

Exposure Draft [XX]
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Comments due: [MM DD, 2024]

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

Natural Resources

IPSASB

International Public
Sector Accounting
Standards Board®



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The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

EXPOSURE DRAFT XX, NATURAL RESOURCES

CONTENTS

Objective	5
Scope	5
Definitions	5
Recognition	6
Measurement	8
Presentation	8
Effective Date and Transition	10
Application Guidance	11
Amendments to Other IPSAS	13
Basis for Conclusions.....	16
Implementation Guidance	22
Illustrative Examples	23
Comparison with GFS	24

Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amounts, timing, and uncertainty arising from natural resources and expenditures on natural resource-related activities.**
2. To meet the objective in paragraph 1, this [draft] Standard:
 - (a) Sets out the accounting requirements for natural resources;
 - (b) Sets out the accounting requirements for the expenditures incurred for natural-resource-related activities; and
 - (c) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:
 - (i) The nature of, and risks and opportunities associated with, natural resources and their related activities; and
 - (ii) If applicable, the effects of natural resources and their related activities on the entity's financial position, financial performance, and cash flows.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for natural resources and their related activities as defined in this [draft] Standard.
4. **This [draft] Standard does not apply to items which fall within the scope of:**
 - (a) **IPSAS 31, *Intangible Assets*; and**
 - (b) **IPSAS 43, *Leases*.**

Definitions

5. **The following terms are used in this [draft] Standard with the meanings specified:**

A class of natural resources means a grouping of natural resources of a similar nature or function in an entity's operations that is shown as a single item for the purpose of display and disclosure in the financial statements.

For the purposes of this [draft] Standard, a natural resource is an item which:

 - (a) **Came into existence without artificial aid (i.e., a naturally occurring item); and**
 - (b) **Conveys to the entity the right to either service potential or the capability to generate economic benefits, or both.**

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.
6. Paragraphs AG2-AG5 provide additional guidance on the definitions in this [draft] Standard.

Recognition

7. **A natural resource shall be recognized as an asset if:**
- (a) **It meets the definition of an asset. (See paragraph 8); and**
 - (b) **It can be reliably measured in accordance with IPSAS 46, *Measurement*. (See paragraphs 15-18.)**

Definition of an Asset

8. **A natural resource meets the definition of an asset if an entity can demonstrate *all* of the following:**
- (a) **The item is a resource:**
 - (i) **It is technically feasible that the natural resource can be made available for use or sale;**
 - (ii) **The entity has the intention to access the service potential or economic benefits from the use or sale of the natural resource;**
 - (iii) **The entity can demonstrate how the natural resource will generate probable future economic benefits or service potential. For example, the entity can demonstrate the existence of a market for the output from a natural resource, the natural resource itself, or if it is to be used internally, the usefulness of the natural resource;**
 - (iv) **The entity has adequate technical, financial, and other means to make the natural resource available for use or sale; and**
 - (b) **The resource is presently controlled by the entity based on consideration of:**
 - (i) **Access to the resource or the ability to deny or restrict access to the resource; or**
 - (ii) **The existence of an enforceable right (e.g., legal ownership or other means to ensure that the resource can be used) to service potential or ability to generate economic benefits arising from a resource; and**
 - (c) **Control of the resource arises from past events.**
9. Paragraphs AG5-AG7 provide additional guidance on whether an item meets the definition of an asset.
10. Natural resources which meet all the criteria in paragraph 8 and can be measured reliably in accordance with paragraph 17 are accounted for as follows:
- (a) Natural resource assets that meet the definition of property, plant, and equipment (e.g., tangible assets that are held for use in the production of goods for longer than one reporting period, etc.) are accounted for in accordance with IPSAS 45, *Property, Plant, and Equipment*.
 - (b) Natural resource assets that meet the definition of inventory (e.g., materials that are consumed in the production process or items held for sale or distribution in the ordinary course of operations, etc.) are accounted for in accordance with IPSAS 12, *Inventories*;

