

October 17, 2022

Mr. Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

Comments on Consultation Paper “Natural Resources”

Dear Mr. Smith,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Consultation Paper “*Natural Resources*” (hereafter “CP”). Our comments to CP are as follows.

General comments

We request the IPSASB to explain why the natural resources in scope of the IPSAS have been narrowed down to three types: subsoil resources, water, and living resources, in the Basis for Conclusions.

Please consider adding the explanation of the relations between living resources and the Taskforce on Nature-related Financial Disclosures (TNFD).

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.

Comment:

We agree with the IPSASB’s Preliminary View, including the requirement to be in its natural state

should be used to scope what is considered a natural resource. However, for human intervention, please see our comments in Specific Matter for Comment 1.

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?

Comment:

Since this CP describes human intervention as “an action which modifies the quality and/or quantity of a natural resource” (paragraph 1.8), we believe the following challenges will arise in practice.

- To determine whether the quality and/or quantity of a natural resource has been modified, information on the point in time at which the modification was made is necessary for data comparison. However, since the present description does not contain such information, judgments may differ depending on which point in time is taken as the starting point.
- In the process of determining whether a quantity has been modified, this consideration might include a part of judgement “the uncertainty over whether a resource presently exists (paragraph 2.17)” that is relevant in asset recognition, and it might be duplicating.

To address the above challenges, we propose to explain human intervention as “an action taken for the purpose of modifying the quality and/or quantity of a natural resource.”

In delineating between natural resources and other resources, this explanation eliminates the need to determine when an intervention was made and whether the quality and/or quantity was modified as a result of the intervention.

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?

Comment:

We do not see any connections between the natural resources project and sustainability reporting

in the public sector other than the one noted by the IPSASB.

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.

Comment:

We agree.

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.

Comment:

We agree.

However, “subsoil resources” as discussed by the IPSASB in this CP are broader in scope than “mineral resources” in IFRS 6, *Exploration for and Evaluation of Mineral Resources* (“IFRS 6”). Therefore, it is necessary to consider whether IFRS 6 should be applied to subsoil resources other than mineral resources with respect to exploration and evaluation.

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.

Comment:

We agree.

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 because.

Do you agree with the IPSASB's Preliminary View?

Please provide the reasons supporting your view.

Comment:

We agree.

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.

Comment:

We agree.

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.

Comment:

We agree.

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 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.

Comment:

We agree with the IPSASB's Preliminary View except for (c). A distinction should be made between resources with service potential or the ability to generate economic benefits and merely natural phenomena.

A canal facility meets the definition of a resource because of its capacity to provide canal passage services and its ability to generate economic benefits by earning toll revenue. It also meets the requirements for being an asset: a resource presently controlled by the entity as the result of a past event, as it owns the canal as the result of constructing it. The canal facility therefore meets the definition of an asset.

On the other hand, we believe that water impounded in canals does not meet the definition of a resource because it is a natural phenomenon necessary for the operation of the canal facility and the impounded water itself does not have service potential or the ability to generate economic benefits.

Water impounded in reservoirs can be used, for example, in the production and supply of hydroelectricity power or for agricultural purposes. However, as with the canal facility and impounded water in the canal above, the hydroelectric power generation facility and the agricultural canal themselves meet the definition of an asset, but the water itself is a natural phenomenon necessary for the operation of such facility, and thus does not meet the definition of a resource.

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.

Comment:

We agree.

However, it needs to be sorted out which of the natural resources project and IPSAS 17 should include in its scope assets that are both natural resources and heritage assets (e.g. virgin forest as heritage asset).

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.

Comment:

We agree.

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.

Comment:

Currently the GPFS requires limited disclosures about natural resources that do not meet the definition of an asset. However, consideration should be given to the scope of disclosure so that it is not too broad, from the perspective of providing information useful to users of GPFS for accountability and decision-making purposes.

Disclosure of contingent assets should be within the scope consistent with IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*.

Paragraph 6.14 in this CP states:

If the existence of an item is certain, but it is not recognized because of a high level of measurement uncertainty, note disclosure of the following would also be helpful to users.

On the other hand, paragraph 105 of IPSAS 19 states:

Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles.

IPSAS 19 requires a note in the GPFS only in more limited cases than those assumed in this CP.

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.

Comment:

We agree.

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.

Comment:

In our view, the provision of the natural resources-related information proposed in Preliminary View 11 should not be mandatory.

Considering the lack of established practice of disclosure of natural resources, it would be premature to require the application of RPGs 1 to 3.

Yours sincerely,

Kaneko Yasushi

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants