

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

IPSAS[®]

*Proposed International Public Sector Accounting
Standard[®]*

Tangible Natural Resources

IPSASB

**International Public
Sector Accounting
Standards Board[®]**

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REQUEST FOR COMMENTS

This Exposure Draft, *Tangible Natural Resources*, 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 [MM DD YYYY].**

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. Comments must be received in English to be considered. 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.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose guidance on the recognition, measurement, presentation, and disclosure of tangible natural resources in the general purpose financial statements.

Guide for Respondents

The IPSASB would welcome comments on all the matters discussed in this Exposure Draft. Comments are most helpful if they indicated the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1: Scope (paragraphs 3-5):

As explained in paragraphs BC6 and BC34, this Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of certain existing IPSAS, as noted in paragraphs 3-4. As a result of the proposed scope, tangible natural resources held for conservation are one common example of items which could fall within the scope of this Exposure Draft.

Do you agree with the proposed scope? If not, what alternative scoping approach do you propose?

Other than the uses of tangible natural resources as noted in paragraphs 3-4 of this Exposure Draft or holding a natural resource for conservation, are you aware of any other potential ways for service potential to flow from a tangible natural resource to an entity?

Specific Matter for Comment 2: Depreciation (paragraph 26):

This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this [draft] IPSAS have indefinite useful lives on the basis that they are generally not used or consumed in the same manner as tangible assets within the scope of other IPSAS. Therefore, these tangible natural resources are not depreciated.

Do you agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated? If not, why not?

Specific Matter for Comment 3: Exemption from Certain Disclosures (paragraph 52):

As explained in paragraph BC31, this Exposure Draft exempts an entity from disclosing certain information which may lead to further degradation of tangible natural resources which are rare or endangered.

Do you agree with the proposed disclosure exemption? If not, why not?

Specific Matter for Comment 4: Cross-References to IPSAS 45, *Property, Plant, and Equipment* (paragraphs 17 and 55):

This Exposure Draft includes cross-references to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and the disclosure requirements for current operational value.

Do you agree that these cross-references are sufficiently clear? If not, how should the above guidance be incorporated into the Exposure Draft?

Specific Matter for Comment 5: Transition (paragraph 61):

This Exposure Draft allows the application of its requirements on a modified retrospective approach, by recognizing tangible natural resources which meet the recognition criteria on the date of initial application at their deemed cost, or on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Full retrospective application may result in changes to revenue, surpluses or deficits in specific historical periods, but the net assets and accumulated surpluses or deficits on the date of initial application are generally expected to be the same under both approaches.

Do you agree that the option to apply the proposed guidance on a full retrospective basis is needed as it will result in useful information? If not, why not?

Specific Matter for Comment 6: Amendment to the Description of ‘Heritage Asset’ in IPSAS 45, *Property, Plant, and Equipment* ([Appendix B](#)):

The IPSASB proposes to amend the description of ‘heritage assets’ in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this Exposure Draft.

Do you agree with the proposed amendment? If not, why not?

[Specific Matter for Comment 7: Sufficiency of Proposed Implementation Guidance and Illustrative Examples:

This Exposure Draft includes non-authoritative guidance in the form of implementation guidance on [X#] topics and [X#] illustrative examples. This non-authoritative guidance was developed for topics that are potentially complex and difficult to apply in practice, are areas of concern for constituents, or where additional non-authoritative guidance could be useful.

Do you agree that the proposed implementation guidance and illustrative examples are sufficient? If not, what other topics would be helpful?]

EXPOSURE DRAFT XX, TANGIBLE NATURAL RESOURCES

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Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity shall apply to report relevant information to users of financial statements about the nature, amounts, timing, and uncertainties arising from tangible natural resources.**
2. To meet the objective in paragraph 1, this [draft] Standard:
 - (a) Sets out the recognition and measurement requirements for tangible natural resources;
 - (b) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:
 - (i) The nature of, and risks associated with, tangible natural resources; and
 - (ii) The effects of tangible natural resources 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 tangible natural resources as defined in this [draft] Standard, except where:**
 - (a) **The resource is held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and is expected to be used for more than one reporting period. The nature of such an asset is consistent with an item of property, plant, and equipment within the scope of IPSAS 45, *Property, Plant, and Equipment*;**
 - (b) **The resource consists of materials or supplies to be consumed in the production process or in the rendering of services, held for distribution in the ordinary course of operations or in the process of production for sale or distribution. The nature of such a resource is consistent with inventories within the scope of IPSAS 12, *Inventories*;**
 - (c) **The resource is held to earn rentals for capital appreciation, or both, which is consistent with an investment property within the scope of IPSAS 16, *Investment Property*; or**
 - (d) **The resource is a biological asset whose biological transformation is managed for sale, distribution, or conversion into agricultural produce. Such a resource would be a biological asset within the scope of IPSAS 27, *Agriculture*.**
4. **This [draft] Standard also does not apply to:**
 - (a) **Tangible natural resource-related obligations. These obligations are within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;**
 - (b) **Intangible assets as defined in IPSAS 31, *Intangible Assets*;**
 - (c) **Service concession assets within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*;**
 - (d) **Leases as defined in IPSAS 43, *Leases*;**
 - (e) **Tangible natural resources classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and**

- (f) **Exploration and evaluation assets within the scope of [draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources*.**
5. Tangible natural resources held for conservation are one common group of tangible natural resources which could fall within the scope of this [draft] Standard. Paragraphs AG3-AG7 provide additional guidance on these resources.

Definitions

6. **The following terms are used in this [draft] Standard with the meanings specified:**
- For the purposes of this [draft] Standard, a tangible natural resource is an item which:**
- (a) **Is naturally occurring; and**
(b) **Embodies service potential.**
- A class of tangible natural resources means a grouping of tangible natural resources of a similar nature or held for a similar reason for that is shown as a single item for the purpose of display and disclosure in the financial statements.**
- 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.**
7. Paragraphs AG8–AG9 provide additional guidance on the definitions in this [draft] Standard.

