

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: July 22, 2021

Agenda Item 1

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 • Bernhard Schatz, IPSASB Member • Patricia Siqueira Varela, IPSASB Member • Hironobu Takahashi, EY Japan • Marc Wermuth, IPSASB Member 	
Meeting objectives	Topic	Agenda Item
Project management	Natural Resources: Project Roadmap	1.1.1
	Instructions up to Previous Meeting	1.1.2
	Decisions up to Previous Meeting	1.1.3
Decisions required at this meeting	Revision to Chapters 1 and 2 (Previously the Introduction and Chapter 1) of the Draft Natural Resources Consultation Paper	1.2.1
Other supporting items	Extract from the [Draft] Natural Resources Consultation Paper: Clean Version	1.3.1
	Extract from the [Draft] Natural Resources Consultation Paper: Black-Lined Version	1.3.2

**NATURAL RESOURCES:
PROJECT ROADMAP**

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

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2021	1. Replace the word “Remains” with “Is” in the second attribute in the general description of natural resources.	1. CP has been updated to reflect this instruction. See Agenda Item 1.2.1.
June 2021	2. Clarify the boundary in terms of when an item is in its natural state, when an item becomes something other than a natural resource, and when the item falls within the scope of an existing IPSAS. The boundaries should take into account practicality and link back to the objectives of financial reporting (to provide information to users for accountability and decision-making purposes.)	2. This instruction will be actioned in the resource-specific discussions in chapters 3-5 of the CP. To be presented at the September 2021 meeting.
June 2021	3. Revisit Living Resources at the September meeting, including conservation activities.	3. This instruction will be actioned in the chapter on living resources. To be presented at the September 2021 meeting.
June 2021	4. Update the drafting of chapter 1 to reflect the stepped approach as noted in the decision and include a preliminary view to reflect this approach. Present the revised text at the July 2021 check-in session.	4. CP has been updated to reflect this instruction. See Agenda Item 1.2.1.
June 2021	5. Consider using a table to tie the above stepped approach to the issue of boundaries in the general description and show the consequences of each decision point.	5. This instruction will be actioned in the resource-specific discussions in chapters 3-5 of the CP. To be presented at the September 2021 meeting.

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June 2021	<p>6. Clarify the description of water in its natural state by using a plain language description aligned to the general description of natural resources and:</p> <ul style="list-style-type: none"> ○ Revisit whether specific examples of water such as lakes, water in dams, aquifers and groundwater are water in its natural state. ○ Replace the word “Remains” with “Is” in the second attribute of the description of water to align with the change in the general description of natural resources. 	<p>6. These instructions will be actioned in the chapter on water. To be presented at the September 2021 meeting.</p>
June 2021	<p>7. Provide additional guidance on human intervention in the context of water. For example, human intervention could involve extraction (e.g., water pumped up from a spring) or impounding (e.g., water captured and collected in a dam).</p>	<p>7. This instruction will be actioned in the chapter on water. To be presented at the September 2021 meeting.</p>
June 2021	<p>8. Consider control of water in its natural state, when it is impounded, and when extracted. Once water is impounded or extracted, consider whether existing IPSAS 12, <i>Inventories</i> adequately addresses the recognition, measurement, and disclosure of impounded or extracted water.</p>	<p>8. This instruction will be actioned in the chapter on water. To be presented at the September 2021 meeting.</p>
June 2021	<p>9. Revise paragraph 4.12 of the CP and indicate other uses of water such as agriculture and hydroelectric power generation.</p>	<p>9. This instruction will be actioned in the chapter on water. To be presented at the September 2021 meeting.</p>
June 2021	<p>10. Add PV on whether / how water in its natural state should be reported.</p>	<p>10. This instruction will be actioned in the chapter on water. To be presented at the September 2021 meeting.</p>

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June 2021	11. When developing guidance on disclosure on water, consider the reasons (why and how) information on water would be useful. Add PV on these considerations.	11. This instruction will be actioned in the chapter on water. To be presented at the September 2021 meeting.
March 2021	1. Draft a Preliminary View (PV) in the subsoil resources chapter on the decision to provide guidance on the cost of exploration, evaluation, development, and production activities. The PV will include the decision to provide guidance, potential options on how the guidance should be incorporated into IPSAS, and a Specific Matter for Comment (SMC) asking constituents for views on these options.	1. Added to chapter 2 of the CP. Also see Agenda Paper 5.2.3.
March 2021	2. Work with the Task Force to amend the draft CP to be more succinct.	2. Revised and restructured the CP. See Agenda Paper 5.2.3 and 5.3.1.
March 2021	3. Discuss the generic issue of exploited vs unexploited natural resources in the early section of the document and include proposals on this issue.	3. Incorporated into the revision of general description of natural resources and living resources. See Agenda Paper 5.2.1.
March 2021	4. Revise wording in the introduction regarding Public Financial Management (PFM) issues to be less specific about the potential structures used. Also remind readers of the IPSASB's overall objective is to strengthen PFM via adoption of IPSAS.	4. See Agenda Paper 5.2.3 and 5.3.1.
March 2021	5. Include forward references to later section on narrative General Purpose Financial Report (GPFR) information as an alternative to balance sheet recognition throughout the earlier chapters of the CP.	5. Incorporated into chapter 1 of the CP. See Agenda Paper 5.2.3 and 5.3.1.

