

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Zurich, Switzerland

Meeting Date: September 12–15, 2023

Agenda Item 14

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.	
Project staff lead	<ul style="list-style-type: none"> Edwin Ng, Principal 	
Drafting group members	<ul style="list-style-type: none"> Renée Pichard, IPSASB Member (Drafting Group Chair) Remaining membership to be determined 	
Meeting objectives	Topic	Agenda Item
Project management	Phase 1 Exposure Draft Dashboard	14.1.1
	Decisions up to Previous Meeting	14.1.2
	Instructions up to Previous Meeting	14.1.3
	Natural Resources: Project Roadmap	14.1.4
Decisions required at this meeting	Natural Resources: Project Management	14.2.1
	Revised Definition of Natural Resources	14.2.2
	Revised Recognition and Measurement Proposals	14.2.3
	Proposed Display and Disclosure Requirements	14.2.4
	Other Proposals in [Draft] IPSAS [X], <i>Natural Resources</i>	14.2.5
	Proposed Topics for Implementation Guidance and Illustrative Examples	14.2.6
Other supporting items	[Draft] IPSAS [X], <i>Natural Resources</i>	14.3.1

**NATURAL RESOURCES:
 EXPOSURE DRAFT DASHBOARD**

Topic	Past Meetings	June 2023	Sept 2023	Dec 2023	Mar 2024	June 2024
Overall Project Management						
Project Planning	✓	✓				
Review and Approval of Natural Resources ED						
Review and Approval of Alignment ED						
Natural Resources – Authoritative Text						
Objective & Scope						
Definitions						
Recognition						
Measurement						
Presentation & Disclosure						
Effective Date & Transition						
Application Guidance						
Amendments to Other IPSAS						
Natural Resources – Non-Authoritative Text						
Basis for Conclusions						
Implementation Guidance						
Illustrative Examples						
Alignment with IFRS 6 and IFRIC 20						
Development of ED						

Legend	
✓	Task Completed
	Planned IPSASB Discussion
	Page-by-page Review

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2023	1. The proposed revised project timeline was appropriate.	1. Project management only. No BC required.
March 2023	1. The delineation between natural and other resources is necessary.	1. See paragraphs BC1-BC7 in Agenda Item 14.3.1 .
March 2023	2. An ED on the financial reporting of natural resources within the general purpose financial statements should be developed.	2. See paragraph BC12 in Agenda Item 14.3.1 .
March 2023	3. A separate ED for the costs of exploration, evaluation, and extraction activities, aligned with IFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i> , and IFRIC 20, <i>Stripping Costs in the Production Phase of a Surface Mine</i> , should be developed.	3. See Agenda Item 16.
March 2022	1. All decisions made up to March 2022 were reflected in the Consultation Paper, <i>Natural Resources</i> .	1. All decisions made up to March 2022 were reflected in the Consultation Paper, <i>Natural Resources</i> .

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2023	1. Reconsider the definition of natural resources to: <ul style="list-style-type: none"> ○ Define natural resources positively rather than relying on scoping out items using existing IPSAS; and ○ Explain what is meant by naturally occurring by anchoring the definition in the broader discussion of natural resources and sustainability in other established frameworks such as the United Nations' System of Environmental-Economic Accounting, as well as the standards from the Global Reporting Initiative framework and the International Sustainability Standards Board. 	1. See Agenda Item 14.2.2 .
June 2023	2. Revise the draft guidance on the recognition of natural resources so that it: <ul style="list-style-type: none"> ○ Clearly incorporates the asset recognition criteria from the Conceptual Framework; ○ Reflects the challenges in recognition of natural resources as noted by constituents; ○ Does not make use of a rebuttable presumption; ○ Signposts to other standards if the items which meet the asset recognition criteria are already within the scope of existing IPSAS; and ○ Considers the accounting for the related expenditures as well as the underlying resource. 	2. See Agenda Item 14.2.3 .
March 2023	1. Develop the draft of an IFRS-aligned ED on exploration, evaluation, and extraction activities.	1. See Agenda Item 16.

**NATURAL RESOURCES:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2020	<ol style="list-style-type: none">1. Project Brief approval2. Commencement of Consultation Paper (CP) development
March 2022	<ol style="list-style-type: none">1. Approval of CP (Published May 9, 2022)
December 2022	<ol style="list-style-type: none">1. CP comment period (Ended October 17, 2022)
March 2023	<ol style="list-style-type: none">1. Review of responses to the CP
June 2023	<ol style="list-style-type: none">1. Development of Exposure Draft (ED) on the financial reporting of natural resources
September 2023	<ol style="list-style-type: none">1. Discussion of issues2. Development of Exposure Draft (ED) on the financial reporting of natural resources3. Development of ED on alignment with IFRS 6 and IFRIC 20 (See Agenda Item 16)
December 2023	<ol style="list-style-type: none">1. Discussion of issues
March 2024	<ol style="list-style-type: none">1. Approval of EDs

Natural Resources: Project Management

Purpose

1. To provide an overview of the project progress and the next steps leading to approval in March 2024.

Background

March 2023

2. The IPSASB started its review of responses to the Consultation Paper, *Natural Resources* (CP) in March 2023. Based on the feedback received, staff began the development of the exposure [draft] IPSAS [X], *Natural Resources* (ED).
3. Based on the analysis presented, the IPSASB made the following directional decisions:
 - (a) An ED addressing the accounting of natural resources in the general purpose financial statements should be developed. Consistent with the decisions made at the CP stage, the ED will only focus on tangible natural resources, and any proposed accounting will need to be consistent with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities—i.e., the ED is not intended to lead to amendments to the Conceptual Framework; and
 - (b) A separate ED should be developed for the alignment with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. See Agenda Item 16.
4. In addition, in response to concerns raised by respondents, the IPSASB instructed staff to develop a revised definition of natural resources and to develop guidance on recognition and measurement based on the proposed principles and preliminary views in the CP.

