

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Virtual Meeting

Meeting Date: December 6, 2021

Agenda Item 2

PROGRAM AND TECHNICAL DIRECTOR’S REPORT

Project summary	The purpose of this session is to receive updates on changes on the work program.	
Meeting objectives	Topic	Agenda Item
Discussion items	Update on IPSASB Work Program	2.1
Other supporting items	IPSASB Work Program: December 2021	2.2.1
	Revenue and Transfer Expenses June 2021—Report Back	2.2.2
	Natural Resources June 2021—Report Back	2.2.3

Update on IPSASB Work Program

Purpose

1. To receive the Program and Technical Director's report on the work program and other activities, including key changes since June 2021.

Program and Technical Director's Report

Work Program Updates

2. Staff highlights the following approvals since the June 2021 CAG meeting:
 - (a) The IPSASB approved [Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance](#) at its June 2021 meeting and these amendments were published in November 2021. The amendments add non-authoritative guidance that helps with the application of the core principles in the standard in the public sector.
 - (b) ED 80, *Improvements to IPSAS 2021* was approved at the June 2021 meeting and published in July 2021. The comment period ended September 30, 2021 and the IPSASB will review and approve the *Improvements to IPSAS 2021* pronouncement at its December 2021 meeting.
 - (c) The Mid-Period Work Program Consultation was approved at the June 2021 meeting and published in July 2021. The comment period ended November 30, 2021 and IPSASB staff will provide an update on this project during Agenda Item 3 at the December 2021 CAG meeting. The IPSASB will discuss this item and receive a high level overview of the responses at its December 2021 meeting.
3. Staff highlights the following Work Program developments since the June 2021 CAG Meeting.
 - (a) **ED 75, Leases.** The approach taken to develop ED 75 by aligning with IFRS 16, *Leases*, was consistent with advice provided by CAG members. Respondents to ED 75 strongly supported the ED approach and proposals. There were no significant issues identified in the responses that, as part of due process, required further consultation with the CAG. The IPSASB plans to approve the new standard (IPSAS 43, *Leases*) based on ED 75 at its December 2021 meeting.
 - (b) **Other Lease-Type Arrangements.** When the IPSASB issued ED 75, it also issued a Request for Information (RFI) related to public sector specific issues, including concessionary leases. The feedback from the RFI will inform this public sector specific stream of the leases project will proceed after IPSAS 43 is approved. Clarity on the updated leases accounting model should help with the analysis and assessment of the feedback to the RFI so the IPSASB can take decisions on whether updates to IPSAS guidance are necessary. The IPSASB expects to discuss this stream of the leases project with the CAG at the June 2022 meeting.
 - (c) **Revenue.** The IPSASB continues to make progress on revenue, a project which it has consulted with the CAG on several times. CAG members had previously encouraged the IPSASB to consider if the revenue guidance proposed in EDs 70 and 71 should be combined into a single standard. The IPSASB considered this issue again at its October 2021 check-in meeting and agreed to combine the two revenue streams into one single standard.
 - (d) **Transfer Expenses.** The IPSASB consulted the CAG on the responses to ED 72, *Transfer Expenses* in June 2021. The significant issue highlighted in the responses to ED 72, which the CAG provided input on in June 2021, was whether to retain distinction in the proposed ED 72

accounting model for transfer expenses with and without performance obligations. Related to this, respondents also questioned if the ED 72 accounting model was consistent with the perspective of the transfer provider and encouraged the IPSASB consider this further. This was echoed by CAG members input. The IPSASB considered advice from CAG members and revisited this issue and decided to develop an accounting model focused on the perspective of the transfer provider that adopts a 'rights' based approach to determine when the entity making a transfer should recognize an asset (delaying recognition of the transfer expense).

- (e) **Retirement Benefit Plans.** The CAG was consulted in April 2021 via email on the project brief for this project and the key issues related to this item. CAG member advice was taken into consideration in scoping the project and the IPSASB has decided to build its proposed standard off IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, however, agreed to adapt the guidance by looking to modifications made by other standard setters (to remove options available in IAS 26 and ensure the remaining options are appropriate in terms of the IPSASB Conceptual Framework). The IPSASB plans to review and approve Exposure Draft 82, *Retirement Benefit Plans* at its December 2021 meeting.
 - (f) **Natural Resources.** The CAG was consulted on Natural Resources in June 2019, December 2020 and June 2021 and provided input on both the project brief and the development of the Consultation Paper (CP), which has helped to shape the scope, issues and concepts discussed in the CP. The IPSASB continues to make progress on the development of the CP, which it now plans to approve at its March 2022 meeting.
4. The IPSASB will review the work program included in [Agenda Item 2.2.1](#) at its upcoming December 2021 meeting.

