

Meeting: International Public Sector Accounting Standards Board

Meeting Location: New York, USA

Meeting Date: March 10–13, 2020

Agenda Item 10

For:

Approval

Discussion

Information

NATURAL RESOURCES

Project summary	The objective of the Natural Resources project is to research and address issues relating to the potential recognition and measurement of natural resources.	
Meeting objectives	Topic	Agenda Item
Project management	Natural Resources: Project Roadmap	10.1.1
	Instructions up to Previous Meeting	10.1.2
	Decisions up to Previous Meeting	10.1.3
Decisions required at this meeting	Approval of the Natural Resources Project Brief	10.2.1
Other supporting items	Natural Resources – Project Brief and Outline	10.3.1

**NATURAL RESOURCES:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2020	1. Approval of Natural Resources project brief
March 2021	1. Development of broad Consultation Paper (CP)
June 2021	1. Approval of CP
December 2021	1. CP comment period
September 2022	1. Development of Exposure Draft (ED) – Phase 1: Subsoil Resources
December 2022	1. Approval of Phase 1 ED
June 2023	1. Phase 1 ED comment period
December 2023	1. Review of responses to Phase 1 ED
March 2024	1. Approval of Phase 1 Final Standard: Subsoil Resources

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
March 2020	1. (None—project brief to be presented for approval at this meeting.)	1. N/A

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
N/A	1. (None—project brief to be presented for approval at this meeting.)	1. N/A

Approval of the Natural Resources Project Brief

Question

1. The IPSASB is asked to approve the project brief for Natural Resources.

Detail

2. At the September 2018 meeting, the IPSASB decided to add “Natural Resources” to the list of new public sector specific projects in the 2019-2023 work program.
3. The Staff developed the draft project brief for the Natural Resources project (see [Agenda Item 10.3.1](#)) with input from the Natural Resources Task Force (the Task Force), and the Task Force has approved the submission of the project brief to the IPSASB for approval.
4. The IPSASB is asked to review the attached document. In particular, the Staff would like to highlight the following sections for the IPSASB:
 - (a) Based on feedback from the CAG and consultations at the Public Sector Standards Setters Forum, and regional roundtables, the Staff proposes to use a phased project approach to better manage the project. This approach is discussed in detail in paragraphs 5.3-5.5 and 7.1 of the project brief;
 - (b) Since the initial discussion of natural resources at the June 2019 CAG meeting, a number of constituents have raised the issue of disclosures relating to the impact of climate change and other risks that could potentially relate to natural resources. The Staff is of the view that such disclosures may be captured by the broad disclosures such as those discussed in Recommended Practice Guidance (RPG) 1 and RPG 2. This is discussed in paragraph 5.12 of the project brief; and
 - (c) The Staff and Task Force discussed the exclusion of the following items from the project, as discussed in section 5.4(d):
 - (i) Air – Air is the gaseous substance surrounding the earth, consisting of gases including oxygen, nitrogen and carbon dioxide. Like water, the oxygen and carbon dioxide in air is required to sustain life and inherently has value. Because of the gaseous and free-flowing nature of air in nature, the Staff noted that it will may be difficult for any entity to demonstrate that it has any control over air. In addition, while it is common for some governments to sell air rights for the purposes of air travel or infrastructure development, these rights embody the ability to legally access the airspace in a jurisdiction rather than the underlying air itself. Therefore, the Staff have excluded air from this project and noted that the topic may be reconsidered as a separate project once Phases 1-3 have been completed.
 - (ii) Electromagnetic (EM) spectrum (including sunlight) – The EM spectrum is the range of naturally occurring radiation that includes visible light, microwaves, and radio waves. Certain ranges of the spectrum can be used for telecommunication purposes, and it is common for a government to control the commercial use of EM spectrum in its jurisdiction through licenses and similar mechanisms. However, a number of constituents at the regional roundtables questioned whether EM spectrum can be considered a natural resource. The spectrum is uniquely different from the other items in this list, as it

does not have tangible form and spectrum licenses relate more to the legal right to access the spectrum rather than the underlying spectrum itself. Based on feedback from the CAG and regional roundtable constituents, electromagnetic spectrum will be excluded from the project and may be reconsidered as a separate project once Phases 1-3 have been completed.

