European Accounting Association

Public Sector Accounting Committee (EAA PSAC)

Comments to:

Exposure Draft (ED) 92 – Tangible natural resources

26 February 2025

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The EAA PSAC is currently chaired by Sandra Cohen (Athens University of Economics and Business, Greece), with members Eugenio Anessi-Pessina (Università Cattolica del Sacro Cuore, Italy), Isabel Brusca (University of Zaragoza, Spain), Susana Jorge (University of Coimbra, Portugal), and Mariafrancesca Sicilia (University of Bergamo, Italy). The documents issued by the EAA PSAC reflect only the views of their signatories, not the collective perspective of the wider research community, nor the opinions of the institutions affiliated with such signatories or of the European Accounting Association.

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The sustainable and accountable management of the natural environment has been increasingly attracting public concern. In March 2020, the IPSASB approved the brief for the Natural Resources project. In May 2022, it issued the Consultation Paper, *Natural Resources (CP)*, followed in October 2024 by ED92. The project's goal 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 [...] in accordance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities" (ED92, BC1).

Our views on ED92 can be organised into four levels: (i) the scope of the proposed standard and its title; (ii) the suitability of resources held for conservation for inclusion in general purpose financial statements; (iii) the answers to the individual Specific Matters for Comment (SMCs); and (iv) some additional remarks.

Scope and title of the proposed standard

The scope of ED92 is presented as covering "tangible natural resources" (paragraph 1). A natural resource is defined as an "item which (a) is naturally occurring; and (b) embodies service potential, or the capability to generate economic benefits, or both" (paragraph 6). A natural resource is qualified as "tangible" if it has "physical substance" (paragraph 6).

However, both the Application Guidance and the Implementation Guidance clarify that many significant classes of these items would not be covered by the Standard (not even in terms of disclosure, see BC30), because existence uncertainty prevents them from being considered a resource (a particularly important example being unextracted minerals, see AG10, IG13) or they are not controlled by a public sector entity (for example, water, IG8-IG9, and animals, IG10-IG12).

Under these circumstances, we tend to concur with the *Alternative View* whereby "the scope [of this Standard] should only include tangible natural resources held for conservation". In fact, all the examples contained in ED92 focus on tangible natural resources held for conservation (see, for example, paragraphs 5, 42, AG5, AG18c). The function of public sector entities as custodians of tangible natural resources held for conservation should be underlined in the proposed Standard. Consequently, we believe that the title of the Standard should be revised accordingly.

Suitability of resources held for conservation for inclusion in general purpose financial statements

Despite acknowledging the above, we remain sceptical about the inclusion of resources held for conservation in general purpose financial statements. Our arguments mirror those frequently found in the literature with respect to heritage assets. In particular:

- These are "community assets" (Pallot 1992) or "trust assets" (Barton 2000, 2005), which the government holds in trust and has the duty to protect and preserve for present and future generations. They cannot be sold nor are they available to repay liabilities.
- Their measurement is particularly problematic as none of the common methods of valuation is convincingly applicable. This is because these items generally lie outside the operation of orderly markets and do not generate cash flows; have been acquired without payment; are often impossible to be replaced; produce externalities; or are public goods and/or not for sale. Financial values attached to these items are thus likely to be arbitrary and artificial (Carnegie & Wolnizer 1995, 1999; Stanton & Stanton 1997; Barton 2000, 2005; Aversano & Christiaens 2014; Ellwood & Greenwood 2016; Anessi-Pessina et al. 2019; De Wolf et al. 2021; Dabbicco 2021). These financial values are consequently "unlikely to satisfy normal accounting standards of verifiability and reliability [and] audit standards for published financial statements to give a 'true and fair view' of the state of affairs of the government" (Barton 1999, pp. 218-219). They are likely to be "accounting fictions" and "the notion that such fictions can be useful in assessing the propriety, efficiency and effectiveness of the operations of public sector institutions within their particular organisational contexts is [...] an accounting mirage" (Carnegie & West 2003, p. 85). In the end, this "could indirectly communicate that 'any value is acceptable' when accounting figures are concerned, including, for instance, subjective and arbitrary choices, hence delegitimising financial reporting, the audit opinion statements, the accounting discipline and the profession" and creating a "paradoxical situation" whereby "the practice, which was intended to improve decision-making, comparability and accountability can have the opposite effect" (Ferri et al. 2021, p. 988).
- Measurement is problematic also because it involves significant professional judgement in determining the appropriate unit of account (GASB, 2015). The reference to specific units of account (AG17-AG21), moreover, may obscure the overall value of what is being measured. Apostol et al. (2023, p. 4) refer to the identification of specific units of account as the "fragmentary approach". They claim that, by "drawing boundaries around specific, individual items [...], items outside these boundaries can be discarded as unworthy of preservation, [...] ultimately result[ing] in the disintegration of the cultural heritage". On the contrary, an "integrative approach draws boundaries around the entire heritage and claims that to understand its value, one must understand the value as (more than) a sum of all the items in their specific place [...]. Individual items cannot be separated and valued alone, as their value is inherently linked with this entirety".
- Financial valuations fail to capture "social value" (e.g. Carnegie & Wolnizer 1995). In fact, they may divert the attention of policy makers and managers away from social aspects and the

value for citizens and the community (e.g. Stanton & Stanton 1997; Barton 2000). For example, Ellwood & Greenwood (2016) contend that economic value and social value are “rivals”, with one value detracting from the other. Similarly, Sullivan and Hannis (2017, p. 1460) claim that "using money as a measure of nature’s value(s) may effectively ‘miss the point’”.