Sustainability Reporting

5. Sustainability has become an increasingly important global issue. The IPSASB has started holding regular sessions to keep abreast of the developments in this space to begin to consider their impact on the public sector. These discussions will help influence the future direction of the IPSASB strategy and work program, and advice from CAG members will be sought as the potential options available become clearer during 2022.

Adoption and Implementation Activities (Strategic Themes D and E)

6. In addition to the resources put into project work, IPSASB staff and board members engage in the work of others related to a number of initiatives that support the IPSASB strategic Themes D¹ and E². The following are a number of items to highlight for the information of CAG members:

¹ *IPSASB Strategic Theme D: Promoting IPSAS Adoption and Implementation*, relates promotion and encouragement of the adoption and implementation of IPSAS being in the public interest because it better public sector financial reporting enables greater transparency of public sector resources and accountability for their use by decision makers, as well accrual financial information can be used to inform better decision making.

² *IPSASB Strategic Theme E: Advocating the Benefits of Accrual in Strengthening PFM*, reflects the IPSASB's view that the use of accrual information provides the foundation for strong PFM. Accrual based information should be use for as many purposes as possible, not just financial reporting (for example, it can be also be used for policy and budget purposes, and for statistical accounting).

- (a) **International Statistical Standards Update Process.** The IPSASB³ staff continue to be involved in the International Statistical Standards (ISS) update process, which is an important initiative being undertaken by the statistical community to update the *System of National Accounts, 2008* and *Balance of Payments and International Investments Position Manual* by 2025.
- (b) **Adoption and Implementation.** There are several ongoing initiatives related to supporting the adoption and implementation of IPSAS being led by IFAC as well as other organizations, which the IPSASB Chair and staff have been engaging to support. These initiatives include:
- (i) *The International Public Sector Accountability Index 2021 Status Report* which was published in June 2021. The 2021 Index Status Report captures the status of accrual implementation for 165 jurisdictions as of 2020, the forecast outlook for 2025 and a longer-term projection of the status in 2030.
 - (ii) eIS (electronic International Standards) is an initiative being carried out by IFAC to develop an electronic platform for the IPSAS and the standards of the other two independent international standard setting boards⁴ which operate under the auspices of IFAC. The platform has now been launched by IFAC and can be accessed here: <https://eis.international-standards.org/>. This is the first phase of the development of eIS, and now that the platform is live and operating, IFAC will continue to build out its features and functionality.
 - (iii) *Pathways to Accrual* is expected to be launched in early 2022. Pathways to Accrual is the update to *Study 14, Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*. It updates the content and modernizes the presentation and dissemination of the information included by providing a web-based platform that is easier to navigate and use by those planning and undertaking accrual reforms.
 - (iv) *Train the Trainer: Introduction to IPSAS* is a comprehensive set of training materials that includes ten modules broken down into stand alone topics, so they can be delivered as individual sessions. Each module consists of a training manual and an accompanying set of slide decks (one slide deck per topic). The materials can be accessed here: <https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/train-trainer-introduction-ipsas>. IFAC and IPSASB have had a very positive response to this adoption and implementation supporting material. IFAC is currently looking into the feasibility of translating the materials into additional languages.

³ The IPSASB already considers GFS alignment in its projects and develops consistent guidance when appropriate in line with its Government Finance Statistics Alignment Policy. Given the extended intervals between ISS updates, this is an important opportunity to make significant progress in certain key areas of difference.

⁴ The International Auditing and Assurance Standard Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) also issue international standards and operate under the auspices of IFAC.

Outreach

7. **Roundtables.** Staff carried out a number of virtual roundtables supporting the Mid-Period Work Program Consultation which closes on November 30, 2021. IPSASB staff thanks our co-hosts for each of the events and found the events to be very informative, allowing direct input from attendees and feedback on important initiatives. See a high level summary of each event below in Table A.

Table A: IPSASB Virtual Regional Roundtable Events

	Africa	Africa	Asia	Latin America
Co-Host	West African Economic and Monetary Union / IFAC	African Union Commission	Asian Development Bank	Governmental Accounting Forum of Latin America (FOCAL)
Date	October 15, 2021	October 19, 2021	October 20, 2021	October 26, 2021
Attendees	117	94	100	96
Countries	26	30	25	20

8. **Call for Academic Research Papers.** The IPSASB Academic Advisory Group, is undertaking its 3rd call for academic research papers, following a request for abstracts that closed on September 30, 2021. In support of the work of the AAG, a [webpage](#) providing information on the AAG activities has been launched, including providing information on the ongoing 3rd call for research papers. The AAG is meeting on November 29, 2021 to complete its blind review of the abstract submissions to select the proposals to receive grants to develop full research papers. Staff note that the Call for Papers was highly successful with 30 abstracts submitted across the proposed topics.

