

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: September 14–18 and 22, 2020

Agenda Item 10

For:

- ☐ Approval
☒ Discussion
☐ Information

NATURAL RESOURCES

Project summary	The objective of the Natural Resources project is to research and address issues relating to the potential recognition and measurement of natural resources.	
Task Force members	<ul style="list-style-type: none"> • Lindy Bodewig, IPSASB Member (Task Force Chair) • Adrienne Cheasty, IPSASB Member • Neema Kiure-Mssusa, IPSASB Member • Hironobu Takahashi, Professional Accountancy Organization • Patricia Siqueira Varela, IPSASB Member • Marc Wermuth, IPSASB Member 	
Meeting objectives	Topic	Agenda Item
Project management	Natural Resources: Project Roadmap	10.1.1
	Instructions up to Previous Meeting	10.1.2
	Decisions up to Previous Meeting	10.1.3
Decisions required at this meeting	Recognition of the Sovereign Power to Issue Exploration Licenses as an Asset	10.2.1
	Review of Subsoil Resources – Legal Framework Survey	10.2.2
	Review of the Overall Structure of the [Draft] Consultation Paper	10.2.3
	Review of the Introduction and Chapter 1 of the [Draft] Consultation Paper	10.2.4
Other supporting items	Subsoil Resources – Legal Framework Survey	10.3.1
	Extract from the [Draft] Natural Resources Consultation Paper: Introduction and Chapter 1	10.3.2

**NATURAL RESOURCES:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2020	1. Approval of Natural Resources project brief
June 2021	1. Phase 1: Development of comprehensive Consultation Paper (CP) covering Subsoil Resources, Living Resources, and Water
September 2021	1. Approval of Phase 1 CP
March 2022	1. CP comment period (four months ending January 2022)
December 2022	1. Phase 2: Development of Exposure Draft (ED) covering one topic from the comprehensive CP
March 2023	1. Approval of Phase 2 ED
September 2023	1. ED comment period (four months ending July 2023)
March 2024	1. Review of responses to Phase 2 ED
June 2024	1. Approval of Phase 2 Final Standard: Subsoil Resources

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
March 2020	1. Staff to develop Q&A on climate change and Sustainable Development Goals (SDGs) outside of the Natural Resources project, with references to existing Recommended Practice Guidelines (RPGs) of the IPSASB.	1. The IPSASB Staff Q&A document, "Climate Change: Relevant IPSASB Guidance," was issued in June 2020. See: https://www.ipsasb.org/publications/climate-change-relevant-ipsasb-guidance
March 2020	2. Revise the document, "Natural Resources – Project Brief and Outline" as follows: <ul style="list-style-type: none"> ○ Revise discussion of the CP to consider subsoil resources, living resources and water; ○ Clarify that the CP will consider control for living resources; ○ Clarify that the CP will consider land, noting that accounting outcome will depend on jurisdiction-specific facts and circumstances; ○ Note that the CP will solicit constituent feedback on the ordering of topic consideration in subsequent phases of the project; ○ Clarify that Phase 2 is currently planned to focus on an ED for subsoil resources, but this will be revised based on constituent feedback in the CP; ○ Revise project timeline to account for above instructions and note that it is only an indicative timeline, as it is subject to constituent feedback on the CP; and ○ Remove the flowchart on development of guidance from the project brief. 	2. The project brief was revised and issued in April 2020. See: https://www.ifac.org/system/files/uploads/IPSASB/Natural%20Resources%20Project%20Brief%20Final%20March%2027%2C%202020.pdf

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
March 2020	1. Approved Natural Resources – Project Brief and Outline, subject to editorial and drafting changes as noted in instructions to staff. Initial focus should be on scoping, and a broad description can be developed later in the project.	1. BC to be included in draft ED

Recognition of the Sovereign Power to Issue Exploration Licenses as an Asset

Question

1. The IPSASB is asked to consider whether a government's sovereign power to issue exploration licenses for subsoil resources in the government's jurisdiction can be recognized as an intangible asset under IPSAS.

Recommendation

2. The Task Force is of the view that a government's sovereign power to issue exploration licenses does **not** meet the definition of an asset and therefore does not meet recognition criteria as set out in the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

Background

3. In the introduction of the [draft] Natural Resources Consultation Paper (CP), the Staff noted that a public sector entity, such as a government, can generate economic benefits by selling licenses which grant entities the right to explore for subsoil resources in its jurisdiction. While the discussion of the sale of exploration rights was in the context of a potential measurement basis, it prompted consideration of whether an intangible asset could be recognized based on the existence of a government's sovereign power to issue and sell exploration licenses.
4. For clarity, the item in question is different from any asset that could potentially be recognized for the underlying natural resources or any intangible asset that could be recognized by the holder of an exploration license.

Analysis

5. To be recognized as an asset under IPSAS, the sovereign power to sell exploration rights must satisfy the definition of an asset and be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in General Purpose Financial Reports.¹ To meet the definition of an asset as defined in paragraph 5.6 of the Conceptual Framework, the sovereign power must be a *resource* presently *controlled* by the entity as a result of a *past event*.
6. The sovereign power to sell exploration licenses could be seen as a resource, as the sale of a license will result in an inflow of economic benefits. Furthermore, one could argue that a government has full control over its power to sell licenses. However, it is unclear if a past event has occurred to establish that the sovereign power can be recognized as an asset under IPSAS.
7. The consideration of a past event in the recognition of government sovereign powers as an asset is discussed in paragraphs BC5.15 to BC5.18 of the Conceptual Framework, which note that the IPSASB *rejected* the view that the general ability to levy taxes or issue licenses for fees is a "perpetual asset." Paragraph BC5.18 also states that the IPSASB concluded that a government's inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits.

¹ Conceptual Framework, paragraph 6.2.

8. Based on this view, paragraph 5.13 of the Conceptual Framework states that an entity will need to consider the following events in assessing when an asset arises, and that an asset arises when the power is exercised and a right exists to receive resources:²
 - (a) A general ability to establish a power,
 - (b) Establishment of a power through a statute,
 - (c) Exercising the power to create a right, and
 - (d) The event which gives rise to the right to receive resources from an external party.
9. Applying paragraph 5.13 to the context of the power to issue and sell exploration licenses, such power would not meet the definition of an asset until it has been exercised through the establishment of a legal framework to issue licenses, and a license has been sold in accordance with the legal framework.
10. It should also be noted in the IPSASB's consultation with constituents leading up to the release of the Conceptual Framework in 2014, some respondents supported an alternative view that the general power to levy fees is a potential asset. However, the proponents of this view also accepted that such an asset is unlikely to be capable of faithfully representative measurement.³ In other words, such an asset will not meet the recognition criteria in paragraph 6.2 of the Conceptual Framework.
11. Based on the above, the Task Force is of the view that the sovereign power to issue exploration licenses does not meet the criteria to be recognized as an asset.