In conclusion, our concerns align with Carnegie and Wolnizer’s (1995, p. 44) fundamental question of “in what demonstrable way or ways is such a financial quantum useful for enhancing and judging the accountability of those who manage” public sector entities.

Specific Matters for Comment

To the extent that the IPSASB remains convinced that resources held for conservation should be included in general purpose financial statements, our views on the individual SMCs are as follows.

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

We disagree, for the reasons presented above. Our opinion is aligned with the Alternative View.

The standard should place greater emphasis on the particular responsibility that public sector entities have for preserving natural resources for future generations.

Specific Matter of Comment 2: Definitions (paragraph 6)

We agree with the definition of a natural resource and a tangible natural resource. However, as underlined in SMC1, we concur with the Alternative View that the scope of this ED, in fact, only includes tangible natural resources held for conservation.

Specific Matter of Comment 3: Depreciation (paragraph 23)

We agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated

Specific Matter of Comment 4: Exemption from certain disclosures (paragraph 51)

We agree with parsimonious disclosure when full disclosure may lead to further endangerment or degradation of a tangible natural resource.

Outside these exceptional cases, however, we believe that disclosure requirements could be enriched to compensate for the limited significance of monetary valuations, subject to the cost-benefit constraint as stated in the Conceptual Framework. Disclosure is particularly important in jurisdictions where no dedicated reports are produced on natural resources.

Specific Matter of Comment 5: Cross-Reference to IPSAS 45, Property, Plant and Equipment (paragraphs 15 and 54)

We agree that the cross-references to IPSAS 45 are sufficiently clear.

Specific Matter of Comment 6: Transition (paragraph 60)

We agree that entities should be allowed to apply the proposed guidance on a modified retrospective basis. Identification and measurement are likely to be cumbersome and costly. The modified retrospective approach provides some welcome relief while still resulting in useful information.

Specific Matter of Comment 7: Amendment to the description of "Heritage Asset" in IPSAS 45, Property, Plant and Equipment (Appendix B)

Overall, we agree with the proposal to amend the description of "heritage asset" in IPSAS 45 so that heritage assets that fall within the scope of ED92 are accounted for according to the guidance provided in ED92. In any case, the choice does not appear to be particularly consequential as ED92 significantly leverages the guidance from IPSAS 45.

However, the proposed amendment to AG2 currently eliminates "environmental" and "natural" from the list of features that may characterize the rarity and significance of heritage assets. Since we agree with the Alternative View that the scope of ED92 should only include tangible natural resources held for conservation, we suggest that the proposed amendment should be reworded accordingly. Similarly, under the Alternative View, the exclusion of "mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources" from the scope of IPSAS 45 (paragraph 3b) would need to be maintained.

Specific Matter of Comment 8: Sufficiency of proposed implementation guidance and illustrative examples

We disagree. Further implementation guidance and illustrative examples are necessary regarding impairment losses as well as subsequent expenditures recognized as assets, namely on how to recognize the replacement of (parts of) the asset after impairment, for example in the case of wildfires (see additional remarks below). Additionally, the concept of "non-living tangible natural resources" should be defined, explained, and exemplified.

Additional remarks

1. The Implementation Guidance, under Section *D1 Determination of Current operational value*, exemplifies the cost approach to the determination of current operational value (COV) by referring to a forest. In particular, paragraph IG27 suggests that "the entity could estimate the forest's COV by accumulating the estimated costs of acquiring, planting, and growing saplings into mature trees, as well as the value of the land if it is not a separate unit of account." However, a forest is much more than just the trees and the land. It is also the fauna and the flora of the area, as discussed in IE3. Thus, calculating COV in practice can be expected to be challenging at best.
2. AG24 mentions "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 deemed cost 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". However, this treatment may end up into accounting providing potentially misleading information. Assume that a forest that is not recognized as a tangible natural resource is partially destroyed by a devastating wildfire. New trees are planted to partially restore the forest and they are recognized as a tangible natural resource. Thus, while

there was a natural disaster and the (unrecognized) forest was destroyed by wildfire, with devasting effects on the fauna and flora of the area, accounting will show an increase in the natural resources. We suggest that in such cases there are specific disclosures indicating changes (increases) in tangible natural resource restorations due to natural disasters on unrecognized tangible natural resources.

3. In paragraph 49, it may be appropriate to add the word "recognized", as follows: "In accordance with IPSAS 21 or IPSAS 26, as appropriate, an entity discloses information on impaired RECOGNIZED tangible natural resources ...".

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