Agenda Item 2.2.1

IPSASB WORK PROGRAM THRU 2023: DECEMBER 2021

Project	Meetings								
	Dec 2021 (CAG)	Mar 2022	Jun 2022 (CAG)	Sep 2022	Dec 2022 (CAG)	Mar 2023	Jun 2023 (CAG)	Sep 2023	Dec 2023 (CAG)
Revenue									
(i) Revenue with Performance Obligations	DI/IP	DI/IP	IP						
(ii) Revenue without Performance Obligations [IPSAS 23 update]	DI/IP	DI/IP	IP						
Transfer Expenses	DI/IP	DI/IP	IP						
Conceptual Framework—Limited Scope Update-Measurement	RR CAG	RR/DI	RR/DI CAG	CF					
Conceptual Framework—Limited Scope Update-Next Stage	ED			RR/DI	RR/DI CAG	CF			
Measurement	RR CAG	RR/DI	RR/IP CAG	IP					
Property, Plant, and Equipment ¹ [IPSAS 17 Replacement]									
(i) Infrastructure Assets (additional IPSAS 17 guidance)	RR CAG	RR/DI	RR/IP	IP					
(ii) Heritage Assets (additional IPSAS 17 guidance)	RR CAG	RR/DI	RR/IP	IP					
Non-Current Assets Held for Sale and Discontinued Operations	RR/DI CAG	RR/IP	IP						
Leases [IFRS 16 alignment]	IP								
Other Lease-type arrangements [Public sector specific]²	RR/DI	RR/DI	RR/ED CAG	ED			RR/DI	RR/DI	IP
Natural Resources	DI/CP	CP			RR CAG	RR/DI	RR/ED	ED	
Retirement Benefit Plans	ED		RR	RR/IP	IP				
Improvements	IP		ED		IP		ED		IP
Mid-Period Work Program Consultation	RR/DI CAG	RWP							
IPSASB Handbook			Publish				Publish		

¹ The amendments arising from Infrastructure Assets and Heritage Assets are included in ED 78, *Property, Plant, and Equipment*, which will replace IPSAS 17, *Property, Plant, and Equipment*.

² This project will be informed by the Request for Information, which was issued along with the Leases ED in January 2021.

Legend:

DI = Discussion of Issues; RR = Review Responses; CAG = Discussion of Issue with CAG

PB = Approval of Project Brief

CP = Approval of Consultation Paper

ED = Approval of Exposure Draft

IP = Approval of Final Standard or Amendments to IPSAS

CF = Approval of Conceptual Framework or Amendments to Conceptual Framework

RP = Approval of Final Recommended Practice Guidance

RWP = Approval of Revised Work Program

ST = Approval of Final Strategy and Work Program

= Planned Consultation Period

Project Management—Outputs:

Exposure Drafts:

ED 81, *Conceptual Framework-Limited Scope Update – Next Stage*

ED 82, *Retirement Benefit Plans*

Final Pronouncements:

IPSAS 43, *Leases*

Improvements to IPSAS 2021

December 2021

PROJECTS COMPLETED AND/OR PUBLISHED DURING 2019-2023 STRATEGY AND WORK PROGRAM PERIOD

Project	Date Issued
<i>Amendments to IPSAS 5, Borrowing Costs—Non-Authoritative Guidance</i>	November 2021
<i>Non-Authoritative Amendments to IPSAS 41, Financial Instruments</i>	December 2020
<i>COVID-19: Deferral of Effective Dates</i>	November 2020
<i>Collective and Individual Services, (Amendments to IPSAS 19)</i>	January 2020
<i>Improvements to IPSAS, 2019</i>	January 2020
<i>IPSAS 42, Social Benefits</i>	January 2019
<i>Amendments to IPSAS 36, Investments in Associates and Joint Ventures, and IPSAS 41, Financial Instruments</i>	January 2019

Status of Application of Due Process – December 2021

APPENDIX A

PROJECT	DUE PROCESS ELEMENTS (✓ = ELEMENT COMPLETE)					ANTICIPATED FINAL APPROVAL	
	A. PROJECT COMMENCEMENT	B. DEVELOPMENT OF STANDARD		C. PUBLIC EXPOSURE	D. EXPOSURE COMMENTS CONSIDERED		E. APPROVAL
		CP PHASE (IF APPLICABLE)	ED PHASE				
Revenue with Performance Obligations	✓	✓	✓	✓	ONGOING	June 2022	
Revenue without Performance Obligations [IPSAS 23 update]	✓	✓	✓	✓	ONGOING	June 2022	
Transfer Expenses	✓	✓	✓	✓	ONGOING	June 2022	
Conceptual Framework—Limited Scope Update-Measurement	✓	N/A	✓	✓	ONGOING	September 2022	
Conceptual Framework—Limited Scope Update-Next Stage	✓	N/A	ED 81 APPROVAL PLANNED DEC 2021			March 2023	
Measurement	✓	✓	✓	✓	ONGOING	September 2022	
Property, Plant, and Equipment Update - Infrastructure Assets	✓	N/A	✓	✓	ONGOING	September 2022	
Property, Plant, and Equipment Update - Heritage Assets	✓	✓	✓	✓	ONGOING	September 2022	
Non-Current Assets Held for Sale and Discontinued Operations	✓	N/A	✓	✓	ONGOING	June 2022	