June 2023

5. At the June 2023 IPSASB meeting, staff presented a revised definition of natural resources and developed a preliminary ED based on the principles from the CP:
 - (a) The definition proposed in June focused on naturally occurring items which meet the definition of a resource from the Conceptual Framework and relied on excluding certain items based on the scope of existing IPSAS. The IPSASB members did not agree with this approach, as it was thought to focus too much on what is not a natural resource. Certain members noted that without relating the definition of natural resources to an established environmental or sustainability reporting framework, any proposed definition will be difficult for constituents to understand. Concerns were also raised regarding defining the term 'resource' in the authoritative text of a standard due to potential unintended consequences; and
 - (b) Staff proposed a set of detailed recognition criteria like those used for the recognition of internally generated intangible assets. The proposed recognition guidance also made use of a rebuttable presumption that natural resources are generally not recognized as assets in the general purpose financial statements unless an entity can clearly demonstrate that the resource meets all of the detailed asset recognition criteria. The use of the rebuttable presumption was also meant to address constituents' concerns over the need to inventory all potential natural resources in a jurisdiction. While the IPSASB agreed with the proposed detailed recognition criteria, the board did not agree with the use of a rebuttable presumption.

A number of members also noted that a naturally occurring item which meets the recognition criteria will most likely already be within the scope of an existing IPSAS.

6. In addition, staff invited representatives from an international accounting firm to provide an education session on IFRS 6, *Exploration for and Evaluation of Mineral Resources*. The discussion addressed the general accounting for the costs of activities relating to the exploration and evaluation of mineral resources (subsoil resources). Based on the discussion, a number of members noted that it would be helpful to address the accounting of costs of natural resources-related activities in the Natural Resources ED.
7. Based on the above developments, the IPSASB instructed staff to:
 - (a) Revise the definition of natural resources to:
 - (i) Not rely on scoping out items using existing IPSAS;
 - (ii) Not explicitly define 'resource' in the authoritative text; and
 - (iii) Better explain what is 'naturally occurring' by incorporating concepts from environmental or sustainability reporting frameworks; and
 - (b) Revise the recognition guidance to remove the rebuttable presumption and to provide signposting to existing standards if an item meets the asset recognition criteria; and
 - (c) Develop guidance on the accounting for the cost of natural resource-related activities.

September 2023

8. Based on the instructions from June and to get input from the IPSASB on the remainder of the ED, staff will present the following proposals at the current meeting:
 - (a) Revised definition of natural resources ([Agenda Item 14.2.2](#));
 - (b) Revised proposals for recognition and measurement principles ([Agenda Item 14.2.3](#));
 - (c) Proposed display and disclosure requirements ([Agenda Item 14.2.4](#));
 - (d) Other proposals, including amendments to other IPSAS and transitional provisions ([Agenda Item 14.2.5](#)); and
 - (e) Proposed topics for the non-authoritative parts of the future standards (implementation guidance and illustrative examples ([Agenda Item 14.2.6](#))).
9. Staff will also present a draft of the authoritative text of the ED, which incorporates the proposals from paragraphs 8(a)-8(d), along with the related Basis for Conclusions (BC). This draft ED is included in [Agenda Item 14.3.1](#).

Next Steps

10. Pending the IPSASB's decisions on the proposed authoritative text and related BCs, the remaining items to be completed include the implementation guidance and the illustrative examples. Staff's plan to complete these non-authoritative sections of the ED is as follows:
 - (a) Based on the IPSASB's feedback on Agenda Item 14.2.6, staff will begin to develop the implementation guidance and illustrative examples for the agreed-upon topics in Q4 of 2023;

- (b) By the end of the current meeting, the IPSASB would have reviewed the proposed authoritative text. As a result, a task force is no longer needed to discuss principle-related matters. Staff plan to work with a Drafting Group¹ to incorporate realistic fact patterns and additional relevant perspectives into the IGs and IEs. The Drafting Group will focus on the development of non-authoritative text—that is, subject to the identification of any technical fatal flaws, the intention of the group is not to reopen decisions on the principles decided by the IPSASB; and
- (c) Staff will present the draft implementation guidance and illustrative examples to the IPSASB at the December 2023 meeting.

Decision Required

- 11. No decision required. For information purposes only.

¹ The Drafting Group will be formed soon after the September 2023 meeting and will be led by IPSASB Member, Renée Pichard.

Revised Definition of Natural Resources

Question

1. Does the IPSASB agree with the proposed revision to the definition of natural resources?

Recommendations

2. Staff recommend:
 - (a) Revising the definition of 'natural resources' in the Exposure Draft, Natural Resources (ED) to incorporate the key characteristics of 'environmental assets' as defined by the relevant international guidance (Taskforce on Nature-related Financial Disclosures (TNFD) Framework and the United Nation's System of Environmental-Economic Accounting (2012) (UN SEEA) Central Framework);
 - (b) Incorporate the explanation that 'naturally occurring' means 'coming into existence without artificial aid' into the definition and supplement this explanation in the application guidance;
 - (c) Explaining in the application guidance how natural resources can benefit a reporting entity;
 - (d) Explaining in the basis for conclusions the approach used to develop the definition and related application guidance; and
 - (e) Explaining in the application guidance and implementation guidance that the criteria for assessing when a naturally occurring item is considered a resource addresses concerns over completeness of potential natural resources.

