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The International Public Sector Accounting Standards Board

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Submission via website

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Dear Ross

COMMENTS ON CONSULTATION PAPER ON *NATURAL RESOURCES*

We thank you for the opportunity to provide comments on the Consultation Paper (CP).

The comments outlined in this response have been developed by the Secretariat of the ASB and not the Board.

We acknowledge the IPSASB's project to explore the need for guidance on accounting for natural resources that have not been subjected to human intervention. Based on the scope of this CP, we are of the view that these resources will be recognised in limited circumstances in the financial statements. We have noted that there is a prominent link to the wider reporting of natural resources in general purpose financial reports (GPFRs) using the Recommended Practice Guidelines (RPGs) and potential future guidance on sustainability reporting. We also acknowledge the work that has commenced by the International Sustainability Standards Board (ISSB) on the development of general sustainability-related and climate-related disclosures.

In light of these developments, we question the IPSASB's urgency to continue with the development of guidance on natural resources, as in our view, this project may have been superseded by other developments. Specifically, it is unclear how this project links to the development of guidance on sustainability reporting, and the long-term project to develop sustainability reporting standards. In our view, this linkage should be clarified going forward.

As good work has been done on this project so far on defining natural resources, when or how they could be controlled, and potential measurement issues, the IPSASB's stakeholders could benefit from a summarised version of this document. We recommend that the IPSASB should consider issuing such a summary.

The IPSASB should consider how respondents' views to the matters posed in this CP, for example those relating to the measurement of the natural resources based on available

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measurement techniques, may change based on comment received on other Exposure Drafts (ED), such as the Measurement ED.

Despite our overall view on the continuation, and/or future direction of this project, our specific comments on the preliminary views and matters for comment in the CP are outlined in Annexure A.

Should you have any questions regarding the comments outlined in our letter, please feel free to contact me.

Your sincerely

A handwritten signature in black ink, appearing to read "Poggiolini". The signature is written in a cursive, flowing style with some loops and flourishes.

Jeanine Poggiolini
Chief Executive Officer

PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT**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 support the general description of a natural resource, including the requirement to be in its natural state.

This description should be used to identify what is considered a natural resource within the scope of this project. However, irrespective of how the project will progress, i.e., whether guidance will be issued in a new standalone IPSAS, or whether guidance will be included in existing IPSAS, the application of unit of account to a natural resource should be clarified (refer to our response to Preliminary View 2 Chapter 2).

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?

We do foresee challenges in practice to consistently assess when human intervention has taken place.

"Human intervention" is the criterion used to conclude whether a resource is naturally occurring and within its natural state, and whether it is within the scope of an existing IPSAS. There is a narrow line between actions that are considered human intervention and those that are not. As noted in paragraph 1.9, actions that are considered human intervention vary for each of the natural resources within the scope of the CP. This distinction is subject to a high degree of judgement.

To ensure comparability in accounting for similar natural resources, clear guidance should be provided on when "human intervention" has taken place and at what point "human intervention" modifies the quantity and/or quality of the natural resources. The guidance should also clarify that the "human intervention" should be "significant".

As noted in paragraph 1.8, activities to preserve or conserve natural resources may, or may not be considered human intervention. Guidance is needed to ensure the consistent application of when "significant human intervention" has taken place, including guidance on

how to conclude when there is uncertainty as to whether the quantity and/or quality of the natural resource has been modified.

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 conservation and preservation of natural resources are another connection between this project and sustainability reporting in the public sector.

However, we are of the view that a number of other interventions by both the IPSASB and ISSB have superseded the need for specific guidance on natural resources that have not been subject to “human intervention” i.e. those resources within the scope of this project.

Based on the conclusions in the CP, the outcome of this project will result in limited recognition of natural resources due to the uncertainty (a) over the existence of the resource, and (b) whether the resource can be measured in a way that achieves the qualitative characteristics and take account of constraints on information in GPFRs. We therefore question the IPSASB’s need to continue with the development of specific guidance for these natural resources.

The CP and the related research provide good insight into the accounting, and presentation and reporting considerations in GPFRs. We therefore recommend that a Staff Paper be published on the topic to encourage reporting on natural resources as part of broader financial reporting.

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 support the preliminary view.

As noted in our response to Preliminary view 1 Chapter 1, any guidance to be developed by the IPSASB should also address the application of unit of account to natural resources recognised in the financial statements, as this may impact an entity’s assessment of whether the definition of an asset has been met.

For example, does the unit of account comprise a park, including the fauna and flora, or is the animal and plant life seen as a separate unit of account for purposes of assessing control?

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.

We support the preliminary view that guidance on exploration and evaluation expenditures should be provided, but this guidance should only be developed after the International Accounting Standards Board (IASB) has completed its project on IFRS 6. Also, as IPSAS 31 includes similar guidance on development costs than IAS 38, entities should apply the guidance in IPSAS 31.

