



IPSASB CONSULTATION: NATURAL RESOURCES

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ICAEW welcomes the opportunity to comment on the consultation paper Natural Resources published by the International Public Sector Accounting Standards Board (IPSASB) on 9 May 2022, a copy of which is available from this [link](#).

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This response of 17 October 2022 has been prepared by ICAEW's Public Sector team, which supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 9,500 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this response please contact our Public Sector team at representations@icaew.com quoting REP 87/22.

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KEY POINTS

We welcome IPSASB's work in this important area

1. Natural resources play an important role in the general wellbeing of our ecosystem which in turn allows humanity to thrive. As paragraph two of the Consultation Paper (CP) states, consumption of man-made products is not possible without the inputs of natural resources and therefore, in order to prevent natural resources from being irretrievably diminished, they need to be managed.
2. ICAEW has long held the view that what gets measured gets managed. We believe that items on a balance sheet attract more attention, but resources can nevertheless be managed if they are off-balance sheet, such as heritage assets.
3. It is important to note that disclosures can play a very important role and provide decision useful information. For example, the SEC sets standards for oil and gas companies to report on/disclose their reserves, which provides users with key information, even though these oil and gas reserves are not on the balance sheet.

Meeting the definition of a resource

4. As the CP rightly explains, many natural resources will struggle to meet the hurdle of being classified as an asset, for a variety of reasons such as lack of control and measurement uncertainty. Nevertheless, having a natural resources standard should reduce the risk of diverging accounting treatments and ensure appropriate disclosures are made when the resources are not recognised on the balance sheet.
5. We anticipate that some elements of reporting on natural resources will take place in the General Purpose Financial Report (GPFR - front half of annual report) rather than General Purpose Financial Statements (GPFS - back half of annual report). This is one of the reasons why we suggest in our response that the natural resources project may be better integrated into the wider sustainability project to ensure consistent output.

Human intervention and natural state

6. The CP states that for a resource to be within scope of natural resources it must be in its natural state. To be in its natural state, a natural resource must not have been subjected to human intervention, which is described as an activity that modifies the quantity and/or quality of a natural resource.
7. We believe that IPSASB should consider the characteristics of natural resources, the benefits that are derived from them and the unit of account, in order to analyse the effects human intervention has on the natural resource.
8. Determining if resources could be in their natural state by assessing if they have been subject to human intervention will not always be an easy principle to apply in practice. Some types of human intervention may change the quantity and indeed quality of the natural resources but only in the short term. Human intervention for conservation purposes may have a different impact on the characteristics of the natural resources than human intervention for commercial reasons.

Integrate natural resources project with sustainability project

9. It is important that the sustainability and natural resources projects are aligned and that disclosures in respect of both are coherent and logical. There is a risk that this may not happen if these projects are kept separate.
10. We propose that IPSASB adopts a building block approach to the creation of a suite of sustainability and sustainability related standards. In a similar fashion to ISSB, we would recommend creating a generic standard on sustainability first and to then develop specific

standards, starting with climate and then add public sector specific topics in order of public interest such as water, biodiversity, subsoil etc.

PV 1

The IPSASB’s preliminary view is that a natural resource can be generally described as an item which:

- (a) Is a resource as described in the IPSASB’s Conceptual Framework;***
- (b) Is naturally occurring;***
- (c) Is in its natural state.***

Do you agree with the IPSASB’s preliminary view, particularly whether the requirement to be in its natural state should be used to scope what is considered a natural resource?

If not, please provide your reason.

11. Our response to PV 1 should be read within the context of our overarching view that this project should be integrated with the sustainability project.
12. The above description is a good starting point for further analysis at the CP stage. We understand the reasoning of inserting human intervention to distinguish the natural resources standard from other IPSAS relating to, for example, inventory or agriculture.
13. However, we do have some concern about the concept of ‘natural state’. As per the CP, a natural resource must not have been subjected to human intervention which is described as modifying the quantity or quality of a natural resource (as per paragraph 1.8).
14. Some preservation activities involve human intervention such as thinning out forests to promote new growth, returning one type of natural resource to another type, such as restoring ancient peatland which may currently be a forest. All these interventions can change the quality and quantity of a natural resource but in our view, users of GPFR would still consider these to be natural resources.
15. Human intervention could, in some cases, be a red herring and may lead to confusion since in some instances human intervention would render a natural resource to no longer be in a natural state whilst in other instances it may return it to a natural state or improve the quality and quantity of the natural asset.
16. Natural resources are either renewable or non-renewable. We suggest that it may be useful to think about the characteristics of natural resources, including the unit of account, and what makes them valuable which may help to determine if human intervention changes those fundamental characteristics and/or values. For example, would the removal of a few diseased trees render the whole forest or parts of a forest as no longer being a natural resource? That would seem like an unintended outcome.
17. Human intervention on renewable resources will not have the same impact as on non-renewable resources. In our view, altering the quantity of a forest for example may not necessarily render the forest out of scope of being a natural resource if the remainder still maintains the characteristics and benefits of a natural resource, such as the ability to absorb carbon and support biodiversity.