Background

3. As noted in [Agenda Item 14.2.1](#), at the June 2023 meeting, the IPSASB instructed staff to:
 - (a) Revise the definition of natural resources so that it does not involve making use of the scope of existing IPSAS;
 - (b) Address concerns over defining 'resource' in the authoritative text; and
 - (c) Explain what is meant by 'naturally occurring' by anchoring the definition into the broader discussion of natural resources in sustainability and other internationally relevant reporting frameworks.²
4. In addition, due to instructions regarding the recognition proposals in June, staff will need to develop a way to address constituent's concerns on the identification of all potential natural resources in a jurisdiction.
5. This paper addresses the above issues.

² These include the UN SEEA Central Framework and the standards from the Global Reporting Initiative (GRI) Framework and the International Sustainability Standards Board (ISSB).

Analysis

Definitions in Other International Reporting Frameworks

6. Staff researched the sustainability reporting standards from the GRI and the ISSB, as well as the TNFD and UN SEEA Central Framework, to see if they have any information that is relevant to the concepts of naturally occurring or nature.
7. While these frameworks do not have the same objective as financial reporting using IPSAS, they could help inform the IPSASB's definition of natural resources, as they discuss the interaction between nature and the economy in different contexts:
 - (a) Staff noted that the GRI and ISSB's standards focus on more specific concepts, such as sustainability development, sustainability-related risks, and climate-related risks, and currently do not define "nature" at a broad level;
 - (b) The TNFD Framework defines 'nature' as "the natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment"³; and
 - (c) While 'nature' is not separately defined in the UN SEEA Central Framework, the same concept as 'nature' as defined in the TNFD Framework is also used in many of its formal definitions.
8. The TNFD and UN SEEA Central Framework considers the flow of environmental assets from nature to generate benefits to people and the economy. Both frameworks define environmental assets as "the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity."⁴ Staff noted that '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".⁵
9. The TNFD and UN SEEA Central Framework further states that nature can be thought of as a stock⁶ of assets providing benefits to humanity through ecosystem services, which include:
 - (a) Provisioning services, such as the provision of timber from forests;
 - (b) 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

³ <https://framework.tnfd.global/appendix/glossary-of-key-terms/>

⁴ https://seea.un.org/sites/seea.un.org/files/documents/seea_glossary_terms_languages_v2.pdf

⁵ <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>

⁶ In national and statistical accounts, the term 'stock' is consistent with an item in a statement of financial position under accrual IPSAS.

- (c) 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).⁷

Applying the Concepts from Other International Reporting Frameworks to IPSAS

10. To provide constituents with context on how the definition of natural resources was developed, staff propose including the discussion of 'nature' and how 'environmental assets' from nature can be used to generate benefits in the basis for conclusions. This discussion will also be helpful in the educational materials (At-A-Glance, webcasts, etc.) that will be developed to accompany the release of the ED.
11. From an IPSAS perspective, the term 'environmental asset' may cause confusion as 'asset' is a narrowly defined term in our Conceptual Framework.⁸ This partially influenced the IPSASB's decision to use the term 'natural resources' since the inception of the project, as it is a common English term which refers to items embodying the same characteristics as 'environmental assets' within the TNFD Framework and UN SEEA Central Framework. Staff noted that using the term 'natural resources' rather than 'environmental assets' can also highlight the fact that the current [draft] IPSAS [X] only focuses on tangible items.
12. Although the term 'environmental assets' should not be defined in IPSAS, the references to 'naturally occurring' and the 'provision of benefits to humanity' in the definition are helpful, as these components confirm the essential characteristics of natural resources:
 - (a) The concept of being 'naturally occurring' was already in the definition of natural resources as proposed in the Consultation Paper, Natural Resources (CP). To address the comments that the previous definition felt circular, staff propose to incorporate the explanation that 'naturally occurring item' refers to an item which came into existence without artificial aid. Staff also propose to incorporate the discussion of living and non-living components of the Earth from the definition of environment assets into the accompanying application guidance; and
 - (b) Staff noted that it would be helpful to supplement the current 'natural resource' definition by incorporating the discussion of ecosystem services from the TNFD and UN SEEA Central Framework in the Application Guidance. The reference to the 'provision of benefits to humanity' is similar to the 'right to service potential or the capability to generate economic benefits' as previously proposed in the CP. However, as discussed in paragraph 7, the objectives of the TNFD Framework and the UN SEEA Central Framework relate to the compilation of statistical accounts and the measurement of progress towards sustainable development goals. In contrast, the objective of IPSAS is to provide information about a specific entity that is useful to users to for accountability and decision-making purposes. Therefore, it would be more appropriate for the definition of a 'natural resource' in IPSAS to refer to the individual reporting entity's service potential or the capability to generate economic benefits for the individual reporting entity. This approach would align with staff's previous proposals to incorporate the concept of a resource into the definition of natural resources, in lieu of defining it and avoid any unintended consequences.

⁷ UN SEEA Central Framework (2012), paragraph 2.22 and <https://framework.tnfd.global/concepts-and-definitions/definitions-of-nature/>

⁸ "An asset is a resource presently controlled by the entity as a result of past events." IPSASB Conceptual Framework (2023), paragraph 5.6.