Decision Required

12. Does the IPSASB agree with the Task Force's recommendation?

² Conceptual Framework, paragraph 5.13.

³ Conceptual Framework, paragraph BC5.18.

Review of Subsoil Resources – Legal Framework Survey

Question

1. Regarding the legal framework survey for subsoil resources attached in [Agenda Item 10.3.1](#), does the IPSASB agree that:
 - (a) The questions in the proposed informal survey are complete?
 - (b) The distribution of the survey should be limited to IPSASB Members and Technical Advisors, as well as specific individuals as identified by the Staff?
 - (c) A due date of October 15, 2020 will be sufficient for the provision of responses to the Staff?

Recommendation

2. The Natural Resources Task Force has reviewed the survey attached in Agenda Item 10.3.1 and recommend its submission to the IPSASB for review. The Task Force considered whether the survey should be released as a public request for information but concluded that a public request may lead to delays in the project timeline. In addition, the Task Force recommend a due date of October 15, 2020 for providing responses to Staff.

Background

3. At the March 2020 IPSASB meeting, the Staff noted that they will informally survey the IPSASB Members and Technical Advisors to solicit input on the various legal frameworks regarding land and subsoil resources in their respective jurisdictions. This survey is attached in [Agenda Item 10.3.1](#) for the IPSASB's consideration.

Decision Required

4. Does the IPSASB agree with the Task Force's recommendations?

Review of the Overall Structure of the [Draft] Consultation Paper

Question

1. The IPSASB is asked to review the overall structure of the [draft] Natural Resources Consultation Paper (CP) and provide feedback on whether the IPSASB agrees with the recommended structure.

Recommendation

2. The Natural Resources Task Force (Task Force) has agreed upon the overall structure of the [draft] CP as shown in [Appendix A](#) of this paper and recommend its submission to the IPSASB for review.

Background

3. The Task Force and IPSASB Staff discussed and agreed on the overall structure of the CP, as shown in [Appendix A](#) of this paper. The discussion below highlights the key decisions made by the Task Force.

Analysis

4. The Task Force agreed to use the following overall approach and structure to analyze the accounting for the in-scope natural resources:
 - (a) Chapter 1 will discuss the formulation of a general description of natural resources;
 - (b) Chapters 2-4 will each cover one of the in-scope natural resources—subsoil resources, living resources and water. In each of these chapters, the Task Force plans to:
 - (i) Develop preliminary views on the **recognition** of the natural resource. These preliminary views will be developed by applying the definition of the elements and the recognition criteria from *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework), and informed by other IPSASB guidance, private sector practices, and Government Finance Statistics and System of National Accounts; and
 - (ii) Develop preliminary views on the **measurement** of the natural resource by applying chapter 7 of the Conceptual Framework. The Task Force agreed to state in the CP introduction that if a resource does not meet the recognition criteria, the CP would not discuss the measurement of the resource, as there would be no asset to measure. However, the Task Force also agreed that in such cases, the chapter will refer to potential disclosure considerations for unrecognized natural resources.
 - (c) Chapter 5 of the CP will consider overarching issues applicable to all three in-scope resources, such as **disclosures**. This chapter will also include consideration of issues such as consistency with existing IPSAS and guidance in development.
5. The listing of issues which the Task Force plans to address in chapters 2-5 is shown in [Appendix A](#) of this paper.

Decision Required

6. Does the IPSASB agree with the Task Force's recommendations?

Appendix A – Overall Structure of the [Draft] Natural Resources Consultation Paper

Chapter	Topic
Introduction	Introduction and Project Overview <ul style="list-style-type: none"> • Why is this project being undertaken? <ul style="list-style-type: none"> ◦ Clearly articulate constituents' concerns over perceived gaps in IPSASB's accounting guidance on natural resources • Scope of the project • Approach taken in this Consultation Paper (CP) • Consideration of the IPSASB's <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (Conceptual Framework) <ul style="list-style-type: none"> ◦ General consideration of recognition criteria and potential measurement bases • Consideration of other existing IPSASB guidance, including: <ul style="list-style-type: none"> ◦ Applicability of IPSAS which indirectly relate to natural resources ◦ Applicability of IPSAS guidance in development ◦ Discussion of Recommended Practice Guidelines 1-3 ◦ Other non-authoritative guidance, including a cross-reference to the Climate Change Staff Q&A • Consideration of private sector practices <ul style="list-style-type: none"> ◦ Guidance in IFRS on items relating to natural resources ◦ Regulatory disclosure requirements • Consideration of Government Finance Statistics and System of National Accounts
Chapter 1	General Description of Natural Resources <ul style="list-style-type: none"> • Highlight the fact that only a general description is proposed in the CP, as final definition will be formulated further into the project once more preliminary views have been formed • Summary of definitions of natural resources from other sources, starting with the broadest definitions then narrowing to the more specific definitions • Formulate general description of natural resources based on key elements from the definitions discussed • Application of the general description to natural resources which are and are not within the scope of the CP
Chapter 2	Subsoil Resources <ul style="list-style-type: none"> • Introduction¹ • Recognition <ul style="list-style-type: none"> ◦ Application of asset recognition criteria to subsoil resources ◦ Consideration of how jurisdictional/legal ownership models could impact the determination of control ◦ Recognition of resources vs. related activities ◦ Allude to potential disclosures if subsoil resources cannot be recognized as an asset with reference to disclosure discussion in chapter 5 • Measurement (level of detail will depend on conclusions on recognition) <ul style="list-style-type: none"> ◦ Initial measurement (historical cost, potential basis for fair value such as estimated cash flows from licensing or fair value of the underlying estimated reserves, etc.) ◦ Subsequent measurement

¹ In chapters 2 to 4, each chapter's introduction will include a set of problem statements and a description of the issues that we will be examining in the CP.