EXPOSURE DRAFT XX, NATURAL RESOURCES

- (c) Natural resource assets which meet the definition of biological assets, except for bearer plants, or agricultural produce at the point of harvest are accounted for in accordance with IPSAS 27, *Agriculture*; and
 - (d) Natural resource assets which meet the definition of an investment property (e.g., property held to earn rentals or for capital appreciation or both) are accounted for in accordance with IPSAS 16, *Investment Property*.
11. If a natural resource asset is recognized as the result of an event which does not involve a transaction with another party (e.g., through discovery of a new resource or changes in facts and circumstance which affects the assessment of whether an existing item can be recognized), the effect of recognizing the asset at deemed cost is recorded in net assets/equity for the period. Similarly, the impact of the receipt of a natural resource that is a contribution from an owner, acting in its capacity as owner, is recognized as a direct adjustment to net assets/equity.

Accounting for Subsequent Expenditures Incurred for Natural Resource-Related Activities

12. **An entity accounts for a subsequent expenditure incurred for natural resources-related activities based on the nature of the expenditure and whether the asset recognition criteria are met. The determination of whether such a subsequent expenditure is an asset is unaffected by whether or not the underlying natural resource was initially recognized.**
13. The determination of whether a subsequent expenditure should be recognized as an asset depends on whether the expenditure meets the recognition principles or criteria in the following standards:
- (a) Expenditures which relate to natural resources of a similar nature as property, plant, and equipment and meet the recognition principle in paragraph 6 of IPSAS 45 are recognized as property, plant, and equipment;
 - (b) Expenditures which are consistent with the cost of inventories as stated in paragraph 18 of IPSAS 12, including the cost of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition, are accounted for as inventory;
 - (c) Expenditures relating to natural resources which are of a similar nature as biological assets or agricultural produce and meet the recognition requirements in paragraph 13 of IPSAS 27 are recognized as biological assets or agricultural produce;
 - (d) Expenditures which relate to natural resources of a similar nature as investment property and meet the recognition principle in paragraph 20 of IPSAS 16 are recognized as investment property;
 - (e) Expenditures which relate to the exploration for and evaluation of mineral resources are accounted for in accordance with [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources*; and
 - (f) Expenditures relating to production stripping activity and meets the recognition criteria in paragraphs 8-9 in Appendix A of [draft] IPSAS [Y] are recognized as inventory or a stripping activity asset.
14. Expenditures for natural resource-related activities that do not meet the recognition criteria in paragraph 13 are expensed as incurred in the statement of financial performance.

Measurement

Initial Measurement

15. **Where a natural resource or natural resource-related expenditure is recognized as an asset, the asset shall be measured initially at cost unless it is acquired through a non-exchange transaction. A natural resource asset acquired through a non-exchange transaction shall be measured at its deemed cost.**
16. An entity shall apply IPSAS 46 when measuring the deemed cost of a natural resource asset. Generally, natural resources that are acquired through a non-exchange transaction result from an event that is not a transaction in an orderly market, and paragraph 10 of IPSAS 46 requires an entity to use a current value measurement basis to determine the deemed cost of such an asset.
17. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value. If an entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Subsequent Measurement

18. **After initial recognition, a natural resource asset or a natural resource-related expenditure that is recognized as an asset is measured in accordance with the measurement requirements of IPSAS 12, IPSAS 16, IPSAS 27, IPSAS 45, [draft] IPSAS [Y], depending on the nature of the natural resource asset or related expenditure.**

Presentation

Display

19. **When a natural resource or a natural resource-related expenditure meets the criteria to be recognized as an asset, the entity applies the presentation requirements of IPSAS 12, IPSAS 16, IPSAS 27, IPSAS 45, or [draft] IPSAS [Y], depending on the nature of the natural resource asset or related expenditure.**
20. In some circumstances, specific natural resource assets should be separately presented and information specific to these assets should be separately disclosed in accordance with the requirements in paragraphs 92, 107, and 134 of IPSAS 1, *Presentation of Financial Statements*. References in IPSAS 1 to 'class of property, plant, and equipment' shall be read as a 'class of natural resources.'