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March 2021	6. Amend subsoil resources roadmap diagram and incorporate unexploited resources into the logic flow of the life cycle. Also include a disclaimer that there are some aspects such as jurisdictional differences may not have been explained as the diagram is intended to only provide a general view. Integrate this better with the section to improve narrative flow.	6. Amended roadmap diagram and moved to Appendix C. See Agenda Paper 5.2.3 and 5.3.1.
March 2021	7. Consider if certain sections, such as the background material on IFRS and GFS guidance and discussion on geological modelling, can be moved to an appendix.	7. Relocated sections to the appendices. See Agenda Paper 5.2.3 and 5.3.1.
March 2021	8. Clarify the drafting to note that for subsoil resources, “exploitation” refers to the extraction of the resources.	8. Incorporated into the explanatory paragraphs regarding the general description of natural resources. See Agenda Paper 5.2.1.
March 2021	9. Strengthen the text on the potential to recognize unexploited resources under the Conceptual Framework and solicit constituent feedback on whether they are aware of reasons to be more open to the recognition of unexploited subsoil resources.	9. Amended chapter 1 to provide more details on the Conceptual Framework and chapter 2, specifically SMC 1 and 2. See Agenda Paper 5.2.3 and 5.3.1.
March 2021	10. Consider and provide proposals on how conservation activities should be accounted for.	10. Incorporated into Appendix D. See Agenda Paper 5.2.3 and 5.3.1.
March 2021	11. Revise the Living Resources chapter to clarify and provide examples of what, if any, unexploited living resources might be capitalized under a Natural Resources IPSAS, instead of being accounted for under another IPSAS.	11. Incorporated into the amendments to Chapter 3: Living Resources. See Agenda Paper 5.2.3 and 5.3.1.
March 2021	12. Revise the structure of the chapter on living resources to be consistent with the subsoil resources chapter.	12. Incorporated into the amendments to Chapter 3: Living Resources. See Agenda Paper 5.2.3 and 5.3.1 (March 2021).
December 2020	1. Amend the example timeline on sovereign powers to clarify the principles and reflect the feedback from the CAG regarding the underlying resources and revenue recognition.	1. Added to Appendix A of the draft CP. Also see Agenda Paper 6.2.2.

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December 2020	2. Amend the CP to capture the IPSASB's discussions on project scope and the decision to not provide guidance on broader public finance management issues, sustainability, and intergenerational equity.	2. Revised the introduction of the draft CP. Also see Agenda Paper 6.2.2.
December 2020	3. Develop a roadmap to clarify and illustrate where the Natural Resource project fits and to explain how it links with other IPSASB pronouncements.	3. Added to chapter 2 of the draft CP. Also see Agenda Paper 6.2.2.
December 2020	4. Clarify the analyses on: <ul style="list-style-type: none"> ○ Whether unextracted subsoil resources are a resource, as defined in the Conceptual Framework; ○ Whether an entity can demonstrate control over unextracted subsoil resources; and ○ Whether unextracted subsoil resources can be reliably measured. Present the updated analyses to the IPSASB in March 2021. 	4. Amended chapter 2 of the draft CP. Also see Agenda Paper 6.2.2.
December 2020	5. Develop an analysis on the potential incorporation of IFRS 6, Exploration for and Evaluation of Mineral Resources, into IPSAS literature and reconsider the Preliminary View on whether exploration, evaluation, development, and extraction activities are relevant to the public sector.	5. See Agenda Paper 6.2.1.

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September 2020	<ol style="list-style-type: none"> Regarding sovereign powers: <ul style="list-style-type: none"> Clarify the distinction between the ability to issue licenses and the transaction of issuing licenses, and include more detailed consideration of when an asset could exist and be recognized; Include more detailed analysis of measurement considerations; Use language that is consistent with other IPSASB projects; Cross-reference to discussion of a similar issue in the Social Benefits project; and Include an analysis sovereign powers, possibly in the Appendix to the CP. 	<ol style="list-style-type: none"> Added to Appendix A of the draft CP. Also see Agenda Paper 6.2.2.
September 2020	<ol style="list-style-type: none"> Regarding the informal survey: <ul style="list-style-type: none"> Expand introduction to provide more information regarding the purpose of the survey as well as information on surface and subsurface rights; Add question regarding the current public sector accounting practices for unextracted subsoil resources in the jurisdiction; Postpone the deadline to October 30, 2020; and In addition to IPSASB members and technical advisors, circulate the survey to key jurisdictions where natural resources are significant. 	<ol style="list-style-type: none"> The survey was revised and distributed to IPSASB members, technical advisors, and other key jurisdictions where natural resources are significant on September 24, 2020. The responses to the survey have been incorporated into Chapter 2 of the [draft] Natural Resources Consultation Paper.

