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Mr. Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board (IPSASB)
International Federation of Accountants

Submitted via IPSASB website

**Re.: IPSASB Consultation Paper
Natural Resources**

Dear Mr. Carruthers,

We would like to thank you for the opportunity to provide the IPSASB with our comments on the Consultation Paper "Natural Resources" from May 2022.

You will find our detailed responses to the Preliminary Views and Specific Matters for Comment in the appendix to this letter.

We would be pleased to provide you with further information if you require any clarification about our response.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Thomas Müller-Marqués Berger'.

Thomas Müller-Marqués Berger

Page 2 of 8 to the Comment Letter to the IPSASB CP Sustainability dated 7 September 2022

Appendix:

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.

We agree with the IPSASB’s Preliminary View. However, we suggest clarifying better the concept of human intervention and the “in its natural state” condition, especially in the context of living resources (e.g., endangered species). The tension between control and human intervention should be clarified in that context. In the context of living resources, preparers may face issues in determining the unit of account. For example, in the case of a natural park that has flora and fauna, it is probably better to account for it as a whole, rather than trying to account for each plant, or each animal separately.

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?

As outlined above, we suggest clarifying better the concept of human intervention and the “in its natural state” condition, especially in the context of living resources (e.g., endangered species). We also see some overlap between the term “agricultural activity” in IPSAS 27 and the term “human intervention”. Also, the

Page 3 of 8 to the Comment Letter to the IPSASB CP Sustainability dated 7 September 2022

demonstration of control of certain natural resources, such as living resources, could be challenging for preparers.

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?

The presentation of natural resources in IPSAS financial statements (e.g., information on the physical quantities of natural resources, see para. 6.12 (b)) might also be subject to reporting on biodiversity in the context of sustainability reporting. We encourage the IPSASB to consider the implications of the accounting for natural resources to sustainability reporting in the public sector.

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.

Yes, we agree with the PV of the IPSASB.

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.

Page 4 of 8 to the Comment Letter to the IPSASB CP Sustainability dated 7 September 2022

We generally agree 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. However, we are wondering why it is referred here to IAS 38 and not to IPSAS 31.

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.

We agree that the IPSASB's Preliminary View 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.

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.

We agree with the IPSASB's preliminary view that, before consideration of existence uncertainty, an unextracted subsoil resource can meet the definition of an asset. In that context, we found the findings of the IPSASB's staff survey quite helpful regarding control of subsoil resources in the respective jurisdictions, the analysis and the resulting accounting implications.

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.

Page 5 of 8 to the Comment Letter to the IPSASB CP Sustainability dated 7 September 2022

We agree with the IPSASB's preliminary view that that existence uncertainty can prevent the recognition of unextracted subsoil resources. We were wondering whether the principle of prudence as proposed in para. 3.14A of ED 81 is a further consideration in that context. As outlined in the CP, while there are robust estimation approaches, it is highlighted that the same data sets can result in materially different estimates. Against that background, we agree that existence uncertainty can prevent the recognition of unextracted subsoil resources. However, for preparers it would be helpful to have further guidance on the level of certainty for the estimates required for the recognition of unextracted subsoil resources.

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.

Before the IPSASB can conclude on that particular issue, the IPSASB could survey those countries that are rich in subsoil resources to identify which measurement bases and techniques they use to account for those (before extraction).

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

Page 6 of 8 to the Comment Letter to the IPSASB CP Sustainability dated 7 September 2022

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

We agree with the IPSASB's Preliminary View related to the accounting for water.

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.

Please see our comments to PV 1 and SMC 1. As the term “human intervention” could be difficult to interpret in practice, we would suggest considering the existing guidance in IPSAS 12, IPSAS 17 and IPSAS 27 first. Only in case guidance on the delimitation of natural resources, agricultural assets, property, plant, and equipment and inventory is missing, then additional guidance should be added in the respective standards. We also see a need for further guidance in relation to the unit of account for living resources. Living resources could probably better be measured as a group rather than individually.

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 GPFs, 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

Page 7 of 8 to the Comment Letter to the IPSASB CP Sustainability dated 7 September 2022

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.

We agree with the IPSASB's Preliminary View related to the accounting for living resources.

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.

We agree with the IPSASB's Preliminary View.

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.

We do not agree with IPSASB's Preliminary View. Our understanding is that RPGs provide guidance on good practice. Requiring entities to apply RPGs just in the context of natural resources will raise the question why the RPGs shall not be applied to other types of assets.

We would suggest exploring the potential of sustainability reporting (using GRI or ESRS, for example, as a starting basis) in the context of natural resources.

Page 8 of 8 to the Comment Letter to the IPSASB CP Sustainability dated 7 September 2022

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.

As we do not agree with IPSASB's Preliminary View 11 we would suggest that the IPSASB considers the natural resources-related information proposed in Preliminary View 11 in its "Advancing Public Sector Sustainability Reporting" project. Applying RPGs just in the context of natural resources will raise the question why the RPGs shall not be applied to other types of assets.