The IASB commenced with a project to consider whether IFRS 6 should be replaced. IFRS 6 provides guidance on accounting for costs incurred for exploration, and evaluation of mineral resources, as well as for costs incurred in determining the technical feasibility and commercial viability of extracting mineral resources. If the IPSASB intends to converge with IFRS 6 in developing public sector guidance, we recommend that the IASB project should first be completed rather than the IPSASB using the current guidance in IFRS 6.

The application of IFRS 6 by public sector entities could be limited. We propose that, as an alternative to developing public sector specific guidance, entities can apply the hierarchy in IPSAS 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* to consider IFRS 6 in developing an accounting policy when they are involved in exploration activities.

On the application of IAS 38, we are of the view that the guidance in IPSAS 31 should be applied rather than to include a reference to IAS 38.

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 do not support the preliminary view that these existing IPSAS should be supplemented with guidance from IFRIC 20.

Our reason for this view is twofold. Firstly, the IPSASB has not yet developed a strategy to deal with IFRICs in IPSAS guidance, and secondly, IFRIC 20 provides rules-based guidance to one particular type of mining activity.

We also question the applicability of the guidance to public sector entities. From a local perspective, public sector entities are not involved in mining activities. Again, entities can apply the hierarchy in IPSAS 3 to consider IFRIC 20 if they need to develop an accounting policy to account for overburden waste removal (stripping) costs in the production phase of a 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 are of the view that there are various scenarios that should be considered in concluding if a subsoil resource can meet the definition of an asset before consideration of existence uncertainty. Furthermore, existence uncertainty depends on the unit of account.

Scenario 1: Existence of a right to subsoil resources

Where legislation grants government a “right to all subsoil resources on land”, the subsoil resources will not meet the criteria to be recognised as an asset. For an asset to exist, an entity must demonstrate control. Paragraph 2.6 in the CP notes that for control to exist, the following indicators may be considered:

- (a) legal ownership;
- (b) access to the resource of the ability to deny or restrict access to the resource;
- (c) the means to ensure that the resource is used to achieve its objectives; or
- (d) the existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

After considering these indicators, it is unlikely that government can demonstrate that it controls the subsoil resources where it is merely granted a right over subsoil resources. Furthermore, there is also uncertainty about (a) where the subsoil resources are located; and (b) the quantity and/or quality of the subsoil resources that exist.

In this scenario, even before considering measurement uncertainty, the definition of an asset will not be met.

Scenario 2: An entity controls land which may or may not include subsoil resources

Where an entity demonstrates control over land, it will recognise the land as an asset in its financial statements. Without undertaking any kind of exploration, and without knowing that the land contains subsoil resources, the entity will be able to measure the land. Thus, before considering measurement uncertainty, the definition of an asset – for the land – can be met, but not for the subsoil resources on the land (if any).

Scenario 3: An entity controls land and has undertaken exploration to identify subsoil resources

Measurement uncertainty of a subsoil resource is considered where an entity has undertaken exploration activities and concludes that the land contains subsoil resources. Existence uncertainty is the uncertainty over whether (a) a resource presently exists, (b) the entity controls the resource, and (c) there is a past event which resulted in control (as per paragraph 1.17 of this CP).

For the subsoil resources to meet the definition of an asset, an entity needs to demonstrate that control presently exists over a resource as a result of a past event. The Conceptual Framework notes that control of a resource is the ability to use the resource (or direct other parties on its use) to derive benefits of the service potential or economic benefits embodied in the resource.

Without assessing the subsoil resource (through, for example, exploration), an entity will not be able to demonstrate that a resource exists from which it can derive benefits. Therefore, without there being certainty about the existence of the subsoil resource, the definition of an asset is not met.

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 support the preliminary view. However, based on our response to Preliminary view 5 chapter 3, the point of existence uncertainty may vary depending on how much information is available to an entity about the quality and/or quantity of the subsoil resource.

Until the subsoil resources are extracted, there will be uncertainty over the quantity (if any) of the resources in any given location. This uncertainty impacts the recognition and measurement of unextracted 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.

We support the preliminary view, with reference to our response to Preliminary view 6 Chapter 3.

Even though various models and techniques can be applied to measure a subsoil resource, we are of the view that these measurement methods are not useful for GPFRs. The IPSASB should monitor any new developments in this area for future guidance.

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 GPFRs; 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 support the preliminary views that:

- (a) it would be difficult to recognise water in seas, rivers, streams, lakes, or certain groundwater aquifers as it is unlikely that the definition of an asset will be met;**
- (b) water impounded in reservoirs, canals, and certain groundwater aquifers can meet the definition of an asset if they are controlled by an entity, and these water resources can be recognised and measured; and**
- (c) where the financial capacity or operational capacity of a water resource cannot be reliably measured, it cannot be recognised as an asset.**

However, we are of the view that it will be practically challenging for an entity to demonstrate the point at which it controls the water resource based on human intervention.

