



Treasury

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Mr Edwin Ng
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CANADA

Dear Edwin

IPSASB Consultation Paper, Natural Resources

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the IPSASB consultation paper on natural resources. HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC generally supports the proposals in the consultation paper. HoTARAC notes the consultation paper mostly reiterates existing principles and uses these as a foundation for effective guidance on natural resources in the public sector. HoTARAC suggests the IPSASB further considers the application of qualitative characteristics to disclosures and the role of human intervention in asset recognition.

HoTARAC draws out the link to sustainability reporting in a number of its responses to the Matters for Comment and Preliminary Views and has attached a copy of our submission to Australian Accounting Standards Board on ED 321 Comment on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures for the IPSASB's information.

If you require any further information or explanations, please in the first instance contact Peter Gibson of the Australian Government Department of Finance at peter.gibson@finance.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stewart Walters', with a long horizontal flourish extending to the right.

Stewart Walters
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee
17 October 2022

Request for Comment on IPSASB Consultation Paper *Natural Resources*

HoTARAC Response

Preliminary View 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.

- HoTARAC agrees. However, HoTARAC notes that specific definitions of human intervention have been developed for different resources:
 - “modifying the resource’s natural biological transformation” for living resources. Under this definition, fences to house animals or a path in the natural reserve may not be considered to be human intervention; and
 - “stops or interferes with the natural water cycle or changes or modifies the quantity or quality of water from its natural condition” for water resources. Under this definition, water in the reservoirs would still be considered to be in its natural state.

HoTARAC recommends combining these into a general definition for all natural resources. HoTARAC suggests exploring whether a substantive *vs* protective assessment can help with respect to human intervention. Protective actions may not necessarily taint the natural resources whereas substantive human action may mean the resource is no longer in its natural state.

- HoTARAC further notes that relatively few resources are discussed in the current Consultation Paper (CP) (i.e., subsoil resources, water and living organisms). HoTARAC acknowledges the focus of the CP is tangible natural resources to allow completion of this phase in a timely way. HoTARAC suggests formally including consideration of intangible assets in forward work program.

Specific Matter for Comment 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 (paragraph 1.8).

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?

- HoTARAC foresees challenges in practice in differentiating between natural resources and other resources subject to human intervention. Specifically, HoTARAC considers it unclear what constitutes human intervention over time. For example, the CP gives the example of “active breeding and rearing of an endangered species”, which is considered as human intervention. However, if human assistance for breeding activities stops in the second year, it is not clear whether these resources would then

need to be reclassified as natural resources, resulting in inconsistency in asset recognition over time.

- HoTARAC recommends setting clear boundaries on what constitutes human intervention. HoTARAC suggests the distinction between other resources and natural resources should require human intervention to be ongoing. Consequently, temporary, short-term assistance would not be considered as human intervention. HoTARAC notes this will require the exercise of judgement by preparers and, if the IPSASB agrees to this suggestion, recommends including application guidance to reduce diversity in practice.

Specific Matter for Comment 2:

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 the project on 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?

- HoTARAC notices the connections between the project on accounting for natural resources and the project on sustainability reporting. In HoTARAC's view, accounting for natural resources outlines what natural resources are, while sustainability reporting outlines how they are being managed.
- Natural resources can help underpin the strategies employed in sustainability reporting. For example, if forests account for a large proportion of natural resources for an entity, the entity may focus their sustainability strategies on protecting the forests.
- The public sector can also use their natural resources to fulfil their sustainable strategies in their sustainability report. For example, they can rely on their forests to control carbon dioxide and greenhouse gas emissions.
- Entity strategies employed in the sustainability reporting may also affect the natural resources. For example, use of sustainable hydro-electric energy generated through a dam, may adversely affect marine life.
- This project focuses only on a subset of natural resources (i.e. those in their natural state without human intervention). However, the topic of sustainability reporting is much broader as the focus of sustainability reporting is not only limited to resources in their natural state without human intervention.
- IPSASB should take into account the embryonic nature of the proposed approach to sustainability reporting and proceed carefully.

Preliminary View 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.

