can be costly but may be justified on the basis they are infrastructure assets from which a significant amount of revenue is derived. For an example, please refer to the [Yarra Valley Water Annual Report](#).
- (b) It is unclear whether impounding water constitutes human intervention that would lead to the resource no longer being in its natural state and therefore not meeting the proposed definition of a natural resource.
- (c) See our response to (b) above.
- (d) We agree with the IPSASB’s preliminary view that water can only be recognised as an asset when it can be reliably measured.

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 of activities relating to them and to living resources is likely to fall within the scope of existing IPSAS.

In your view, is the guidance in IPSAS 12, IPSAS 17 or IPSAS 27 on how to determine which IPSAS to apply for these sufficient?

If not, please explain the reasons for your view.

In our view, IPSAS 12, IPSAS 17 and IPSAS 27 adequately address the accounting for living organisms that are subject to human intervention.

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 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 judgement to determine if it is feasible to measure the living resource in a way which achieves the qualitative characteristics and takes account of constraints on information in the GPFRs and so meet the criteria to be recognized as an asset in 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 supporting your view.

- (a) We agree with the IPSASB's preliminary view that it is possible for a living resource held for its financial capacity to meet the definition of an asset and the recognition criteria, achieve the qualitative characteristics and take account of the constraints on information in GPFRs as provided for in the CF. In our view, such assets are already largely accounted for under existing accounting standards (e.g., biological assets under IPSAS 27 *Agriculture*).
- (b) We agree with the IPSASB's preliminary view that if a living resource with operational capacity meets the definition of an asset, an entity will need to exercise judgement to

determine if it is feasible to measure the living resource in a way which achieves the qualitative characteristics and takes account of constraints on information in the GPFRs, and so meet the criteria to be recognised as an asset.

- (c) We agree with the IPSASB's preliminary view that a living resource can only be recognised as an asset when it can be reliably measured.