Status of Application of Due Process – December 2021

APPENDIX A

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	A. PROJECT COMMENCEMENT	B. DEVELOPMENT OF STANDARD		C. PUBLIC EXPOSURE	D. EXPOSURE COMMENTS CONSIDERED		E. APPROVAL
		CP PHASE (IF APPLICABLE)	ED PHASE				
Leases [IFRS 16 Alignment]	✓	✓	✓	✓	✓	IPSAS 43, APPROVAL PLANNED DEC 2021	December 2021
Other Lease-type arrangements [Public sector specific]	✓	✓	✓	✓	ONGOING		December 2023
Natural Resources	✓	ONGOING					June 2024
Retirement Benefit Plans	✓	N/A	ED 81 APPROVAL PLANNED DEC 2021				December 2022
IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	✓	✓	✓	✓	✓	✓	Issued November 2021

N/A – Consultation Paper (CP) phase is not a required due process element, IPSASB determines on a project-by-project basis whether a CP is needed.

Overview of Due Process steps:

A. Project Commencement—due process step complete when project proposal (project brief) approved.

B. Development of Standard—due process step complete when exposure draft approved for public exposure.

C. Public Exposure—due process step complete when exposure draft comment period ends and comments received publicly posted on IPSASB website.

D. Consideration of Exposure Comments—due process step complete when significant issues raised on exposure have been deliberated by IPSASB.

E. Approval—due process step complete after board approval of final standard, considered the need for re-exposure, agreed the basis for conclusions and set an effective date for the standard.

Revenue and Transfer Expenses – June 2021 Report Back

June 2021 CAG Discussions

1. Extracts from the draft minutes of the June 2021 CAG and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
June 2021 CAG Meeting Comments	
<p>IPSASB Manager, Standards Development and Technical Projects, Eileen Zhou introduced Agenda Item 4 and provided:</p> <ul style="list-style-type: none"> • A summary of how CAG member input from December 2020 has supported the IPSASB in its progress on the Revenue project (Issue 1); and • An overview of the proposed approach to evaluate transactions from the transfer provider's perspective when applying Exposure Draft (ED) 72, <i>Transfer Expenses</i> (Issue 2). <p>Ms. Zhou asked CAG members to consider the following questions:</p> <ul style="list-style-type: none"> • Question 1 – Are there additional factors CAG members advise the IPSASB to consider as the Revenue project progresses? • Question 2 – Do CAG members agree with the proposed approach to consider the transfer provider's perspective in evaluating transfer expenses transactions and revising the proposed accounting guidance to address constituents' concerns? 	
The CAG members commented on Question 1 as follows:	
<p>1. Ms. Cearns commended the progress of the project and noted that clarity and ease of use of the Standards will make a difference to users. Ms. Cearns added Standards could be stress tested by getting people who are not familiar with the Standards to consider if they are usable.</p>	<p>The IPSASB staff are in the process of inviting IPSAS users to participate the Drafting Group. These users will support the development of the final pronouncements by providing a practical perspective.</p> <p>Furthermore, the IPSASB has decided to revise the structure and also to develop a single Revenue IPSAS, and will continue considering how to present guidance in a way that is usable and understandable.</p>
<p>2. Ms. Colignon noted that beyond the assertion that revenue arising from performance obligations represents a minority of public sector revenues, it could be useful to place emphasis on revenue from non-binding arrangements (as most revenues in the public sector are attributable to taxes and transfers).</p>	<p>The IPSASB has decided to present revenue guidance for revenue transactions without binding arrangements before guidance for revenue transactions with binding arrangements (which include both revenue with present obligations or performance obligations).</p>

Representatives' and Observers' Comments	IPSASB Response
<p>3. Mr. Melo advised that a pragmatic approach should be followed to consider implementation issues and identify the high value transactions. The changes currently proposed will help the IPSASB obtain acceptance by politicians and to account for implementation considerations.</p>	<p>The IPSASB continues to consider implementation issues as they progress with principle-related discussions and drafting.</p>
<p>4. Mr. Zhang advised that the principles of a present obligation and performance obligation need to be provided in a clearer way to show their relationship. Performance obligation is a subset of present obligation. For example, all performance obligations are present obligations but not all present obligations are performance obligations. However, ED 71 defines a present obligation as a duty to act or perform in a particular way and may give rise to a liability in respect of any transaction without a performance obligation. This may be interpreted that a present obligation excludes a performance obligation. Mr. Zhang suggested using the term "non-performance obligation" instead of present obligation.</p>	<p>Noted. The IPSASB is refining the concept of a present obligation, and its relationship with performance obligations, as part of its December 2021 meeting.</p>
<p>The CAG members commented on Question 2 as follows:</p>	
<p>5. Mr. Tiago agreed that the proposed approach is easier and provides a pragmatic way to account for these transactions, especially in a centralized process because the transfer provider controls the process on transfer and is able to confirm when the transfer is completed.</p>	<p>Noted. No further action necessary.</p>