Chapter 3	Living Resources <ul style="list-style-type: none"> • Introduction¹ • Recognition <ul style="list-style-type: none"> ○ Application of asset recognition criteria to living resources ○ Distinction between living resources and agricultural assets ○ The impact of mobility and the ability to reproduce on the determination of control ○ Potential disclosures if living resources cannot be recognized as an asset with reference to disclosure section in chapter 5 • Measurement (level of detail will depend on conclusions on recognition) <ul style="list-style-type: none"> ○ Initial measurement (historical cost, potential basis for fair value given that not all living resources will have an open market, etc.) ○ Subsequent measurement
Chapter 4	Water <ul style="list-style-type: none"> • Introduction¹ • Recognition <ul style="list-style-type: none"> ○ Application of asset recognition criteria to water ○ Distinction between water in nature and water collected in constructed structures ○ Potential disclosures if water cannot be recognized as an asset with reference to disclosure section in chapter 5 • Measurement (level of detail will depend on conclusions on recognition) <ul style="list-style-type: none"> ○ Initial measurement (historical cost, potential basis for fair value, etc.) ○ Subsequent measurement
Chapter 5	Other Considerations <ul style="list-style-type: none"> • Consistency with Other IPSAS <ul style="list-style-type: none"> ○ Consistency of recognition and measurement proposals with existing IPSAS ○ Consistency of measurement proposals with the Measurement Project and the limited scope update of the Conceptual Framework • Consideration of whether current IPSAS adequately address derecognition if natural resources are recognized as assets • Disclosure considerations if certain natural resources do not meet the recognition criteria • Other Issues

Review of the Introduction and Chapter 1 of the [Draft] Consultation Paper

Question

1. The IPSASB is asked to review the introduction and chapter 1 of the [draft] Natural Resources Consultation Paper (CP), attached in [Agenda Item 10.3.2](#).

Recommendation

2. The Natural Resources Task Force has reviewed the attached extract from the [draft] CP and recommend its submission to the IPSASB for review.

Background

3. The Natural Resources Task Force (Task Force) and IPSASB Staff would like high-level, directional input from the IPSASB on the draft introduction and chapter 1 of the Natural Resources Consultation Paper. In particular, the Staff would like to highlight the following Task Force decisions for the IPSASB to consider.

Analysis

Introduction

4. Paragraphs 1-3 of the introduction to the [draft] CP discuss the reasons for undertaking the Natural Resources project. While not a verbatim reproduction, the Staff and Task Force drafted this section to be consistent with the reasons for the project in the introduction to the approved Natural Resources Project Brief (Project Brief).
5. To help constituents better understand the overall approach and structure of the CP (as discussed in [Agenda Item 10.2.3](#)), the Task Force decided to include the following in the introduction:
 - (a) The overall approach is discussed in paragraphs 6-11 of the introduction;
 - (b) Application of the Conceptual Framework is discussed in paragraphs 12-19;
 - (c) The consideration of other IPSASB guidance is discussed in paragraphs 20-26. The Task Force is of the view that the introductory discussion of existing IPSASB guidance that can be applicable to natural resources is complete;
 - (d) A high-level discussion of private sector practices is discussed in paragraphs 27-30. The Task Force debated whether the placement of the detailed discussion of private sector practices would be more appropriate in the introduction or in chapters 2-4. The Task Force preliminarily decided to leave the discussion in the introduction; and
 - (e) The Task Force agreed to discuss, at a high level, the recognition and measurement guidance from Government Finance Statistics and System of National Accounts in paragraphs 31-40 of the introduction, then apply the guidance to specific resources in chapters 2-4 of the CP.

Chapter 1: General Description of Natural Resources

6. Chapter 1 of the draft CP draws from the definitions of natural resources from various sources and proposes a general description of natural resources for the CP and subsequent draft or final standards. This general description is set out in paragraph 1.8 and further explained in paragraphs 1.9 to 1.11 of the CP. As a reminder, the decision to include a general description rather than a definition was made when the IPSASB approved the Project Brief.

7. To have a complete view of the inputs that can potentially impact the general description, the Task Force agreed to develop the description by starting with the broadest definitions from plain English and economic literature, then narrow down to more specific definitions from statistical accounting and national accounting standards. The Task Force is of the view that the general description in paragraph 1.8 appropriately captures the key attributes from the definitions considered.
8. During the Task Force's discussion of definitions from economic literature, it was noted that the ownership or management of natural resources may lead to economic outflows and costs, which could lead to the recognition of liabilities and expenses, as well as potential disclosures. As highlighted in paragraph 1.11 of the CP, the Staff noted that the accounting and disclosure implications of such potential outflows would be addressed by IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, so the general description did not focus on this aspect of the economic definition.

Decision Required

9. Does the IPSASB have any comments or suggested changes for the attached extract from the draft Natural Resources CP?

Subsoil Resources – Legal Framework Survey

1. The IPSASB Staff has included the informal survey regarding the various legal frameworks regarding land and subsoil resources. This version reflects the Natural Resources Task Force's detailed review of the survey.

IPSASB SURVEY – SUBSOIL RESOURCES LEGAL FRAMEWORK

Introduction

The Natural Resources Task Force would like to informally solicit input from IPSASB Members, Technical Advisors, and other specific individuals regarding the natural resource-related laws and regulations in their jurisdictions. The information requested on the following page will be considered in the development of views on whether unextracted subsoil resources can be recognized as an asset under IPSAS. These views will then be discussed in the Natural Resources Consultation Paper.

In order for the Staff and Task Force to adhere to the development schedule for the Consultation Paper, please provide responses no later than **October 15, 2020**.

Questions

Questions	Responses
Country	[Country name]
Please Provide Information on the Legal Framework Regarding the Ownership of Land and Subsoil Resources in your Jurisdiction	<ul style="list-style-type: none"> • [Please provide an overview of the legal framework over the ownership of land, and if separate, the ownership of unextracted subsoil resources which may be located within the land, in your jurisdiction.] • [In the laws of the jurisdiction, are there any references to natural resources being held by the state as a trustee for the people? Or do the laws grant full ownership of natural resources to the state?] • [Please provide a brief description of how the exploration, evaluation, and development of natural resources are managed in your jurisdiction, including laws and regulations on the how the rights to explore, evaluate and develop land for extraction of subsoil resources are awarded to individuals or corporations.]
Are there Separate Surface and Subsurface Rights?	<ul style="list-style-type: none"> • [Does your jurisdiction have different surface rights and subsurface rights? If so, please provide an overview of these rights and how they are enforced in practice.]
Please Summarize the Key Features of Surface Rights	<ul style="list-style-type: none"> • [Please provide the details on the key features of surface rights in your jurisdiction.] • [Please provide the details of any differences in regional legislation or regulations if the such regional differences are significant.]
Please Summarize the Key Features of Subsurface Rights	<ul style="list-style-type: none"> • [Please provide the details on the key features of subsurface rights in your jurisdiction.] • [Please provide the details of any differences in regional legislation or regulations if the such regional differences are significant.]
Are there Other Issues that may Impact Accounting for Subsoil Resources?	<ul style="list-style-type: none"> • [Examples of other issues include international or multinational regulations which have implications on how country-specific laws and regulations are applied.]
Information Sources for Further Reading	<ul style="list-style-type: none"> • [Please provide links to any further information that could be useful in understanding surface and subsurface rights in your jurisdiction.]

IPSASB Survey – Completed Example (Canada)

An example of a completed survey is attached. Please note that the points included in the example are not meant to be exhaustive, and other factors may be relevant to your jurisdiction.