13. The following table summarizes the relevant concepts from the TNFD Framework and the UN SEEA Central Framework and how they are incorporated into the definition of natural resources:

	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.⁹ 	<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.¹⁰ 	<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."¹¹ "Nature can be conceived of stocks of environmental assets that give rise to associated flows of benefits to people and the economy."¹¹ 	<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."¹² 		<ul style="list-style-type: none"> Incorporated 'naturally occurring' concept into paragraph 5(a) of [draft] IPSAS [X].

⁹ <https://framework.tnfd.global/introduction-to-the-framework/>

¹⁰ UN SEEA Central Framework (2012), paragraph 1.1.

¹¹ <https://framework.tnfd.global/concepts-and-definitions/definitions-of-nature/>

¹² <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

<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).¹³ 	<ul style="list-style-type: none"> • Similar to the concepts of service potential and economic benefits. • Incorporated into paragraph 5(b) of [draft] IPSAS [X].
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14. Based on the above analysis, staff propose to:
- Align the definition of natural resources to “environmental assets” from the TNFD and UN SEEA Central Framework by explaining what is meant by naturally occurring (based on analysis in paragraph 12(a));
 - Directly referring to service potential and economic benefits in the definition rather than separately defining “resource” (based on analysis in paragraph 12(b));
 - Remove the exclusion of items which are within the scope of certain existing IPSAS. (Scoping is further discussed in the paper on recognition. See [Agenda Item 14.2.2](#)); and
 - Explain in the Basis for Conclusions and educational materials how “natural resources” falls within the broader discussion of nature in other reporting frameworks by incorporating concepts from the TNFD and UN SEEA Central Framework (based on analysis in paragraphs 10-11).

Identification of Natural Resources

15. To address constituent’s concerns regarding the need to inventory all potential natural resources, staff had previously proposed detailed asset recognition criteria in the draft ED which includes criteria for establishing when a naturally occurring item is considered a resource. Staff noted that the proposed criteria will be helpful in addressing concerns over the completeness of potential natural resources, as a naturally occurring item is only considered a resource if the entity has the intention and ability to use or sell the natural resource and can demonstrate how the resource will generate future economic benefits or service potential. Staff propose to add application guidance and implementation guidance indicating these criteria are typically met when the entity has a plan demonstrating the technical and financial feasibility of using or selling the natural resource, and if necessary, how the entity will obtain the resources necessary to carry out this plan.

¹³ UN SEEA Central Framework (2012), paragraph 2.22 and <https://framework.tnfd.global/concepts-and-definitions/definitions-of-nature/>.

Reflecting the Above Proposals in [draft] IPSAS [X], Natural Resources

16. The following paragraphs in the draft ED were revised:
- (a) Paragraph 4 – Removed the previously proposed scope exclusions for items within the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45;
 - (b) Paragraph 5 – Revised the definition of natural resources to:
“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”;
 - (c) Paragraph AG2-AG3 – Incorporated the concepts from the TNFD Framework and the UN SEEA Central Framework as discussed in paragraphs 10-14 of this paper;
 - (d) Paragraph AG5 – Added guidance on the need for a detailed plan demonstrating the technical and financial feasibility of using or selling a naturally occurring item in order for it to be considered a resource;
 - (e) Paragraphs BC2-BC9 – Added the discussion of the concepts from the TNFD Framework and the UN SEEA Central Framework to explain how the IPSASB developed the definition of natural resources; and
 - (f) Paragraph BC10, Implementation Guidance, Section A.1– Added explanation for the addition of AG 5, as well as a Q&A to explain how paragraphs 8(a) and AG5 can be used to help identify potential natural resources without considering each naturally occurring item individually.
17. A full draft of the ED can be found in [Agenda Item 14.3.1](#).

Decision Required

18. Does the IPSASB agree with the Staff [recommendations](#)?

Revised Recognition and Measurement Proposals

Question

1. Does the IPSASB agree with the revisions to the proposed guidance on the recognition and measurement of natural resources and expenditures for natural resources-related activities?

Recommendations

2. Staff recommend revising the proposed recognition and measurement guidance in the [draft] IPSAS [X], *Natural Resources*, as follows:
 - (a) Natural resources which meet the asset recognition criteria are accounted for based on their use in accordance with IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, or IPSAS 45, *Property, Plant, and Equipment*, and
 - (b) Subsequent expenditures incurred for natural resources-related activities are to be accounted for using the above-noted IPSAS depending on their nature. Expenditures which do not meet the applicable asset recognition criteria are expensed as incurred. The recognition of such subsequent expenditures as assets is unaffected by whether or not the underlying natural resources meet the asset recognition criteria.

Background

3. As noted in [Agenda Item 14.2.1](#), IPSASB members largely agreed with the proposed recognition criteria from June 2023 but did not agree with the proposed recognition approach which relied on a rebuttable presumption. Some IPSASB members questioned if the recognition analysis should start with the exclusion of naturally occurring items which fell within the scope of existing IPSAS, as they could not envision any items which could meet the asset recognition criteria and were not already addressed by an existing IPSAS.
4. The IPSASB instructed staff to revise the draft guidance on the recognition of natural resources so that it:
 - (a) Clearly incorporates the asset recognition criteria from the Conceptual Framework;
 - (b) Reflects the challenges in recognition of natural resources as noted by constituents;
 - (c) Does not make use of a rebuttable presumption;
 - (d) Signposts to other standards if the items which meet the asset recognition criteria are already within the scope of existing IPSAS; and
 - (e) Considers the accounting for the related expenditures as well as the underlying resource.