Decision Required

5. Does the IPSASB approve the attached Natural Resources – Project Brief and Outline?
6. Are there any issues relating to natural resources that have not been identified?

NATURAL RESOURCES

PROJECT BRIEF AND OUTLINE

1. Introduction

- 1.1. In the public sector, natural resources account for a significant proportion of total assets in many jurisdictions and a substantial share of national wealth and heritage.¹ From a public interest perspective, accounting for natural resources, which is referring to the accounting of the underlying resources themselves, is an important issue². In jurisdictions with resource-based and resource-rich economies, the identification and quantification of these resources prior to their extraction or other use should inform policy decisions about such potential use and impacts. More globally, sustainable management of the natural environment has become a high policy priority.
- 1.2. The IPSASB Strategy Consultation issued in January 2018 proposed the addition of natural resources as a new public sector-specific project to the IPSASB's work program. Constituents strongly supported the addition of the project, noting among other issues that the correct measurement of natural resources is an important input into environmental sustainability and has taken on additional urgency in the context of climate change. They noted issues that need to be explored as follows:
 - (a) A need for the IPSASB to undertake a robust scoping and initial research phase before beginning to address natural resources issues, in light of the complexity and broad potential scope of the project.
 - (b) The IPSASB was encouraged to manage the scope of the project, which risks being large and with ill-defined boundaries, including consideration of a phased approach to ensure the project is feasible and can be managed.
 - (c) Items that are not recognized are mismanaged. Because natural resources are such a significant revenue source for many jurisdictions, the lack of recognition and measurement was highlighted as a public interest issue.
- 1.3. At the September 2018 IPSASB meeting, the Board discussed the feedback from the strategy consultation and decided to add "Natural Resources" to the list of new public sector specific projects in the 2019-2023 work program.
- 1.4. At the June 2019 Public Sector Standard Setters Forum (Forum) in Niagara-on-the-Lake, Canada, new projects added to the IPSASB work program were discussed, including natural resources. The Forum attendees confirmed support for its addition to the work program. However, they also cautioned the IPSASB to develop a clearly defined project scope, because the potential for a wide range of issues to be considered related to natural resources, was seen as a critical risk to the development of a standard.

1 The IMF October 2018 Fiscal Monitor highlighted that for the 31 countries included in the report, natural resource assets were equal to 38% of Gross Domestic Product.

2 See paragraph 5.13 of this project brief.

- 1.5. In addition, the CAG was consulted in June 2019 on the scope of the project, as well as potential issues such as the incorporation of IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and whether a communication plan was needed for the project. The CAG's advice has been incorporated into this project brief.

2. Rationale for Project

- 2.1. The project was added to the IPSASB's work program after consultation with constituents.

3. Financial Reporting Requirements

- 3.1. The term "natural resources" is currently not defined in IPSAS literature. There are various definitions of natural resources in the statistical accounting guidance in the System of National Accounts (2008) and the Government Finance Statistics Manual (2014)³, as well as plain English definitions such as the one found on Wikipedia.⁴ The one common characteristic from these various definitions is that natural resources are resources that exist without human action, i.e., prior to extraction, cultivation or harvest.
- 3.2. Because of this key characteristic, the existing guidance in IPSAS 12, *Inventories*, which applies to extracted minerals, and IPSAS 27, *Agriculture*, which applies to biological assets that are cultivated and harvested, do not apply to natural resources.
- 3.3. While not authoritative, Recommended Practice Guidance (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, and RPG 2, *Financial Statements Discussion and Analysis*, may impact a public sector entity's optional disclosure of its long-term fiscal sustainability, as well as its risks and uncertainties, as these relate to natural resources. However, these RPGs have no direct impact on an entity's general purpose financial statements.
- 3.4. Under International Financial Reporting Standards (IFRS), only the historical costs incurred to find, evaluate, develop or acquire a subsoil resource are recognized as assets. These costs often do not directly relate to the underlying subsoil resources, which are not recognized under IFRS⁵ because of the high degree of uncertainty and subjectivity over both the existence and amount of the resources prior to their extraction.
- 3.5. In addition to IFRS, the South African Accounting Standards Board issued Standard of Generally Recognized Accounting Practice (GRAP) 110, *Living and Non-Living Resources*, in March 2017. The GRAP classifies natural resources into living and non-living resources. Non-living resources other than land are not recognized as assets, and the GRAP only requires the disclosure of information