Questions	Responses
Country	Canada
Please Provide Information on the Legal Framework Regarding the Ownership of Land and Subsoil Resources	<ul style="list-style-type: none"> Under the Canadian constitution, responsibility for land ownership registration and natural resources belongs to the provinces and not the federal government. Each province or territory has its own land registry or land titles system governing the ownership of land. In addition, each province or territory also owns and has powers over the management of their natural resources and how they are developed. The federal government has jurisdiction over all off-shore resources. The territorial sea of Canada is typically 12 nautical miles (approximately 22 km) from the nearest point on Canadian land at low tide.
Are there Regional Differences within the Country?	<ul style="list-style-type: none"> Based on limited research, the provincial and territorial legal frameworks appear to be similar. There are slight variations in the laws and regulations governing the resources located within their boundaries, particularly in the province of Quebec, where the land registration system and laws regarding the development of land for subsoil resources are governed by the Quebec Mining Act. However, the underlying principles regarding surface and subsurface rights appear to be consistent across all regions.
Are there Separate Surface and Subsurface Rights?	<ul style="list-style-type: none"> Yes, the various provincial legislation/regulations refer to the right to occupy or use the surface of land as “surface rights”, while the rights to explore, develop or extract subsoil resources are referred to as “subsurface rights,” also known as “mineral rights” or “mining claims”. There does not appear to be a physical delineation between surface and subsurface rights—i.e., legislation does not appear to specify that materials below a certain depth are governed by subsurface rights. Rather, the delineation between the two rights are driven by the right to perform specific activities such as exploration or excavation of mineral resources. In some provinces, the term “mineral right” can refer to the right to explore for petroleum, natural gas, minerals or other subsoil resources—i.e., the term is not restricted only to compounds that are typically thought of as “mineral resources.”

Please Summarize the Key Features of Surface Rights	<ul style="list-style-type: none"> • The party holding surface rights controls the access to surface land, including physical access to any subsoil resources. • Subsurface right holders are required to negotiate with Surface right holders (who may be a separate entity from the government which granted the subsurface right) for access to carry out exploration, development, or production activities. • Pipelines or similar infrastructure are governed by legislation on surface rights.
Please Summarize the Key Features of Subsurface Rights	<ul style="list-style-type: none"> • Government entities have the power to award subsurface rights to entities in limited-term agreements with terms ranging from (for example) 3-10 years. • Separate subsurface rights may be granted for exploration, development, or production activities. • Subsurface rights cannot be granted for land within a specified distance from items such as dwellings, cemeteries, roads, water reservoirs, etc. • Typically, legislation will also require activities to be carried out using predefined environmentally and technically acceptable methods and the mineral owner must minimize possible interference with the surface right holder's use of the land. • Canada also has Indigenous Mining Agreements which prohibit the federal or provincial governments from issuing subsurface rights in specified areas.
Are there Other Issues that may Impact Accounting for Subsoil Resources?	<ul style="list-style-type: none"> • N/A, while Canadian mining companies have to comply with the laws and regulations of the countries in which they operate, there are no international or multinational agreements which would impact the legal framework for subsoil resources within Canada.
Information Sources for Further Reading	<ul style="list-style-type: none"> • https://www.capp.ca/explore/mineral-rights/ • https://en.wikipedia.org/wiki/Natural_Resources_Canada • https://www.ontario.ca/laws/statute/90m14?search=mining+act • https://www.canaryinstitute.ca/publications/Understanding_Mining_Rts.pdf • http://www.doingbusinessincanada.com/wp-content/uploads/2019/10/Doing-Business-in-Canada-guide-2019.pdf • http://legisquebec.gouv.qc.ca/en/ShowDoc/cs/M-13.1 • https://mern.gouv.qc.ca/en/mines/mining-rights/extraction-rights/

Extract from the [Draft] Natural Resources Consultation Paper: Introduction and Chapter 1

1. The IPSASB Staff has included the introduction and chapter 1 from the [draft] Natural Resources Consultation Paper. This version reflects the Natural Resources Task Force's detailed review of the [draft] Consultation Paper.

Consultation Paper
[October] 2021
Comments due: January 31, 2021

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.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

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

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by [MMM DD, YEAR].**

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.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper, including all Preliminary Views and Specific Matters for Comment. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

Preliminary View 1—Chapter X (following paragraph X)

The IPSASB’s Preliminary View...

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, the list, and why.

Preliminary View X—Chapter X (following paragraph X)

The IPSASB’s Preliminary View...

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

NATURAL RESOURCES

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NATURAL RESOURCES

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Introduction and Project Overview

Why is this Project Being Undertaken?

1. In 2018, the IPSASB issued its Strategy Consultation and requested comments on the proposed Strategy and Work Plan. Based on the responses from constituents and initial research, the IPSASB added the natural resources project to its 2019-2023 Work Plan.
2. The key reasons for adding the project were as follows:
 - (a) **Need for Guidance** - Based on responses to the strategy consultation, the IPSASB noted a perceived lack of guidance over the accounting of natural resources, as respondents were concerned that there is a gap in the IPSASB's accounting guidance on the recognition, measurement, disclosure and presentation of natural resources.
 - (b) **Lack of Information for Decision Making** - Some constituents noted that governments often have little idea of the monetary value of natural resources until after they are extracted, and that the rights to extract such resources are normally granted beforehand to third parties who then profit from their extraction. As a result of the lack of information, governments are perceived as being incentivized to sell as much natural resources as possible, often without regard to financial, environmental, sustainability¹ or intergenerational fairness, because the resulting revenues are recognized with little or no offsetting expenses. Therefore, from a public interest perspective, the accounting of natural resources is an important issue, as the identification and quantification of these resources prior to their extraction or other use should inform policy decisions.
 - (c) **Significance of Natural Resources** - Based on preliminary research, the IPSASB noted that natural resources account for a significant proportion of total resources in many jurisdictions.² Therefore, the recognition of natural resources as assets could lead to information regarding the financial position of a public sector entity which is more faithfully representative of the underlying economic reality, particularly in jurisdictions with resource-based and resource-rich economies.
 - (d) **Priority for Policies on Long-Term Environmental Sustainability** - 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 this project does not directly address environmental sustainability or climate change, the development of an accounting standard for the recognition and measurement of some natural resources will provide better information that can be used to inform public financial management decisions and policy making.
3. To address the concerns raised by constituents, the objective of the natural resources project is to develop IPSAS guidance relating to the accounting—i.e., the recognition, measurement, presentation and disclosure—of natural resources prior to their extraction, cultivation or harvest.

¹ In the context of this paragraph, sustainability refers to balancing between environmental protection and economic development. This is a different concept from fiscal sustainability as described in RPG 1, *Reporting on the Long-term Sustainability of an Entity's Finances*.