Representatives' and Observers' Comments	IPSASB Response
<p>6. Mr. Gisby supported the analysis but was not entirely sure that changing the guidance to the transfer provider's perspective would address all the concerns. Mr. Gisby advised the IPSASB to consider extending the 5-step public sector performance obligation approach (PSPOA) to present obligations. He cautioned that PSPOA only applies to a subset of transfer expenses in the public sector and advised the IPSASB to consider a broader approach for present obligations where the transfer provider can demonstrate they still have some control over the resource being transferred.</p>	<p>The IPSASB acknowledged that the change to a transfer provider's perspective is a starting point to address constituent comments on ED 72. Analysis presented at the September 2021, and to be presented at the December 2021 meetings have adopted this perspective in considering the transactions and identifying the appropriate accounting principles.</p> <p>The IPSASB decided in September to remove the distinction between transfer expenses with and without performance obligations. Furthermore, the IPSASB is considering a streamlined Transfer Expenses accounting model which, based on stakeholder feedback, will be more appropriate for public sector transfer expenses with binding arrangements.</p>
<p>7. Mr. van Schaik supported the approach to consider the guidance from the transfer provider's perspective and asked if there are instances where the transfer provider and transfer recipient are part of the same economic entity, but may account for the same transaction differently?</p>	<p>The revenue and transfer expenses projects are discussed concurrently, which allows the IPSASB and IPSASB staff to ensure accounting principles are consistent, where appropriate.</p>
<p>8. Ms. Nehmeyer-Srocke agreed the current wording needs to be clarified. The transfer provider will struggle to assess the transaction from the transfer recipient's perspective. There may be different opinions on whether it's fulfilled.</p>	<p>Noted. The IPSASB is considering revised guidance in order to clarify its September 2021 decisions noted in response #6.</p>
<p>9. Mr. Williamson cautioned that this topic is complicated and advised that transactions should be considered from both the transfer provider and transfer recipient's perspectives. Mr. Williamson suggested entities and jurisdictions be provided an accounting policy choice based on the capacity or feasibility of that institution, given the complexity and information availability in certain jurisdictions.</p>	<p>See response #7.</p>

Representatives' and Observers' Comments	IPSASB Response
<p>10. Ms. Busquets commended the clear and concise presentation and concurred with the approach to focus on the transfer provider's perspective because this will be a good start to address some conceptual issues faced in practice. Ms. Busquets also supported the conceptual consistency between Revenue and Transfer Expenses Standards. Focusing on the transfer provider perspective also shows that the distinction between performance obligations and present obligations is not needed for transfer expense accounting.</p>	<p>Noted. No further action necessary.</p>
<p>11. Ms. Sanderson supported the approach to focus on the transfer provider's perspective because the transfer provider is the reporting entity recording the transaction. Ms. Sanderson agreed with Ms. Zhou's comment about this change in perspective being a starting point to address other issues, such as accountability and transparency, and ensure that the transfer provider is getting value for the funds they transfer.</p>	<p>Noted. As part of the December 2021 meeting, the IPSASB will discuss impairment considerations for the transferred resources as they relate to the services provided by the transfer recipient.</p>
<p>12. Ms. Grässle noted that this approach is important for political and administrative action to determine if their programs are effective.</p>	<p>Noted. No further action necessary.</p>
<p>13. Mr. Zhang supported the approach to focus on the transfer provider's perspective because it better addresses public interest concerns. Mr. Zhang advised the IPSASB to consider whether distinguishing the two types of transfer expenses makes sense, and whether different accounting approaches are appropriate.</p>	<p>See response #6.</p>
<p>14. Mr. Page agreed with the change in approach to focus on the transfer provider's perspective. Citizens would want transfer providers to have the final say on binding arrangements. Citizens would be surprised how many transfers are binding arrangements in nature.</p>	<p>Noted. No further action necessary.</p>