Disclosure

21. **The objective of the disclosure requirements is for the entity disclose sufficient information to enable users of the financial statements to evaluate:**
 - (a) **The nature of, and risks and opportunities associated with, natural resources; and**
 - (b) **If applicable, the effects of natural resources on the entity's financial position, financial performance, and cash flows.**
22. Only information regarding natural resources or related expenditures which meet the definition of an asset are disclosed in the financial statements. Information regarding natural resources or naturally

EXPOSURE DRAFT XX, NATURAL RESOURCES

occurring items which do not meet the definition of an asset but are important to an understanding of an entity's finances and ability to deliver services, is more appropriately presented in the entity's broader General purpose Financial Reports.

23. For natural resources or expenditures which are recognized as assets, an entity shall apply the disclosure requirements from IPSAS 12, IPSAS 16, IPSAS 27, IPSAS 45, or [draft] IPSAS [Y], depending on the nature of the natural resource asset or related expenditure.
24. For natural resources or expenditures which are recognized as assets, an entity shall also disclose the following if the information is not already disclosed as a result of applying paragraph 23:
 - (a) The significant judgments applied to determine that the natural resource or related expenditure meets the asset recognition criteria;
 - (b) A narrative description (e.g., nature or type, location, quality, etc.) of the natural resource asset;
 - (c) If available, information on the estimated physical quantities of the natural resource, including the methodology used to estimate these quantities;
 - (d) The significance of the natural resource(s) in relation to achieving of the entity's objectives, including how the natural resource is expected to be used in service delivery;
 - (e) The existence and amounts of restrictions on title, legal, or similar limits on the use of natural resources due to environmental or other regulatory requirements, and natural resources pledged as securities for liabilities;
 - (f) The measurement basis used, and significant judgments and assumptions applied to measure the asset;
 - (g) A reconciliation of the carrying amount at the beginning and end of the period, showing increases and decreases resulting from revaluations, purchases, acquisitions through non-exchange transactions, sale, extraction or harvest, distribution through non-exchange transactions, and if applicable, impairment; and
 - (h) If not already disclosed as part of an entity's revenue or accounting policy disclosures, information regarding the sale of the recognized natural resources or the sale or pledge of the right to access the resources.
25. Where a natural resource meets the definition of an asset and is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose in the Notes to the financial statements:
 - (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
 - (b) The significance of the unrecognized natural resource in relation to delivery of the entity's objectives.
26. Where an entity acts as a custodian of a recognized or unrecognized natural resource, the entity shall explain in the Notes the nature of its custodial responsibilities, including the legislation or similar means that establishes the custodial responsibilities over the resource.
27. The disclosure requirements in paragraphs 23-26 can be presented for individual natural resources or for classes of natural resources if an appropriate basis for aggregation exists.

Effective Date and Transition

Effective Date

28. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [DATE]. Earlier application is permitted. If an entity applies this [draft] Standard for a period beginning before [DATE], it shall disclose that fact and shall apply [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources*, at the same time.**
29. When an entity adopts the accrual basis IPSAS of accounting, as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

30. **An entity shall apply this [draft] Standard retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
31. An entity which incurred expenditures for activities relating to the exploration for and evaluation of mineral resources shall apply the transitional provisions in [draft] IPSAS [Y] specifically to these expenditures upon application of this [draft] Standard.

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X].

AG1. This application guidance is organized into the following categories:

- (a) Definitions (paragraphs AG2-AG5);
- (b) Recognition (paragraphs AG6-AG7);
- (c) Flowchart Illustrating the Application of [draft] IPSAS [X] (paragraph AG8).

Definitions (see paragraphs 5-6)

AG2. An item which came into existence without artificial aid is a naturally occurring item from the living and non-living components of the Earth, together constituting the biophysical environment, which came into existence in nature without the actions of humankind.

AG3. Natural resources may convey the right to service potential or the capability to generate economic benefits, or to both, in a number of ways, including:

- (a) The extraction or harvest of natural resources for use or sale (e.g., the harvest of timber from a forest for use as fuel or for sale);
- (b) Regulating biological processes and influencing climate, hydrological and biochemical cycles, and thereby maintaining environmental conditions (e.g., the ability of forests to absorb atmospheric carbon); and
- (c) Providing intangible services related to ecosystems whose existence and functioning contributes to a range of cultural benefits (e.g., the enjoyment provided to visitors to a national park)

AG4. For some naturally occurring items, until the item is extracted, there will be uncertainty over the quantity of the item in a given location as well as whether the item exists. This uncertainty impacts the assessment of whether the potential benefits from the item are capable of being accessed by the entity, and thus whether the item is a resource.