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September 2020	<p>3. Regarding the draft consultation paper:</p> <ul style="list-style-type: none"> ○ Revise the draft introduction and chapter 1 for comments from IPSASB members; ○ In the analysis of sovereign powers, distinguish between sovereign powers in their own right from activities arising from the use of sovereign powers, and expand on the discussion of control and when an item can be recognized as an element; ○ Expand on the application of existing IPSAS guidance on costs (potential cash outflows). 	<p>3. See revised draft CP and Agenda Paper 6.2.2.</p>
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DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2021	1. Preliminary approval for the general description of natural resources, subject to minor wording amendments noted in instructions.	1. CP has been updated to reflect this decision. See Agenda Item 1.2.1.
June 2021	2. Subject to the instructions noted above, agree that the analysis of the recognition, measurement, and disclosure of natural resources should follow a stepped approach which considers: whether the item meets the description of natural resources; whether the item can be recognized and measured as an asset; and whether information regarding the item should be provided within the broader GPFRs.	2. CP has been updated to reflect this decision. See Agenda Item 1.2.1.
March 2021	1. Discuss exploration and evaluation expenditures, as well as development and production costs in the CP.	1. Discussion has been added to chapter 2 of the CP.
March 2021	2. Include a preliminary view proposing to provide guidance on cost of related activities subject to any specific IASB plans to revisit its current guidance in IFRS 6 and IFRIC 20.	2. Added to chapter 2 of the CP.
March 2021	3. Unextracted subsoil resources can be a resource as described in the Conceptual Framework.	3. Incorporated into SMCs within chapter 2 of the CP.
December 2020	1. Subject to the instructions from December 2020, the IPSASB agreed that the example timeline reflected the IPSASB's decision on sovereign powers from September 2020 and should be incorporated into the draft CP.	1. The example timeline has been included in Appendix A of the draft CP.
September 2020	1. The IPSASB decided that a government's sovereign power, in and of itself, does not meet the criteria for recognition as an asset.	1. Analysis has been included in Appendix A of the draft CP.
September 2020	2. The IPSASB approved the distribution of the subsoil resources legal framework survey to IPSASB members, technical advisors, and other individuals as identified by staff.	2. The findings from the survey have been incorporated into Chapter 2 of the draft CP.
September 2020	3. Subject to instructions provided at the meeting, no major changes were proposed for the overall structure of the draft CP.	3. BC to be included in draft ED.
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.

Revision to Chapters 1 and 2 (Previously the Introduction and Chapter 1) of the Draft Natural Resources Consultation Paper

Question

1. Does the IPSASB agree with the proposed revisions to chapters 1 and 2 (previously the introduction and chapter 1) of the draft Natural Resources Consultation Paper (CP)?

Recommendation

2. Staff recommends the revisions to chapters 1 and 2 as summarized in the analysis below.

Background

3. At the June 2021 meeting, the IPSASB instructed staff to revise draft CP for the general description of natural resources and to discuss the approach to be used when analyzing the recognition, measurement, and presentation of natural resources. In addition, the IPSASB instructed that the CP should be restructured to enhance the narrative and improve the flow of its proposals.
4. Staff have addressed these instructions by revising chapters 1 and 2, and the full text of these chapters has been included in Agenda Items 1.3.1 (for the clean version) and 1.3.2 (for the version with tracked changes to the June 2021 version reviewed by the IPSASB).
5. In addition, staff has included the proposed revised structure and content for the remaining chapters in the CP in the appendix to this paper.

Analysis

Revisions to Chapter 1

6. Chapter 1 of the CP (previously the introduction) has been revised as follows:
 - (a) The first half of the chapter has been streamlined to focus on the reasons for the project, project aims, and project scope;
 - (b) The general description of natural resources has been revised as instructed at the June 2021 meeting and the related Preliminary View (PV) has been updated for consistency. The section on the application of the general description has also been updated to include the consideration of items which do not fit into the general description;
 - (c) The background information on the definitions from other sources which the IPSASB considered has been moved to Appendix A to enhance the flow of the chapter;
 - (d) The section on the approach to be taken in the CP has been streamlined to set out the contents in chapters 2-6 of the CP;
 - (e) The section on the application of the IPSASB's Conceptual Framework has been deleted as the information largely duplicated the discussion of the recognition and measurement principles in chapter 2; and
 - (f) The sections on other IPSASB guidance, national public sector accounting guidance, international statistical standards guidance, and private sector practices have been removed, as the information in these sections will be presented in the appendices to the resource-specific chapters on subsoil resources, water, and living resources.