Recognition

8. **A tangible natural resource shall be recognized if, and only if:**
- (a) **It is probable that service potential associated with the natural resource will flow to the entity;**
(b) **The entity controls the tangible natural resource as a result of past events; and**
(c) **The tangible natural resource can be measured reliably.**
9. 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.
10. If an entity holds a tangible natural resource which meets the definition of an asset, but does not meet the recognition criterion in paragraph 8(c), the information required by paragraph 56 shall be disclosed in the notes to the financial statements. If subsequently, the tangible natural resource becomes reliably measurable, the entity shall, from that date, recognize the tangible natural resource in accordance with paragraph 8 and apply the measurement principles in this [draft] Standard.
11. Depending on the nature and risks associated with the item(s), as well as the objectives for which an entity holds the item(s), it may be appropriate to (a) disaggregate significant items into separate units of account, then applying the recognition criteria to each individual unit, or (b) aggregate individual items into one unit of account, then apply the recognition criteria to the aggregate value. Paragraphs AG18-AG22AG21 provide additional guidance on determination of the unit of account.

Reclassification

12. If the primary intended use of a recognized tangible natural resource or a specific component of that asset changes, the recognized tangible natural resource or its component shall be reclassified based

on its new primary intended use. The net carrying amount of such an asset or its component immediately before reclassification shall be its cost for subsequent accounting in accordance with IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45.

13. An entity shall reclassify a recognized tangible natural resource, or a component of a recognized tangible natural resource, as an asset held for sale within the scope of IPSAS 44 if it meets the classification criteria specified in paragraphs 11-19 of IPSAS 44.

Measurement

Initial Measurement

14. **Where a tangible natural resource is recognized as an asset as the result of an event that is not a transaction in an orderly market (including a non-exchange transaction), the asset shall be measured initially at its deemed cost. An entity shall apply IPSAS 46, *Measurement*, when measuring the deemed cost of such a recognized tangible natural resource.**
15. For the purpose of this [draft] Standard, the initial measurement of a recognized tangible natural resource at its deemed cost in accordance with the requirement of paragraph 14, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraphs 20-25 and the supporting Application Guidance only apply where an entity elects to revalue a recognized tangible natural resource in subsequent reporting periods.
16. **A recognized tangible natural resource acquired through an exchange transaction shall be measured at its cost, in accordance with IPSAS 46.**
17. When determining the cost of a recognized tangible natural resource acquired through an exchange transaction, the entity shall apply the principles on elements of cost and measurement of cost from paragraphs 14-22 of IPSAS 45.

Subsequent Measurement

18. **After initial recognition, an entity shall apply the measurement requirements from IPSAS 46 by choosing either the historical cost model in paragraph 19 or the current value model in paragraph 20 as its accounting policy. An entity shall apply the chosen policy to an entire class of recognized tangible natural resources.**

Historical Cost Model

19. **Where an entity chooses that a recognized tangible natural resource initially measured at its cost or deemed cost shall subsequently be carried at its historical cost, it shall be carried at that cost or deemed cost less any accumulated depreciation (if applicable) and any accumulated impairment losses.**

Current Value Model

20. **Where an entity chooses to measure a recognized tangible natural resource after initial recognition using the current value model, a recognized tangible natural resource whose current value can be measured reliably shall be carried at a revalued amount, being its current value at the date of revaluation, less any subsequent depreciation (if applicable) and subsequent accumulated impairment losses. A tangible natural resource or part of the resource held primarily for its operational capacity is measured at current operational value.**

21. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 23-25.**
22. **If a recognized tangible natural resource is revalued, the entire class of tangible natural resources to which that asset belongs shall be revalued.**
23. **If the carrying amount of a class of assets is increased as a result of revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**
24. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**
25. **Revaluation increases and decreases relating to individual assets within a class of tangible natural resources must be offset against one another within that class but must not be offset in respect of assets in different classes of tangible natural resources.**

Depreciation

26. **An entity shall assess whether the useful life of a recognized tangible natural resource is finite or indefinite, and if finite, the length of that useful life. There is a rebuttable presumption that recognized tangible natural resources within the scope of this [draft] IPSAS have indefinite useful lives, as these resources are typically not used or consumed like tangible assets within the scope of other IPSAS.**
27. A tangible natural resource with a finite useful life is depreciated, while a tangible natural resource with an indefinite useful life is not depreciated.

Assets with Indefinite Useful Lives

28. The term “indefinite” does not mean “infinite.” The useful life of recognized tangible natural resources should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projects of those factors. For example, a conclusion that the useful life of a recognized tangible natural resource is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current condition.

Assets with Finite Useful Lives

29. **A recognized tangible natural resource shall be regarded as having a finite useful life when, based on an analysis of all the relevant factors, there is clearly a foreseeable limit to the period over which the asset is expected to provide service potential to the entity.**
30. The useful life of a recognized tangible natural resources may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.

31. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**
32. **The depreciable amount of a recognized tangible natural resource shall be allocated on a systematic basis over its useful life.**
33. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
34. **The depreciation method shall reflect the pattern in which the asset is expected to provide service potential to the entity.**
35. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date, and if there has been a significant change in the pattern in which the asset is expected to provide service potential to the entity, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.**

Impairment

36. **To determine whether a tangible natural resource within the scope of this [draft] Standard is impaired, an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Asset*. IPSAS 21 explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.**
37. An entity is required to review tangible natural resources with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21.

Derecognition

38. **The carrying amount of a recognized tangible natural resource, or a part thereof, shall be derecognized:**
 - (a) **On disposal;**
 - (b) **When the entity otherwise ceases to control the resource; or**
 - (c) **When no future service potential is expected from the resource or its disposal.**
39. **The gain or loss arising from the derecognition of a recognized tangible natural resource shall be included in surplus or deficit when the item is derecognized.**
40. **The gain or loss arising from the derecognition of a recognized tangible natural resource shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**
41. The consideration receivable on disposal of tangible natural resources is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 47, *Revenue*, reflecting the effective yield on the receivable.

Presentation

Display

42. **An entity shall display recognized tangible natural resources within the scope of this [draft] Standard as a separate line item in the statement of financial position. If an entity presents its assets as current and non-current, recognized tangible natural resources are considered non-current assets.**
43. Some recognized tangible natural resources should be separately displayed and information specific to these assets should be separately presented in accordance with the requirements in paragraphs 92, 107, and 134 of IPSAS 1, *Presentation of Financial Statements*.