3 SNA 13.44-13.51 states that, "Natural resources consist of naturally occurring resources such as land, water resources, uncultivated forests and deposits of minerals that have an economic value," while GFSM 2014, 7.90 states, "Natural resources comprise land, mineral and energy resources, and other naturally occurring assets."

4 https://en.wikipedia.org/wiki/Natural_resource defines natural resources as, "resources, or items with service potential or the ability to generate economic benefits, that exist without actions of humankind and includes all valued characteristics such as magnetic, gravitational, electrical properties and forces, etc."

5 IFRS 6, *Exploration for and Evaluation of Mineral Resources*, only provides guidance on the accounting of exploration and evaluation expenditures and does not address the accounting for the natural resources themselves. Similarly, IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, only provides guidance on the costs incurred to remove mine waste materials to gain access to mineral ore deposits.

such as the nature and type of non-living resources, any related liabilities or contingent liabilities, and the amount of compensation received for the disposition of any non-living resources.

- 3.6. For living resources, GRAP 110 sets out the criteria that must be met for a living resource to be recognized as an asset and requires living resource assets to be initially measured at cost. Subsequent to initial recognition, an entity may choose to measure living resource assets at cost or fair value using a revaluation model if its fair value can be reliably measured.
- 3.7. Other jurisdictions, such as in Australia, have developed their own Water Accounting Standards for statistical reporting and water management purposes. The South African government has also implemented a similar standard to monitor and track water levels and flows for statistical purposes. Neither of these standards relate to financial reporting, so they may be of limited relevance to this project; however, these standards will be considered when the phase on water is undertaken.

4. Project Objectives

Project Objectives

- 4.1. The project objective is to develop a Consultation Paper (CP), then one or more Exposure Drafts (ED) to address the issues relating to the recognition and measurement of natural resources. The proposal to include a CP stage is based on the following considerations⁶:
 - (a) *Global Variation in Accounting Policies* – As there is currently little to no specific guidance on natural resources, there is a high degree of global variation in accounting policies;
 - (b) *Existing Requirements and Guidance of Global and National Public Sector Standard Setters* – As noted in section 3, neither IPSAS nor IFRS provide specific guidance in this area. Furthermore, with the exception of GRAP 110 from South Africa, there are no other national accounting standards which directly address the recognition, measurement, presentation and disclosure of natural resources; and
 - (c) *Complexity* – The potential recognition and measurement of any natural resource will be inherently complex due to the high estimation uncertainty associated with the determination of the existence and amount of the natural resource prior to its extraction or harvest. Even if the existing amount of a natural resource is known, the measurement of the potential asset may be complex due to issues such as consideration of whether the resource is economically recoverable, or potential volatility of current values, such as fair value, are used for initial or subsequent measurement.

Due to this inherent complexity, compounded by the lack of existing guidance in global or national accounting standards on natural resources, a CP should be developed as part of this project.

- 4.2. The project may also result in recommendations for the IPSAS Measurement and Revenue projects.

6 IPSASB staff developed criteria to consider when a Consultation Paper is necessary, based on advice and input from the Public Interest Committee (PIC).

Achieving the Objective

- 4.3. Because of the complexity of the topic, the project will make use of a Task Force to address the issues in its scope⁷.
- 4.4. To achieve the objective the IPSASB (assisted by the Task Force) will:
- Determine an appropriate scope for the project, which is dependent on how natural resources are preliminarily defined;
 - Determine what public-sector relevant issues should be addressed in the project, given its scope;
 - Determine the management and phasing of the issues to be considered by the IPSASB;
 - Consider the issues with reference to the Conceptual Framework, in particular the qualitative characteristics and constraints, and whether a natural resource meets the definition of an asset;
 - Consider the issues from the perspective of financial reporting requirements;
 - Consider the links to other projects (such as the Measurement project); and
 - Formulate a communications plan to manage external expectations, particularly for issues that will not be addressed by the project or will be postponed to later phases.