² The IMF October 2018 Fiscal Monitor highlighted that for the 31 countries included in the report, natural resource assets were equal to 38% of Gross Domestic Product.

What is the Scope of This Project?

4. This project focuses on the accounting for subsoil resources, living resources, and water.
5. Other resources such as air and the electromagnetic spectrum may be considered natural resources in other contexts but have been excluded from this project, as the issues raised by constituents relate to the right to access these resources rather than the recognition and measurement of the underlying resources. For a more detailed discussion of which items are included within the scope of this project, refer to Chapter 1 of this Consultation Paper (CP).

Approach Taken in this Consultation Paper

6. The first chapter of the CP will focus on a general description of what is considered a natural resource in the context of this project. At the CP stage of the project, a general description, rather than a finalized definition will be formulated, as this general description is subject to change as more Preliminary Views are developed. This chapter will also further articulate the project's scope.
7. Chapters 2-4 of the CP will outline its Preliminary Views on the recognition and measurement of the natural resources which are within the scope of this project. The Preliminary Views will be formulated primarily from the application of the recognition criteria and measurement principles from the IPSASB's Conceptual Framework and informed by existing IPSASB guidance over broader GPFR such as the RPGs, as well as natural resources-related practices in the private sector.
8. For each of the in-scope natural resources, the CP will first focus on determining in which cases the natural resource meets the criteria to be recognized as an asset. This analysis will be performed by applying the definition of an asset and the recognition criteria as set out in paragraphs 5.6 to 5.13 of the Conceptual Framework. The recognition analysis will also consider factors which are specific to each natural resource. For example, the analysis of the recognition of subsoil resources as an asset will consider jurisdictional laws and regulations and whether the resources can be controlled by an entity in the context of the applicable legal framework.
9. [If the IPSASB reaches a Preliminary View that an in-scope natural resource can be recognized as an asset, the next step is to consider the measurement principles, as set out in chapter 7 of the Conceptual Framework, to formulate Preliminary Views on which measurement bases most appropriately reflect a natural resource's operational capacity or financial capacity or the cost of related services. **[To be revisited once full CP has been drafted.]** For example, a government entity may derive value from a subsoil resource by selling the underlying mineral reserves or by selling licenses to a private sector entity, who will then develop and extract the resource. These different approaches to the realization of the value inherent in the subsoil resource could result in the selection of different measurement bases. The measurement analysis will also include the consideration of factors such as the availability of the information required to determine a measurement basis, the cost of obtaining such information, as well as the reliability of this information.
10. If the IPSASB were to reach a Preliminary View that a certain in-scope natural resource did not meet the recognition criteria, the CP would not discuss measurement of the natural resource, as there would be no asset to measure. However, certain information relating to measurement may be considered in the discussion of disclosures of unrecognized natural resources.
11. The last chapter of the CP will focus on overarching issues which will apply to all three in-scope natural resources. These include the consistency of Preliminary Views with existing IPSAS, as well

as other current IPSASB projects such as the Conceptual Framework – Limited Scope Update project and the Measurement project. For in-scope natural resources which the IPSASB preliminarily concluded cannot be recognized as assets, chapter 5 will also consider Preliminary Views over the disclosure of these resources.

Consideration of the IPSASB's Conceptual Framework

12. While not authoritative, the IPSASB's Conceptual Framework provides guidance in dealing with financial reporting issues not dealt with by IPSAS, such as the accounting of natural resources. The definitions, recognition criteria, and measurement principles in the Conceptual Framework will form the basis for our development of an IPSAS on natural resources in Chapters 2-5 of this CP.

Recognition

13. For an entity to recognize a natural resource as an asset for financial reporting purposes, the natural resource must meet the recognition criteria in 6.2 of the Conceptual Framework, which states:

“The recognition criteria [the criteria that must be satisfied in order for an element to be recognized in the financial statements] are that:

- An item satisfies the definition of an element; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFs.”

14. The definition of an asset is set out in paragraph 5.6 of the Conceptual Framework. That is, to be recognized as an asset, the natural resource must be a *resource presently controlled* by the entity as a result of a *past event*.

15. A resource is an item with service potential or the ability to generate economic benefits. Economic benefits can include the generation of cash inflows or reductions in cash outflows in the form of cost savings or synergies. Service potential is the capacity to provide services that contribute to achieving the entity's objectives without necessarily generating net cash inflows. For the natural resources which are within the scope of this project, there is very little question that these items are resources:

- (a) Extracted subsoil resources can generate economic benefits through sale or service potential through their use in construction, the manufacture of goods, or combusted for the generation of energy;
- (b) Living resources can generate economic benefits as they can be harvested for a wide variety of uses including consumption, manufacturing of textiles, as well as energy generation; and
- (c) Water generates economic benefits as it is required to sustain life and thus inherently has value.

Therefore, the analysis over recognition in chapters 2-4 of the CP will focus on whether an entity can control the resource and whether control resulted from a past event.

16. Control of a resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resources in the achievement of its service delivery or other objectives.³ This ability to use the resource is often supplemented by the ability to deny or restrict the access of others to that

³ Conceptual Framework (2014), paragraph 5.11.

resource.⁴ For natural resources, whether an entity presently controls the resource will depend on factors such as ownership, the ability to access the resource, including consideration of laws and regulations which may prevent an entity from accessing the resource, as well as whether the entity has enforceable rights to the service potential or the ability to generate economic benefits from the resource.

17. In addition, the analysis will also consider whether control of the resource arose from a past event. Unlike other items which are recognized as assets, it will not be possible for an entity to have gained control of the natural resources through acquisition or development, or even by way of assignment in legislation, as this project is dealing with natural resources prior to their extraction, cultivation or harvest (i.e., prior to human intervention). Therefore, the analysis in chapters 2-4 will consider the best way to define past events as they are relevant to natural resources. For example, consideration will be given to whether control arose through the exercise of sovereign powers, as suggested in paragraph 5.13 of the Conceptual Framework.

Measurement

18. The objective of the measurement principles in the Conceptual Framework is to select measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision making purposes.⁵ The selection of a measurement basis also includes an evaluation of the constraints and availability of information.
19. For the natural resources within the scope of this project, chapters 2-4 of the CP will consider what measurement bases are the most appropriate and whether it is feasible for an entity to obtain the information necessary to estimate these measurement bases using the measurement techniques available.