Revisions to Chapter 2

7. Chapter 2 of the CP (previously chapter 1) has been carried forward from the June 2021 version with minimal changes. The significant revisions are as follows:
- (a) Paragraphs have been added to explicitly discuss the application of the definition of an asset (2.12-2.14), existence uncertainty (2.19), and measurement uncertainty (2.36-2.37) to the recognition of natural resources as assets;
 - (b) The section on general measurement principles have been streamlined to refer to ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, and ED 77, *Measurement*;
 - (c) A preliminary view on the overall approach to the recognition and measurement of natural resources has been added; and
 - (d) The section on the reporting of natural resources in the broader GPFRs has been removed from this chapter, as the information will be presented in chapter 6.

Proposed Structure and Content for Remaining Chapters

8. The proposed revised structure and content for chapters 3-6 of the CP has been included in Appendix A of this paper for review and high-level discussion with the IPSASB.

Decision Required

9. Does the IPSASB agree with the staff's recommendations?

Appendix A: Proposed Revised Structure and Content for the Remaining Sections of the Natural Resources Consultation Paper

Chapter 3: Subsoil resources

- Description – carry forward paragraph 2.1 from June 2021 version.
- **Existing international, national and GFS guidance – Move to Appendix B** (Information to be arranged in tabular form against subheadings in the chapter).

Subsoil resources outside the scope of the project

- Licence granted – recognized as an intangible asset under IPSAS 31 and link to **Sovereign Powers discussion in Appendix C**.
- Extraction – recognise as inventory under IPSAS 12.
- Add IFRIC 12 Stripping costs to IPSAS 12 and/or IPSAS 17.
- Discuss the need to add any other guidance (including IFRS 6) to IPSAS 12, IPSAS 17, or IPSAS 31.
- Briefly discuss how the above costs meets the assets definition in the Conceptual Framework.

Preliminary View 3 (NEW)

PV will discuss:

- The addition of IFRIC 20 to IPSAS 12/IPSAS 17 (*Current PV2 – Chapter 2 part*)
- Whether IPSAS 12 and/or IPSAS 31 include sufficient guidance to address situations when naturally occurring resources no longer remain in their natural state.

Application of asset definition criteria

- Discuss control and past event – carry forward paragraphs 2.5-2.20 from June 2021 version.

Preliminary View 4 (First part of SMC 1 – Chapter 2 from June 2021 turned into a PV).

PV will discuss whether subsoil resources can meet the asset definition in the Conceptual Framework.

Existence Uncertainty

- Carry forward consideration of existence uncertainty from paragraphs 2.21 and 2.22 from the June 2021 version, but remove paragraphs 2.23 and 2.24 as these paragraphs will be incorporated into the preliminary view.
- Discussion of whether subsoil resources are capable of being measured – carry forward paragraphs 2.26-2.38 from the June 2021 version.
- Discuss how exploration and evaluation work would provide useful information BUT consistent with private sector, uncertainty still too great to recognise subsoil natural resources.
- Therefore, measurement does not need to be considered.

Preliminary View 6 (*SMC 2 & 3 – Chapter 2 from June 2021 turned into PV*)

PV will discuss:

- Whether subsoil resources are too uncertain to recognise.
- If cannot be recognized, consider disclosure of relevant available physical information.
- If resource is likely to be exploited, consider financial estimates as input to RPG1 projections.

Preliminary View 7 (*Part of PV2 – Chapter 2 from June 2021*)

PV will discuss the development of IPSASB guidance that is aligned with IFRS 6, subject to any specific commitment to revise IFRS 6 following IASB work plan consultation.

[The current material in 2.44-2.45 and the related SMC on how to incorporate IFRS 6 into IPSAS will be revisited with IPSASB and revised based on the Board's decision.]

Chapter 4: Water

[Suggested change in chapter order as Water has some commonality with Subsoil Resources. This will result in better flow and help with the development of the arguments.]

- Revise description to plain English and include surface water and underground water / aquifers (*No need for PV 6 from previous version*)
- Discuss how structures used to impound water (dams and weirs), riverbank reinforcements, straightening of waterways, canals, etc. are PP&E and so accounted for under IPSAS 17. Same for pipes, treatment plants etc.
- **Existing international, national and GFS guidance – Appendix D** (Information to be arranged in tabular form against subheadings in the chapter).

Water resources outside the scope of the project

- Discuss treatment of water that has been:
 - Extracted from underground or other natural sources.
 - Put into pipes for treatment / distribution – potentially accounted for as inventory under IFRS – as there are only few examples of accounting for as WIP, consider whether to recommend additional guidance or not.

Application of asset definition criteria

- Discuss how water in streams and rivers are not controlled.
- Consider if water is controlled in dams where it is physically contained.
- Consider possible control of water in canals.

Existence uncertainty

- Too uncertain in streams and rivers
- Volumes can be estimated in dams – reporting estimated volume information may be useful in terms of security of water supplies for consumption, industry, power generation etc.
- Could estimate in canals, but no direct use for information. Reduction in levels may indicate potential income stream impairment, but estimated water volumes are of no direct importance.