This paper addresses the IPSASB's instructions.

Analysis

Asset Recognition Criteria and Recognition Approach

5. In response to the IPSASB's instructions, staff propose to:
 - (a) Remove the exclusion of items within the scope of existing IPSAS, as the ED will now refer to the various standards for the recognition and measurement guidance for natural resources which meet the asset recognition criteria. (See proposal (d) below);

- (b) Retain the proposed recognition criteria (i.e., assessment of the definition of an asset, control and past events) from June 2023;
 - (c) Remove the rebuttable presumption over recognition;
 - (d) Reframe the recognition analysis so that natural resources which do meet the asset recognition criteria are accounted for based on their use. That is:
 - (i) Natural resource assets that meet the definition of property, plant, and equipment are accounted for in accordance with IPSAS 45, *Property, Plant, and Equipment*;
 - (ii) Natural resource assets that meet the definition of inventories are accounted for in accordance with IPSAS 12, *Inventories*;
 - (iii) Natural resource assets which relate to an entity's agricultural activity and 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
 - (iv) Natural resource assets that meet the definition of investment properties are accounted for in accordance with IPSAS 16, *Investment Property*. Staff considered if IPSAS 16 could be applicable to natural resource assets in realistic scenarios and noted that land which is held to earn rentals would be considered an investment property. In addition, paragraph 12(b) of IPSAS 16 explicitly states that land held for a currently undetermined future use is considered land held for capital appreciation. Staff plan to present an illustrative example to highlight how IPSAS 16 could be applicable at the December 2023 IPSASB Meeting (see [Agenda Item 14.2.6](#)).
6. In addition, staff noted that there may be situations where a natural resource could be recognized as the result of an event which does not involve a transaction with another party (e.g., discovery of a new natural resource). The impact from such an event is not consistent with the nature of revenue from IPSAS 47 or gains from IPSAS 16, IPSAS 31, or IPSAS 45. Therefore, staff propose to specify that the impact from the recognition of natural resource assets from such events is recorded in net assets/equity.
7. To facilitate application of the [draft] Standard, staff also propose to include a flowchart in the Application Guidance which walks through the considerations in paragraph 5 of this paper.

Accounting for Subsequent Expenditures Incurred for Natural Resource-Related Activities

- 8. To address the IPSASB's instruction on the accounting of natural resource-related expenditures, staff noted that existing IPSAS already addresses similar expenditures, including expenditures incurred related to unrecognized items.
- 9. Paragraph AG16 of IPSAS 45, as supplemented by IG9 and explained by BC36, requires the recognition of subsequent expenditures on heritage items as property, plant, and equipment if the expenditures meet the recognition principles in paragraph 6 of IPSAS 45. If the recognition principles are met, the recognition of such subsequent expenditures is unaffected by whether or not the underlying heritage item was recognized. Applying this principle to natural resources, subsequent expenditures which relate to natural resources which are similar in nature as property, plant, and equipment and meet the recognition principle in IPSAS 45 would be recognized as property, plant, and equipment.

10. Similarly, expenditures incurred relating to natural resources which are consistent with the cost of inventories as stated in paragraph 18 of IPSAS 12 (i.e., cost of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition) should be accounted for as inventory.
11. In addition, 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.
12. Applying the same principle, expenditures which relate to a natural resource that is of a similar nature as an investment property and meets the recognition criteria in paragraph 20 of IPSAS 16 are recognized as investment property.
13. Staff also added signposting to the accounting for exploration for and evaluation of mineral resources, which will be addressed by [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources* (see Agenda Item 16), and the accounting for production stripping activities based on IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which staff incorporated into [draft] IPSAS [Y] as an appendix.
14. The application of the guidance in IPSAS 45, IPSAS 12, IPSAS 27, IPSAS 16, and [draft] IPSAS [Y] would generally result in the measurement of natural resources-related expenditures at cost, with the option to measure certain asset at current value. Unlike the underlying natural resources, the measurement of these items using a cost model is not expected to be controversial, as entities would know how much expenditures were incurred.
15. Based on the reasoning set out in paragraphs 8-14, staff propose the following guidance:
 - (a) Subsequent expenditures incurred for natural resources-related activities are to be accounted for using IPSAS 45, IPSAS 12, IPSAS 27, IPSAS 16, or [draft] IPSAS [Y] depending on their nature. Whether a specific expenditure can be recognized as an asset depends on whether the recognition principle or criteria in the applicable standard are met. Expenditures that do not meet the applicable recognition principle are expensed as incurred; and
 - (b) The recognition of such subsequent expenditures as assets is unaffected by whether or not the underlying natural resources meet the asset recognition criteria.

Proposed Measurement Guidance

16. Because the ED now refers to existing IPSAS for the accounting of recognized natural resource assets, the measurement section has been revised to incorporate the initial and subsequent measurement requirements from IPSAS 45, IPSAS 12, IPSAS 27, IPSAS 16, and [draft] IPSAS [Y]. The incorporation of subsequent measurement requirements from these standards will also provide entities with the accounting policy choice to measure certain natural resources at current value. For example, a natural resource which is accounted for as an item of property, plant, and equipment can be subsequently measured using a current value model as permitted by paragraph 24 of IPSAS 45, provided that its current value can be reliably measured as required by paragraph 27 of IPSAS 45.
17. Staff also included a discussion of when the current value of an asset can be reliably measured. This discussion was developed based on the corresponding paragraph on reliable measurement from IPSAS 45.