Consideration of Other Existing IPSASB Guidance

20. While the objective of this project is to develop an IPSAS that directly addresses the recognition, measurement, presentation and disclosure of natural resources, other parts of IPSASB's existing guidance may be applicable and will be incorporated into the detailed analysis in chapters 2-5 of this CP. At a high level, the other sources of guidance that may be applicable to natural resources are as follows:

IPSAS that are Indirectly Related to Natural Resources

21. IPSAS 17, *Property, Plant, and Equipment*, may be applicable to the capital assets acquired or constructed to explore, evaluate, or develop natural resources, while IPSAS 31, *Intangible Assets*, may be applicable to resource-related intangible assets such as exploration licenses acquired by an entity. IPSAS 32, *Service Concession Arrangement: Grantor*, may also apply to certain arrangements where an unrelated entity is developing natural resources on behalf of a public sector entity. In addition, IPSAS 12, *Inventories*, may be applicable to extracted natural resources. However, it should be noted that these three standards do not apply to the underlying natural resources prior to their extraction, cultivation, or harvest.
22. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, may be applicable to provisions and contingent liabilities which arise as a result of a public sector entity's legislation,

⁴ Conceptual Framework (2014), paragraph BC5.12.

⁵ Conceptual Framework (2014), paragraph 7.2.

policies or decisions regarding natural resources. For example, a government may announce plans to decommission or rehabilitate abandoned mines or open pits which are no longer controlled by private sector entities. As another example, a government may provide funding to farmers or public sector landowners to preserve their properties in their natural state. Depending on the details of the announcement and how such plans are communicated to third parties, certain announcements may result in constructive obligations which would require recognition in the financial statements.

23. IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, provide guidance on the recognition, and if applicable reversal, of impairment losses, as well as related disclosures. If natural resources are to be recognized as assets, these standards will provide guidance on the consideration of impairment for these assets.

IPSASB Guidance in Development

24. Certain draft standards and current IPSASB projects may also impact the IPSASB's Preliminary Views and should be considered. For example, the views on measurement of natural resources will need to be consistent with any new guidance developed in the IPSASB's Measurement project or its limited scope update of the Conceptual Framework. The proposed guidance on revenue and other IPSASB projects in development may also be relevant if the IPSASB concludes that certain natural resources should be recognized as assets.

Recommended Practice Guidelines

25. The existing RPGs could be applicable to natural resources in a public sector entity's GPFR as follows:
 - (a) RPG 1, *Reporting on the Long-term Sustainability of an Entity's Finances*, provides recommendations on the reporting of long-term fiscal sustainability of a public sector entity's finances. If a public sector entity's current policies and decisions regarding natural resources are expected to impact the entity's projected future inflows and outflows, RPG 1 will be relevant to the broader disclosures regarding how natural resources are expected to impact a public sector entity's long-term fiscal sustainability;
 - (b) RPG 2, *Financial Statement Discussion and Analysis*, provides guidance on the preparation and presentation of a public sector entity's financial statement discussion and analysis, which is an explanation of the significant items, transactions and events presented in the entity's financial statements and the factors that influenced them. RPG 2 requires the financial statement discussion and analysis to include a discussion of the principal risks and uncertainties that could affect the entity's financial statements, how these risks and uncertainties relate to the entity's objectives and strategies, as well as an explanation of how these risks are managed. If natural resources have a significant impact on a public sector entity's financial position, financial performance and cash flows, RPG 2 will require an explanation of how these resources impacted the financial statements, as well as a discussion of the risks and uncertainties relating to these resources;
 - (c) RPG 3, *Reporting Service Performance Information*, provides guidance on the reporting of service performance information in a public sector entity's GPFRs. Service performance information is information on the services that the entity provides, the entity's service performance objectives, and the extent of its achievement of these objectives. If the services performed by an entity relate to natural resources—for example, the management of licences

for exploration and development of subsoil resources—RPG 3 would require the discussion of how the natural resources are impacting its services.

Other Non-Authoritative IPSASB Guidance

26. While the objective of this project is to develop one or more IPSAS on the recognition, measurement, presentation, and disclosure of natural resources, the topic of environmental management more generally, and climate change in particular, often comes to mind when contemplating the extraction or other use of natural resources. In response to a number of queries regarding which existing IPSASB guidance are relevant to the broader general purpose financial reporting on climate change, the IPSASB staff developed a Staff Q&A document highlighting the IPSAS and RPGs which could be relevant to climate change. This document can be found at: <https://www.ifac.org/system/files/publications/files/IPSASB-Staff-QA-Climate-Change-Relevant-Guidance.pdf>.

Private Sector Practices [To consider if details should be moved to subsoil resources chapter once that is done]

27. In developing a potential standard on the recognition and measurement of natural resources, the practices dealing with natural resources in the private sector will also be considered in this CP.
28. In the private sector, the underlying natural resources are typically not directly accounted for under International Financial Reporting Standards (IFRS). The generally accepted view in the private sector is that the high degree of uncertainty and subjectivity over both the existence and the amount of the natural resource prior to their extraction prevent the entity from recognizing these resources as assets. In contrast to the private sector, a public sector entity such as a government may be able to generate economic benefits by selling exploration rights, and the value of these rights do not always directly relate to the existence of mineral resources. Many countries also have a legal framework which would support the view that natural resources belong to the state. Therefore, in some cases, a public sector entity may have a lower degree of uncertainty over a natural resource's ability to generate economic benefits. The question of whether an asset can be recognized for the sovereign right to sell exploration rights will be analyzed in detail in chapter 2 of this CP.
29. Under IFRS, there are accounting requirements for items or transactions which indirectly relate to the underlying natural resources:
 - (a) In situations where a developed property with natural resources or a property with potential resources is acquired, IFRS 3, *Business Combinations*, requires the recognition of the property at fair value. The recognized fair value is based on the estimated quantities of resources valued at long-term commodity prices at the time of acquisition. While these estimates are periodically updated, these updates are only used for impairment and depletion purposes, and are not used for revaluation of the asset;
 - (b) Expenditures related to the exploration and evaluation of a property with potential natural resources are accounted for using IFRS 6, *Exploration for and Evaluation of Mineral Resources*⁶, which provides entities with an accounting policy choice to recognize these expenditures as an asset or expense as they are incurred. IFRS 6 also allows the

⁶ It should be noted that IFRS 6 defines mineral resources to include minerals, as well as oil, natural gas and similar non-regenerative resources.

expenditures incurred to develop a property as an intangible asset under IAS 38, *Intangible Assets*;

- (c) The property, plant and equipment used to develop or maintain the underlying natural resources, as well as the property where the resources are located, are accounted for under IAS 16, *Property, Plant and Equipment*;
 - (d) As resources are extracted or harvested, the cost of extraction and other directly attributable costs, such as the depletion of the above capitalized costs are recognized as cost of inventory under IAS 2, *Inventories*. IAS 41, *Agriculture*, may also be applicable for harvest and cultivation of living resources; and
 - (e) Like the discussion of IPSAS 19 above, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to provisions and contingent liabilities which may arise from any requirements to rehabilitate the land with resources which have been extracted or harvested.
30. In addition to the above accounting practices, many jurisdictions require the disclosure of information relating to natural resources in their broader GPFs. For example, while the specific requirements of each jurisdiction can vary broadly, the following information is typically required in the regulatory filings of mining entities in the private sector⁷:
- (a) An estimate of reserves and resources, as prepared by a qualified person (e.g., a professional geologist). Reserves are quantities of minerals estimated with a high level of geological confidence while resources are estimates at lower levels of geological confidence;
 - (b) Technical reports which include an assessment of whether extraction of the natural resource will be feasible. Technical reports are required to be filed upon first-time reporting in the jurisdiction or upon a material change (as defined by regulation in each jurisdiction) in reserves or resources; and
 - (c) In cases where not enough information is available to formulate an estimate of reserves, a preliminary economic assessment which contains an estimate of resources and discusses the potential viability of a project.