Measurement uncertainty

- No reliable valuation data available

Preliminary View 8 (*Revised – tighter version of PV7 – Chapter 4 from June 2021*)

PV will discuss:

- Whether water can be recognized in the financial statements;
- Whether to permit non-financial disclosures of volume data for dams and canals if relevant to service objectives of reporting entity; and
- Whether there should be any narrative or financial reporting for underground water resources or water in rivers and streams.

Chapter 5: Living Resources

- Revise plain English description (*no need for specific definition / PV3*)
- Discuss how barriers, fences, etc. are PP&E and so accounted for under IPSAS 17.
- Discuss how to account for conservation expenditures (e.g., employing ranger activities that do not move the item out of its natural state) under other standards.
- **Existing international, national and GFS guidance – Appendix E** (Information to be arranged in tabular form against subheadings in the chapter).

Living resources outside the scope of the project

- Items subject to biological transformation – account for using IPSAS 27 Agriculture.
- Animals in zoos – account for using IPSAS 17.

Application of asset definition criteria

- Past event demonstrable – legislation, acquisition, donation.
- Control considerations different for plants and animals/fish.
- Easier to demonstrate control of plants as cannot move around.
- Animals and fish can roam freely, so rebuttable presumption would be they cannot be controlled.

Existence uncertainty

- Highlight difference between plants (more certain) and animals/fish (those that are controlled).
- Will be uncertainties in both cases as by definition, these items are not exploited.

Measurement uncertainty

- No reliable valuation data possible:
 - Accessing market removes living resource from its natural state;
 - If do not intend to sell, may not be possible to value benefit to humankind.

Preliminary View 9

PV will discuss:

- Whether living resources can be recognized within the financial statements;
- Whether to permit non-financial disclosures of physical data for and plants and those animals/fish that can be controlled, and that exist with reasonable certainty if relevant to service objectives of reporting entity; and
- Whether there should be any narrative or financial reporting for animals/fish that are not controlled.

Chapter 6: Presentation

- Use principles from Chapter 8 of the Conceptual Framework to drive:
 - Information selection
 - Information location
 - Information organization
- Information selected will be non-financial for subsoil resources, water and living resources.
- Non-financial information selection in accordance with Conceptual Framework paragraph 8.24, bullets 4 and 5:
 - 'Items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity's finances and ability to deliver services – for example information about events and conditions, that might affect future cash flows or service potential, including their natures, possible effects on cash flows or service potential, probabilities of occurrence, and sensitivities to changes in conditions; and
 - Information that may explain underlying trends affecting displayed totals.'
- In terms of delivery of entity's objectives, note that RPG3 and possibly RPG2 will be relevant.
- For items which can potentially affect future cash flows and impact future financial sustainability (e.g., exploitation of natural resources), RPG1 will be relevant.
- Consider relevance of disclosure of unrecognized natural resources in terms of significance of the unrecognized asset(s) in relation to delivery of the entity's objectives., as per proposals regarding heritage assets in paragraph 80 of ED78, *Property, Plant, and Equipment*.
- Also consider relevant private sector guidance on subsoil reserves.
- Consider leaving open the theoretical possibility of recognition of some other types of natural resources, perhaps using IPSAS 17 or IPSAS 31 as models.

Preliminary View 10

PV(s) to be develop based on the above analysis.

Extract from the [Draft] Natural Resources Consultation Paper: Clean Version

1. Staff has included the revised chapters 1-2 and Appendix A from the [draft] Natural Resources Consultation Paper. To facilitate review, the revisions have not been tracked in this version. See Agenda Item 1.3.2 for a version with tracked changes.

Chapter 1: Purpose and Scope

Reasons for Undertaking the Project

- 1.1. 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.
- 1.2. The project meets the criteria for project prioritization as set out in the 2019-2023 Work Plan:
 - (a) **Prevalence** - Based on preliminary research, the IPSASB noted that natural resources account for a significant proportion of economic resources in many jurisdictions.¹ Therefore, the reporting 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.
 - (b) **Consequences** - Based on responses to the strategy consultation, the IPSASB noted a 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. Therefore, from a public interest perspective, the recognition—or, if recognition in the financial statements is not possible, more general reporting—of natural resources is an important issue, as information about these resources should inform policy decisions.
 - (c) **Urgency** - 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.
 - (d) **Feasibility** - When the IPSASB added the project to the 2019-2023 Work Plan, the IPSASB determined that there would be sufficient staff capacity to develop technically sound accounting guidance on the recognition, measurement, and presentation² of natural resources within a reasonable time period.

Project Aims

- 1.3. Consistent with the overall objectives of financial reporting by public sector entities, the objective of the development of IPSAS guidance relating to natural resources is to provide information that is useful to users of the entity's General Purpose Financial Reports (GPFRs) for accountability purposes and for decision-making purposes.
- 1.4. The aim of the project is to develop IPSAS guidance relating to the accounting—i.e., the recognition, measurement, presentation, and disclosure—of natural resources by public sector entities.