Disclosure

44. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of the financial statements to evaluate:**
 - (a) **The nature of, and risks associated with, tangible natural resources within the scope of this [draft] Standard; and**
 - (b) **The effects of tangible natural resources on the entity's financial position, financial performance, and cash flows.**
45. Information regarding tangible natural resources which meet the definition of an asset must be disclosed in the financial statements, even when the asset is not recognized.

Disclosures for Recognized Tangible Natural Resources

46. **For recognized tangible natural resources within the scope of this [draft] Standard, an entity shall disclose the following:**
 - (a) **A narrative description of the recognized tangible natural resource, including:**
 - (i) **The nature or type of the resource;**
 - (ii) **Information regarding the location and quantity of the resource;**
 - (iii) **If applicable, the significant judgments applied to determine the various units of account of a tangible natural resource; and**
 - (iv) **The significance of the tangible natural resource in relation to achieving the entity's objectives, including how the tangible natural resource is expected to provide service potential;**
 - (v) **The significant judgments applied to determine that the tangible natural resource meets the asset recognition criteria;**
 - (b) **The measurement model and basis used for determining the gross carrying amount;**
 - (c) **If applicable, why the asset is depreciable, the depreciation method used, the useful lives or the depreciation rates used, and the gross carrying amount and the accumulated depreciation at the beginning and end of the period; and**
 - (d) **A reconciliation of the carrying amount at the beginning and end of the period, showing:**
 - (i) **Any additions;**

- (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**
 - (iii) **Increases and decreases resulting from revaluations under paragraphs 21, 23-25 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21, as appropriate;**
 - (iv) **If applicable, depreciation;**
 - (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21, as appropriate;**
 - (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21, as appropriate; and**
 - (vii) **Other relevant changes.**
47. **The financial statements shall also disclose for each class of recognized tangible natural resources in the financial statements:**
- (a) **The existence and amounts of restrictions on title, legal, or similar limits on the use of tangible natural resources due to environmental or other regulatory requirements; and**
 - (b) **Other related obligations, including tangible natural resources pledged as securities for liabilities, or other custodial responsibilities.**
48. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For recognized tangible natural resources, such disclosure may arise from changes in estimates with respect to:
- (a) Residual values;
 - (b) Useful lives; and
 - (c) Depreciation methods.
49. **If a class of recognized tangible natural resources is stated at revalued amounts, the following shall be disclosed:**
- (a) **The effective date of the revaluation;**
 - (b) **Whether an independent valuer was involved;**
 - (c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**
 - (d) **The sum of all revaluation surpluses for individual tangible natural resources within that class; and**
 - (e) **The sum of all revaluation deficits for individual tangible natural resources within that class.**
50. In accordance with IPSAS 21, an entity discloses information on impaired tangible natural resources in addition to the information required by paragraphs 46(d)(iii) and 46(d)(v)-46(d)(vi).
51. Users of the financial statements may also find the following information relevant to their needs. Therefore, entities are encouraged to disclose the following:

- (a) When the historical cost model is used, the current value of a tangible natural resource when it is materially different from the carrying amount; and
 - (b) If applicable, the gross carrying amount of any fully depreciated tangible natural resources.
52. In rare cases, the disclosure of some or all of the information required by paragraphs 46-51 can lead to further endangerment or degradation of a tangible natural resource. In such cases, an entity need not disclose the information, but shall disclose the general nature of the tangible natural resource, together with the fact that, and the reason why, certain information has not been disclosed.

Current Value Measurement

53. As noted in paragraph 18, the initial measurement of a recognized tangible natural resource at its deemed cost does not require the entity to choose the current value model for its accounting policy for subsequent measurement. Where it does so, the requirements of paragraph 54 are applicable for recognized tangible natural resources which are subsequently measured using the current value model.
54. **An entity shall disclose information that helps users of its financial statements assess both of the following:**
- (a) **For tangible natural resources that are measured at current value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
 - (b) **For current value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**
55. To meet the objectives in paragraph 54, an entity shall consider the requirements for current operational value in paragraphs 80-84 of IPSAS 45.

Disclosure of Unrecognized Tangible Natural Resources

56. **Where a tangible natural resource meets the definition of an asset but is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:**
- (a) **Qualitative information regarding the resource such as the nature or type of resource, its location, and if available, its quantity;**
 - (b) **The difficulties in obtaining a reliable measurement that prevented recognition; and**
 - (c) **The significance of the unrecognized tangible natural resource in relation to delivery of the entity's objectives.**
57. Where subsequent expenditures on unrecognized tangible natural resources are recognized, the disclosure requirements in paragraphs 46-55 will apply.
58. Where an entity acts as a custodian of an unrecognized tangible natural resource, the entity shall explain in the Notes to the Financial Statements the nature of its custodial responsibilities, including the legislation or similar means that establishes the custodial responsibilities over the resource.

Effective Date and Transition

Effective Date

59. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is permitted. If an entity applies this [draft] Standard for a period beginning before [MM DD YYYY], it shall disclose that fact.**
60. 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

61. **An entity shall apply this [draft] Standard using one of the following two methods:**
 - (a) **Using a modified retrospective approach by recognizing the tangible natural resources which meet the recognition criteria on the date of initial application of this [draft] Standard at their deemed costs (current values) as at the date of initial application. The entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity need not consider tangible natural resources which had previously met the recognition criteria but were derecognized prior to the date of initial application; or**
 - (b) **Retrospectively in accordance with IPSAS 3.**
62. For the purposes of the requirements in paragraph 61, the date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard.
63. If an entity elects to apply this [draft] Standard using the modified retrospective approach in accordance with paragraph 61(a), the entity shall disclose this fact.