Consideration of Government Finance Statistics and System of National Accounts

- 31. Government Finance Statistics (GFS) and System of National Accounts (SNA) reporting are used by governments to produce financial information for macroeconomic analysis and evaluation of a government's impact on the economy. Meanwhile, financial statements produced using IPSAS are used for accountability and to support decision making.
- 32. While the information produced from GFS, SNA and IPSAS are used for different purposes, the statistical and financial reporting information have considerable overlap in that they are both based on financial accrual information, and they both pertain to a government's assets, liabilities, revenue, expenses and cash flows. As a result, significant benefits, such as a reduction in preparation time, effort and costs, can be achieved from using a single integrated financial information system to generate IPSAS financial statements, as well as SNA and GFS reports.
- 33. Where possible, the IPSASB have made efforts to harmonize the recently developed IPSAS with GFS and SNA by aligning various IPSAS requirements with statistical reporting guidelines, or by providing IPSAS accounting policy options which are consistent with statistical reporting guidance.

⁷ Based on requirements from National Instrument 51-102 for Canadian mining companies.

Where such harmonization is not possible, the supplementary guidance is developed to ensure that differences can be understood and managed.⁸

34. In developing the Preliminary Views on recognition and measurement of the in-scope natural resources, it will be important to consider the existing GFS and SNA guidance on recognition and measurement, and whether it is possible to develop harmonized guidance that is consistent with the IPSASB conceptual framework.

Recognition

35. With respect to natural resources, the 2014 version of the Government Finance Statistics Manual (GFSM (2014)) has an established definition for natural resources as well as requirements relating to the recognition of natural resources.⁹ GFSM (2014) paragraph 90 states:

“Nonproduced assets consist of tangible, naturally occurring assets—natural resources—over which ownership rights are enforced. Natural resources comprise land, mineral and energy resources, and other naturally occurring assets. If ownership rights have not or cannot be enforced over naturally occurring resources, then they are not economic assets.”

36. Paragraph 7.5 of GFSM (2014) states that natural resources are only recognized in macroeconomic statistics if such resources have a legal owner, either on an individual or collective basis.
37. The 2008 version of the System of National Accounts (SNA (2008)) also contains guidance on the recognition of natural resources in the context of what naturally occurring resources fall within the asset boundary of the SNA from those that do not. Paragraphs 10.167 and 10.168 of the SNA (2008) state:

“In the first place, it must be noted that the accounts and balance sheets of the SNA are compiled for institutional units or groups of units and can only refer to the values of assets that belong to the units in question. Only those natural occurring resources over which ownership rights have been established and are effectively enforced can therefore qualify as economic assets and be recorded in balance sheets. They do not necessarily have to be owned by individual units, and may be owned collectively by groups of units or by governments on behalf of entire communities. Certain naturally occurring resources, however, may be such that it is not feasible to establish ownership over them: for example, air, or the oceans. In addition, there may be others that cannot be treated as economic assets because they do not actually belong to any particular units. These include not only those whose existence is unknown but also those, including uncultivated forests, that may be known to exist but remain so remote or inaccessible that, in practice, they are not under the effective control of any units.

Secondly, in order to comply with the general definition of an economic asset, natural assets must not only be owned but must also be capable of bringing economic benefits to their owners, given the technology, scientific knowledge, economic infrastructure, available resources and set of relative prices prevailing on the dates to which the balance sheet relates or expected to do so in the near future. Thus, known deposits of minerals that are not commercially exploitable in the foreseeable future

⁸ See paragraph 23 of Process for Considering GFS Reporting Guidelines During Development of IPSASs for more details: <https://www.ifac.org/system/files/publications/files/IPSASB-GFS-Policy-Paper.pdf>

⁹ The 2008 version of the System of National Accounts (SNA), another statistical accounting framework that is similar to GFS but used by different jurisdictions, has a similar definition. SNA 13.44-13.51 states, “Natural resources consist of natural occurring resources such as land, water resources, uncultivated forest and deposits of minerals that have an economic value.”

are not included in the balance sheets of the SNA, even though they may possibly become commercially exploitable at a later date as a result of major, unforeseen advances in technology or major changes in relative prices.”

38. Based on the above, it appears that the recognition criteria under GFS (2014) and SNA (2008) both emphasize economic ownership rights, which are based on the consideration of risks and rewards. In contrast, under IPSAS, a resource is only recognized if it meets the definition of an asset—i.e., the reporting entity controls the resource as a result of a past event. Consideration of risks and rewards can be an indicator of control but is not necessary in all situations. While the consideration of control versus risks and rewards appears to be different, some in the statistical community are of the view that the substance of the various recognition criteria were not meant to be significantly divergent.¹⁰ As a result, the analysis of recognition in chapters 2-5 of this CP will include consideration of whether it is possible to have recognition proposals which are in line with the IPSASB’s conceptual framework and aligned with the statistical accounting frameworks.

Measurement

39. Paragraph 7.20 of the GFSM (2014) generally requires assets and liabilities to be measured at current value. In addition, paragraphs 7.98, 7.101, and 7.102 of GFSM (2014) specifically require subsoil resources (referred to as mineral and energy resources in the GFSM), living resources (referred to as noncultivated biological resources), and water to be valued at the present value of expected net future returns. For subsoil resources, the paragraph 7.98 also states that if the ownership of subsoil assets changes frequently, it may be possible to value the resource based on market prices.
40. Under IPSAS, the initial measurement of assets is often based on current value, as measures such as fair value reflect the operational or financial capacity of an asset at the time of acquisition. However, the subsequent measurement of assets under IPSAS varies by assets, as the individual IPSAS have differing requirements for subsequent measurement. In certain IPSAS, such as IPSAS 17, *Property, Plant, and Equipment*, the standard provides an accounting policy choice to measure assets at historical cost or fair value subsequent to initial recognition. Therefore, unlike recognition, there appears to be the potential to formulate Preliminary Views which may align with GFS. This potential will be analyzed in more detail in chapters 2-4 where the measurement of each in-scope natural resource is considered.