Specific Matters for Comment 1

The IPSASB’s preliminary description of natural resources delineates between natural resources and other resources based on whether the item is in its natural state (paragraph 1.8).

Do you foresee any challenges in practice in differentiating between natural resources and other resources subject to human intervention? If so, please provide details of your concerns. How would you envisage overcoming these challenges?

18. For governments to fulfil their custodial and stewardship role over natural resources it would be helpful if as many of these items would not only meet the definition of a natural resource but that they would also meet the definition of an asset as per the Conceptual Framework. What gets measured gets managed.
19. However, as the Dasgupta review shows, the economics, and by analogy the accounting for natural resources, is far from straightforward. We therefore urge IPSASB to develop robust principles that allow different jurisdictions to apply professional judgement in coming to the right outcomes for their specific circumstances.
20. Human intervention for subsoil resources would be a useful delineation since as soon as there is human intervention, the resource would no longer be in a natural state. Extracted subsoil resources would most probably be viewed as inventory.
21. However, human intervention for living resources such as forests, may not necessarily render the resource out of scope of being a natural resource. Human intervention can at times improve a natural resource or transform it from one natural resource to another. The benefits of the natural resource (carbon capture, biodiversity and human enjoyment) are not necessarily impacted by human intervention.

Specific Matter for Comment 2

The IPSASB noted that the natural resources project and sustainability reporting in the public sector are connected in that this project focuses on the accounting for natural resources while the project on sustainability reporting may include consideration of how natural resources can be used in a sustainable manner.

In your view, do you see any other connection between these two projects?

22. We would like these projects to be treated as one project. IPSASB should, in our view, adopt a building block approach by creating a generic standard on sustainability and then develop specific standards, starting with climate and then add public sector specific topics in order of public interest such as water, biodiversity, subsoil etc. Much like IPSASB's sustainability consultation proposed.
23. It is important that the sustainability project and natural resources project are aligned and that disclosures are coherent and logical. There is a risk that this may not happen if these projects are separate. We have seen with the measurement project how important it is to keep definitions and language aligned across different standards and we see similar challenges arising here if they are kept as two separate projects.
24. Sustainability and the management of the natural resources are emotive subjects which will be of interest to a broad stakeholder base. These two projects have the capacity to really elevate the interest in government reporting, which would be a real boon to accruals reporting in general. Governments have, in our view, a major role to play in managing natural assets sustainably. The objectives and desired outcomes need to be clearly articulated to ensure that the wider community fully understands what sustainability reporting can and cannot achieve. Communication will be key.

Preliminary View 2

The IPSASB's preliminary view is that a natural resource should only be recognised in GPFS if it meets the definition of an asset as defined in the IPSASB's Conceptual Framework and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

Do you agree with the IPSASB's preliminary view?

If not, please provide your reasons.

25. We agree with PV 2.
26. Given that this project is in the slightly more philosophical consultation stage, one could ask whether the current definition of assets in the Conceptual Framework works for natural resources. The concept of actually leaving a natural resource untouched does not always fit

comfortably with the concept of generating economic benefits (part of the definition of a resource). This is where the concept of service potential plays a key role.

27. Service potential is the capacity to provide services that contribute to achieving the entity's objectives without necessarily generating net cash inflows. Entities that have clearly articulated sustainability related objectives and matching KPIs should be able to conclude that natural resources can actually meet the definition of a resource as the act of preservation in itself is achieving their objectives.
28. We agree with the view that primarily due to uncertainties regarding control and measurement, many natural resources will probably not meet the recognition criteria of an asset.
29. Carbon offsetting, carbon credits and carbon limits for certain sectors are driving the developments in measurement for some natural resources. Carbon pricing is developing quickly and in the not-too-distant future, we could see a scenario where a forest may be more valuable for its carbon capture than for its timber. Governments could become suppliers of carbon offset projects that the private sector is willing to pay for.
30. Nevertheless, natural resources that are not measurable or controlled, will not be recorded in GFPS and developing a standard for natural assets that may not eventually be recorded as assets may not be the best use of IPSASB's scarce resources. It therefore makes more sense to combine the natural resources project with the wider scope of the sustainability project.