AG5. As noted in paragraph 8(a), for a natural resource to be considered a resource, an entity must demonstrate the technical feasibility that the natural resource can be made available for use or sale, its intention and ability to use or sell the natural resource, and how the natural resource will generate future economic benefits or service potential. Typically, these criteria are satisfied when the entity has a detailed plan demonstrating the technical and financial feasibility of using or selling the natural resource, and how the entity will obtain the resources necessary to carry out this plan.

Recognition (see paragraphs 7-11)

AG6. For a resource to be recognized as an asset, the item must have service potential or economic benefits beyond those available to all other parties and be controlled by the entity. For example, a living organism that is controlled by an entity may have the ability to maintain biodiversity or absorb carbon dioxide from the atmosphere. The maintenance of biodiversity or absorption of atmospheric carbon dioxide will generally provide benefits to many parties, not just the entity controlling the living organism. Therefore, without a program in place which makes use of the living organism and results

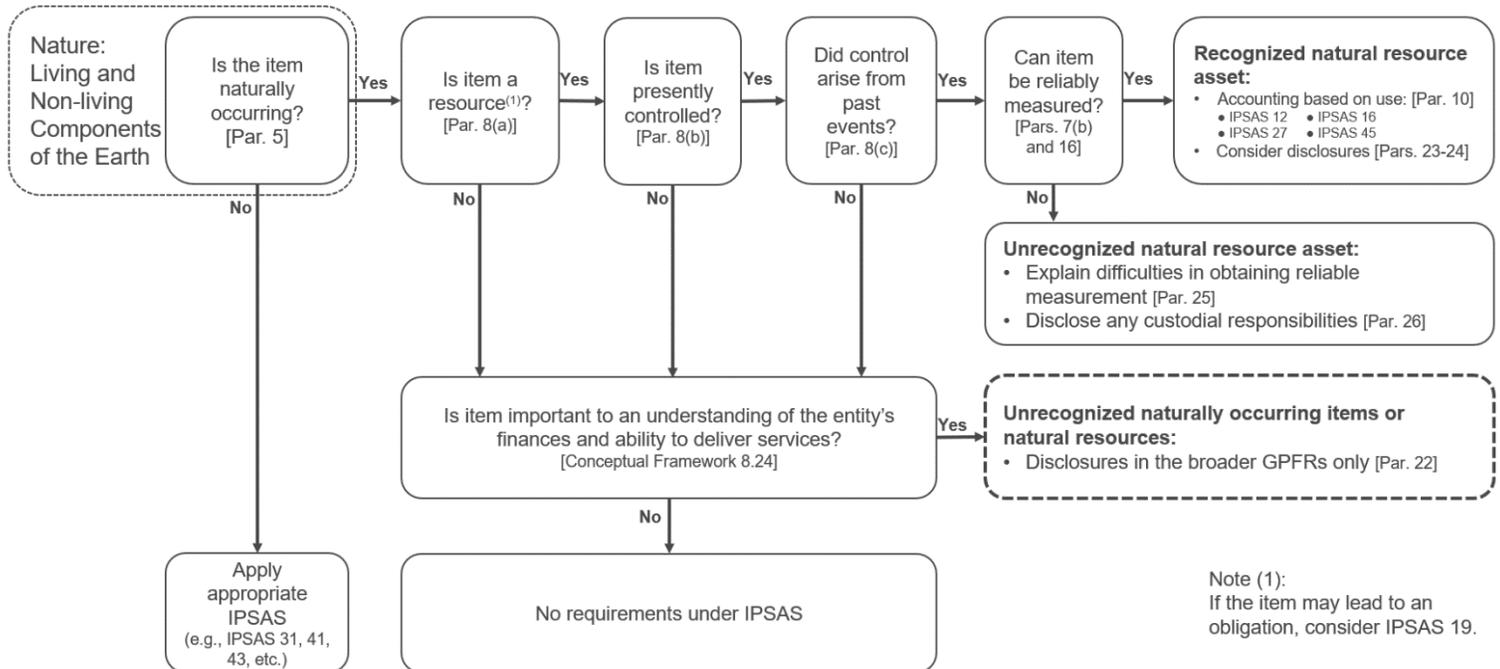
EXPOSURE DRAFT XX, NATURAL RESOURCES

in service potential or economic benefits flowing specifically to the entity, it would be difficult for the living resource to be recognized as an asset.

