Exposure Draft [XX] [MM 2024] Comments due: [MM DD, 2024]

Proposed International Public Sector Accounting Standard ®

Natural Resources
This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. Comments are requested by [DATE].

Respondents are asked to submit their comments electronically through the IPSASB website, using the “Submit a Comment” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.
## EXPOSURE DRAFT XX, NATURAL RESOURCES

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Objective

1. The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, timing, and uncertainty of cash flows arising from tangible natural resources.

2. To meet the objective in paragraph 1, this [draft] Standard:
   (a) Sets out the accounting requirements for natural resources; and
   (b) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:
      (i) The nature of, and risks and opportunities associated with, natural resources; and
      (ii) If applicable, the effects of natural resources on the entity’s financial position, financial performance, and cash flows.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for tangible natural resources as defined in this [draft] Standard.

4. This [draft] Standard does not apply to items which fall within the scope of:
   (a) IPSAS 12, Inventories;
   (b) IPSAS 16, Investment Property;
   (c) IPSAS 27, Agriculture;
   (d) IPSAS 31, Intangible Assets; and
   (e) IPSAS 45, Property, Plant, and Equipment.

Definitions

5. The following terms are used in this [draft] Standard with the meanings specified:

A class of natural resources means a grouping of natural resources of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of display and disclosure in the financial statements.

A natural resource is a tangible item that is:
   (a) Naturally occurring; and
   (b) Is a resource as defined in this [draft] Standard (see below).

A resource is a right to either service potential or the capability to generate economic benefits, or a right to both.

[Note to the IPSASB: Staff will explain in the BCs that the above definition of “resource” is consistent with the definition from the Conceptual Framework.]

[Placeholder for additional definitions or cross-references to definitions in other IPSAS]
Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.

Recognition

6. A natural resource shall be recognized as an asset if, and only if:
   (a) It meets the definition of an asset; and
   (b) It can be reliably measured in accordance with IPSAS 46, Measurement. (See paragraphs 11-12.)

Definition of an Asset

7. A natural resource meets the definition of an asset if, and only if, an entity can demonstrate all of the following:
   (a) The naturally occurring item is a natural resource:
      (i) It is technically feasible that the natural resource can be made available for use or sale;
      (ii) The entity has the intention and ability to access the service potential or economic benefits from the use or sale of the natural resource;
      (iii) The entity has a clear plan on how the natural resource will generate probable future economic benefits or service potential;
      (iv) The entity has adequate technical, financial, and other resources to make the natural resource available for use or sale; and
      (v) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity. An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of economic conditions that will exist over the useful life of the asset;
   (b) The resource is presently controlled by the entity based on consideration of:
      (i) Legal ownership;
      (ii) Access to the resource or the ability to deny or restrict access to the resource;
      (iii) The means to ensure that the resource is used to achieve the entity's objectives; or
      (iv) The existence of an enforceable right to service potential or ability to generate economic benefits arising from a resource; and
   (c) Control of the resource arises from past events.

8. Paragraphs AG1-AG7 provide additional guidance on whether an item meets the definition of an asset.
Rebuttable Presumption for No Recognition

9. Due to the nature of natural resources, there is a rebuttable presumption that natural resources generally do not meet all of the criteria in paragraphs 6 and 7 to be recognized as an asset. As a result, the requirements for recognition, measurement, and presentation are generally not applicable to natural resources.

Accounting of Recognized Natural Resources

10. [Placeholder – Staff to analyze the proposed accounting for the rare circumstances where a natural resource can be recognized as an asset. Staff’s preliminary view is that a recognizable natural resource acquired in an exchange transaction be initially recorded at cost. For other scenarios, staff’s preliminary view is to account for the natural resource at its current value at initial recognition with the credit entry recorded in net assets. This accounting analysis will also consider subsequent measurement, including impairment, and derecognition.]

Measurement

11. In the rare circumstance where a natural resource is recognized as an asset, the asset shall be measured initially at transaction if it is acquired through an exchange transaction. Where a natural resource is acquired through a non-exchange transaction, its initial cost at the date of acquisition shall be measured at its deemed cost at that date.

12. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value. If an entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

13. [Placeholder – subsequent measurement of recognized natural resources to be considered as part of accounting analysis—see paragraph 10.]

14. [Placeholder – Staff to analyze whether external frameworks relating to the quantification of certain natural resources are consistent with IPSAS measurement guidance (IPSAS 46 and the Conceptual Framework), and whether the ED should refer to these frameworks. Preliminary research indicates that some existing IPSAS and IFRS refer to external measurement models as examples (e.g., IPSAS 46, Measurement, and IFRS 2, Share-based Payment, refer to the Black-Scholes-Merton model for the valuation of share options), but these standards do not explain the workings of the model or go into its application in detail.]

Presentation

Display

15. In rare circumstances where one or more natural resources meets the criteria to be recognized as assets, the natural resource assets shall be presented as a separate line item in the face of the statement of financial position.

16. In some circumstances, specific natural resource assets should be separately presented and information specific to these assets should be separately disclosed in accordance with the requirements in paragraphs 92, 107, and 134 of IPSAS 1, Presentation of Financial Statements.
References in IPSAS 1 to ‘class of property, plant, and equipment’ shall be read as a ‘class of natural resources.’

**Disclosure**

17. The objective of the disclosure requirements is for the entity disclose sufficient information to enable users of the financial statements to evaluate:

(a) The nature of, and risks and opportunities associated with, natural resources; and

(b) If applicable, the effects of natural resources on the entity’s financial position, financial performance, and cash flows.

