

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Toronto, Canada

Meeting Date: December 4, 2023

Agenda Item

5

For:

Approval

Discussion

Information

NATURAL RESOURCES

Project summary	The objective of the natural resources project is to develop a Consultation Paper, then one or more Exposure Drafts to address the issues relating to the recognition, measurement, presentation and disclosure of natural resources.	
Meeting objectives	Topic	Agenda Item
Discussion Items	Natural Resources – Location of Guidance	5.1
Other supporting items	Appendix A: IPSASB Due Process Checklist	5.2

Natural Resources – Location of Guidance

Background

1. In March 2020, in light of the significance of natural resources in many jurisdictions, growing public concerns for sustainable management of the natural environment, and the lack of explicit accounting guidance on natural resources, the IPSASB approved the project brief for the Natural Resources project. The aim of the project is to develop IPSAS guidance relating to the recognition, measurement, display, and disclosure of natural resources by public sector entities. As the project is a financial reporting project, the project brief stated that any resulting IPSAS guidance will be developed in accordance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).
2. In May 2022, the IPSASB issued the Consultation Paper, *Natural Resources* (CP). The CP applied the principles in the Conceptual Framework to the accounting of natural resources, specifically subsoil resources, water, and living resources, and the aim of the CP was to solicit views on the recognition, measurement, display, and disclosure of natural resources in the public sector.
3. Respondents to the CP generally agreed with the IPSASB's preliminary views, which included an acknowledgement that natural resources are likely to only meet the asset recognition criteria in very limited circumstances. In response to this feedback, the IPSASB decided to begin the development of a Natural Resources Exposure Draft in March 2023.
4. At the September 2023 IPSASB meeting, staff proposed that recognized natural resources should be accounted for based on their use, and that all recognized natural resources were within the scope of existing IPSAS, such as IPSAS 45, *Property, Plant, and Equipment*, IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, or IPSAS 27, *Agriculture*. Staff also noted at the meeting that natural resource assets held for conservation could be considered property, plant, and equipment (PP&E).
5. In response, some IPSASB members noted that because the accounting is expected to be within the scope of existing IPSAS, the guidance on natural resources should be incorporated into the IPSAS suite of standards as amendments to existing IPSAS rather than a new standalone standard.
6. Other members acknowledged that some, but not all, recognized natural resources would fall within the scope of existing IPSAS. These members specifically noted that natural resources held for conservation would not fall within the scope of any existing IPSAS, thereby necessitating a new standalone IPSAS.
7. At the September meeting, it was also noted that the CAG could provide advice to the IPSASB on this issue. Following the meeting, staff discussed the various public interest considerations and technical arguments for and against locating the guidance in a standalone standard with the Natural Resources Task Force. This paper summarizes these discussions, then poses specific questions to CAG members for advice and input.

Analysis

Public Interest Considerations

8. During the Task Force discussions, staff and the Task Force noted the following public interest considerations which are relevant to the issue:

- (a) In light of the importance and current focus on sustainable development initiatives and concerns regarding the overexploitation of the natural environment, the sustainable use of natural resources has become a top priority for many individuals and public sector entities. Many constituents have provided feedback to both the 2018 IPSASB Strategy Consultation and the CP, stating that guidance on the financial reporting of natural resources is important, as it is expected to result in useful information that will have a direct impact on the use of these resources. The importance placed on the financial reporting of natural resources provides strong support to locate the proposed guidance in a standalone IPSAS;
- (b) In the natural resources project brief that was issued by the IPSASB in 2020 and the CP, it was also noted that the financial reporting of natural resources is an important issue due to their potential monetary significance in many jurisdictions. This observation is consistent with the feedback provided to the IPSASB from the 2018 IPSASB Strategy Consultation, as well as feedback received from constituents in a number of outreach events. The potential financial significance of natural resources is another consideration which supports the development of a standalone standard;
- (c) Based on feedback on past exposure drafts and IPSAS, a standalone standard will be easier to understand and apply in practice, as constituents would not risk overlooking the various pieces of guidance located in separate standards; and
- (d) During the Task Force meetings, it was also noted that if natural resources were of the same nature as PP&E, inventories, investment properties, or biological assets, constituents would have already developed their own accounting policies using paragraph 14 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, and applied the principles from IPSAS 45, IPSAS 12, IPSAS 16, or IPSAS 27. The fact that this approach is not widely adopted, coupled with the continued request to develop guidance on natural resources, is a strong indicator that constituents expect separate, standalone guidance on natural resources.

Technical Considerations

Support for a New Standalone IPSAS

9. At the Task Force meeting, some members noted that conceptually, IPSAS in general are created based on different groups of items, transactions, or topics. The decision to develop a separate IPSAS should be driven by the underlying nature of the subject matter item (in this case, natural resources) and the economics of the potential transactions involving these items. The fact that the guidance and resulting accounting could be similar to those of an existing IPSAS is not relevant to the location of guidance if the underlying nature of the subject matter or the potential transactions are not the same.
10. As part of a separate discussion, the Task Force agreed that natural resources held for conservation—i.e., natural resources which are protected from unnecessary use or other damaging effects of human activity—can be considered a resource¹ as defined in the Conceptual Framework. This decision was made on the basis that the conservation of the item itself can lead to service potential which contributes to achieving the stated objectives of a public sector entity. For example, the conservation of a natural forest could contribute to achieving the objective of regulating the environment or the objective of providing experiential services for the benefit of visitors.

¹ Whether this resource can be recognized as an asset will depend on whether the entity controls the resource as the result of past events and whether the item can be reliably measured.