Appendix A

Application Guidance

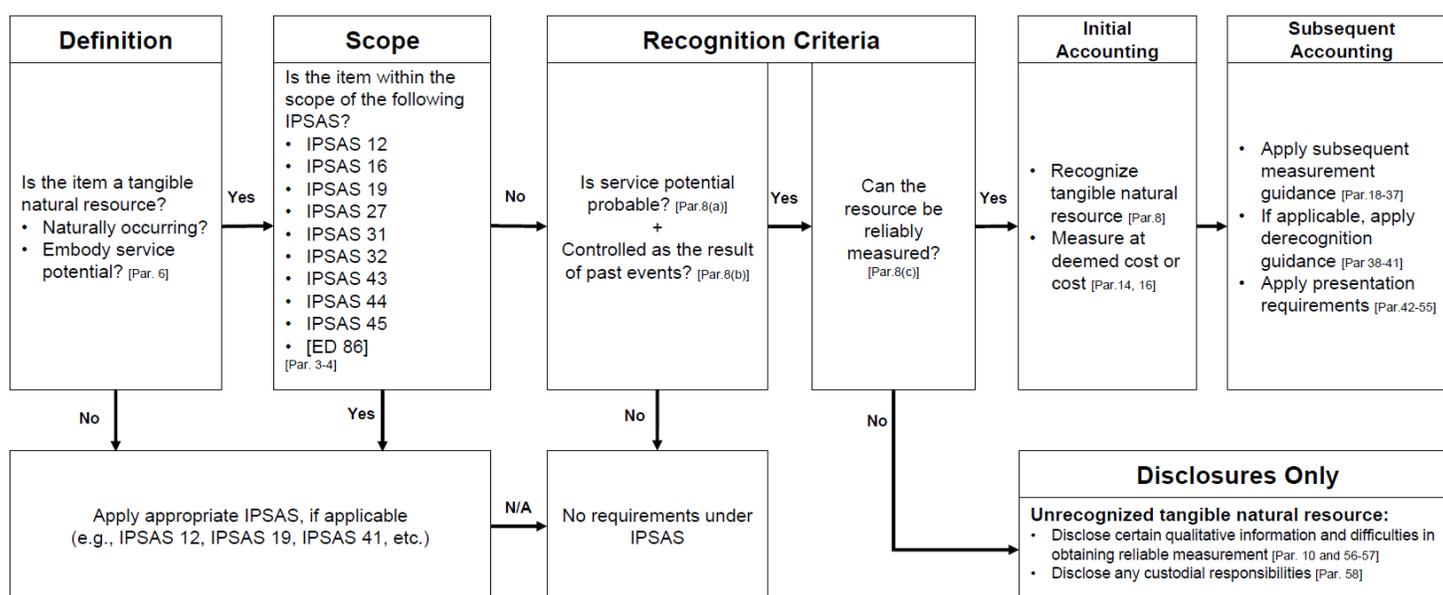
This Appendix is an integral part of [draft] IPSAS [X] (ED XX).

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

- (a) Flowchart Depicting the Application of [draft] IPSAS [X] (ED XX) (paragraph AG2);
- (b) Scope (paragraphs AG3–AG7);
- (c) Definitions (paragraphs AG8–AG9);
- (d) Recognition (paragraphs AG10–AG25);
- (e) Measurement (paragraphs AG26–AG34); and
- (f) Presentation (paragraphs AG35–AG36).

Flowchart Illustrating the Application of [draft] IPSAS [X] (ED XX)

AG2. The flowchart below may assist entities with the key considerations when applying this [draft] Standard.



Scope (paragraphs 3-5)

AG3. This [draft] IPSAS applies to all tangible natural resources which are not within the scope of the IPSAS noted in paragraphs 3-4. As a result of this scoping approach, tangible natural resources outside the scope of these standards, such as those held for conservation, could fall within the scope of this [draft] IPSAS.

Tangible Natural Resources Held for Conservation

- AG4. Conservation is described as the act of managing and protecting a tangible natural resource from degradation.
- AG5. Some tangible natural resources are held primarily for conservation purposes, rather than their use or sale, because of the service potential provided in achieving the objectives of a public sector entity. For example, a public sector entity could have an objective to maintain the current state of a tangible natural resource for the benefit of its citizens in future generations. The conservation of the tangible natural resource would achieve this objective.
- AG6. As a result, a tangible natural resource held primarily for conservation, which is controlled by the entity as the result of past events and can be measured reliably, shall be recognized as an asset within the scope of this [draft] Standard.
- AG7. Some tangible natural resources held for conservation may be similar to heritage assets as described in IPSAS 45, as these items are held for long periods and preserved for the benefit of future generations. Such tangible natural resources are within the scope of this [draft] Standard.

Definitions (paragraphs 6-7)

- AG8. Naturally occurring items are 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.
- AG9. Tangible natural resources may embody service potential in a number of ways, including:
- (a) 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);
 - (b) 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);
 - (c) Providing intangible services through the conservation of the tangible natural resource (e.g., conservation the flora and fauna in a reserve for the enjoyment of future generations); and
 - (d) Their potential extraction or harvest for use or sale (e.g., the harvest of timber from a forest for use as fuel or for sale).

Some of the above examples of service potential flow to an entity when the tangible natural resource is used in a way that places it within the scope of IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45. Only tangible natural resources which do not fall within the scope of these other Standards are accounted for within this [draft] IPSAS.

Recognition (paragraphs 8–13)

Application of the Recognition Criteria

- AG10. The recognition criteria in paragraph 8 are consistent with the recognition criteria from other Standards addressing tangible assets. For example, some tangible assets are considered a resource because they embody future economic benefits and/or service potential that flow to an entity when the asset is held for its operational or financial capacity. 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 item is a recognizable asset, as the purported service potential or the capability to generate economic benefits may not exist.

- AG11. For a tangible natural resource to be recognized as an asset, it must be probable that service potential associated with the resource will flow to the entity. For example, this criterion is satisfied when the entity has a plan detailing how the resource is expected to provide service potential to the entity, the entity's ability and intent to carry out the plan, and if necessary, how the entity will obtain the resources necessary to carry out this plan.
- AG12. An entity evaluates all costs related to a tangible natural resource at the time they are incurred using the recognition principle in paragraph 8. These costs include costs incurred initially to acquire a tangible natural resource.

Control as a Result of Past Events

- AG13. An entity can obtain control of a resource through an event that is not a transaction in an orderly market, which could include non-exchange transactions or the exercise of sovereign powers, or through exchange transactions, such as a purchase from a third party. 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. For example, a government entity may be required to pass legislation and establish a legal framework to make use of certain tangible natural resources in its jurisdiction, before being able to conclude that these resources can be controlled
- AG14. In assessing whether it presently controls a tangible natural resource, an entity assesses whether one or more of the following indicators of control exists:
- (a) Legal ownership;
 - (b) Access to the resource, or the ability to deny or restrict others to access the resource;
 - (c) The means to ensure that the entity can achieve its objectives with the resource; or
 - (d) The existence of an enforceable right to service potential arising from the resource.