- HoTARAC agrees. However, it may not be clear who controls the resource for asset recognition purposes. For example, both the owners and lessee of the natural resources can generate economic benefits.
- Control is not always clear for resources owned by Government. For example, Australia recognises indigenous native title rights for continuous connection to land that precedes European settlement. These rights co-exist with other interests in the land and may encompass traditional indigenous practices, such as hunting and camping, but would not usually restrict others' access to the land. Native title rights typically apply to public land owned by governments and are rarely enforceable over private property. It is often unclear the extent to which these rights are legally enforceable or constitute control. While governments have legal ownership of natural resources, indigenous people may generate economic benefits through exercise of their native title rights. Consequently, it is not always clear who should recognize the natural resources as an asset.
- HoTARAC recommends the IPSASB considers similar guidance on control addressed in IPSAS 13 *Leases* and IPSAS 37 *Joint Arrangements*.
- HoTARAC also suggests the IPSASB consider existing practice in respect to recognition of natural resources by jurisdictions that apply accrual accounting standards to the public sector, such as Australia. The IPSASB can then use this as a basis for improving current practice in a logical manner.

Preliminary View 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.

- HoTARAC agrees as this can enhance consistency between financial reporting standards. However, we acknowledge that IFRS 6 was issued as a short-term/interim standard and IPSASB should consider IASB's ongoing/research guidance in this area.

Preliminary View 4:

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.

- HoTARAC broadly agrees. Currently, private sector accounts for costs incurred to remove surface materials under IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*. Public sector entities should apply the same standard as this can enhance consistency between financial reporting in public sector and private sector. However, HoTARAC recommends resolving the broad conceptual issues before considering specific accounting treatments.

Preliminary View 5:

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.

- HoTARAC agrees. Subsoil resources can generate economic benefits through sale or have service potential (e.g., using coal to generate electric power). If the subsoil resources are controlled by the government and the control resulted from a past event (e.g., legislation or government policies), the subsoil resources could be recognized as assets.

Preliminary View 6:

The IPSASB's preliminary view is that existence uncertainty can prevent the recognition of unextracted subsoil resource.

Do you agree with the IPSASB's Preliminary View?

Please provide the reasons supporting your view.

- HoTARAC agrees. Most of the subsoil resources in their natural state cannot be observed by conventional means. This could result in high uncertainty over the quantity of subsoil resources and whether an entity can feasibly access and extract the subsoil resources. Thus, these subsoil resources may not be able to generate economic benefits and/or may not be under the control of an entity.

Preliminary View 7:

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.

- HoTARAC agrees. The quantities of subsoil resources can be subject to high uncertainty until they are ultimately extracted. For example, different specialists using different geological models, may come up with different estimates of quantity using the same set of data.

- Further, HoTARAC’s view is that the disclosure of the estimates could be problematic. If the disclosure is required, we recommend that it should be a general description of the assets only.

Preliminary View 8:

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.

- HoTARAC agrees. HoTARAC notes that in some circumstances freely flowing groundwater can generate economic benefits and is controlled by an entity. For example, water from a spring may be controlled by drinking water companies to provide potable water.

Specific Matter for Comment 3:

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.

- HoTARAC notes that the guidance in IPSAS 12, IPSAS 17, or IPSAS 27 may not be sufficient to apply to all kinds of human intervention.
- Specifically, under this CP and existing IPSASs, it is unclear how to account for living organisms subject to indirect human intervention. For example, a jurisdiction introduces foxes to control the quantities of rabbits. Foxes may also eat other native

animals in addition to rabbits, affecting the quantities of both rabbits and other living organisms.

- HoTARAC suggests clarifying the definitions of direct and indirect human intervention in these IPSASs.

Preliminary View 9:

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 account of the constraints on information in the GPFs, 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 GPFs 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.

- HoTARAC agrees.

Preliminary View 10:

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.

- HoTARAC broadly agrees. However, HoTARAC considers the proposal vague and recommends specifying what consists "certain information" mentioned in Preliminary View 10. HoTARAC recommends applying the qualitative characteristic (i.e., relevance, faithful representation, understandability, timeliness, comparability and verifiability) to the disclosures of natural resources' quantity and value in the GPFS.

- HoTARAC recommends the IPSASB review the disclosures proposed in paragraphs 6.10-6.15. Public sector entities may have significant and diverse holdings of natural resources and should not be required to make voluminous disclosures unless these are critical to users' understanding of financial statements.

Preliminary View 11:

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.

- HoTARAC agrees in principle. However, further work is required to ensure that information:
 - a) meets the qualitative characteristics;
 - b) compilation does not require excessive costs, uncertainties or limitations;
 - c) requirements are coordinated with sustainability standards, and not be introduced until this is done;
 - d) takes account of any limitations or difficulties in providing assurance.

Specific Matter for Comment 4:

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 needed 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.

- HoTARAC does not think the provision of the natural resources-related information should be mandatory. The cost of disclosures could be large, especially for under-resourced small countries. It may be necessary to set a cap on these disclosures.