11. Some Task Force members noted that the underlying nature of natural resources held for conservation is fundamentally different from the nature of PP&E, inventories, investment properties, or biological assets. This is because conservation, by definition, involves *avoiding the use* of an item, while the nature of these other tangible assets in existing IPSAS are driven by their intended use. Other Task Force members interpreted the phrase “use... in the supply of... services” in the definition of PP&E² to mean that the asset in question is an input into a process that consumes the asset. In their view, this is not the case for natural resources held for conservation, so they would not meet the definition of PP&E.
12. Based on the public interest considerations in paragraph 8, as well as the technical arguments in paragraphs 9-11, the Task Force unanimously concluded that the development of a standalone IPSAS is warranted because of the need to articulate the principles behind the recognition and measurement of natural resources, particularly natural resources held for conservation.

Support for Incorporating Guidance as Amendments to Existing IPSAS

13. As an alternative view, the definition of PP&E could be broadly interpreted to include natural resources held for the supply of conservation services. Under this interpretation, natural resources held for conservation would meet the definition of PP&E and would be within the scope of IPSAS 45.
14. Based on the above interpretation, all natural resources, including natural resources held for conservation, would fall within the scope of an existing standards. As a result, IPSAS 45, IPSAS 12, IPSAS 16 and IPSAS 27 can be supplemented with additional application guidance, implementation guidance, and/or illustrative examples, to adequately provide guidance on the accounting for natural resources. As noted in paragraph 8(d), the Task Force and staff are not aware any constituents that currently account for natural resources using this approach.

Questions for CAG Members:

Which approach (separate standard or included in existing standards) would be more appropriate from a public interest and technical perspective?

What other factors should the IPSASB consider when determining whether the guidance on natural resources should be in a standalone IPSAS or incorporated as amendments to existing IPSAS?

² IPSAS 45 defines PP&E as “tangible assets that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period.”

Appendix A: IPSASB Due Process Checklists

Project: Natural Resources

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its March 2020 meeting (see Agenda Item 10).
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the March 2020 IPSASB meeting (section 10) .
A3.	The IPSASB CAG has been consulted on the project brief.	Yes	At the June 2019 meeting, the CAG was consulted on the following topics, which fed into the development of the project brief: <ul style="list-style-type: none"> • Potential scope of the project • Potential approaches to incorporate IFRS 6 into IPSAS • Proposed project communication plan (See Agenda Item 6 from the June 2019 CAG Meeting.)
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	In the approved project brief, the IPSASB agreed that a CP should be developed as part of this project. The CP, Natural Resources , was approved in March 2022 (see item 4 in the March 2022 Approved Minutes of the Meeting) and published in May 2022 with a comment period ending in October 2022.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	Yes	A preliminary analysis of the responses to the CP was presented to the IPSASB at the March 2023 meeting. (See Agenda Item 12 from the March 2023 IPSASB Meeting.)

#	Due Process Requirement	Yes/No	Comments
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	<p>The CAG was consulted on the following topics in relation to the development of the CP:</p> <ul style="list-style-type: none"> • Recognition of Sovereign Power to Issue Exploration Licenses <p>(See Agenda Item 4 from the December 2020 CAG Meeting.)</p> <ul style="list-style-type: none"> • General Description of Natural Resources • Uncertainty and Asset Recognition <p>(See Agenda Item 3 from the June 2021 CAG Meeting.)</p> <ul style="list-style-type: none"> • Definition of Natural Resources <p>(See Agenda Item 7 from the June 2023 CAG Meeting.)</p> <ul style="list-style-type: none"> • Natural Resources – Location of Guidance <p>(This paper.)</p>
B4.	The IPSASB has approved the issue of the exposure draft.	TBD	[Pending]
C. Public Exposure			
C1.	The approved exposure draft has been posted to the IPSAS website for public comment for an appropriate period.	TBD	[Pending]
C2.	Comments on the exposure draft have been posted to the IPSASB website after the end of the exposure period.	TBD	[Pending]

#	Due Process Requirement	Yes/No	Comments
<i>D. Consideration of Respondents' Comments on an Exposure Draft</i>			
D1.	Staff have provided the IPSASB, as part of the public agenda papers, with an analysis summarizing the significant issues raised by respondents, outlined their proposed disposition, and, as appropriate, explained why significant changes recommended by respondents have or have not been accepted.	TBD	[Pending]
D2.	The IPSASB has deliberated significant matters raised in the comment letters, and significant decisions have been minuted.	TBD	[Pending]
D3.	The IPSASB has considered whether there are any issues raised by respondents, in addition to those summarized by Staff, that it considers should have been discussed by the IPSASB.	TBD	[Pending]
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	TBD	[Pending]
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	TBD	[Pending]

#	Due Process Requirement	Yes/No	Comments
D6.	The IPSASB has assessed whether there has been substantial change to the exposed document such that re-exposure is necessary.	TBD	[Pending]
D7.	If applicable, the IPSASB has voted on a resolution in favor of re-exposure.	TBD	[Pending]
D8.	The basis of the IPSASB's decision with respect to re-exposure has been minuted.	TBD	[Pending]
D9.	If the exposure draft has been re-exposed, the explanatory memorandum accompanying the re-exposure draft explained the reasoning for re-exposure and the changes made as a result of the earlier exposure.	TBD	[Pending]
<i>E. Approval</i>			
E1.	The Program and Technical Director has confirmed to the IPSASB that due process has been followed effectively the final standard is approved for issuance.	TBD	[Pending]
E2.	The IPSASB has approved the final revised content of the exposed standard in accordance with its Terms of Reference.	TBD	[Pending]
E3.	If applicable, the IPSASB has set an effective date for application of the final standard.	TBD	[Pending]
E4.	The IPSASB's basis for conclusions has been prepared and included in the final standard.	TBD	[Pending]

Completed by: IPSASB Staff as of November 2023.