Assessments of control involve judgement, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

- AG15. No one indicator is more important than another indicator. Legal ownership is only one indicator demonstrating control of a tangible natural resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to the service potential. In such circumstances, an entity considers substance over form in determining whether it controls the asset.

Changes in the Ability to Reliably Measure A Resource due to Changes in Facts and Circumstances

- AG16. When a tangible natural resource becomes reliably measurable due to changes in facts and circumstances, an entity applies the guidance on changes in accounting estimates in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*.

Exchange of Assets

AG17. One or more tangible natural resources may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. For a tangible natural resource acquired through a non-monetary exchange transaction and measured at cost, 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.

Unit of Account

AG18. As noted in paragraph 11, an entity is required to use judgment to identify the unit of account to which the recognition and measurement guidance are applied. This [draft] Standard does not prescribe a unit of account for a recognized tangible natural resource.

AG19. The following factors can indicate that significant components of a tangible natural resource may constitute separate units of account:

- (a) The components are separately identifiable and measurable;
- (b) The components are material in relation to the overall asset as well as to the financial statements as a whole; and
- (c) There are different reasons for holding the various components within the tangible natural resource. For example, an entity may hold a natural forest mainly for conservation, but a specific portion of the forest is managed for the growth of agricultural produce. The managed portion of the forest would be considered a biological asset within the scope of IPSAS 27 while the remaining forest would be considered a tangible natural resource held for conservation within the scope of this [draft] Standard.

AG20. In contrast, the following factors can indicate that separate tangible natural resources may be aggregated into one single unit of account:

- (a) The items are subject to similar risks, despite having some different physical characteristics;
- (b) The items are managed together in aggregate and likely subject of the same transactions; and
- (c) The items within the unit of account are unlikely or unable to separately provide service potential to the entity.

AG21. Continuing with the conservation example in paragraph AG19(c), if the conserved forest is part of a reservation, the entity could manage the whole reservation on an integrated basis. Activities such as controlling access into the reservation and monitoring the biodiversity within the area could be performed on a reservation-wide basis with the different species of plants and animals within the reservation not being managed individually. In this case, it may be appropriate to account for the various tangible natural resources within the reservation as a single unit of account.

AG22. The determination of the unit of account may also impact the subsequent measurement of a tangible natural resource. For example, when a recognized tangible natural resource consists of multiple units of account with differing useful lives, and the cost or current value of each unit is significant in relation to the total cost or current value of the resource, each unit of account shall be depreciated separately.

Subsequent Expenditures

- AG23. An entity recognizes subsequent expenditures on tangible natural resources in accordance with the recognition principle in paragraph 8. Under this principle, the cost of day-to-day maintenance and other expenditures which do not result in incremental service potential are not recognized in the carrying amount of a tangible natural resource. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day maintenance may primarily consist of the costs of labor and consumables and could include, for example, when rangers are employed to protect a tangible natural resource or when some form of chemical treatment is applied.
- AG24. In contrast, a tangible natural resource or its components may require restoration or regeneration due to certain events. For example, a portion of a forest may be destroyed by wildfires, and an entity may have to plant certain species of trees to repopulate the forest. The carrying amount of the trees that were replaced is derecognized in accordance with the paragraphs 38-41 of this [draft] Standard. Under the recognition principle in paragraph 8, an entity would recognize the cost of repopulating the forest as an asset, as these costs result in incremental service potential that would likely flow to the entity. Depending on the specific facts and circumstances (for example, whether the replanted trees are actively managed or used for other services during their growth stage), an entity should consider if the costs of replanting the trees could be recognized as an asset within the scope of this [draft] Standard or another Standard such as IPSAS 45.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

- AG25. The recognition of a subsequent expenditure as an asset is unaffected by whether or not the underlying tangible natural resource was initially recognized. If the subsequent expenditure relates to a tangible natural resource that were not initially recognized because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of paragraph 8 to determine whether or not it should be recognized as an asset.

Measurement (paragraphs 14-37)

Financial and Operational Capacity

- AG26. The primary objective for which an entity holds a tangible natural resource is an important consideration when determining which current value measurement basis to apply. A tangible natural resource held for its:
- (a) Operational capacity supports the provision of services in future periods through physical and other resources. This requires information on the value of the tangible natural resource as it is used or conserved by the entity. A tangible natural resource held with the primary objective of service delivery, including conservation, is held for its operational capacity and is measured at current operational value; and
 - (b) Financial capacity provides an entity with the means to fund its activities. This required information on the amount that would be received on the sale of the asset or the revenue it generates in use. A tangible natural resource held with the primary objective of generating a financial return is held for its financial capacity and is measured at fair value.
- AG27. Generally, a tangible natural resource held with the primary objective of generating a financial return will be within the scope of IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45, and the measurement of a non-current tangible natural resource held for sale would be determined by IPSAS 44. As a result,

a tangible natural resource within the scope of this [draft] Standard will generally be held for its operational capacity, and its current value should be measured at current operational value.

Application of the Current Value Model

AG28. The frequency of revaluations depends upon the changes in current values of the recognized tangible natural resources being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some recognized tangible natural resources may experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for other recognized tangible natural resources. For example, a mature recognized tangible natural resource held for conservation with only insignificant annual changes in current value may only be require a revaluation every three or five years.

AG29. When a recognized tangible natural resource is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by proportionately to the change in carrying amount. The accumulated depreciation (if applicable) at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset. The amount of the adjustment of accumulated depreciation (if applicable) and accumulated impairment loss forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 23 and 24.

AG30. A class of recognized tangible natural resources is a group of assets of a similar nature or held for similar reasons. The following are examples of separate classes:

- (a) Wildlife, habitat areas, bodies of water in conservation reserves;
- (b) Certain species of animals; and
- (c) Forests in designated areas.

When grouping recognized tangible natural resources into classes, an entity may identify items with similar nature, but held for different reasons or functions, or vice versa. For example, while various forests might be physically similar in nature, some may be held for conservation purposes and others for commercial or agricultural purposes. This may result in the entity identifying a class of forests within the scope of this [draft] IPSAS, while other forests of a similar nature may fall within the scope of another IPSAS (see paragraph 3(a)).