¹ The IMF October 2018 Fiscal Monitor highlighted that for the 31 countries included in the report, natural resource economic assets were equal to 38% of Gross Domestic Product.

² The term "presentation" broadly relates to both the display and/or disclosure of information. See paragraphs 8.15-8.24 of the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

- 1.5. As this project is a financial reporting project, any resulting IPSAS guidance will be developed in accordance with the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework).
- 1.6. During the IPSASB's preliminary outreach, some constituents advocated for the CP to include the discussion of broader public financial management (PFM) issues such as maintaining long-term sustainability of natural resources and preservation of intergenerational equity for citizens.
- 1.7. The IPSASB acknowledges that its overall objective is to strengthen PFM through increasing the adoption of accrual-based IPSAS, and that maintaining long-term sustainability and intergenerational equity are important. However, these issues do not directly relate to accounting for natural resources in GPFSSs. Accordingly, this CP will not provide guidance on these broader issues. The focus of this CP is to propose preliminary views on the accounting of natural resources. Application of these preliminary views and the guidance included in future IPSAS related to these topics are likely to provide useful information for improving PFM.

Project Scope

- 1.8. This project focuses on the accounting for *tangible*, naturally occurring resources, including subsoil resources, living resources, and water in their natural state.
- 1.9. Other resources such as air and the electromagnetic spectrum may be considered natural resources in other contexts. However, these items have been excluded from this project, as the issues raised by constituents relate to the right to access these resources and may be within the scope of IPSAS 31, *Intangible Assets*.³
- 1.10. In addition, the cost of activities relating to natural resources (for example, the maintenance of the resources), will not be the main focus of this project, as the accounting for many of these costs is already addressed by existing IPSAS. However, the resource-specific chapters touch on situations where existing IPSAS guidance can be supplemented by the activity-related guidance from international, national, or statistic accounting standards.
- 1.11. The accounting for land is also excluded from the project, as land is already within the scope of IPSAS 17, *Property, Plant and Equipment*. Furthermore, a government's sovereign power to issue licenses is excluded. While the exercise of sovereign powers can facilitate transactions that can result in the recognition of an asset, such an asset would arise from the transaction itself rather than from the sovereign power. This is further explained in Appendix C: Accounting for a Government's Sovereign Power to Issue Licenses.

Developing a General Description of Natural Resources

- 1.12. IPSAS literature currently does not have explicit guidance on natural resources or an explicit description or definition of what constitutes a natural resource. Therefore, by using a principled approach to develop a general description of natural resources and by proposing accounting guidance for these described items, the project effectively fills a gap in IPSAS literature.
- 1.13. In this Natural Resources CP, the IPSASB has developed a proposed general description of natural resources. A formal definition of natural resources may be developed later in the project based on constituent feedback and once the IPSASB has formulated more PVs.

³ The IPSASB is currently considering a project to update IPSAS 31 and whether additional guidance is needed in areas such as electromagnetic spectrum rights.

- 1.14. To develop this general description, this CP draws from definitions of natural resources in more general, non-technical sources such as the plain English definition as well as definitions from economic texts. The general description also draws from international statistical standards such as the Government Finance Statistics Manual 2014 (GFSM 2014) and System of National Accounts 2008 (2008 SNA), as well as existing guidance developed by other international and national standards setters. The details on these various definitions can be found in [Appendix A: Development of the General Description of Natural Resources](#).

Proposed General Description of Natural Resources

- 1.15. Based on the key aspects that are common among the definitions in Appendix A, a natural resource can be generally described as an item which has the following attributes:
- (a) Is a resource as described in the IPSASB's Conceptual Framework;
 - (b) Is naturally occurring; and
 - (c) Is in its natural state.
- 1.16. The first attribute of natural resources is that they must be a resource as described in the Conceptual Framework—that is, they are capable of generating economic benefits or have service potential.⁴ When considering this characteristic, items can only be considered natural resources if they are capable of being extracted or harvested for their economic benefits or service potential.
- 1.17. Naturally occurring means that the resource came into existence without the actions of humankind.
- 1.18. To be in its natural state, a natural resource must not have been subjected to human intervention. In general, human intervention include any actions which modify the quantity and/or quality of a natural resource. Specific examples of actions that are considered human intervention vary for each of the natural resources within the scope of the CP and are discussed in detail in chapters 3-5.

Preliminary View 1—Chapter 1

The IPSASB's Preliminary View is that a natural resource can be generally described as an item which:

- (a) Is a resource as described in the IPSAS's Conceptual Framework;
- (b) Is naturally occurring; and
- (c) Is in its natural state.

Do you agree with the IPSASB's proposed general description of natural resources?

If not, please provide your reasons.

Application of the General Description to Resources within the Scope of the Consultation Paper

- 1.19. The above attributes are useful in setting boundaries for what are included or excluded from the project. The first attribute is important as it aligns the general description of natural resources with the recognition criteria in the Conceptual Framework. That is, if an item is not a resource, it will not be possible for the item to be recognized as an asset. However, the lack of recognition and measurement in the financial statements does not preclude the IPSASB from proposing

⁴ Conceptual Framework, paragraph 5.7.

presentation of information regarding natural resources in either the note disclosures to the financial statements or as supplementary information in an entity's broader GPFRs.