AG7. An entity can obtain control of a resource through exchange transactions, such as purchase or development, or non-exchange transactions, which include the exercise of sovereign powers. In assessing when control arises from the exercise of sovereign powers, an asset arises when the sovereign power is exercised, and the rights to receive resources exist.

Flowchart Illustrating the Application of [draft] IPSAS [X]

AG8. The following flowchart illustrates the key considerations when applying this [draft] Standard. It is provided as an aid in the application of [draft] IPSAS [X] and does not take the place of the [draft] Standard.



[Placeholder]

AG9. [Placeholder for additional AGs.]

Appendix B**Amendments to Other IPSAS****Amendments to IPSAS 16, *Investment Property***

Paragraph 101I is added, and paragraph 6(a) is amended. New text is underlined, and deleted text is struck through.

...

6. This Standard does not apply to:

...

- (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources. (See [draft] IPSAS [X], Natural Resources.)

...

Effective Date

...

101I. Paragraph 6(b) was amended by [draft] IPSAS [X], *Natural Resources*, issued in [DATE]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [DATE]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [DATE], it shall disclose that fact and apply [draft] IPSAS [X] at the same time.

...

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraphs 62D, 62E, and 154P are added, and paragraph 64 is amended. New text is underlined, and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

[draft] IPSAS [X], *Natural Resources*

62D. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to natural resources until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

EXPOSURE DRAFT XX, NATURAL RESOURCES

62E. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS at the same time as considering the recognition of natural resources in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 12, 16, 27, and 45, it is not required to recognize natural resource assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

...

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Adoption

...

Using Deemed Cost to Measure Assets and/or Liabilities

64. A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:

...

- (e) Financial Instruments (see IPSAS 41); ~~or~~
- (f) Service concession assets (see IPSAS 32); ~~or~~
- (g) Natural resource assets (see [draft] IPSAS [X]).

...

Effective Date

...

154P. Paragraphs 62D and 62E were added, and paragraph 64 was amended by [draft] IPSAS [X], *Natural Resources*, issued in [DATE]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [DATE]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [DATE], it shall disclose that fact and apply [draft] IPSAS [X] at the same time.

...

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraph 3 is amended, and paragraph 87B is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

...

- (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see [draft] IPSAS [X], *Natural Resources* ~~the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources~~);

...

...

Effective Date

...

87B. Paragraph 3 was amended by [draft] IPSAS [X], *Natural Resources*, issued in [DATE]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [DATE]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [DATE], it shall disclose that fact and apply [draft] IPSAS [X] at the same time.

...

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X].

Scope

BC1. When the IPSASB developed the project brief and the Consultation Paper, *Natural Resources* (CP), the Board decided to limit the scope of the project to tangible items for the following reasons:

- (a) The feedback from constituents indicated that the development of guidance for tangible natural resources, such as subsoil resources, water, and living resources, was a priority compared to the development of guidance for intangible natural resources, which include items such as the electromagnetic spectrum;
- (b) The IPSASB decided that focusing on tangible natural resources in this project would be a better use of its staff resources; and
- (c) The development of guidance for intangible natural resources would be better accomplished if it was part of a more wholesome update of the accounting guidance for intangible assets.

The IPSASB decided that these reasons continue to be valid when [draft] IPSAS [X], *Natural Resources*, was developed. As a result, [draft] IPSAS [X] continues to focus only on tangible natural resources.

Definition of Natural Resources

BC2. When the IPSASB developed the CP, it had decided to describe a 'natural resource' 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.