Link to the IPSASB's Strategic Objective

- 4.5. The IPSASB's Strategy and Work Plan 2019-2023 *Delivering Global Standards. Inspiring Implementation* cites an overarching strategic objective as:

“Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS.

Delivered through two main areas of activity, both of which have a public interest focus:

- Developing and maintaining IPSAS and other high-quality public sector financial reporting guidance for the public sector; and
 - Raising awareness of the IPSAS and the benefits of their adoption.”
- 4.6. This project is consistent with the IPSASB's strategic objective because:
- Developing high-quality financial reporting guidance for the public sector will be achieved by providing guidance on issues associated with accounting for natural resources;
 - The project will raise awareness of IPSAS and the benefits of their adoption, because natural resources are particularly significant for the public sector in many jurisdictions; and
 - There is currently an active external stakeholder community with the expectation that a new IPSAS on natural resources will resolve many of the economic, PFM, and sustainability issues associated with natural resources. While financial reporting on its own would not necessarily resolve these issues, improved financial reporting will result in better information that can be used to support a government's decisions on potential policy changes.

⁷ The IPSASB CAG was consulted in June 2019 on the potential issues within scope of the project, and issues that should be considered and explored in the Natural Resources Project Brief.

5. Outline of the Project

Project Scope

- 5.1. The project will include an articulation of what are considered natural resources and then the provision of generic guidance relating to recognition, measurement, presentation and disclosures by addressing the key issues below.
- 5.2. To confirm that the development of new guidance is required, the IPSASB's flowchart (see Appendix A) regarding the development of guidance was considered, and the following points were noted:
 - (a) Decision 1: Is the issue prevalent in the public sector? Yes, based on the issues and feedback noted in section 1, it is evident that numerous stakeholders are of the view that natural resources have widespread relevance in the public sector.
 - (b) Decision 2: Is there sufficient authoritative IPSAS guidance that already addresses this issue in the public sector? No, as discussed in section 3 below, there is currently no guidance in IPSAS on natural resources, specifically natural resources *prior to* extraction, cultivation or harvest.
 - (c) Decision 3: Is this issue related to general purpose financial statements? Yes, as noted in section 1 above, the lack of recognition of natural resource assets prior to their extraction is a public interest concern, as some constituents are of the view that such assets are often mismanaged when they are not recognized.
 - (d) Decision 5: Is the issue relevant to other projects? Yes, as noted in section 6.3, the project will be impacted by the limited-scope review of the IPSASB's Conceptual Framework, as well as the Revenue and Measurement projects. However, as there will be many issues specific to natural resources which will not be addressed by these other projects, the development of separate authoritative guidance is warranted.

Key Issues

Key Issues Relating to Project Management

Key Issue # 1—Phased Project Management Approach

- 5.3. As suggested by respondents to the IPSASB Strategy Consultation, and as confirmed by advice received from the IPSASB CAG in June 2019, a phased project management approach should be undertaken, including upfront consideration to plan out the sequencing for each project phase.
- 5.4. Based on initial feedback from the CAG, Public Sector Standards Setters Forum, and various regional roundtable consultations held in 2019, the proposed project phasing is as follows:
 - (a) Subsoil resources – Subsoil resources were of the highest level of interest to constituents; they give rise to the most significant financial reporting gap, with pressing public interest issues related to the mismanagement of subsoil resources. As a result, Phase 1 will focus on subsoil resources (such as mineral and petroleum deposits);
 - (b) Living resources – Living resources, such as uncultivated plant and animal life, will be the focus of Phase 2 of the project; and

- (c) Water – A number of participants also raised the issue of including water within the scope of the project. Therefore, Phase 3 of the project will focus on water.
 - (d) Other items which could potentially be considered – The treatment of other items such as air and the electro-magnetic spectrum will require more study and will be informed by the development of guidance in Phases 1-3 above. Depending on the outcome of Phases 1-3, a separate project may be initiated to address these issues in the future.
- 5.5. In Phase 1, the project will include the development of an approach to analyze the key issues relating to subsoil resources. This same approach will be applied to the analysis of issues in future phases, so that all other in-scope natural resources will be analyzed in a consistent manner.