Preliminary View 3

The IPSASB's preliminary view is that guidance on exploration and evaluation expenditures and development costs should be provided based on the guidance from IFRS 6, Exploration for and Evaluation of Mineral Resources, and IAS 38, Intangible Assets.

Do you agree with the IPSASB's preliminary view?

If not, please provide your reasons.

31. We agree with PV 3. We recommend that guidance on exploration and evaluation expenditures and developments costs be brought into IPSAS via an alignment project with IFRS 6.

Preliminary View 4

The IPSASB's preliminary view is that IPSAS 12, IPSAS 17, and IPSAS 31 should be supplemented, as appropriate with guidance on the accounting for costs of stripping activities based on IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.

Do you agree with the IPSASB's preliminary view?

If not, please provide your reasons.

32. We agree with PV4 – there is no public sector specific reason to depart from the private sector with respect to the accounting for these activities.

Preliminary View 5

The IPSASB's preliminary view is that, before consideration of existence uncertainty, an unextracted subsoil resource can meet the definition of an asset.

Do you agree with the IPSASB's preliminary view?

If not, please provide your reasons.

33. Ultimately it will be very difficult to measure subsoil resources with enough certainty to assign a monetary value. Even if an entity can demonstrate that a subsoil resource exists and that it has control over this resource, it is likely to be extremely difficult to recognise these subsoil resources as assets in IPSAS financial statements due to the lack of an appropriate measurement basis.

Preliminary View 6

The IPSASB's preliminary view is that existence uncertainty can prevent the recognition of unextracted subsoil resources.

Do you agree with the IPSASB's preliminary view?

If not, please provide your reasons.

34. We agree with PV 6. We also agree with the conclusion in paragraph 3.38 that it will be extremely difficult to recognise subsoil resources as an asset, but that it might be possible to disclose information on such assets, including estimates in GPFRs.

Preliminary View 7

The IPSASB's preliminary view is that selection of a measurement basis for subsoil resources that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs may not be feasible due to the high level of measurement uncertainty. Based on this view, the recognition of subsoil resources as assets in the GPFS will be challenging.

Do you agree with the IPSASB's preliminary view?

If not, please provide your reasons.

35. The evidence provided in this CP seems to indicate a strong case for non-recognition of subsoil resources as assets. We support this view and so agree with PV 7 but feel that the wording of the PV doesn't really reflect the supporting evidence/analysis. The wording implies that a feasible measurement basis could be applied to some subsoil resources. In our view it is highly unlikely that unextracted subsoil resources could be recognised as an asset in the financial statements.
36. IASB's discussion paper (paragraph 3.39), South Africa's GRAP 110 (paragraph 3.40) and FASAB's SFFAS 38 (paragraph 3.41) have all concluded that subsoil resources should not be recognised in the financial statements primarily due to measurement uncertainties. There is no reason why IPSASB should reach a different conclusion for the public sector.
37. However, it is important to note that disclosures can play a very important role in this area and provide decision useful information. For example, the SEC sets standards for oil and gas companies to report on/disclose their reserves, which provides users with key information, even though these oil and gas reserves are not on the balance sheet.

Preliminary View 8

Based on the discussions in paragraphs 4.11-4.31, the IPSASB's preliminary views are:

- (d) **It would be difficult to recognise water in seas, rivers, streams, lakes, or certain groundwater aquifers as an asset in the GPFS because it is unlikely that they will meet the definition of an asset, or it is unlikely that such water could be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs;**
- (e) **Water impounded in reservoirs, canals, and certain groundwater aquifers can meet the definition of an asset if the water is controlled by an entity;**
- (f) **Where water impounded in reservoirs and canals meets the definition of an asset, it may be possible to recognise the water in GPFS if the water can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs; and**
- (g) **In situations where the financial capacity or operational capacity of a water resource cannot be reliably measured using currently available technologies and capabilities, the resource cannot be recognised as an asset in the GPFS.**

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons supporting your view.