Matters for CAG Consideration

2. Representatives and Observers are asked to note the Report Back above.

Natural Resources–June 2021 Report Back

June 2021 CAG Discussions

3. Extracts from the draft minutes of the June 2021 CAG and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
June 2021 CAG Meeting Comments	
<p>IPSASB Principal, Edwin Ng, introduced Agenda Item 3, covering two issues:</p> <ul style="list-style-type: none"> • Recognition and disclosure: <ul style="list-style-type: none"> ○ Provided an overview of the IPSASB's revised general description of natural resources; and clarified that those activities related to natural resources such as development of the natural resource or the cost of extracting these resources are distinct and accounted for separately from the underlying natural resource; and ○ Proposed that an item is recognized as an asset in the financial statements if it meets the description of natural resources and satisfies the recognition criteria. Information on these items should be disclosed if the items do not meet the recognition criteria but fit into the description of natural resources⁵. • Measurement of natural resources: <ul style="list-style-type: none"> ○ The IPSASB Conceptual Framework identifies two sources of uncertainty that are relevant in the recognition of an element: uncertainty over the existence of an element and measurement uncertainty. <p>Mr. Ng asked CAG members to consider the following questions for issue 1:</p> <ul style="list-style-type: none"> • Question 1 – Do you agree with the proposed general description of natural resources? • Question 2 – Do you foresee any challenges with the proposed approach over recognized and unrecognized natural resources? • Question 3 – Do you agree that the main challenge regarding the accounting for natural resources is the impact of existence on their recognition? 	
<p>The CAG members commented on Question 1 as follows:</p>	
<p>1. Ms. Cearns supported the description but cautioned there could be a risk of confusing the description and the criteria for recognition. It was important to keep testing the description.</p>	<p>Noted. The Consultation Paper (CP) has been developed so that the description and the recognition criteria are discussed in separate chapters.</p>

⁵ The Natural Resources Task Force (Task Force) has not yet decided whether the items should be disclosed in the notes to the financial statements or as supplementary information in an entity's broader GPRFs.

Representatives' and Observers' Comments	IPSASB Response
<p>2. Ms. Colignon commented the natural resources project is important from a public interest perspective. However, Ms. Colignon cautioned that the three proposed attributes of natural resources in the general description may leave the scope widely open. For example, Ms. Colignon also questioned how reliable the assessment of the service potential (or of the generation of economic benefits) of a natural item may be.</p>	<p>Noted. The scope of the project was limited to subsoil resources, water, and living resources based on preliminary feedback from constituents and this was clarified in the revised CP. In addition, the revised CP explains that depending on an entity's objectives for holding the resource, the economic benefits or service potential of a natural resource should be considered in its measurement. In situations where the economic benefits or service potential cannot be reliably measured, the natural resource does not qualify for recognition as an asset in the financial statements.</p>
<p>3. Mr. Chowdhury suggested adding "subject to depletion" to the "remains in its natural state" criterion.</p>	<p>Noted. The IPSASB agree depletion should not be included in the general description of natural resources because only when a resource is no longer in its natural state, is it depleted (based on existing IPSAS literature). For example, if recognized as an asset, ore that is extracted is depleted from the recognized natural resource asset and becomes inventory that is then within the scope of IPSAS 12, <i>Inventories</i>.</p>
<p>4. Mr. Williamson supported the description of natural resources. Mr. Williamson also asked what the consequences of the description of natural resources were to accounting for items such as carbon assets. Once the distinction is made, how are these items brought into the financial statements?</p>	<p>Noted. Carbon-related assets such as offset credits are intangible in nature and therefore not within the scope of the current project. Such assets may be considered in the potential project to updated IPSAS 31, <i>Intangible Assets</i>.</p>
<p>5. Mr. Müller-Marqués Berger concurred that there are instances where items are changing from naturally occurring to non-naturally occurring when they are harvested and vice versa and questioned how this distinction is made?</p>	<p>The description is worded so that resources which are placed back in their natural state would qualify as natural resources.</p>

Representatives' and Observers' Comments	IPSASB Response
<p>6. Mr. van Schaik supported the description but questioned why the draft CP was only limited to subsoil resources, living resources and water. Mr. van Schaik advised that the draft CP should provide guidance on solar energy and wind power because these are important sustainable resources.</p>	<p>The draft CP provides the generic description of natural resources and separate chapters on accounting for subsoil resources, living resources and water. The general principles could possibly be applied to other types of natural resources. The project also focuses on the natural resources that could be recognized and not recognized in the financial statements.</p> <p>In addition, the scope of the CP was discussed at the July 2021 IPSASB Check-In, where it was clarified that the current scope of subsoil resources, water, and living resources is based on constituent feedback on which items to focus on at this stage of the project.</p>
<p>7. Mr. Simpson noted that the second attribute, "remains in its natural state" should be changed to "is in its natural state" because the word, "remains" could be misinterpreted. Mr. Simpson added that it is very difficult to determine what "human intervention" is for these types of natural resources. For example, water never changes, it is just moved around and certain parts of a forest could be impacted by human intervention, and some forests may have been planted many years ago.</p>	<p>Noted. The description has been updated to reflect these suggestions.</p>
<p>8. Mr. Müller-Marqués Berger concurred and enquired whether water in artificial lakes fit the description of natural resources and whether human intervention occurs when water in rivers is redirected.</p>	<p>Noted. The chapter on water has been revised based on this discussion. The updated preliminary view is that water is in its natural state until it has been "processed" (drawn and treated through purification or filtration, etc.)</p>