Reflecting the Above Proposals in [Draft] IPSAS [X], Natural Resources

18. The above proposals have been reflected in the following paragraphs in [draft] IPSAS [X], which is included in [Agenda Item 14.3.1](#):
- (a) Paragraphs 7-9 – The recognition criteria in these paragraphs have largely been retained from the June 2023 draft, but updated for editorial comments from members;
 - (b) Paragraph 10 – Added to reflect the signposting to existing IPSAS as discussed in paragraph 5(d) of this paper;
 - (c) Paragraph 11 – Added guidance on recording the effect of recognizing certain natural resource assets in net assets/equity, as discussed in paragraph 6 of this paper;
 - (d) Paragraphs 12-14 – Added to address the accounting of expenditures for natural resource-related activities as discussed in paragraphs 8-15 of this paper;
 - (e) Paragraphs 15-18 – Added to reflect the measurement requirements as discussed in paragraphs 16-17 of this paper; and
 - (f) AG8 and accompanying flowchart – Added as discussed in paragraph 7 of this paper.

Decision Required

19. Does the IPSASB agree with the Staff [recommendations](#)?

Proposed Display and Disclosure Requirements

Question

1. Does the IPSASB agree with the proposed requirements for display and disclosure in [draft] IPSAS [X], *Natural Resources*?

Recommendation

2. Staff recommend including the following display and disclosure requirements in [draft] IPSAS [X], *Natural Resources*:
 - (a) Clarify in the exposure draft that only information regarding natural resources which meet the definition of an asset are disclosed in the general purpose financial statements (GPFS), while information regarding 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 broader general purpose financial reports (GPFRs);
 - (b) For recognized natural resource assets, incorporate the display and disclosure requirements from the following IPSAS by reference:
 - (i) IPSAS 12, *Inventories*;
 - (ii) IPSAS 16, *Investment Properties*;
 - (iii) IPSAS 27, *Agriculture*;
 - (iv) IPSAS 45, *Property, Plant, and Equipment*; and
 - (v) [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources*; and
 - (c) Incorporate the proposed disclosure requirements from the Consultation Paper, *Natural Resources* (CP), which include:
 - (i) Additional disclosures for recognized natural resources that are not addressed by the requirements noted in paragraph 2(b);
 - (ii) Disclosures for unrecognized natural resource assets; and
 - (iii) Custodial responsibilities.

Background

3. When the IPSASB developed the CP, *Natural Resources*, the Board did not propose requirements for display in the GPFS, as such requirements would depend on the recognition and measurement of natural resources. However, a number of disclosure requirements were proposed based on the concepts on information disclosure in chapter 8 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).
4. Consistent with paragraph 8.24 of the Conceptual Framework, the proposed disclosures in the CP included requirements for items which do not meet the definition of an asset but are important to an understanding of the entity's finances and ability to deliver services.
5. In response to the proposals noted in paragraph 4, some respondents to the CP noted that it would be difficult for such information to be audited. Other constituents raised concerns over their ability to

ensure completeness of the proposed disclosures, similar to the concerns over the completeness of potential natural resources as discussed in [Agenda Item 14.2.2](#).

6. In addition, based on instructions from the June 2023 meeting, staff proposed revised recognition and measurement requirements for natural resource assets based on certain existing IPSAS (see [Agenda Item 14.2.3](#).) These recognition and measurement proposals will impact the proposed display and disclosure requirements.
7. In response to the above developments, staff revised the proposed display and disclosure requirements in [draft] IPSAS [X], *Natural Resources*. This paper outlines these changes.

Analysis

Proposal for Natural Resources which do not Meet the Definition of an Asset

8. To address constituents' concerns on the completeness and auditability of disclosures relating to natural resources which do not meet the definition of an asset but are important to the understanding of an entity's finances and ability to deliver services, staff propose to clarify in paragraph 22 of the ED that only information on natural resources or related expenditures that meet the definition of an asset are disclosed in the financial statements. The paragraph also clarifies that information regarding natural resources that do not meet the definition of an asset but are important should be considered for reporting in the broader GPFRs.

Proposed Requirements for the Display of Recognized Natural Resource Assets

9. As noted in paragraph 6, the current draft of the ED now incorporates the recognition and measurement requirements from IPSAS 45, *Property, Plant, and Equipment*, IPSAS 12, *Inventories*, IPSAS 27, *Agriculture*, IPSAS 16, *Investment Properties*, and [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources*, along with its appendix based on IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.
10. These standards each have their own display requirements. As a result, staff propose to incorporate the display requirements into [draft] IPSAS [X] by reference. This is reflected in paragraph 19 of the ED—see [Agenda Item 14.3.1](#).

Proposed Disclosures for Recognized Natural Resource Assets

11. Like the proposed display requirements, staff propose to incorporate the disclosure requirements from IPSAS 45, IPSAS 12, IPSAS 27, IPSAS 16, and [draft] IPSAS [Y] by reference, and this is reflected in paragraph 23 of the ED.

