



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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October 17, 2022

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on Consultation Paper on 'Natural Resources'

We are pleased to provide comments on the Consultation Paper on '*Natural Resources*' issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments on the Consultation Paper are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

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Consultation Paper (CP) on Natural Resources

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.

ICAI's views:

IPSASB needs to consider the definition of natural resources prescribed in OECD Glossary of Statistical Terms (available at <https://stats.oecd.org/glossary/index.htm>) that is as follows:

"Natural resources are natural assets (raw materials) occurring in nature that can be used for economic production or consumption."

It may be considered to modify the existing definition of natural resources after appropriate modification in the context of public sector, e.g., concept of service potential.

IPSASB needs to reconsider the specific requirement of "is in its natural state" (i.e., not subject to human intervention) in order to satisfy the definition of natural resources. The said term may be considered to be modified as "not in a state arrived at after human intervention" or other similar term as the existing term is vague that might lead to scoping out of several natural resources from the scope of the Standard and that may lead to adoption of varied practices in different jurisdictions.

Apart from this, para 1.6 of this CP prescribes that if a natural resource is not capable of generating economic benefits and/or have service potential for the reporting entity, it is outside the scope of this project. Such aspect may be considered to be covered appropriately in the definition of natural resources itself.

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?



ICAI's views:

Please refer our response to Preliminary View 1 – Chapter 1

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?

ICAI's views:

We agree with the IPSASB's view that there is connection between the project of accounting and sustainability reporting of natural resources, therefore, the required research work can be carried out for both projects simultaneously.

The focus/ perspective of both projects is somehow linked, i.e., first one is focused on accounting and general purpose financial reporting of natural resources and the latter is focused on reporting on their sustainable use (i.e., information arrived at based on financial reporting Standards) to prioritise regeneration in the public sector that is a way to achieve the United Nations Sustainable Development Goals (SDGs) 2030.

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 GPFs.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

ICAI's views:

We agree with the IPSASB's view as it is in accordance with the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

If anything else is considered important and reportable (though not meeting the criteria of recognition and measurement of natural resources/asset for the time being), the same may be covered appropriately in notes.

Preliminary View 3 – Chapter 3

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

ICAI's views:

Although we agree with the IPSASB's view that the accounting guidance on exploration and evaluation expenditure should be provided based on the guidance of IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and IAS 38, *Intangible Assets* but we have concern that the subsoil resources after extraction do not meet the definition of natural resources as prescribed in this CP as natural resources obtained after processing of subsoil resources such as minerals obtained after extraction are subject to human intervention that does not satisfy the requirement of "to be in its natural state" as prescribed in definition of natural resources.

Further, it is mentioned in the para 1.9 of this CP that the financial reporting guidance for a naturally occurring item that is no longer in its natural state may be provided in another IPSASB pronouncement. Accordingly, it is suggested that the separate guidance should be issued on this aspect of 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.

ICAI's views:

Although we agree with the IPSASB's view that the already issued IPSASs (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* in the absence of public sector-specific reason to depart from the private sector, the existing IPSASs guidance may be considered to be revised appropriately to include specific provisions in this regard.

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.

ICAI's views:

We agree with the IPSASB's view that an unextracted subsoil resource can meet the definition of an asset before consideration of existence uncertainty. But for this purpose, it needs to be assessed carefully whether the Government controls the subsoil resources.

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.

ICAI's views:

We agree with the IPSASB's view that the recognition of unextracted subsoil resources can be prevented by the existence uncertainty, i.e., uncertainty over the quantities of subsoil resources at a given location until a subsoil resource is extracted. The existence uncertainty will not only impact the recognition of unextracted subsoil resources but also impact measurement uncertainty in the absence of information about the quantities of 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 GPFRSs may not be feasible due to 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.

ICAI's views:

We agree with the IPSASB's view that the recognition of subsoil resources as assets will be challenging due to presence of measurement uncertainty. The criterion for recognition of asset in the financial statement is that these resources must be reliably measurable in addition to satisfying the definition of an asset.

The estimation of the quantities of subsoil resources is one of the important factors for determination of the value of subsoil resources that is subject to a high degree of uncertainty.



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) When 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 resources cannot be recognized as an asset in the GPFS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide the reasons supporting your view.

ICAI's views:

We agree with the IPSASB's view mentioned in points (a) to (d).

With regard to point (a), it is to mention that water in seas, rivers, streams, lakes or certain groundwater aquifers do not meet the definition of assets and it is unlikely to demonstrate control over these water resources by an entity. (para 4.16) Therefore, it would be difficult to recognise such resources as an asset.

With regard to points (b) – (c), it is to mention that water impounded in reservoirs, canals, and certain groundwater aquifers can meet the definition of asset when an entity can demonstrate control over these resources (if their volumes are actively managed and access is restricted) and it can be reliably measured.

With regard to point (d), it is to mention that the water resources must be "*measurable in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs*" in order to meet the definition of an asset. The recognition criteria of asset will not be met if these resources cannot 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 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 those items necessary?



If not, please explain the reasons for your view.

ICAI's views:

We agree that there is sufficient guidance available in IPSAS 12, IPSAS 17, or IPSAS 27 for living organisms that are subject to human intervention and that they are not living resources within the scope of this CP.

Preliminary View 9 – Chapter 5

Based on the discussion 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 judgement 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.

ICAI's views:

We agree with the IPSASB's view mentioned in points (a) - (c). It is to mention that the living resources held for financial capacity/ with operational capacity can be recognised as an asset only if it meets the asset recognition criteria as mentioned in para 5.18, i.e., satisfy the definition of asset and reliably measurable.

Para 5.36 also states that the measurement of living resources held for financial capacity is possible. However, the measurement of living resources with operational capacity may be more difficult or not possible. The said factor would affect the asset recognition criteria, hence, may lead to non-recognition of these resources as an asset.

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.

ICAI's views:

We agree with the IPSASB's view certain information conventionally disclosed in GPFS should be presented in relation to natural resources.

Although at present no specific IPSAS addresses the accounting of natural resources but if the accounting for an activity related to natural resources falls within the scope of an existing IPSAS, additional disclosures should also be made as per the requirement of that specific IPSAS (i.e., IPSAS 12/17/27/31). In addition, as per already issued IPSAS 1, '*Presentation of Financial Statements*', public sector entities are also required to disclose the information on key sources of estimation uncertainty including their nature and effect of the same on the material carrying amount of assets.

The proposed guidance would cover the disclosure requirements in respect of natural resource that specifically meet the definition of national resources as prescribed in this CP.

It is suggested that, in addition to disclosure of natural resources that are recognised as per this CP, the disclosure requirement should also be mandated for certain natural resources that do not meet the recognition criteria of asset (e.g., in case these resources cannot be reliably measured). The disclosure of certain non-financial information (such as physical data of resources) regarding these unrecognised natural resources (that may be controlled and exist with reasonable certainty and these resources are relevant to the service objectives of the reporting entity) could be useful for the users of the GPFRSs.

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.

ICAI's views:

In continuation to our response to Preliminary View 10 – Chapter 6, we agree with the IPSASB's view of presenting certain information in relation to recognised or unrecognised natural resources that are relevant to an entity's long-term financial sustainability, financial statement discussion and analysis, and service performance reporting.

It is suggested that the aforesaid disclosures should be made mandatory.



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.

ICAI's views:

Similar to our response to Preliminary View 11 – Chapter 6, it is suggested that the provision of disclosure of natural resources-related information should be made mandatory. Making such disclosures optional by prescribing them in RPGs (i.e., an optional guidance) would not serve the purpose.