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RE: CONSULTATION PAPER – NATURAL RESOURCES

Thank you for the opportunity to provide our comments on the International Public Sector Accounting Board's (IPSAB) Consultation Paper regarding natural resources. We are excited by IPSASB's sustained efforts to develop comprehensive guidance on natural resources, aligned with rigorous sustainability reporting standards for the public sector. We are concerned by the widespread inconsistency in existing natural resource reporting as certain governments choosing to advance their own disclosures while standards are developed.

Our response to your specific matters for comment on this Consultation Paper are outlined below. We are generally supportive of the Board's preliminary views, and look forward to supporting the IPSAS's efforts regarding the development of natural resources reporting guidance.

I would welcome the opportunity to discuss our views with you at any time.

Best regards,

A handwritten signature in black ink, appearing to read 'Bailey Church', written in a cursive style.

Bailey Church, CPA, CA, CIA
Chair, Global International Public Sector Accounting Standards Working Group
KPMG LLP



Chapter 1

- 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 regarding the description of a resource in the Conceptual Framework (and the linkage to service potential), and the requirement that it be naturally occurring. We have concerns, however, with the requirement for a natural resource to be "in its natural state". As noted in 1.8, "To be in its natural state, a natural resource must not have been subjected to human intervention." A significant degree of professional judgement is required to determine whether a particular activity to preserve or conserve a natural resource may constitute human intervention. In practice, natural resources which have service potential and provide future economic benefit are frequently subject to some degree of human intervention. The practice of high-integrity human intervention in ecosystems has been demonstrated to enhance the resilience of the ecosystem, and its long-term service potential. We request that IPSASB either remove the requirement that a natural resource be in its natural state, or provide additional clarity to inform the application of professional judgment on its application.

- 2. 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 noted above, we have significant concerns with the requirement that a natural resource be in its natural state to fall within scope of this standard. Research has demonstrated that a certain degree of human intervention is necessary for the optimal functioning and health of certain natural resources. We also question the practicality for governments of demonstrating that a certain natural resource has not been subjected to human intervention over time. We request that IPSASB either remove the requirement that a natural resource be in its natural state, or provide additional clarity to inform the application of professional judgment on its application. Rather than incorporate human intervention into the scope of natural resources falling under this standard, we would suggest that it be factored into measurement and valuation approaches.

- 3. 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?**

We support IPSASB's view that the natural resources project and sustainability reporting are inextricably linked. The Board should also ensure that the principles of disclosure for natural resources and sustainability reporting remain compatible and, to the degree possible, consistent.

Chapter 2

- 4. 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 concur with the IPSASB's preliminary view on this matter, with the exception of the concerns on the demonstration of control. As stated in paragraph 5.6 of IPSASB's Conceptual Framework, "... an asset as a resource presently controlled by the entity as the result of a past event." For certain natural resources, we believe it would be more appropriate to emphasize "the ability to control", rather than "presently controlled". For example, governments may have certain rights that can be exercised which would demonstrate present control of a natural resource through legislation or acts. The government may not have exercised those rights as of the financial reporting date. We would also note that the indicators of control are frequently very subjective, and difficult to demonstrate for certain natural resources. As a result, we believe the criteria for control should be amended to emphasize "ability to control".

Chapter 3

- 5. 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?**

Yes, we support the IPSASB's preliminary view on this matter. The guidance in IFRS 6, Exploration for and Evaluation of Mineral Resources, and IAS 38, Intangible Assets would be conceptually consistent with exploration and evaluation expenditures, and development costs for natural resources.

- 6. 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?**

Yes, we support the IPSASB's preliminary view.

- 7. 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?**

Yes, we support IPSASB's preliminary view that unextracted subsoil resource can meet the definition of an asset.

- 8. 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.**

Yes, we agree with IPSASB's preliminary view on this matter.

- 9. 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 GPFRs will be challenging. Do you agree with the IPSASB's Preliminary View? If not, please provide the reasons supporting your view.**



Yes, we agree with IPSASB's preliminary view. We would note, however, that as science and measurement techniques improve, this measurement uncertainty may eventually be able to be reduced to an acceptable level to permit recognition as an asset. In the interim, we strongly support the presentation of information regarding subsoil resources via disclosure and encourage IPSASB to develop guidance that will enable consistency of disclosure practices across governments.

Chapter 4

- 10. 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.**

Yes, we agree with the IPSASB's preliminary view. We encourage IPSASB to provide more guidance on disclosures of water resources not recognized as an asset, to support consistency across governments.

Chapter 5

- 11. 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.**

Yes, we agree with the IPSASB's preliminary view that guidance on the accounting treatment of living organisms subject to human intervention in IPSAS 12, IPSAS 17, or IPSAS 27 is sufficient. The decision tree on page 43 of the CP is very clear and comprehensive regarding how governments should navigate this guidance.

- 12. 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.

Yes, we agree with the IPSASB's preliminary view. We support the development of disclosure guidance for living resources not recognized as assets to support consistent application across governments.

Chapter 6

13. 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.

Yes, we agree with IPSASB's preliminary view. In particular, we support the view that entities should be required to disclose information that enables financial statement users to evaluate the effects of natural resource assets on financial position, financial performance and cash flows, and the nature of risks and opportunities associated with natural resource assets. We also support the proposed disclosures for unrecognized items with a high degree of measurement uncertainty.

14. 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.

Yes, we agree with IPSASB's view regarding the recommended disclosures for recognized and unrecognized natural resources.

15. 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.

We are of the view that the provision of the natural resources-related information proposed in Preliminary View 11 should be mandatory. In the absence of mandatory disclosures, many governments will not provide the recommended information, and widespread inconsistency will continue. We recognize the very real challenges that governments will have in reporting this information, and would suggest that IPSASB consider a short, optional disclosure period. After a defined duration of optional disclosures (no more than three years from initial effective date), the recommended reporting should become mandatory.