Representatives' and Observers' Comments	IPSASB Response
<p>9. Ms. Kim questioned the usefulness or applicability of the attribute, "remains in natural state". The attribute could only be applicable for subsoil resources and maybe not so applicable for living resources and water. Ms. Kim asked whether cultural tourism impact the ability of the natural resource to remain in its original natural state. Ms. Kim encouraged the development of examples to clarify the meaning of the "is in its natural state".</p>	<p>Noted. The clarification of what it means to be "in its natural state" as well as the concept of human intervention will be revisited at the December 2021 IPSASB meeting.</p>
<p>10. Mr. Zhang supported the description but questioned the usefulness of information on natural resources in financial statements. Some natural resources such as mineral reserves can generate economic benefits. However, in many circumstances, natural resources may be preserved for environmental and ecological protection. Such natural resources may satisfy the description, but their monetary value may not be easily reflected in the service potential. Mr. Zhang advised that the measurement model and bases to value such natural resources should be carefully determined.</p>	<p>Noted. The IPSASB has incorporated and enhanced guidance on the measurement of the operational capacity of natural resources in the current draft of the CP.</p>
<p>11. Ms. Nehmeyer-Srocke supported the description and advised that more illustrative guidance is needed to elaborate what is a natural resource and what is not a natural resource because it is not always clear.</p>	<p>Noted. Additional explanatory text, including additional examples, have been added to the revised chapters on water living resources.</p>
<p>12. Mr. Yousef also supported the description and concurred that more illustrative examples are needed. For example, is fresh water, salt in the water and fish in the sea, natural resources?</p>	<p>See response to #11.</p>
<p>13. Ms. Cearns advised that the boundary between agriculture assets and natural resources should be explored to ensure that the distinction is clear.</p>	<p>Noted. The interaction between natural resources and IPSAS 27, <i>Agriculture</i>, has been added to the chapter on living resources.</p>

Representatives' and Observers' Comments	IPSASB Response
14. Ms. Sanderson supported the description and cautioned that the scope, boundaries and the intersection between mankind, human intervention and natural resources were complex areas that needed to be considered. For example, is a forest planted 100 years ago a natural resource?	Noted. See responses to #7 and #9.
15. Mr. Smith Mansilla supported the description. He advised that the CP should provide guidance on what happens when new species are introduced into an ecosystem. Specifically, when their origin had human intervention and the new species integrates into nature.	Noted. See responses to #7 and #9.
16. Ms. Caron supported the description because it distinguishes natural resources and inventory. Ms. Caron advised that examples will also be critical to clarify the distinction.	Noted. See response to #11.
The CAG members commented on Question 2 as follows:	
17. Ms. Colignon asked how the IPSASB would draw the line to determine those unrecognized natural resources that will be disclosed in the notes to the financial statements and the broader general purpose financial reports (GPFRs) and those unrecognized natural resources that will not be disclosed. For example, should all rivers be disclosed in financial statement notes or GPFRs because they fit in the general description of natural resources?	The issues of what information to disclose and where disclosures should be located have been incorporated into the revised chapter 6 of the CP, which will be discussed by the IPSASB in December 2021.
18. Ms. Sanderson supported the approach that those items that meet the definition of an asset should be in the statement of financial position. Ms. Sanderson added items that fit the description of natural resources and do not satisfy the recognition criteria should be part of the GPFRs in other reports. Ms. Sanderson cautioned that it could be onerous to disclose every river and stream.	Noted. See response to #17.