AG31. The items within a class of recognized tangible natural resources are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

AG32. Some or all of the revaluation surplus included in net assets/equity in respect of recognized tangible natural resources may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring the some or the whole of the surplus when the assets with the class of tangible natural resources to which the surplus relates are derecognized. However, if depreciation is applicable, some of the surplus may be transferred as the assets are depreciated. In such a case, the amount of surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets, and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

Depreciation

AG33. Although there is a rebuttable presumption that recognized tangible natural resources within the scope of this [draft] IPSAS have indefinite useful lives, a recognized tangible natural resource may still be regarded as having a finite useful life based on an analysis of all relevant factors. In such cases, a significant part of the recognized tangible natural resource may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

AG34. To the extent that an entity depreciates separately some parts of a recognized tangible natural resource, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the useful lives of its parts.

Presentation (paragraphs 42-58)

Disclosure of Unrecognized Tangible Natural Resources when Cost or Current Value Cannot be Measured Reliably

AG35. The disclosures required by paragraph 56 for unrecognized tangible natural resources should ensure that, when read in the context of information about recognized tangible natural resources, the financial statements provide useful and relevant information about the entity's overall holding of tangible natural resources, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to delivery services.

AG36. These disclosures may be presented in aggregate for groups or classes of tangible natural resources, provided this aggregation does not obscure significant information.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 88(ba), 107(ca), and 153T are added, and paragraphs 92 and 134 are amended. New text is underlined, and deleted text is struck through.

...

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

...

(ba) Tangible natural resources with a description of the purpose for holding the resource (e.g., Tangible natural resources held for conservation);

...

Information to be Presented on the Face of the Statement of Financial Position

...

92. This use of different measurement models for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45. Similarly, different classes of tangible natural resources can be carried at historical cost or current value in accordance with [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*.

...

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

...

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

...

(ca) Disposals of items of tangible natural resources;

...

Disclosure of Accounting Policies

...

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies fair value or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSASs

specifically require disclosure of particular accounting policies, including choice made by management between different policies allowed in those Standards. For example, IPSAS 45 and [draft] IPSAS [X] (ED XX) requires disclosure of the measurement bases used for classes of property, plant, and equipment or classes of tangible natural resources. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

Effective Date

...

153T. Paragraphs 88(ba) and 107(ca) were added, and paragraphs 92 and 134 were amended by [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Amendments to IPSAS 12, *Inventories*

Paragraphs 3(c) and 51K are added. New text is underlined.

...

3. This Standard does not apply to:

...

(c) Tangible natural resources within the scope of [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*.

...

Effective Date

...

51K. Paragraph 3(c) was added by [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6(b) and 101M are added. New text is underlined.

...

6. This Standard does not apply to:

...

- (b) Tangible natural resources within the scope of [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*.

...

Effective Date

...

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

...

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3(e) and 56K are added. New text is underlined.

...

3. This Standard does not apply to:

...

- (e) Tangible natural resources within the scope of [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*.

...

Effective Date

...

56K. Paragraph 3(e) was added by [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

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

Paragraphs 62D, 62E, and 154R are added. New text is underlined.

...

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

...

[draft] IPSAS [X] (ED XX), Tangible *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 tangible 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).

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 tangible 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 tangible natural resources 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).

...

Effective Date

...

154R. Paragraphs 62D and 62E were added by [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Amendments to IPSAS 45, Property, Plant, and Equipment

Paragraphs 3(b) and AG2 are amended, and paragraph 87D is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

...

- (b) Tangible natural resources within the scope of [draft] IPSAS [X] (ED XX), *Natural Resources* the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);

...

Effective Date

...

87D. Paragraphs 3(b) and AG2 were amended by [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*, issued in [MM DD YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application

is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Heritage Assets

...

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, ~~environmental~~, historical, ~~natural~~, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generation. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

Basis for Conclusions

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

Introduction

- BC1. In March 2020, the IPSASB approved the project brief for the Natural Resources project due to the significance of natural resources in many jurisdictions, the growing public concerns for sustainable management of the natural environment, and the lack of explicit accounting guidance on natural resources. The aim of the project is to develop IPSAS guidance relating to the recognition, measurement, display, and disclosure of tangible natural resources by public sector entities in their general purpose financial statements (GPFS). As the project is a financial reporting project, the project brief stated that any resulting IPSAS guidance will be developed in accordance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).
- BC2. In May 2022, the IPSASB issued the Consultation Paper, *Natural Resources* (CP). The CP discussed the application of the principles in the Conceptual Framework to the accounting for natural resources and set out a number of the IPSASB's overarching preliminary views, as well as preliminary views specific to subsoil resources, water, and living resources.

Development of Exposure Draft [XX], Tangible Natural Resources

- BC3. Respondents to the CP generally agreed with the IPSASB's preliminary views. Many respondents acknowledged that natural resources are likely to only meet the asset recognition criteria in very limited circumstances, while others suggested that it may be more appropriate to report information on natural resources in the broader general purpose financial reports (GPFRs) due to the expected difficulties in recognition. In response to this feedback, and considering the original aim of the project, the IPSASB decided in March 2023 to proceed with developing this [draft] Standard based on the recognition and measurement principles in the Conceptual Framework.
- BC4. Due to the similarities between the proposed guidance on the recognition and measurement of natural resources and the potential relevance of guidance regarding assets within the scope of existing IPSAS, the IPSASB considered whether the guidance proposed in this [draft] Standard should be located in a standalone IPSAS or as amendments to existing IPSAS. Having considered the topics that might need to be covered such as assets held for conservation purposes, the IPSASB decided that the proposed guidance on natural resources should be located in a standalone IPSAS in order to address the challenges around recognition of such assets explicitly, as well as for public interest reasons, as well as highlighting the importance of the topic in the public sector and providing guidance in a single place in order to facilitate implementation by preparers.

Scope (paragraphs 3-5)

- BC5. 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 greater priority than the development of guidance for intangible natural resources, which includes items such as the electromagnetic spectrum;

- (b) The IPSASB decided that by focusing on tangible natural resources alone in this project would be a more efficient 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 wholesale update of the accounting guidance for intangible assets.