38. We agree with PV 8 (a). It is unlikely that water in its natural state could be controlled or reliably measured.
39. Regarding PV 8 (b) and (c), it is not clear to us whether or not impounding water, either in a canal or reservoir, would not constitute human intervention. Paragraph 4.3 makes clear that water is no longer in its natural state when human intervention stops or interferes with the natural water cycles or changes or modifies the quantity or quality of water from its natural condition.
40. Assuming a man-made reservoir or canal, one could reasonably argue that no water would be collected without human intervention. And if the reservoir happens to be naturally occurring, then measurement issues would arise similar to lakes in part (a).
41. We agree that water within man-made structures may meet the definition of an asset but more work needs to be carried out to ensure that these would not be accounted for in other IPSAS and whether or not further guidance is required.
42. We agree with PV 8 (d).

Specific Matter for Comment 3

Living organisms that are subject to human intervention are not living resources within the scope of this CP. The accounting treatment of those living organisms, and activities relating to them and to living resources, is likely to fall within the scope of existing IPSAS.

In your view, is the guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS to apply for these sufficient?

If not, please explain the reasons for your view.

43. We are not aware of any significant issues that need to be addressed regarding living organisms that are subject to human intervention and consider the guidance in IPSAS 12, IPSAS 17 and IPSAS 27 sufficient.

Preliminary View 9

Based on the discussions in paragraphs 5.18-5.41, the IPSASB's preliminary views are:

- (a) ***It is possible for a living resource held for financial capacity to meet the definition of an asset, be measurable in a way that achieves the qualitative characteristics and takes account of the constraints on information in the GPFRs, and thus meet the criteria to be recognised as an asset in GPFS;***
- (b) ***If a living resource with operational capacity meets the definition of an asset an entity will need to exercise judgement to determine if it is feasible to measure the living resource in a way which achieves the qualitative characteristics and takes account of the constraints on information in the GPFRs, and so meet the criteria to be recognised as an asset in the GPFS; and***
- (c) ***In situations where the financial capacity or operational capacity of a living resource cannot be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs using currently available technologies and capabilities, the living resource cannot be recognised as an asset in the GPFS.***

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

44. Consistent with our response to PV 2, we agree with PV 9.

45. We consider control and the ability to measure the resources to be the most common issues in relation to living resources. The recent developments of alternative sustainability frameworks, such as natural capital, has led to more value being placed on nature in general.
46. Carbon offsetting has become a very important mechanism for private sector companies to meet their green credentials and prices in carbon offsets have risen sharply as demand increases. Many carbon offsets are starting to price the ability of nature to reduce carbon, not only by planting new trees but by also by protecting existing forests.
47. In the not-too-distant future we could envisage that natural forests for example, could be valued based on their carbon capture abilities rather than on the sale price of lumber. So, whilst paragraph 5.35 might still be correct today, technologies to measure nature are developing fast. In our view, the measurement of certain living resources, primarily static ones where control is easier to establish, will become feasible in the near future as the private sector effectively creates a market.

Preliminary View 10

Based on the discussion in paragraphs 6.7-6.15, the IPSASB's preliminary view is that certain information conventionally disclosed in GPFS should be presented in relation to natural resources.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

48. We agree with PV 10.
49. For many jurisdictions, natural resources (in general) play a very important part in the economy, accounting for a large proportion of GDP. Recognising these resources and providing useful disclosures, not just around the monetary values but also on the risks and opportunities, is important for accountability and transparency purposes.
50. Given the global climate crisis, governments should be aiming for a sustainable exploitation of natural resources that will allow future generations to obtain the same benefits from the environment as current citizens.
51. Some view financial reporting solely in terms of the impact that flows and the impact that stocks of capital have on the bottom line (to determine shareholder remuneration primarily). They would not consider the financial risks and opportunities of natural assets. We think governments need to take a different stance on natural assets and sustainability and evaluate their worth in their own right, not linking these to profit or loss.
52. Accounting standards don't function well for resources that do not generate economic returns or are not delivering specific services. Given the additional responsibility of governments to safeguard a nation's resources for the benefit of future generations, accounting for natural resources should nevertheless be in the public interest. Non-financial reporting metrics should be considered, such as the impact on biodiversity or amount of carbon captured.

