

February 28, 2025

Ross Smith, Program and Technical Director  
International Public Sector Accounting Standards Board  
277 Wellington St. West  
Toronto ON M5V 3H2

**RE: Exposure Draft 92 Tangible Natural Resources**

Dear Ross:

We are pleased to submit our response letter to IPSASB 92.

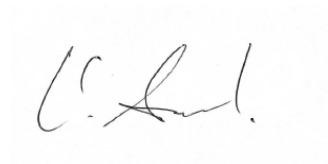
Overall, we support the proposals set out by the IPSASB. However, there are specific issues we would like the Board to consider before finalizing, set out below and in the Appendix attached to this letter.

This is such an important standard and so unique to the public sector. We must remember that the IPSAS conceptual framework and standards stem from private sector standards. While they have been tailored to the public sector, a few key issues are coming to light when applying the framework to develop a public sector standard on natural resources.

We thank the Board for the opportunity to comment.

Sincerely,

**Welch LLP**



**Umar Saeed, MAcc, CPA, CA**

**Partner**

Welch LLP - Chartered Professional Accountants  
1070 - 36 Toronto Street, Toronto, Ontario, M5C 2C5  
T: 647-288-9200 ext: 412, F: 647-288-7600

cc: Dave Warren, IPSAB  
Chris Meyers, Partner, Welch  
Jim McConnery, Managing Director, Welch LLP

**IPSAS should consider a disclosure-only proposal:**

The standard proposes a recognition and measurement framework. However, the standard also provides several opt-outs from measuring natural capital (which would lead to non-recognition). It is unclear if the goal of IPSAS is to have a widely adopted standard for recognition and measurement of natural resources, or to simply have a framework that appears to look like other standards, but in essence, is a disclosure-only standard.

We believe a disclosure-only standard can still meet the goals of accountability and transparency, provided it is a requirement for public sector entities to measure and report the total stock of natural resources as well as their annual depletion. There need not be dollar values attributed to these types of resources as it would be rare that one basis for value would be decision-useful as most public sector decisions must consider a number of perspectives (economic, ecological, community), which would all yield different values for the exact same resource.

**Current Operational Value:**

The proposed standard states that the natural resource should be measured at current operational value. The objective of a current operational value measurement is to estimate the amount an entity would pay for a non-financial asset at the measurement date. In other words, current operational value approximates replacement cost or replacement value.

If we were to apply this measurement base to the natural resources such as forests, fresh water (lakes and rivers), minerals in the ground, we would encounter some practical issues in obtaining this measurement:

1. To estimate current operational value, we must know how old a natural resource is as well as how much more life remains. Humans (through industrial activities and climate change) impact the natural lives of these resources. This starting point may be difficult to obtain.
2. There is no real market to obtain replacements for such natural resources. Fresh water may never be replenished. It's hard to understand how we would ascribe a value for something like this.
3. Forests can be regrown but require long periods of time. While we can calculate and track direct costs of replanting trees as well as their maintenance, we are failing to recognize the "opportunity cost" associated with the fact that we have lost the forests value (carbon sequestration, timber, ecosystem benefits).

Natural resources are unique, and require a thoughtful measurement framework that suits their value. A standard discount rate is designed for financial assets, and the rate itself is an estimate of the opportunity cost and risks available at the time of valuation. This is not suitable for valuing natural resources.

If the goal is to create a fulsome recognition and measurement framework for tangible natural resources, we believe the IPSASB must provide much more specific and suitable measurement guidance to achieve current operational value.

## APPENDIX A – ED 92 Specific Matters for Comment

**Specific Matter for Comment 1: Scope (paragraphs 3-5): 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? If not, what alternative scoping approach would you propose and why? 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?**

We agree with the scoping approach.

**Specific Matter for Comment 2: Definitions (paragraph 6): 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 agree with the proposed definitions. However, it would seem that this concept of the natural resource being “actively managed” is important when classifying natural assets for recognition under the standard, yet it is mentioned only in the implementation guidance (AG9). This idea is not defined anywhere in the standard or IPSAS handbook, and its application would be ambiguous in this context.

For example, if a government actively tracked the stock of some of its natural resources, it would seem to meet the definition and scope of this standard. But would a government that neglected this obligation be exempted from this standard? “Actively managed” is a term often used in financial investment circles, referring to assets that are *actively* traded (high volume of trades trying to profit on pricing differences) versus assets that are *passively* invested (buy and hold).

However, it is not clear to us if these distinctions effectively differentiate the types of natural resources IPSAS would consider within the scope of the standard from those that should be excluded. This seems too important of a criterion to be missing from the definitions / scope of the standard.

**Specific Matter for Comment 3: Depreciation (paragraph 23): 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. However, the concept of **depletion** being absent from the standard appears to be a significant omission. If we consider natural forests held for conservation, a forest fire would be considered an impairment event. However, deforestation where governments permit private sector entities to cut down forests for commercial uses should also be accounted for under a natural resources standard as depletion.

We appreciate that IPSAS 45 (or some other relevant IPSAS) would, in theory, be applied to address depletion. However, it’s not clear whether an unintended outcome of the standard as written is for tangible nature resources held for conservation have a recognition and measurement framework, while those not held for conservation would remain unaccounted for (including their depletion).

**Specific Matter for Comment 4: Exemption from Certain Disclosures (paragraph 51):** 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?

No comment.

**Specific Matter for Comment 5: Cross-References to IPSAS 45, *Property, Plant, and Equipment* (paragraphs 15 and 54):** 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?

No comment.

**Specific Matter for Comment 6: Transition (paragraph 60):** 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?

We agree.

**Specific Matter for Comment 7: 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 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?

No comment.

**Specific Matter for Comment 8: Sufficiency of Proposed Implementation Guidance and Illustrative Examples:** 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?

We believe specific examples on impairment would be useful.