18. Only information regarding natural resources which meet the definition of an asset, or natural resources which are important to an understanding of the entity’s finances and ability to deliver services, are disclosed in the financial statements. Information regarding natural resources which do not meet the definition of an asset or do not impact the entity’s finances or service delivery is more appropriately presented in the entity’s broader general purpose financial reports.

19. For natural resources which meets the definition of an asset, or natural resources which are important to an understanding of the entity’s finances and service delivery, an entity shall disclose:

(a) A narrative description (e.g., nature or type, location, quality, etc.) of the natural resource;

(b) If available, information on the estimated physical quantities of the natural resource, including the methodology used to estimate these quantities;

(c) The significance of the natural resource(s) in relation to achieving of the entity’s objectives, including how the natural resource is expected to be used in service delivery;

(d) The existence and amounts of restrictions on title, legal, or similar limits on the use of natural resources due to environmental or other regulatory requirements, and natural resources pledged as securities for liabilities; and

(e) Where an entity acts as a custodian of a natural resource, the entity shall explain the nature of its custodial responsibilities, including the legislation or similar means that establishes the custodial responsibilities over the resource.

20. In addition to the requirements in paragraph 19, for natural resources which meets the definition of an asset but cannot be recognized due to the inability to reliably measure the resource, an entity shall explain the difficulties in obtaining a reliable measurement that prevented recognition.

21. In the rare circumstance where a natural resource is recognized as an asset, in addition to the requirements in paragraph 19, an entity also discloses the following information regarding the recognized natural resource asset:

(a) The significant judgments applied to determine that the natural resource meets the asset recognition criteria;

(b) The measurement basis used, and significant judgments and assumptions applied to measure the asset;

(c) A reconciliation of the carrying amount at the beginning and end of the period, showing increases and decreases resulting from revaluations, purchases, acquisitions through non-exchange transactions, sale, extraction or harvest, distribution through non-exchange transactions, and if applicable, impairment; and
(d) If not already disclosed as part of an entity’s revenue or accounting policy disclosures, information regarding the sale of the recognized natural resources or the sale of the right to access the resources.

22. The disclosure requirements in paragraphs 19-21 can be presented for individual natural resources or for classes of natural resources if an appropriate basis for aggregation exists.

Effective Date and Transition

Effective Date

23. [Placeholder – to be completed.]

Transition

24. [Placeholder – to be completed.]

Application Guidance

Consideration of Whether an Item is a Resource

AG1. A resource provides benefits to an entity in the form of service potential or the capability to generate economic benefits or both. While these benefits do not have to have already flowed to the entity for a resource to exist, the benefits must be capable of being accessed by the entity.

AG2. Service potential is the capability of a resource to provide services that contribute to achieving the entity’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating cash flows.

AG3. Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:

(a) An asset’s use in the production and sale of services;
(b) The direct exchange of an asset for cash; or
(c) Extinguishing or reducing a liability by transferring the asset.

AG4. For some naturally occurring items, until the item is extracted, there will be uncertainty over the quantity of the item in a given location as well as whether the item exists. This uncertainty impacts the assessment of whether the potential benefits from the item are capable of being accessed by the entity, and thus whether the item is a resource.

AG5. For a naturally occurring item to be considered resource, it must be readily available and currently capable of:

(a) Being used in a service delivery program;
(b) Being used in the production and/or sale of services; or
(c) Being exchanged for cash or a reduction of liabilities.

Consideration of Control of a Resource

AG6. Not all of an entity's rights can be considered assets of that entity. To be an asset, the rights must have service potential or economic benefits beyond those available to all other parties and be
controlled by the entity. For example, if a living organism’s only service potential or economic benefit was for maintaining biodiversity or carbon absorption, the organism could not be considered an asset. This is because even if the organism is located on land controlled by an entity, it would be difficult for the entity to demonstrate that it is the only party that benefits (or the party which benefits to a greater degree compared to other parties) from the resulting biodiversity or carbon absorption.

Past Events

AG7. An entity can obtain control of a resource through exchange transactions, such as purchase or development, or non-exchange transactions, which include the exercise of sovereign powers. In assessing when control arises from the exercise of sovereign powers, an asset arises when the sovereign power is exercised, and the rights to receive resources exist.

AG8. [Placeholder – Staff to complete analysis and include application guidance on how the proposed scope and definitions interact with existing IPSAS.]

Amendments to Other IPSAS

[Placeholder. Other than IPSAS 1 (see paragraph 15), staff currently do not expect that significant amendments to other IPSAS will be required.]

Basis for Conclusions

BC1. [Placeholder – to be completed based on the IPSASB’s decisions.]

Implementation Guidance

IG1. [Placeholder – Staff to include explanation of why the recognition of subsoil resources is not possible. Staff will also include explanations of why the recognition of water and living resources is only possible in very limited circumstances.]

Illustrative Examples

IE1. [Placeholder – Staff to develop illustrative examples on:

(a) Example on scoping which highlights how an entity determined that an item is a natural resource and not an item that fall within the scope of IPSAS 12, IPSAS 17/45, and IPSAS 27; and

(b) Sample narrative disclosures for both recognized and unrecognized natural resources which covers the nature, risks and opportunities associated with these resources; and

(c) Sample disclosures on recognized natural resources.]

Comparison with GFS

• [Placeholder – to be completed. Table will emphasize differences on recognition and measurement in the IPSASB’s Conceptual Framework compared to GFS.]
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