While the IPSASB noted that the requirement to be in its natural state was necessary to delineate between natural and other resources, respondents to the CP noted that the general description would be difficult to implement due to a lack of clarity on what is in its natural state and what is considered naturally occurring.

BC3. In response to constituents' concerns, the IPSASB decided to develop a definition of 'natural resource' in [draft] IPSAS [X] using a top-down approach, starting with the broader concept of 'nature' as defined in other internationally relevant reporting frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) Framework and the United Nation's System of Environmental-Economic Accounting (2012) (UN SEEA) Central Framework.

EXPOSURE DRAFT XX, NATURAL RESOURCES

BC4. The following table summarizes the relevant information from these frameworks:

	TNFD	UN SEEA	How concepts are incorporated into IPSAS [X]
Framework Objective	<ul style="list-style-type: none"> Provide a framework to report and act on nature-related risks and opportunities.¹ 	<ul style="list-style-type: none"> A multipurpose conceptual framework that describes the interactions between the economy and the environment, and the stocks and changes in stocks of environmental assets.² 	<ul style="list-style-type: none"> Not incorporated. The objectives of financial reporting using IPSAS is specified in the IPSASB's Conceptual Framework.
Definition of 'Nature'	<ul style="list-style-type: none"> "The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment."³ "Nature can be conceived of stocks of environmental assets that give rise to associated flows of benefits to people and the economy."³ 	<ul style="list-style-type: none"> Not formally defined. 	<ul style="list-style-type: none"> Not formally defined, but naturally occurring components of nature are incorporated into the definition. See 'Environmental Assets' below.
Definition of 'Environmental Assets' (Same in both frameworks)	<ul style="list-style-type: none"> "The naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity."⁴ 		<ul style="list-style-type: none"> Incorporated 'naturally occurring' concept into paragraph 5(a).

¹ <https://framework.tnfd.global/introduction-to-the-framework/>

² UN SEEA Central Framework (2012), paragraph 1.1.

³ <https://framework.tnfd.global/concepts-and-definitions/definitions-of-nature/>

⁴ <https://framework.tnfd.global/appendix/glossary-of-key-terms/> and https://seea.un.org/sites/seea.un.org/files/documents/seea_glossary_terms_languages_v2.pdf

EXPOSURE DRAFT XX, NATURAL RESOURCES

<p>What are 'Benefits to Humanity'?</p> <p>(Same in both frameworks)</p>	<ul style="list-style-type: none"> • Provisioning services, such as the provision of timber from forests; • Regulating services, resulting from the ability of ecosystems to regulate biological processes and to influence climate, hydrological and biochemical cycles, and thereby maintain environmental conditions beneficial to individuals and society. (e.g., the ability of forests to absorb atmospheric carbon); and • Cultural services, which are the experiential and intangible services related to the perceived or actual qualities of ecosystems whose existence and functioning contributes to a range of cultural benefits (e.g., the enjoyment provided to visitors to a national park).⁵ 	<ul style="list-style-type: none"> • Similar to the concepts of service potential and economic benefits. • Incorporated into paragraph 5(b).
--	--	--

- BC5. Although 'naturally occurring' is not explicitly defined in the TNFD or UN SEEA Central Framework, but its usage is consistent with the plain English meaning of "coming into existence without artificial aid", "existing by nature without artificial aid", or "happening or existing as part of nature and not made or done by people".⁶
- BC6. The IPSASB noted that the term 'environmental assets' embodies the same key characteristics as how 'natural resources' was described in the CP. However, this term cannot be incorporated as is into IPSAS, as the term 'asset' already has a specific definition in the IPSASB's Conceptual Framework that is not consistent with how it is defined and used in the TNFD or UN SEEA frameworks.
- BC7. Furthermore, the concept of providing benefits to humanity is similar to the concept of providing service potential or the capability to generate economic benefits in the IPSASB's Conceptual Framework. However, because the objective of financial reporting using IPSAS is to provide information about an individual entity for accountability and decision-making purposes, the IPSASB decided it would be more appropriate for a natural resource to refer to service potential or the capability to generate economic benefits rather than broadly referring to benefits to humanity.
- BC8. Finally, because [draft] IPSAS [X] focuses on only tangible items, using the term 'natural resources' rather than 'environmental assets' is another way to highlight the differences from the concepts in the TNFD Framework and the UN SEEA Central Framework.
- BC9. As a result, the IPSASB developed the definition of 'natural resources' in paragraph 5 of [draft] IPSAS [X] based on the term 'environmental assets' from the TNFD Framework and UN SEEA Central Framework but modified the definition to reflect the conventional nomenclature and objective of financial reporting under IPSAS. In addition, the definition incorporates the explanation that 'naturally occurring' refers to items which came into existence without artificial aid. Examples