- 1.20. The second and third attributes both reinforce the principle that this project only considers resources which have not already been subjected to human intervention. This delineation is important as the development of guidance on the described resources is expected to result in new information which improves transparency, accountability, and decision-making over natural resources.
- 1.21. If an item does not fit within the above general description of a natural resource but is still relevant to an entity's general purpose financial statements (GPFS), the entity should consider if an existing IPSAS would be relevant to the accounting of that item.⁵ Otherwise, if the item is not relevant to an entity's GPFS, the rest of this CP will likely not be relevant.

Structure of the Remaining Sections of this Consultation Paper

- 1.22. For items qualifying as natural resources, chapter 2 of this CP considers the general recognition principles within the Conceptual Framework and addresses the issue of whether a natural resource should be recognized.
- 1.23. Chapters 3-5 of this CP address how these general principles can be applied to the natural resources which are within the scope of this CP, which include subsoil resources, water, and living resources.
- 1.24. Finally, chapter 6 of this CP address the potential presentation of natural resources.

⁵ In some cases, the IPSASB may need to clarify that these items are included in the scope of the existing IPSAS.

Chapter 2: Should a Natural Resource be Recognized?

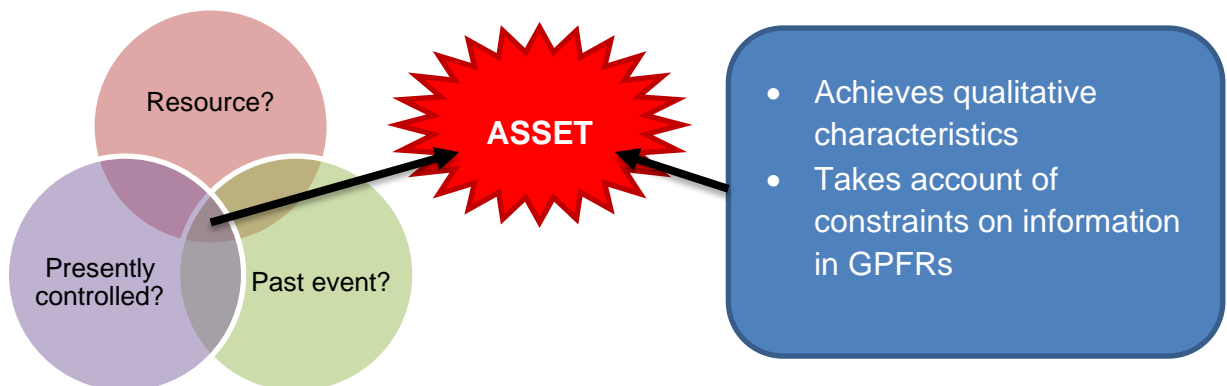
General Recognition Principles in the Conceptual Framework

- 2.1. The core accounting question in this CP is whether a natural resource which meets the description in chapter 1 can be recognized as an asset in the GPFS prepared under IPSAS. The IPSASB's Conceptual Framework provides the principles to be used in developing IPSAS, including principles on asset recognition and measurement. Therefore, before applying the principles to specific issues on the subsoil resources, living resources and water, it is important to discuss these general principles.

Recognition Criteria

To be Recognized as an Asset in the Financial Statements, an Item Must:

- 1) Meet the definition of an asset: 2) Be Measurable in a way that...



- 2.2. For an entity to recognize a natural resource as an asset in the financial statements, 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 GPFRs."

The Definition of an Asset

- 2.3. The first recognition criterion is that an item must meet the definition of an element to be recognized. In the context of this CP, the focus is whether a natural resource can meet the definition of an asset, which 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 the result of a **past event**.

A Resource

- 2.4. Paragraph 5.7 of the Conceptual Framework defines a resource as "an item with service potential or the ability to generate economic benefits." The Conceptual Framework further explains that physical form is not a necessary condition of a resource, and that the service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the

resource. Service potential is the capacity to provide services that contribute to achieving the entity's objectives without necessarily generating net cash inflows. Economic benefits can include the generation of cash inflows (e.g., from the sale of an asset for cash or other resources) or reductions in cash outflows (e.g., in the form of cost savings or synergies).

- 2.5. In general, the natural resources within the scope of this project *do* meet the definition of a resource as set out in the Conceptual Framework:
 - (a) Subsoil resources such as minerals or fossil fuels can generate economic benefits through sale. Extracted subsoil resources can also be used in construction or the manufacture of goods, or combusted as fuel;
 - (b) Some living resources can be harvested for a wide variety of uses. For example, an uncultivated forest can be harvested and processed into timber, which then can be used in construction or sold;
 - (c) Water can be treated and sold as drinking water. In addition, water can also be used in the production and supply of electricity.
- 2.6. The natural resources within the scope of this project may also have service potential. For example, the utilization of harvested living resources for research purposes or in training colleges.