There seems to be inconsistency in the CP on how human intervention is applied to the various types of natural resources. For example, when subsoil resources are extracted, they are within the scope of either inventory or property, plant and equipment. On the other hand, this chapter explains that if water is moved from one location to the next, for example when extracted from a river into an artificial dam, it is in the scope of this CP. This is because no modification has been made to the water's quality and/or quantity. However, some entities may already be accounting for the extracted water as inventory or property, plant and equipment, similar to how they account for extracted subsoil resources.

This inconsistency in applying the principle of "human intervention" may result in inconsistent accounting for similar resources held under similar circumstances. Clear guidance should be provided on what is meant with "human intervention", and the principle should be applied consistently to all natural resources.

Furthermore, the proposal on when the past event occurs for controlling water also appears inconsistent with that applied to subsoil resources. The example in paragraph 3.25 explains that ownership of land also confers ownership of any subsoil resources within the land. A similar conclusion is not reached for underground water resources in chapter 4. Where an entity controls land with underground water resources, ownership of the land will include ownership of the water resource. There should be consistency when concluding on the various natural resources within the scope of this CP.

We also do not agree with the principles in paragraph 4.20(a). This paragraph concludes that a past event may occur through legislation, government policy or similar that allows an entity to erect human-made structures to impound water in reservoirs or canals. In our view, the past event giving rise to control over the water resources will only occur when such structures are erected and utilised to store water resources.

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.

We agree that living organisms that are subject to human intervention are not within the scope of the CP and are in the scope of existing IPSAS.

A flow diagram will be helpful to determine which IPSAS applies to a natural resource that is not in the scope of this CP. Furthermore, guidance on the application of the unit of account for living resources in the scope of other IPSAS needs to be provided.

We question the treatment of expenditures for activities relating to living organisms that are not recognised in the financial statements (paragraph 5.16). Paragraph 5.17 concludes that such expenditure should be accounted for as an asset and that these expenditures are unaffected by whether the underlying living organism was recognised as an asset. We question this principle as it is inconsistent with the recognition principle in other asset related standards. In our view, capitalising expenses when the underlying asset has not been recognised does not meet the qualitative characteristics in the IPSAS Conceptual Framework as only part of the cost will be reflected as an asset in the statement of financial position. In our view, all expenses incurred for assets not recognised should be expensed.

Preliminary View 9 – Chapter 5

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.

We support the preliminary view.

We acknowledge that the guidance to be developed on the measurement of living resources will need to be aligned with the revised principles in the ED on *Measurement*.

As noted in our response to Preliminary View 2, specific guidance on applying the unit of account to living resources that fall within the scope of the CP should also be developed.

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 support the preliminary view that certain information conventionally disclosed in GPFS should be presented for natural resources.

We note that some of these disclosures are already required in other IPSAS, for example information on related parties, controlled entities, and interests in other entities (paragraph 6.8(a)). This observation is similar for the disclosures in paragraph 6.11.

We question the requirement to include disclosures for natural resources that do not meet the definition of an element (paragraph 6.9 bullet 4). IPSAS 31.127(b) is an encouraged disclosure for intangible assets controlled, but not measured, and for heritage property, plant and equipment that are controlled but not recognised, entities are not required to present information about assets that do not meet the definition of an element, or the recognition criteria. There seems to be inconsistency across the IPSAS to present information about assets that are not measured and/or does not meet the recognition criteria. In our view, the IPSASB should debate this issue at a principle level to ensure that it is applied consistently across the Standards.

Furthermore, we question how the disclosure of natural resources that do not meet the definition of an element will be useful to users in the financial statements for accountability and decision-making purposes. Furthermore, it is unclear if this disclosure will only apply to the natural resources controlled by an entity, or if it will be applied in other circumstances. This information could rather be considered as part of reporting on the entity's sustainability.

We question the proposal that requires the disclosure of physical quantities, the methodology used to estimate these quantities (paragraph 6.12(c)), and the disclosures relating to existence uncertainty (paragraph 6.14). Again, we question the relevance of this information in the financial statements for accountability and decision-making purposes. We note that similar information about quantities of assets is not required in other asset-related Standards. Again, this information can rather be considered as part of reporting on the entity's sustainability.

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 support the preliminary view that information on an entity's long-term financial sustainability, financial statement discussion and analysis, and service performance reporting is relevant to natural resources.

However, as the link between these RPGs and the IPSASB's project on sustainability reporting is still unclear, we recommend that the application of the RPGs to natural resources should only be considered when the strategic decision about sustainability reporting has been agreed.

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 GPFs, 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.

Providing natural resources-related information should not be mandatory.

It is unclear how the disclosures can be mandatory only for natural resources but encouraged for other types of resources controlled by the entity.

If these disclosures are mandatory for natural resources, it will be unclear what the boundary is to prepare financial statements in order to assert compliance with IPSAS. Also, we question what the audit impact will be when the disclosures are provided outside the financial statements. We therefore do not support mandatory disclosure for natural resources.