⁵ UN SEEA Central Framework (2012), paragraph 2.22 and <https://framework.tnfd.global/concepts-and-definitions/definitions-of-nature/>.

⁶ <https://www.merriam-webster.com/dictionary/naturally>, <https://www.merriam-webster.com/dictionary/occurring>, <https://www.vocabulary.com/dictionary/naturally%20occurring>, and <https://dictionary.cambridge.org/dictionary/english/naturally>

EXPOSURE DRAFT XX, NATURAL RESOURCES

of how natural resources can benefit an entity were also incorporated into paragraphs AG2-AG3 of [draft] IPSAS [X].

Identification of Potential Natural Resources

BC10. In response to the CP, some constituents also raised concerns regarding whether it was necessary to perform a detailed inventorying exercise of all naturally occurring items in a jurisdiction to identify all potential natural resources. These respondents noted that such an exercise would be extremely costly, even if the resulting recognition, measurement, and disclosure impact in the general purpose financial statements (GPFS) will be minimal. When [draft] IPSAS [X] was developed, the IPSASB noted that the detailed recognition criteria in paragraph 8 along with the related application guidance in paragraph AG5 of the [draft] Standard will limit the potential natural resources to naturally occurring items that are subject to a detailed plan demonstrating the technical and financial feasibility of using or selling such items. As a result, Section A.1 of the Implementation Guidance was developed to explain how an entity can effectively identify all potential natural resources without individually considering each naturally occurring item in the jurisdiction.

Recognition and Measurement of Natural Resources

BC11. When the IPSASB developed the CP, the Board included preliminary views indicating that the recognition of natural resources, especially subsoil resources, as assets in the GPFS would be challenging due to the definition of an asset and the asset recognition criteria in the Conceptual Framework, as well as limitations in the technologies currently available to identify and quantify certain natural resources.

BC12. Respondents to the CP generally agreed with the IPSASB, and some constituents suggested that the reporting of natural resources is more suitable for the broader General Purpose Financial Reports (GPFs). Nevertheless, the IPSASB noted the objective of the Natural Resources project is to develop guidance on the accounting of natural resources in the GPFS, and therefore decided to proceed with developing this [draft] Standard based on the recognition and measurement principles in the Conceptual Framework.

BC13. To operationalize the application of the asset recognition criteria to natural resources, the IPSASB decided to include detailed criteria for assessing whether an item meets the definition of an asset. This approach is consistent with the guidance on the recognition of internally developed intangible assets from the IPSAS 31, *Intangible Assets*. The IPSASB also leveraged the measurement guidance from IPSAS 45, *Property, Plant, and Equipment*, including guidance on when an item is considered reliably measurable.

BC14. The IPSASB noted that natural resources which meet the asset recognition criteria would generally meet the definition of property, plant, and equipment, inventories, biological assets, agricultural produce, or investment property, as defined in IPSAS 45, IPSAS 12, *Inventories*, IPSAS 27, *Agriculture*, and IPSAS 16, *Investment Property*. As a result, rather than developing new accounting guidance for these items, the IPSASB decided to refer to the existing guidance in IPSAS 45, IPSAS 12, IPSAS 27, and IPSAS 16.

BC15. The IPSASB also decided that the impact from the recognition of natural resource assets from events which do not involve transacting with a third party (e.g., discovery of a natural resource) is not consistent with the nature of revenue or gains from disposals which are generally recorded in the statement of financial performance. As a result, the IPSASB included guidance that the effect of recognizing such natural resources is to be recorded in net assets/equity.

