

## Exposure Draft (ED) 92, Tangible Natural Resources

The National Standard Setter from Portugal (Comissão de Normalização Contabilística – CNC) is pleased to send you its comments on the exposure draft:

### Comment 1

- This Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of any other existing IPSAS. (See paragraphs 3-4, BC8, and BC34.)

- Do you agree with the proposed scope?

The proposed scope raises several concerns that must be addressed. Firstly, we find the assertion completeness very hard to comply taking into account the different categories that a natural resource can assume (for example, geological, water, biological or soil).

Secondly, the definition considers the same recognition criteria of common tangible assets which do not have practical applicability for this type of assets and would lead to a non-recognition of almost all the Natural Resources that could be addressed by this IPSAS.

Moreover, past events are difficult to specify in the context of natural resources and should be subject to some kind of framework. This is also applicable to the concept of control because many factors can jeopardize the ability of an entity to restrict access, for instance, climate-related events.

Taking into account the sea as an asset for the potential of fishing, aquaculture, energy resources, recreation, sport and tourism, a source of balance for temperature, etc., it seems that it is not in the scope leading to a reflection on the cost-benefit analysis of what is in the scope.

Even if we take into account the forest as only composed of trees, we will be losing sight of other complementary assets composed of living organisms that ensure biodiversity and are an integral part of the forest.

In Portugal, depending on the type of natural resource, there are agencies and/or institutes specialized in its management, with specific legislation, which do not take into account its service potential and/or economic potential.

- If not, what alternative scoping approach would you propose and why?

The scope should be staggered according to the various categories of natural resources, starting with those whose registration with official entities

is easier, namely, those subject to licensing, assignments or concession and, at the level of transition procedures, the application of the rule can be completed within 10 years.

- 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.
- What other items would you anticipate being accounted for through this Exposure Draft?

Please see the previous comment

#### Comment 2

- This Exposure Draft defines a natural resource as an item which is naturally occurring and embodies service potential, the capability to generate economic benefits, or both, and a tangible natural resource as a natural resource with physical substance.
- Do you agree with the proposed definitions? If not, why not?

We have difficulty agreeing with the proposed definitions, taking into account the concerns mentioned in comment 1 and the need to clearly delimit what is intended.

For assets that have a mixed character, economic benefit and service potential, for example, in Portugal, the case of Parque do Monsanto, it could be useful to have guidelines for the choice since it can be decisive for the measurement.

#### Comment 3

- This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this [draft] Standard 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?

We agree with the rebuttable presumption, and we also consider that is very difficult to evaluate impairment unless we are faced with extreme events (fire in a forest, contamination in a water reservoir).

#### Comment 4

- 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?

We agree and also like to add strategic resources (potable water, for instance).

#### Comment 5

- 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 value. This guidance was incorporated by cross-reference as the acquisition of tangible natural resources is expected to be rare in the public sector, and there is familiarity with the principles on the determination of cost, which are consistent with those found in IPSAS 45.
  - Do you agree that these cross-references are sufficiently clear?
  - If not, how should the above guidance be incorporated into the Final Standard?

It's not so much the clearness of the cross-references but the difficulty in applying them.

#### Comment 6

- 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 of the [draft] Standard at their deemed cost, or on a full retrospective basis in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.
  - Do you agree that the option to apply the proposed guidance on a modified retrospective basis will result in useful information?
  - If not, why not?

The modified retrospective approach seems to be the only possible approach and with a transitional period of 10 years.

#### Comment 7

- The IPSASB proposes to amend the description of 'heritage asset' in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this [draft] Standard.
  - Do you agree with the proposed amendment?
  - If not, why not?

We agree.

#### Comment 8

- The non-authoritative guidance in this [draft] Standard 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 and why?

They seem to be insufficient. Please, take into consideration our previous comments.

The perceived scope of this standard appears to be very broad, encompassing multiple situations, each one of high complexity, that are not addressed in the definitions of tangible and recognition conditions.

In our opinion, this standard creates grounds for many different interpretations, and requires a lot of professional judgment, jeopardizing the intended comparability between public sector accounts and the transparency that is intended.

Lisbon, 25<sup>th</sup> February 2025