The IPSASB decided that these reasons continue to be valid when [draft] IPSAS [X] (ED XX), *Tangible Natural Resources*, was developed. As a result, ED [XX] continues to focus only on tangible natural resources. Based on this approach, the IPSASB decided to change the name of the ED to '*Tangible Natural Resources*'.

- BC6. The IPSASB noted that some items which meet the definition of a natural resource could have a primary intended use within the scope of another existing IPSAS. The IPSASB therefore decided to exclude such items from the scope of this [draft] Standard to avoid duplication of guidance.
- BC7. The IPSASB also discussed whether this [draft] Standard should include guidance on the accounting and disclosure of natural resource-related obligations and decided that these obligations would be within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. As a result, it decided that no additional guidance would be provided in this [draft] Standard.

Definitions (paragraphs 6-7)

- BC8. When the IPSASB developed the CP, it had proposed 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.

- BC9. In response to constituents' concerns, the IPSASB decided to develop a definition of 'tangible natural resource' in ED [XX] 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.
- BC10. These frameworks envisioned nature as a collection of 'environmental assets,' which, at the time ED [XX] was developed, were defined as the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity.
- BC11. 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 could not be incorporated as it was 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.

- BC12. 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.
- BC13. The IPSASB also noted that because of the [proposed] scope, the items which would be within the scope of this [draft] Standard will only provide service potential to an entity, as resources which generate economic benefits would be likely within the scope of other IPSAS, as noted in paragraph BC6. Based on this conclusion, the definition was further refined to remove references to economic benefits.
- BC14. Finally, because ED [XX] focuses on tangible items only, using the term 'tangible 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. This differentiation will avoid unintended interactions between natural resources in financial reporting under IPSAS and the reporting of naturally occurring items in the sustainability and statistical reporting context. The guidance could however still be relevant in considering the financial reporting treatment of items these frameworks classify under the land, freshwater and ocean realms.
- BC15. As a result, the IPSASB developed the definition of 'tangible natural resources' in paragraph 6 of [draft] ED [XX] 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 objectives of financial reporting under IPSAS.

Recognition (paragraphs 8-13)

- BC16. When the IPSASB developed the CP, the Board included preliminary views indicating that the recognition of tangible 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.
- BC17. As noted in paragraph BC3, the IPSASB decided to proceed with developing this [draft] Standard based on the recognition and measurement principles in the Conceptual Framework. To operationalize the application of the asset recognition criteria to tangible natural resources, the IPSASB looked to the recognition criteria in the Standards for other tangible assets, such as IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, and IPSAS 45, *Property, Plant, and Equipment*. The IPSASB noted that most of these standards shared similar recognition criteria regarding the probable flow of future economic benefits or service potential to the entity and the ability to reliably measure the asset. These two criteria were used as a starting point to develop the recognition criteria for tangible natural resources in paragraph 8 of ED [XX]. However, as noted in paragraph BC13, as items which are within the scope of this [draft] Standard are unlikely to generate economic benefits, the reference to future economic benefits was removed, and the recognition criteria focuses on the probable flow of service potential to an entity.
- BC18. The IPSASB also noted that unlike property, plant, and equipment, investment property, or inventories where the determination of control is relatively straight forward when an entity incurs cost to acquire, develop, or construct the asset, the assessment of control for tangible natural

resources is more complex and will require the application of judgement to facts and circumstances specific to each resource. As a result, the IPSASB also included the demonstration of control from past events as an explicit recognition criterion for tangible natural resources.

- BC19. The IPSASB considered using the term “natural assets” to refer to tangible natural resources which have met the asset recognition criteria. However, this term was already used in the GPFRs of various public sector entities to broadly refer to items which include tangible natural resources, infrastructure developed from tangible natural resources, or ecosystems. The IPSASB also considered using the term “tangible natural resource assets” but noted that some tangible natural resources may meet the definition of an asset and remain unrecognized as they cannot be measured reliably. As a result, this [draft] Standard refers to tangible natural resources which meet the asset recognition criteria as “recognized tangible natural resources”.

Measurement (paragraphs 14-37)

- BC20. To operationalize the principles from IPSAS 46, *Measurement*, and to be consistent with the Standards on other tangible assets such as IPSAS 45, the IPSASB proposed that the measurement of a recognized tangible natural resource at initial recognition should be determined based on whether control of the asset was obtained as the result of an event that is a transaction in an orderly market. Tangible natural resources which were recognized as the result of an event that is not a transaction in an orderly market, which could include a non-exchange transaction, would be recognized at their deemed cost (current value). In contrast, resources recognized as the result of an exchange transaction in an orderly market would be recognized at cost.
- BC21. The IPSASB noted that it is more likely for a tangible natural resource within the scope of this [draft] IPSAS to be recognized from an event that is not a transaction in an orderly market, such as non-exchange transactions or the exercise of sovereign powers. In such cases, as there will be no direct cost information available, such assets will need to be initially measured at deemed cost.
- BC22. While the acquisition of tangible natural resources in an exchange transaction is possible, such transactions are expected to be rare in the public sector. Based on these observations, the measurement guidance was drafted in a different order to focus on the initial measurement of events which are not a transaction in an orderly market.
- BC23. As the acquisition of tangible natural resources from exchange transactions is expected to be rare in the public sector, for clarity and conciseness, the IPSASB also proposed to cross-reference to the guidance on elements of cost and measurement of cost from IPSAS 45 rather than duplicating the guidance in this [draft] Standard.
- BC24. For subsequent measurement of recognized tangible natural resources, the IPSASB decided to leverage the subsequent measurement guidance from IPSAS 45 and allow an entity to subsequently measure the asset using either the historical cost model or a current value model, independently of whether it was initially measured at cost or deemed cost.

Depreciation

- BC25. The IPSASB noted that the recognized tangible natural resources within the scope of this standard are not typically used or consumed in a similar manner as tangible assets within the scope of other existing IPSAS. As a result, the IPSASB decided to include a rebuttable presumption that recognized tangible natural resources have an indefinite useful life and are typically not

depreciated. For a recognized tangible natural resource that clearly has a finite useful life, the guidance on depreciation from IPSAS 45 was incorporated into this [draft] Standard.