EXPOSURE DRAFT XX, NATURAL RESOURCES

Accounting for Subsequent Expenditures Incurred for Natural Resources-Related Activities

- BC16. The IPSASB noted that in IPSAS 45, the accounting for subsequent expenditures on heritage property, plant, and equipment is driven by whether the subsequent expenditure meets the recognition principles in IPSAS 45, and that this assessment is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. Applying this principle to natural resources in general, the IPSASB decided that:
- (a) Subsequent expenditures incurred for natural resources-related activities should be recognized and measured based on the guidance in IPSAS 45, IPSAS 12, IPSAS 27, IPSAS 16, [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources*, depending on the nature of the activities; and
 - (b) The recognition of such subsequent expenditures is unaffected by whether or not the underlying natural resource was initially recognized.

Display and Disclosure

- BC17. Based on the decision to refer to existing IPSAS for the recognition and measurement of natural resources which meet the asset recognition criteria, the IPSASB also decided to incorporate the display and disclosure requirements from these IPSAS into [draft] IPSAS [X]. In addition, additional disclosure requirements for recognized natural resources which were proposed in the CP were also included in the [draft] Standard.
- BC18. When the IPSASB developed the CP, it had also proposed the following financial statement disclosures for unrecognized natural resources:
- (a) Qualitative disclosures for a natural resource which meets the definition of an asset but could not be recognized due to the inability to measure the resource reliably. These disclosures focused on explaining the difficulties in obtaining a reliable measurement and the significance of the natural resource to the delivery of the entity's objectives;
 - (b) Qualitative disclosures regarding custodial responsibilities relating to a natural resource, regardless of whether the resource is recognized; and
 - (c) Qualitative disclosures on unrecognized natural resources that do not meet the definition of an asset but is important to an understanding of the entity's finances or delivery of services.
- BC19. In response to the above proposals, respondents were particularly concerned by the requirements in paragraph BC18(c) and noted that such disclosures in the financial statements would likely not be auditable. As a result, the IPSASB decided to clarify that only information regarding natural resources that meet the definition of an asset is to be disclosed in the financial statements, and that information regarding natural resources which do not meet the asset definition is more appropriate for reporting in the broader GPFs.
- BC20. The IPSASB also decided to retain the proposed disclosures noted in paragraph BC18(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC18(b) was also retained, as it relates to potential obligations which are similar in nature to contingent liabilities or potential obligations from pledges, rather than the underlying unrecognized natural resource.

EXPOSURE DRAFT XX, NATURAL RESOURCES

Effective Date and Transition

- BC21. The IPSASB decided to require the application of this [draft] Standard at the same time as [draft] IPSAS [Y], as the two [draft] Standards were developed together and the accounting guidance from [draft] IPSAS [Y] is incorporated into this [draft] Standard by reference.
- BC22. The IPSASB also decided to require full retrospective application of [draft] IPSAS [X] due to the following reasons:
- (a) The accounting for recognized natural resources and natural resource-related expenditures which are recognized as assets is generally driven by the requirements in existing IPSAS. The application of these existing IPSAS would have resulted in recognition and measurement which is consistent with the accounting proposed in this [draft] Standard;
 - (b) In situations where a public sector entity engaged in exploration and evaluation activities, it is likely that the entity would have applied IFRS 6, *Exploration for and Evaluation of Mineral Resources*, through the application of paragraph 15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. In addition, [draft] IPSAS [Y], which is aligned with IFRS 6, allows an accounting policy choice to capitalize or expense exploration and evaluation expenditures. As a result, even if IFRS 6 was not applied, the entity's accounting policy for these expenditures is likely to be consistent with the proposed requirements; and
 - (c) Similarly, the proposed accounting for stripping costs in the production phase of a surface mine is based on an interpretation of existing principles from IAS 2, *Inventories*, and IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*. These IFRS are already aligned with IPSAS 12, IPSAS 45, and IPSAS 31, differences in accounting for such costs are not expected.

Implementation Guidance

[Placeholder]

Illustrative Examples

[Placeholder]

Comparison with GFS

- [Placeholder – to be completed. Table will emphasize differences on recognition and measurement in the IPSASB's Conceptual Framework compared to GFS.]

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