Preliminary View 11

Based on the discussion in paragraphs 6.16-6.20, the IPSASB's preliminary view is that certain information conventionally found in broader GPFRs should be presented in relation to recognised or unrecognised natural resources that are relevant to an entity's long-term financial sustainability, financial statement discussion and analysis, and service performance reporting.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

53. Generally speaking, we agree with PV 11 in that where information is relevant to an entity's long-term financial sustainability, financial statement discussion and analysis, and service performance reporting, it should be disclosed in broader GPFR.

54. Regarding RPG 1, it specifically excludes environmental sustainability and only outlines the minimum information levels. It also states that long term sustainability information may be published as a separate report and at a separate time as the entity's GPFs. We believe that these options would need to be reviewed since having this information in the front half of the annual report with linkages (where possible) to the back half would be far more advantageous to the user than separate reports throughout the year. This applies to RPG 2 and 3 as well.
55. As per RPG 1, projecting future cash flows from natural resources alongside discussion on service, revenue and debt dimension and their assumptions/methodologies is not enough in our view. Depending on the narrative an entity wanted to project, it could easily be misused to paint a more favourable picture because it could omit the negative consequences of harvesting finite natural resources, such as pollution, loss of biodiversity, exploitation, and social injustice. Mineral rich developing countries have often been exploited and show poor distribution of wealth. Financial and non-financial reporting is not the answer to all economic inequalities, but we feel that focusing on cash flows in relation to natural resources sends out the wrong message, in particular given that IPSASB is likely to be working on their sustainability guidance in the near future. How would RPG 1 fit alongside wider sustainability reporting?
56. Comparing RGP 2 with some of the disclosure requirements in ISSB's draft sustainability and climate standards, it becomes quite evident that just focusing on a description of an entity's principal risks and uncertainties that effect its financial position, financial performance and cash flows is too narrow. These disclosure requirements need to be linked to an entity's strategy, objectives and KPI's. The user would also want to know how the entity will respond to the risks, how they are assessed and what the impact is on current and committed investment plans.
57. In our view the RPGs are not detailed or comprehensive enough and leave too many options, which would inhibit comparability. We are concerned that the narrow focus on cash flows and risks without addressing the bigger picture (including the impact the entity has on the external environment) would sit at odds with the wider sustainability project the IPSASB is most likely to embark on in the very near future.

Specific Matter for Comment 4

The proposals in paragraphs 6.16-6.20 (Preliminary View 11) are largely based on the IPSASB's RPGs. While these proposals are expected to be helpful to users of the broader GPFs, the information necessary to prepare these reports may be more challenging to obtain compared to the information required for traditional GPFs disclosures. As noted in paragraph 6.17, the application of the RPGs is currently optional.

In your view, should the provision of the natural resources related information proposed in Preliminary View 11 be mandatory? Such a requirement would only be specifically applicable to information related to natural resources.

Please provide the reasoning behind your view.

58. Natural resources are often very important to jurisdictions as a potential income source and so it is clearly in the public interest to ensure accountability and transparency in relation to the exploitation (or indeed preservation) of those resources. There have been instances of publicly listed companies offloading coal mines to non-listed entities to avoid scrutiny and to improve their green credentials. Greenwashing is becoming increasingly common.
59. In many jurisdictions, governments are the direct beneficiaries of the exploitation of natural resources and therefore we cannot see how the reporting on these resources – such as projected cash flows, risks and opportunities etc – can remain optional in the future.
60. However, one must also recognise the current difficulties some jurisdictions have in transitioning from cash to accruals accounting and the burden placed on them of doing so. To add the requirements of the RPGs (or indeed more complex sustainability reporting) could

mean that some jurisdictions do not make the transition to accruals accounting which would be detrimental. A careful balance needs to be found.

61. In our opinion, the RPGs, as they stand, should remain voluntary for the reasons set out below.
62. At the time of writing this response, IPSASB issued a press release stating that they have received strong encouragement for its sustainability reporting proposals. The key drivers being:
 - a. Global public interest;
 - b. Major economic, environmental, social and governance impacts; and
 - c. Capital markets significance.
63. We also support IPSASB to become active in general sustainability reporting and repeat our recommendation for IPSASB to review all their material (in particular the RPGs) and to start formulating a sustainability framework that would cover sustainable finances, risks and service performance through the lens of sustainability and its various offshoots such as climate, water, biodiversity etc.
64. The RPGs, as currently written, do not tie together all the requirements for comprehensive reporting on natural resources nor sustainability. Having one framework to cover governance, strategy, risk management, and metrics would lead to better outcomes.