



Consultation Paper, *Natural Resources*

This summary provides an overview of the Consultation Paper, *Natural Resources*

Project Objective:

The objective of the Natural Resources project is to develop guidance to address the issues relating to the recognition, measurement, presentation, and disclosure of natural resources.

Project Stage:

The Consultation Paper, *Natural Resources* (CP), was issued in May 2022. The IPSASB will review the responses to the Consultation Paper in late 2022.

The IPSASB seeks feedback on the CP to guide it in determining the approach to follow in next Exposure Draft development stage of the project.

Comment Deadline:

The CP is open for public comment through October 17, 2022.

How To Respond:

Respondents are asked to submit their comments electronically through the IPSASB website, using the <https://www.ipsasb.org/exposure-draft/submit-comment?exposure-draft=293898>. Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website.

Why the IPSASB Undertook this Project

The IPSASB added the natural resources project to its Work Program in response to strong support from constituents to address the accounting and reporting issues related to this important topic.

Gap in the IPSASB's Guidance

Natural resources are generally understood to be resources that exist without actions of humankind.

IPSAS includes some guidance that is relevant for accounting for natural resources that have been subject to some form of human activity, such as IPSAS 27, *Agriculture*, or IPSAS 12, *Inventories*. However, there is currently no explicit guidance on accounting for natural resources in their original state. Constituents encouraged IPSASB to address the gap in guidance.

The consultation paper focuses on natural resources accounting issues related to the recognition, measurement, presentation, and disclosure, using the examples of subsoil resources, water, and living resources to explore the issues in more depth.

Prevalence of Natural Resources

Based on preliminary research, the IPSASB also noted that natural resources can account for a significant proportion of economic resources for resource rich jurisdictions. Some constituents noted that governments often lack information on the monetary value of natural resources, and as a result, often grant rights to these resources without regard to financial and environmental sustainability, or intergenerational fairness. Therefore, the reporting of natural resources could lead to information that can be used for better management of these resources.

Public Demand for Information on Natural Resources

In light of the growing concern for climate change, many governments and public sector entities are prioritizing sustainable management of the natural environment in the development of their policies. While the natural resources project does not directly address climate change or sustainability reporting, the development of guidance on the accounting for natural resources will provide better information to inform public financial management decisions and policy making.

General Description of Natural Resources

In the CP, a natural resource is an item with the following attributes:

- a) Is a resource as described in the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities;
- b) Is naturally occurring; and
- c) Is in its natural state.

Resource

- Capable of generating economic benefits and/or service potential

Naturally Occurring

- Came into existence without actions of humankind

In Natural State

- Not subject to human intervention

Human Intervention

Human intervention are actions which modify the quantity and/or quality of a natural resource. Specific examples of human intervention may include:

- The extraction of minerals from an ore body;
- The treatment and processing of groundwater into drinking water; and
- Harvest of trees from an uncultivated forest.

Recognition and Measurement of Natural Resources

The CP preliminarily proposes that natural resources which meet the recognition criteria set out in the IPSASB's Conceptual Framework should be recognized as assets.

Can a Natural Resource be Recognized as an Asset?

One of the key questions in the CP is whether a natural resource can be recognized as an asset in the general purpose financial statements (GPFS).

To be recognized as an asset in the GPFS, a natural resource:

- 1) Must meet the definition of an asset; and
- 2) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the general purpose financial reports (GPFs).

Natural resources which do not meet the above recognition criteria are unlikely to be recognized as assets in the GPFS. However, chapter 6 of the CP considers whether such unrecognized resources should be disclosed in the broader GPFs.

Measurement Considerations

Chapter 2 analyzes and applies the general measurement principles from the Conceptual Framework as well as proposed guidance from the IPSASB's Measurement project to the accounting for natural resources.

Once an entity has concluded that an item can be recognized an asset, the next step is to select appropriate bases of measurement.

The selection of an appropriate measurement basis for a recognized natural resource asset will depend on the specific facts and circumstances surrounding each asset.

Subsoil Resources, Water, and Living Resources

Chapters 3-5 of the CP apply the general recognition and measurement principles to subsoil resources, water, and living resources

Application of the General Principles

Chapters 3-5 of the CP focus on the three in-scope natural resource topics of subsoil resources, water, and living resources. The chapters are structured as follows for each topic:

- A discussion on the specific natural resource description;
- A brief discussion of the accounting for activities related to each topic;
- Application of the asset recognition criteria;
- Measurement considerations specific to each topic; and
- Disclosure considerations.