Derecognition (paragraphs 38-41)

BC26. Like the guidance on recognition and measurement, the IPSASB also decided to leverage the guidance from IPSAS 45 when developing the guidance on the derecognition of tangible natural resources. The IPSASB also considered whether specific guidance on the sale and leaseback of tangible natural resources should be developed but noted that such scenarios are expected to be exceptionally rare in practice. Furthermore, entities can leverage the general guidance on sale and leaseback transactions from IPSAS 43, *Leases*, if such situations do occur, so no specific guidance was needed.

Presentation (paragraphs 42-58)

BC27. The IPSASB decided to incorporate the disclosure proposals for recognized tangible natural resources from the CP, which are broadly consistent with the disclosure requirements from IPSAS 45.

BC28. In addition, when the IPSASB developed the CP, it had also proposed the following financial statement disclosures for unrecognized natural resources to address both the accountability and decision making objectives for financial reporting in the public sector:

- (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 are important to an understanding of the entity's finances or delivery of services.

BC29. The IPSASB decided to retain the proposed disclosures noted in paragraph BC28(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC28(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 tangible natural resource.

BC30. Respondents to the CP were particularly concerned by the requirements in paragraph BC28(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 tangible natural resources that meet the definition of an asset is to be disclosed in the financial statements.

Exemption from Disclosure of Information Regarding Rare or Endangered Tangible Natural Resources

BC31. In some situations, the disclosure of information regarding rare or endangered tangible natural resources may lead to their further endangerment or degradation. For example, disclosing the information on the quantity and location of endangered species may lead to their illegal poaching. To address this concern, the IPSASB decided to exempt an entity from the disclosure of such

information. This approach is consistent with paragraph 109 of IPSAS 19, which exempts an entity from disclosing information which may prejudice its position in a dispute with other parties.

Effective Date and Transition (paragraph 59-63)

- BC32. The IPSASB noted full retrospective application of this [draft] Standard may lead to some scenarios where an entity would need to account for tangible natural resources which have been derecognized prior to the date of initial application. To provide transitional relief, the IPSASB decided that an entity could elect to apply this [draft] Standard using a modified retrospective approach and only recognize tangible natural resources which meet the recognition criteria on the date of initial application.
- BC33. The IPSASB initially considered if this [draft] Standard should be applied together with [draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources*, and [draft] IPSAS [X] (ED 87), *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*. However, as the proposed guidance in these [draft] Standards is not related from a technical perspective and their application would not impact the implementation of this [draft] Standard, the IPSASB decided it was unnecessary to require the application of this [draft] Standard at the same time as the application of [draft] IPSAS [X] (ED 86) and [draft] IPSAS [X] (ED 87).

Application Guidance (Appendix A)

Tangible Natural Resources Held for Conservation

- BC34. Based on the broad scoping approach explained in paragraph BC6, the IPSASB decided that tangible natural resources held for conservation are an important example of natural resources which could fall within the scope of this [draft] Standard. Based on this decision, the IPSASB decided to use the following approach when developing guidance on these tangible natural resources:
- (a) As tangible natural resources held for conservation are just one example of natural resources, there is no need to develop separate principles specific to these items. The general principles on recognition, measurement, display, and disclosure in this [draft] Standard are applicable;
 - (b) As separate principles are not needed, the IPSASB decided to describe what is meant by conservation in the application guidance rather than introducing a formal definition in the [draft] Standard; and
 - (c) Guidance relating to the application of the general principles to tangible natural resources held for conservation is included as application guidance in the [draft] Standard.
- BC35. The IPSASB observed that some tangible natural resources held for conservation could also have the characteristics of heritage assets as described in IPSAS 45. To assist with situations when this potential overlap exists, the IPSASB decided to amend the description of heritage assets in IPSAS 45 to remove the references to environmental and natural features. As a result, tangible natural resources held for conservation which would otherwise also meet the description of heritage assets would fall within the scope of this [draft] Standard.

Identification of Potential Tangible Natural Resources

BC36. In response to the CP, some constituents raised concerns regarding whether it was necessary to perform a detailed exercise to create an inventory of all naturally occurring items in a jurisdiction in order to identify all potential tangible natural resources. These respondents noted that such an exercise would be extremely costly, even if the resulting recognition, measurement, and disclosure impact in the GPFS will be minimal. When ED [XX] was developed, the IPSASB noted that the recognition criteria in paragraph 8 along with the related application guidance in paragraph AG11 of the [draft] Standard will limit the potential tangible natural resources to naturally occurring items that are subject to a detailed management plan demonstrating how such items would provide service potential to the entity. **[Pending finalization of IGs:** In addition, [Section B.1] of the Implementation Guidance was developed to explain how an entity can effectively identify all potential tangible natural resources without individually considering each naturally occurring item in the jurisdiction.]

Recognition upon Changes in Facts and Circumstances

BC37. The IPSASB noted that a tangible natural resource which was initially not recognized as it could not be reliably measured could subsequently become measurable due to changes in facts and circumstances. The IPSASB considered developing guidance specific to such changes but noted that no additional guidance was required, as such scenarios are already addressed by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. As a result, the IPSASB decided to only include application guidance signposting to IPSAS 3 when such changes in facts and circumstances occur.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

BC38. 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. The IPSASB applied the same principle to subsequent expenditures relating to unrecognized tangible natural resources in general and developed the guidance in paragraph AG25.

Subsequent Measurement

BC39. The IPSASB noted that tangible natural resources which are held for financial capacity are typically within the scope of other Standards such as IPSAS 12, IPSAS 44, and IPSAS 45. As a result, the IPSASB decided that because the tangible natural resources within the scope of this [draft] Standard are not held for their financial capacity, if an entity elects to subsequently measure these natural resources at current value, a current operational value measurement basis should be used.

Amendments to Other IPSAS (Appendix B)

BC40. Based on the [proposed] guidance in this [draft] Standard, the IPSASB decided to amend certain presentation requirements in IPSAS 1, *Presentation of Financial Statements*, the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, as well as certain exemptions in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*. These amendments relate to the presentation of tangible natural resources as a separate line item in the statement of financial position, excluding tangible natural resources within the scope of this [draft]

IPSAS from the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, and exemptions regarding the recognition and measurement of tangible natural resources in an entity's transitional IPSAS financial statements.

Comparison with GFS

To be completed in September 2024.

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