Other Proposed Disclosures Carried Forward from the CP

12. In addition, staff proposed to include the following disclosures in the GPFS:
 - (a) Staff noted that not all of the proposed disclosures from the CP are addressed by the proposed requirements in paragraph 11. To address this gap, staff propose to require the disclosures proposed in the CP if the information is not already disclosed after applying the requirements from the referenced standards or [draft] standards. This is reflected in paragraph 24 of the ED;
 - (b) If a natural resource meets the definition of an asset but cannot be reliably measured, staff propose to require the disclosure of the difficulties in obtaining a reliable measurement and the significance of the unrecognized natural resource asset in relation to the delivery of the entity's

objectives. This requirement is consistent with the proposals in the CP, which were based on paragraph 77 of IPSAS 45 for heritage property, plant, and equipment that could not be recognized as they could not be reliably measured. This proposed requirement is reflected in paragraph 25 of the ED; and

- (c) Also consistent with the CP, staff propose to require the disclosure of custodial responsibilities over a natural resource, regardless of whether it is recognized. Staff noted that this proposal does not conflict with the clarification for the reporting in the GPFRs as noted in paragraph 8, because this proposed disclosure addresses the custodial responsibility, rather than the resource itself, and is similar in nature to the disclosure of unrecognized contingent liabilities or pledges. This proposed requirement is reflected in paragraph 26 of the ED.

Decision Required

13. Does the IPSASB agree with the Staff [recommendation](#)?

Other Proposals in [Draft] IPSAS [X], *Natural Resources*

Question

1. Does the IPSASB agree with the proposed transitional provisions and amendments to other IPSAS in [draft] IPSAS [X], *Natural Resources*?

Recommendation

2. Staff recommend to:
 - (a) Require the application of [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources*, at the same time as [draft] IPSAS [X];
 - (b) Require full retrospective application of [draft] IPSAS [X]; and
 - (c) Include amendments to IPSAS 16, *Investment Property*, IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, and IPSAS 45, *Property, Plant, and Equipment*, in [draft] IPSAS [X].

Background

3. In addition to the proposed recognition, measurement, display and disclosure guidance discussed in [Agenda Items 14.2.3](#) and [14.2.4](#), staff included the following proposals in [Agenda Item 14.3.1](#):
 - (a) Transitional provisions; and
 - (b) Amendments to Other IPSAS.
4. This paper explains the staff's proposals.

Analysis

Transitional Provisions

5. While [draft] IPSAS [X] and [draft] IPSAS [Y] are separate exposure drafts, at the June 2023 meeting, the IPSASB agreed that both EDs would be published at the same time in and released as a single package. In addition, [draft] IPSAS [X] refers to the accounting guidance on exploration and evaluation expenditures in [draft] IPSAS [Y]. As a result, staff recommend requiring the application of both [draft] standards at the same time.
6. In addition, the full retrospective application of [draft] IPSAS [X] and [draft] IPSAS [Y] is unlikely to be overly onerous due to the following reasons:
 - (a) The proposed accounting for natural resources and natural resource-related expenditures are based on principles in existing IPSAS;
 - (b) If 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 hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*;
 - (c) [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 an entity engaged in exploration and evaluation and did not apply IFRS 6, the entity's existing accounting policy for these expenditures is likely to be consistent with the proposals in [draft] IPSAS [Y]; and

- (d) If a public sector entity incurred stripping costs in the production phase of a surface mine, the proposed accounting is expected to be consistent with existing principles in IPSAS 12, *Inventories*, IPSAS 31, *Intangible Assets*, and IPSAS 45.

7. The proposed transitional provisions are reflected in paragraphs 30-31 of [Agenda Item 14.3.1](#).

Amendments to Other IPSAS

8. Staff considered potential amendments to other IPSAS which would be required upon the issuance of [draft] IPSAS [X] and noted the following:

- (a) There is currently no explicit guidance on, or mention of, natural resources in existing IPSAS, except for a brief discussion of mineral rights and mineral reserves in the scoping sections of IPSAS 16 and IPSAS 45. The current wording in these standards refer to the relevant international or national accounting standards addressing this topic. Staff propose retaining the scope exclusions in these standards but amending the text of IPSAS 16 and IPSAS 45 to refer to [draft] IPSAS [X];
- (b) IPSAS 45 also scopes out the recognition and measurement of exploration and evaluation assets and refers to the relevant international or national accounting standards. Staff propose retaining this scope exclusion but amending the text in IPSAS 45 to refer to [draft] IPSAS [Y]. See the proposed Amendments Other IPSAS in Agenda Item 16.3.1;
- (c) While [draft] IPSAS [X] refers to the recognition, measurement, display, and disclosure requirements in IPSAS 45, IPSAS 12, IPSAS 27, *Agriculture*, and IPSAS 16, the application guidance, implementation guidance, and illustrative examples of how the principles from these existing IPSAS are applied are located in [draft] IPSAS [X] itself. Therefore, other than the proposed change in (a), other amendments to the IPSAS 45, IPSAS 12, IPSAS 27, and IPSAS 16 are not required;
- (d) Paragraph 36 of IPSAS 33 provides exemptions to the recognition of inventories, investment property, property, plant, and equipment, biological assets, and agricultural produce within three years following the date of adoption of IPSAS. To be consistent with this exemption, staff propose to include an exemption for the recognition of natural resources which meet the asset recognition criteria. A similar amendment was included in [draft] IPSAS [Y] for the recognition of exploration and evaluation assets. See Agenda Item 16.3.1; and
- (e) Paragraph 64 of IPSAS 33 allows a first-time adopter to elect to measure certain assets, including inventory, investment property, and property plant, and equipment, at their fair value when reliable cost information about the asset is not available, and use this fair value as the asset's deemed cost. Staff propose including natural resource assets to the list of assets that could make use of this election.