Key Issue # 2—External Expectations

- 5.6. There is currently an active external stakeholder community with expectations for this project, including expectations that go beyond traditional financial reporting. As a result, it will be important to manage expectations with formal and regular communications which reinforce the purpose and objectives of this project, as well as the financial reporting issues that the project is trying to solve.

Key Issues Relating to Technical Matters

Key Issue # 3—Scope/Definition

- 5.7. Paragraph 3.1 above refers to the various existing definitions of natural resources. This project will review the existing definitions as a reference point for developing a natural resources definition for IPSAS.

Key Issue # 4—Recognition of Natural Resources

- 5.8. The project will consider the issue of whether a natural resource meets the criteria to be recognized as an asset⁸ for financial reporting purposes—i.e., whether it is a resource that is presently controlled by the entity as a result of a past event. The project will consider the issue of when an entity controls natural resources—e.g., whether subsoil resources are controlled by an entity prior to their extraction.

Key Issue # 5—Derecognition

- 5.9. The project will also consider whether there are any issues relating to derecognition that are specific to natural resource assets and whether these are adequately addressed within the suite of IPSAS.

Key Issue # 6—Measurement at Initial Recognition and Subsequent Measurement

- 5.10. The project will consider measurement and impairment requirements and guidance for natural resource assets, taking into account the measurement bases identified in Chapter 7, Measurement of Assets and Liabilities in Financial Statements of the Conceptual Framework and the Public Sector *Measurement* project.

8 Specifically, whether a natural resource can be recognized as an asset by an entity *prior to extraction, cultivation, or harvest*.

- 5.11. Another measurement issue which is specific to natural resources is the estimation of the amount of natural resources. The project will consider whether internationally accepted estimation approaches, such as the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources (referred to as the JORG Code) or the Society of Petroleum Engineers Classification System, should be incorporated into the resulting guidance.

Key Issue # 7—Presentation and Disclosures

- 5.12. The project will consider what presentation and disclosure requirements are required to meet the needs of users for accountability and decision-making purposes in relation to natural resources, regardless of whether they are recognized as assets. Consideration will be given to whether the disclosure requirements should be limited to the elements recognized in the financial statements or whether broader disclosures such as those in RPG 1 and RPG 2 (see paragraph 3.3 above) should be required.

Key Issue # 8—Incorporation of IFRS 6 and IFRIC 20

- 5.13. The project will consider if and how IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, should be incorporated into IPSAS, either as a part of this project, which deals with accounting for the underlying natural resource itself, or as a separate project which relates to accounting for the activities performed to evaluate, develop, and exploit the resource. While IFRS 6 and IFRIC 20 only provide guidance on the accounting of exploration, evaluation, and stripping expenditures, there could be situations where this guidance is applicable to the public sector. A number of resource-rich jurisdictions have recently entered into production sharing or co-production agreements with private companies, rather than the traditional mining licensing or royalty agreements. From the public sector entity's perspective, such agreements may fall within the scope of IPSAS 37, *Joint Arrangements*, and it is possible for the resulting joint operation or joint venture to incur exploration, evaluation or stripping expenditures.

6. Describe the Implications for any Specific Persons or Groups

Relationship to the IASB

- 6.1. In 2010, the IASB published a Discussion Paper containing the research findings on topics such as how to estimate and classify quantities of minerals or oil and gas reserves and resources, how to account for reserves and resources and related expenditures, and what information to disclose about extractive activities. In response to constituents' feedback on the Discussion Paper, the IASB assigned a low priority to the research and suspended the project.
- 6.2. Based on the feedback from its 2015 Agenda Consultation, the IASB decided to start a new research project on extractive activities with the goal of gathering evidence to support a decision on whether to develop accounting requirements that would amend or replace IFRS 6, *Exploration for and Evaluation of Mineral Resources*. In October 2019, the IASB requested feedback from national standard setters on whether it should commence the new project. The comment period for this outreach is set to end on February 28, 2020.