¹⁰ The issue of the differences in recognition criteria was discussed in the Workshop of the IMF, IPSASB, Eurostat and OECD, which took place on May 20-22, 2020.

Chapter 1: General Description of Natural Resources

- 1.1. [At the current stage of the Natural Resources project, only a general description of natural resources will be proposed in this CP. A formal definition of natural resources may be developed later in the project based on constituent feedback and once the IPSASB has formulated more Preliminary Views. [Section to be updated subject to the development of chapters 2-5.]]

Definitions from Other Sources

- 1.2. To develop a general description, this CP will draw from definitions of natural resources in more general, non-technical sources such as the plain English definition from Wikipedia as well as definitions from economic texts. The CP will also draw from more narrow statistical accounting frameworks such as the GFS (2004) and SNA (2008), as well as specific accounting frameworks such as the Standards of Generally Recognized Accounting Practice from South Africa (South African GRAP).

Definition from Wikipedia

- 1.3. The Wikipedia definition combines the definitions from the Oxford and Student dictionaries with those from investorwords.com and yourdictionary.com. Wikipedia notes that natural resources are resources, or items with service potential or the ability to generate economic benefits, that exist without actions of humankind and includes all valued characteristics such as magnetic, gravitational, electrical properties and forces, etc. On earth, natural resources include sunlight, atmosphere, water, land, including all minerals along with all vegetation, crops and animal life that naturally subsists upon or within the identified characteristics and substances.¹¹

Definition from Economic Literature

- 1.4. One economic text describes natural resources as follows:¹²
- “Natural resources, such as forests and commercially exploitable fisheries, and environmental attributes such as air quality, are valuable assets in that they yield flow of services to the people. Public policies and the actions of individuals and firms can lead to changes in these service flows, thereby creating benefits and costs.”

Definitions from Statistical Accounting Frameworks

- 1.5. While the term “natural resources” is not currently defined in IPSAS, the statistical accounting guidance in GFS and SNA currently define the term as follows:
- (a) Paragraph 7.90 of GFSM (2014) notes that natural resources comprise of land, mineral and energy resources, and other naturally occurring assets;
 - (b) Paragraphs 13.44-13.51 of SNA (2008) states that natural resources consist of naturally occurring resources such as land, water resources, uncultivated forests and deposits of minerals that have an economic value.

¹¹ https://en.wikipedia.org/wiki/Natural_resource.

¹² Freeman III, A. M., Herriges, J. A., & Kling, C. L. (2014). The Measurement environmental and resources value: theory and methods (3rd ed.). Oxon: Taylor & Francis, page 2.

South African GRAP

- 1.6. GRAP 110, *Living and Non-Living Resources*, does not define natural resources, but the standard defines living and non-living resources as follows¹³:

“Living resources are those resources that undergo biological transformation...” and

“Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.”

- 1.7. Paragraph 10 of GRAP 110 further states:

“At the point of extraction, non-living resources such as water, minerals, oils and gas and other non-regenerative resources, no longer occur in their natural state and do not meet the definition of a non-living resource.”

Proposed General Description of Natural Resources

- 1.8. Based on the key aspects that are common among the above definitions, a natural resource can be generally described as an item which has the following attributes:

- (a) A natural resource is a resource;
- (b) A natural resource is naturally occurring; and
- (c) To continue to be a natural resource, a resource needs to remain in its natural state.

- 1.9. Resources whose growth or transformation is being actively managed are no longer in their natural state. For example, water that has been treated to ensure a certain level of quality or vegetation that has been fertilized are no longer considered natural resources.

- 1.10. These attributes will be useful in setting boundaries for what items are included or excluded from the project. The first attribute is important as it aligns the general description of natural resources with the objective of the project. That is, if the item is not a resource, it will not be possible for the item to be recognized as an asset, so there would be no need to analyze its recognition in the financial statements. The second and third attributes both reinforce the notion that this project only considers resources prior to their extraction, cultivation, or harvest. This delineation is important as items which have been extracted, cultivated, or harvested would fall within the scope of existing IPSAS such as IPSAS 12, *Inventories*, whereas resources for which their biological transformation is actively managed fall within the scope of IPSAS 27, *Agriculture*.

- 1.11. It should be noted that the description of natural resources from economic literature points to the fact that natural resources embody economic benefits or service potential, which is consistent with the definitions from Wikipedia, statistical accounting, and South African GRAP. However, it also points to the fact that a natural resource may lead to potential economic outflows and the creation of costs. From an IPSAS perspective, such potential outflows are already addressed by IPSAS 19 as noted in paragraph 22, so the description of natural resources in the CP was formulated to focus on natural resource assets.

Application of the General Description to Resources within the Scope of the CP

- 1.12. The in-scope natural resources—subsoil resources, living resources, and water—fit within the above general description of natural resources when they meet the three attributes. As noted in

¹³ The definitions of living and non-living resources are found in paragraph 8 of GRAP 110.

paragraph 15 of the introduction, subsoil resources, living resources and water can all be considered resources. These items also meet the second and third attributes, as only unextracted subsoil resources and water, or uncultivated and unharvested living resources, are considered in this project. Once extracted or once the transformation of the resource is managed, these resources would be considered inventories or biological assets and agricultural produce.

Potential Natural Resources which are not within Scope of the CP

- 1.13. As noted in the introduction, other items such as air and electromagnetic spectrum also fit into the above attributes. However, these items will not be covered in this project since they raise additional issues which will require further study:
- (a) While it is common for some governments to sell air rights for the purposes of air travel or infrastructure development, these rights embody the ability to legally access the airspace in the jurisdiction, rather than extracting the underlying air itself. The accounting for these rights would more appropriately fall within the scope of IPSAS 31, *Intangible Assets*.
 - (b) The electromagnetic spectrum is the range of naturally occurring radiation that includes visible light, microwaves, and radio waves. Certain ranges of the spectrum can be used for telecommunication purposes, and it is common for a government to control the commercial use of the spectrum in its jurisdiction through licenses and similar mechanisms. Like air rights, these spectrum licenses relate to the legal right to access the spectrum, and any related accounting issues would more appropriately fall within the scope of IPSAS 31. In addition, the spectrum is uniquely different from other resources in that it does not have tangible form and the limits on its use arise from the related telecommunications technology rather than limits on consumption of the spectrum itself.
- 1.14. Although air and electromagnetic spectrum are excluded from this project, depending on the project outcome and subject to consultations on its strategy and work plan, the IPSASB may initiate a separate project to address these items in the future.

[END OF EXTRACT]