Representatives' and Observers' Comments	IPSASB Response
<p>19. Mr. Gisby acknowledged that disclosures promote stewardship and reduce the possibility for expropriation. However, he cautioned there are costs and practical constraints to recognizing natural resources because of inherent uncertainties (existence uncertainty and measurement uncertainty). Disclosing these resources increases the perception that the natural resources are available to be exploited.</p>	<p>Noted. The IPSASB has grappled with this issue. They have concluded delivering high quality financial information is paramount in decision making. It is up to decision makers to evaluate the information.</p>
<p>20. Ms. Stachniak advised that unrecognized natural resources should be disclosed in the notes to the financial statements. The disclosure of these unrecognized natural resources should be limited to addressing the issues relevant to financial reporting to avoid disclosure overload.</p>	<p>Noted. The CP now includes proposed financial statement disclosures for unrecognized natural resources, which are based on the principles in the conceptual framework for disclosures of unrecognized items.</p>
<p>21. Ms. Cearns concurred that disclosure of natural resources could be onerous. Ms. Cearns added the uncertainty around natural resources is not limited to existence. The next stage in deciding whether the definition of an asset is met is also important. For example, it may also be difficult to determine control and past event arising from control.</p>	<p>Noted. This has been clarified in the revised CP. These facets of uncertainty relate to uncertainty over the existence of an asset (as opposed to existence of a resource) and are also part of existence uncertainty as envisioned in the Conceptual Framework.</p>
<p>22. Ms. Weinberg cautioned about including natural resources in the statement of financial position. For example, elected officials could take credit for the natural resources that are recognized or disclosed. Elected officials could also exploit these natural resources. Ms. Weinberg advised natural resources should be distinguished from financial resources as we are considering financial information.</p>	<p>See response to #19.</p>
<p>23. Mr. van Schaik commented the government of the Netherlands has included natural gas in the statement of financial position for statistical reporting purposes. The challenge has not been determining the existence of the natural gas but how much is economically exploitable. Mr. van Schaik advised that the draft CP should ask constituents to comment on what is exploitable.</p>	<p>Noted. This discussion has been included in the clarification of the existence uncertainty <i>of an asset</i>, which includes consideration of whether an item is a resource that can generate economic benefits or have service potential.</p>

Representatives' and Observers' Comments	IPSASB Response
<p>24. Mr. Yousef acknowledged one of the main challenges is existence uncertainty. He also advised the IPSASB to consider the rights to the natural resource. For example, Ethiopia, Sudan and Egypt are not sure who has the rights to the natural resource of the Nile River. Natural resources are jointly controlled by different jurisdictions. Each jurisdiction will value and disclose the item differently in their financial statements.</p>	<p>Noted. This issue is incorporated in the CP as part of the consideration of control.</p>
<p>The CAG members commented on Question 3 as follows:</p>	
<p>25. Mr. Gisby agreed that existence uncertainty is the most difficult area. However, Mr. Gisby advised the IPSASB to not underestimate the difficulty of measurement uncertainty, in particular to living resources. Mr. Gisby asked how this interacts with sovereign powers on natural resources. Mr. Gisby recalled discussing in December 2020 that recognition of subsoil resources occurs when a contract/arrangement comes into effect. If this is still the approach, he wondered whether the existence uncertainty issue will be largely resolved.</p>	<p>Noted. Sovereign power and licenses are separate assets. One could recognize a license purchased from a government. However, this does not mean you will find a specific amount of the resource when you explore. Therefore, these are separate assets and are not linked. For example, for subsoil resources, entities often have a license to research, develop and explore. Until extraction occurs the quantum of the subsoil resource is unknown or if it is economically recoverable.</p>
<p>26. Mr. Williamson asked how the private sector values these items when getting a license and how they move that from exploration to certifying the asset to a production license. The licensing process is what the mining companies call de-risking their assets. Private sector entities turn their investments in natural resources from a speculative venture, where 80% may result in nothing, to a production license with value attached to it. There might be value in learning from the private sector.</p>	<p>Noted. The pricing structure for licenses vary by jurisdiction and are typically based on preliminary geological information. Licenses can be either fixed periodic fees or royalties based on the quantities that are ultimately extracted.</p>
<p>27. Mr. Müller-Marqués Berger noted that the private sector has an advantage as they have an acquisition cost when purchasing a license. The government is creating the license which is more difficult to value.</p>	<p>Noted. This point is alluded to in the appendix of the CP which discusses private sector practices for subsoil resources.</p>

Representatives' and Observers' Comments	IPSASB Response
28. Mr. Williamson responded that as part of the license, the private sector must report to the government what is found. On that basis the public sector should have quantity information if they are administering the licenses.	Noted. See response to #26.
29. Ms. Stachniak commented that existence uncertainty is not the main challenge, but the first challenge that should be dealt with. Measurement uncertainty is also a challenge for this project.	Noted. The interaction of existence and measurement uncertainty has been incorporated into the revised chapter on subsoil resources.
30. Ms. Cearns noted the link between existence and measurement uncertainty is the volume metric. A resource might exist, but one might not be able to assess the volume of it. The private sector does not disclose proven and unproven reserves in the statement of financial position until these resources are extracted.	Noted. See response to #29.
31. Mr. Zhang commented that the judgment of existence of natural resources should rely on discovery technology. Even if we think the resource exists, it will be prudent not to recognize the resource until extraction is assured.	Noted. Consideration of currently available information and technology has been incorporated into the revised CP.
32. Mr. Melo asked if groundwater will be addressed in the draft CP because there is an issue regarding groundwater in Portugal. Over exploration and the elimination of forests reduce what is being stored in a natural way.	Noted. Underground water is discussed in the chapter on water.

Matters for CAG Consideration

4. Representatives and Observers are asked to note the Report Back.