Accounting for Activities Related to Subsoil Resources

In the private sector, there is already developed guidance and common practices on accounting for activities relating to subsoil resources. In addition to the topics noted above, chapter 3 also considers whether the IPSASB should develop guidance based on the existing private sector guidance in the following areas:

- Accounting for exploration and evaluation activities based on the guidance from IFRS 6, *Exploration for and Evaluation of Mineral Resources*; and
- Accounting for certain development costs based on IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.

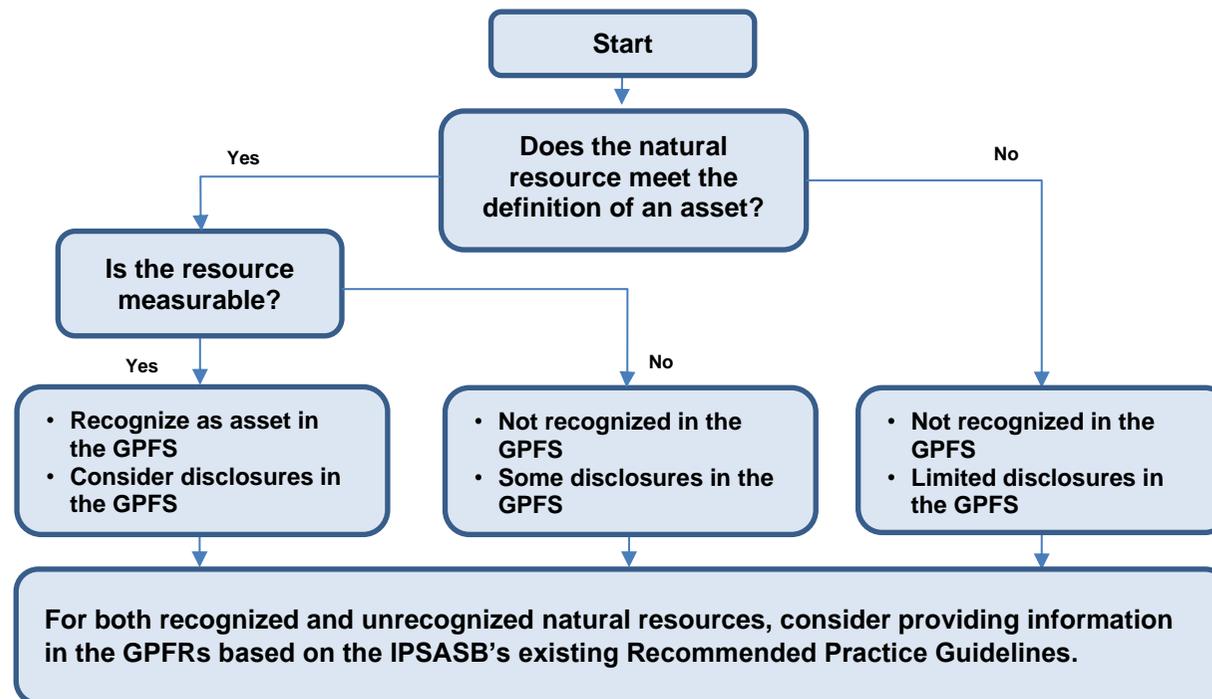
Presentation Considerations

Chapter 6 of the CP summarizes the principles of presentation in the IPSASB’s Conceptual Framework then applies these principles to subsoil resources, water, and living resources.

Presentation and its Relation to Recognition

Chapter 6 proposes a number of disclosures for natural resources in the GPFS as well as proposed information to be presented in the broader GPFs which are based on the IPSASB’s existing Recommended Practice Guidelines. These preliminary proposals can be found in preliminary views 10 and 11 in the CP.

When considered together with the preliminary views on the recognition and measurement, the following flowchart summarizes the recognition, measurement, and disclosure considerations for natural resources:



Next Steps

The deadline for comments is **October 17, 2022**.

IPSASB members are available to discuss the proposals during the comment period.



How Can I Comment on the Proposals?

The CP requests comments on the Preliminary Views (PVs) and Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all PVs and SMCs or just a selected few. The IPSASB welcomes comments on any other matters within the scope of the project that respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the <https://www.ipsasb.org/exposure-draft/submit-comment?exposure-draft=293898> link. Please submit comments in both a PDF and a Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay Informed

The IPSASB's website will indicate the meetings at which feedback on the CP will be discussed. The dates and the locations of the 2022 meetings are available at:

<https://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<https://www.ipsasb.org/consultations-projects/natural-resources>