Relationship to Other Standards, Projects in Process or Planned Projects

- 6.3. There may be links to the Conceptual Framework—Limited Scope Update project as well as the Measurement project with respect to the valuations of natural resources for their initial and

subsequent measurement. In addition, there are potential links to the Revenue project with respect to whether the credit portion of the entry to recognize natural resource assets is recorded in revenue.

Government Finance Statistics

- 6.4. As noted in paragraph 3.1, the term “natural resource” is already defined in the SNA (2008) and the GFSM (2014). GFS also has requirements relating to the recognition of natural resources. The definition and measurement requirements in the GFSM and other sources of statistical accounting will be considered. The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) will guide the approach to evaluating approaches in the GFSM.

7. Development Process, Project Timetable and Project Output

Development Process

- 7.1. As noted above, the project will be completed in phases. Phase 1 is proposed to include the development of a comprehensive CP that outlines issues in the scope of the project at a high level, followed by a deeper dive into the issues relating to subsoil resources, then ending with the development of an ED on Phase 1 issues only. Phases 2 and 3 are proposed to focus on the detailed issues relating to living resources and water, respectively, and will be informed by feedback from the comprehensive CP and ED developed in Phase 1.
- 7.2. The development of any output will be subject to the IPSASB’s formal due process, with input from the Consultative Advisory Group (CAG). The approval of an ED will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm that the project timetable remains the most appropriate.

Project Timetable

- 7.3. The expected timeline for Phase 1 of the project is as follows:

Major Project Milestones–Phase 1	Expected Completion
Approve Project Brief	March 2020
Development of broad Consultation Paper (CP)	March 2021
Approve CP	June 2021
CP Comment Period (four months)	December 2021
Development of Exposure Draft (ED) – Phase 1 – Subsoil Resources	September 2022
Approve ED – Phase 1 – Subsoil Resources	December 2022
ED Comment Period (four months)	June 2023
Review of Responses to ED	December 2023
Approve Output (Final Standard) – Phase 1 – Subsoil Resources	March 2024

- 7.4. The timetable for subsequent phases will be revisited upon the completion of Phase 1.

Project Output

7.5. The initial output is expected to be an CP with recommendations on the appropriate output.

8. Resources Required

Task Force

8.1. A Task Force has been formed comprising of five current or former IPSASB Board members and a representative from an accounting firm with expertise on this topic.

Staff

8.2. It is envisaged that 1.0 Full Time Equivalent (FTE) staff member will be required to resource the project for Phase 1.

Factors that Might Add to Complexity and Length

8.3. Factors that may add to the add to the complexity and length of this project include:

- (a) Determination of project scope in light of the potentially wide range of items that could be considered a natural resource;
- (b) Finding an appropriate balance between the project phasing approach, which keeps the project manageable, and the appropriate depth to which issues are explored in the comprehensive CP;
- (c) Significant external expectations for this project, which leads to the need for more robust communication with constituents; and
- (d) The extra coordination and consultation required with working with the Natural Resources Task Force and coordinating with the Measurement Task Force.

9. Useful Sources of Information

9.1. The principal sources of information will be the literature of public sector standard setters and statistical accountants. These include but are not limited to:

- International Accounting Standards Board, Discussion Paper 2010/1, *Extractive Activities*
- IFRS 6, *Exploration for and Evaluation of Mineral Resources*
- IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- South African Standard of Generally Recognized Accounting Practice 110, *Living and Non-Living Resources*
- International Monetary Fund, *Government Finance Statistics Manual 2014*
- The National Academies Press, *Nature's Numbers: Expanding the National Economic Accounts to Include the Environment (1999)*

Appendix A: IPSASB's Flowchart for the Development of New Guidance