9. The above proposed amendments are reflected in Appendix B of [Agenda Item 14.3.1](#).

Decision Required

10. Does the IPSASB agree with the Staff [recommendation](#)?

Proposed Topics for Implementation Guidance and Illustrative Examples

Question

1. Does the IPSASB agree with the proposed topics for Implementation Guidance and Illustrative Examples in [draft] IPSAS [X], *Natural Resources*?

Recommendation

2. Staff recommend that the IPSASB add Implementation Guidance and Illustrative Examples to [draft] IPSAS [X], as presented in [Appendix 1](#).

Background

3. The IPSASB instructed staff to develop an exposure draft on the proposed accounting for natural resources. Based on the proposed principles in Agenda Items 14.2.2 to 14.2.5, staff began considering and proposing topics for which Implementation Guidance or Illustrative Examples would be useful. This paper walks through the staff's considerations.

Analysis

4. Staff considered past projects, including IPSAS 47, *Revenue*, and IPSAS 48, *Transfer Expenses*, to determine what topics to include in the non-authoritative guidance on [draft] IPSAS [X], *Natural Resources*. Based on these past projects, the non-authoritative guidance addressed the following:
 - (a) Basis for Conclusions (BC) – Explained the IPSASB's decisions;¹⁴
 - (b) Implementation Guidance (IG) – Considers common implementation challenges that are widespread among public sector entities using a question-and-answer format; and
 - (c) Illustrative Examples (IE) – Illustrate principles with case facts developed from practical examples that are prevalent globally among public sector entities.
5. With the above distinction in mind, staff considered the proposed principles in the authoritative text of [draft] IPSAS [X] and identified topics which would benefit from IGs to support the proposed principles for one or more of the following reasons:
 - (a) The concept is complex and potentially difficult to apply in practice;
 - (b) It is an area of concern for constituents; or
 - (c) Staff and/or IPSASB members have noted in past discussions that additional non-authoritative guidance would be useful.
6. In addition, staff also identified topics where an IE would be useful. Based on past projects, the use of IEs is generally limited to an as-needed basis when:
 - (a) The principles are not considered sufficiently clear based on the authoritative guidance and IGs; and
 - (b) The illustrative fact pattern is prevalent globally amongst public sector entities.

¹⁴ Staff included proposed BC paragraphs in Agenda 14.3.1 to reflect the proposed principles in Agenda Items 14.2.1-14.2.4.

7. Based on the factors noted in paragraphs 5-6, staff developed a listing of proposed topics to be addressed in IGs and IEs and included this list in [Appendix 1](#) of this Agenda Item.
8. Based on input from the IPSASB, staff will work with the Drafting Group to develop the agreed-upon IGs and IEs and presented the draft non-authoritative text at the December 2023 IPSASB meeting.

Decision Required

9. Does the IPSASB agree with the Staff [recommendation](#)?

Appendix 1 – Proposed Implementation Guidance and Illustrative Examples

Topic / Core Principle	Application Guidance	Implementation Guidance	Illustrative Example
Objective	None	<ul style="list-style-type: none"> None recommended. Authoritative text is sufficient, and this area typically does not require IGs or IEs. 	
Scope	None	<ul style="list-style-type: none"> Not recommended, as scoping no longer critical due to the revised recognition proposals. 	
Definitions	AG2-AG5	<ul style="list-style-type: none"> A.1 Identification of natural resources. 	<ul style="list-style-type: none"> Not recommended
Recognition of Natural Resources	AG6-AG8	<ul style="list-style-type: none"> B.1 Explanation of how unextracted subsoil resources generally cannot be recognized as an asset. 	<ul style="list-style-type: none"> Examples of scenarios involving the recognition of the following as assets: <ul style="list-style-type: none"> Unextracted water; Uncultivated living resources; and Land.
Recognition of Expenditures for Related Activities	None	<ul style="list-style-type: none"> Not recommended, as the principles supporting recognition of subsequent expenditures as assets are drawn from IPSAS 45, <i>Property, Plant, and Equipment</i>. 	<ul style="list-style-type: none"> Examples of the following subsequent expenditures that could be recognized as assets: <ul style="list-style-type: none"> Construction costs to develop natural spaces that meet the capitalization criteria; Extraction costs as inventory; Land clearing costs as investment property or property, plant, and equipment, depending on use; and Animal feed and treatment costs as biological assets
Measurement	None	<ul style="list-style-type: none"> Not recommended, as the authoritative text signposts to the initial and subsequent measurement requirements from existing IPSAS. 	

Topic / Core Principle	Application Guidance	Implementation Guidance	Illustrative Example
Display	None	<ul style="list-style-type: none"> Not recommended, as the authoritative text signposts to the presentation/display requirements from existing IPSAS. This area also typically does not require IGs or IEs. 	
Disclosure	None	<ul style="list-style-type: none"> Not recommended. Disclosures are specific to the relevant facts of each entity, so IGs and IEs may risk using generic or boilerplate language that will not be helpful. 	
Effective Date and Transition	None	<ul style="list-style-type: none"> Not recommended. Authoritative text is sufficient, and this area typically does not require IGs or IEs. 	

Supporting Document 1 – [Draft] IPSAS [X], *Natural Resources*

The exposure draft referenced in Agenda Item 14.1.1-14.2.5 is posted separately for easier readability.