Presently Controlled by the Entity

- 2.7. For a resource to be recognized as an asset by an entity in the financial statements, it must be controlled by the entity. The Conceptual Framework notes that control of a resource entails the ability 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 resource.⁶
- 2.8. To determine if an entity has control over a resource, paragraph 5.12 of the Conceptual Framework provides a list of indicators that should be considered:
 - (a) Legal ownership;
 - (b) Access to the resource, or ability to deny or restrict access to the resource;
 - (c) The means to ensure that the resource is used to achieve its objectives; and
 - (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.
- 2.9. For a natural resource, the factors such as legal ownership or access to resources are often directly impacted by laws and regulations that are specific to the natural resource. For example, many jurisdictions have legislation that sets out how an entity can obtain control over a subsoil resource. Other legislation may also restrict an entity's ability to realize a natural resource's service potential or economic benefits. The detailed consideration of control over subsoil resources, living resources, and water are explored in chapters 3-5 of this CP.

Past Event

- 2.10. The definition of an asset also requires that an entity presently controls the resource as the result of a past event. Entities can gain control of a resource through a variety of means, including by

⁶ Conceptual Framework, paragraph 5.11.

purchasing them in an exchange transaction, by developing the resource, or obtaining control through a non-exchange transaction.⁷

- 2.11. Natural resources are resources which have not yet been subjected to human intervention. Therefore, it is possible for an entity to gain control of a natural resource through methods other than acquisition, which is the typical means to obtain control of an asset. The analysis in chapters 3-5 considers the resource-specific issues regarding past events.

Application of the Definition of an Asset to Natural Resources

- 2.12. Since the general description of natural resources already considers if the item is a resource as described in the IPSASB's Conceptual Framework, the key consideration of whether a natural resource meets the definition of an asset is whether the reporting entity presently controls the resource as the result of a past event.
- 2.13. If an entity can demonstrate that control presently exists as the result of a past event, the entity concludes that the natural resource meets the definition of an asset and continues with the analysis of whether the item can be recognized.
- 2.14. However, if the natural resource is not presently controlled, or if the past event giving rise to control has not yet occurred, the natural resource would not meet the definition of an asset and there would be no requirement to recognize or disclose the item.

Existence Uncertainty and Asset Recognition

- 2.15. The Conceptual Framework identifies two sources of uncertainty that are relevant in the recognition of an element: uncertainty over the existence of an element and measurement uncertainty.
- 2.16. Uncertainty over the *existence* of an element is addressed by considering all available evidence, facts, and circumstances at reporting date to make a neutral judgement about whether an item satisfies all the essential characteristics of an element. In other words, uncertainty over the existence of an element should be considered in the first recognition criterion when determining whether the item satisfies the definition of an element.⁸
- 2.17. When finalizing chapter 6 of the Conceptual Framework, the IPSASB decided that a standardized probability threshold should *not* be adopted for recognition purposes. Rather, the IPSASB concluded that an assessment of all available evidence in determining whether an element exists and takes account of uncertainty about the flows of service potential or the ability to generate economic benefits is a more appropriate approach. The IPSASB also noted that existence uncertainty could relate to more than one specific characteristic of an element.⁹
- 2.18. The Conceptual Framework's basis for conclusions explains that when determining if an item meets the definition of an asset, there could be uncertainty over whether a resource presently exists, uncertainty over whether the entity controls the resource, or uncertainty over the existence of a past event giving rise to control. All three sources of uncertainty should be considered when determining if the item meets the definition of an asset.

⁷ Conceptual Framework, paragraph 5.13.

⁸ Conceptual Framework paragraphs 6.5 and BC6.2.

⁹ Conceptual Framework, paragraphs BC6.3-BC6.7.

- 2.19. If an entity concludes that there is no uncertainty over whether an item meets the definition of an asset, the entity then considers the second recognition criterion—that is, whether the item is capable of being measured in a way that achieves the qualitative characteristics and take accounts of contracts on information in the GPFRs. In situations where an entity concludes that there is uncertainty over the existence of an item, the item does not meet the definition of an asset and should not be recognized or disclosed in the entity's GPFS.

Capable of Being Measured in a Way that Achieves the Qualitative Characteristics and Takes Account of Constraints on Information in GPFRs

- 2.20. The second recognition criterion is that for an item to be recognized as an element, it is necessary to be able to attach a monetary value to that item. The measurement of this monetary value needs to achieve the qualitative characteristics of information, as set out in chapter 3 of the Conceptual Framework, which are **relevance**, **faithful representation**, **understandability**, **timeliness**, **comparability**, and **verifiability**. The basis of measurement should also consider the constraints on information in the GPFRs, which include materiality, cost-benefit considerations, and achieving an appropriate balance between the qualitative characteristics.¹⁰
- 2.21. The following discussion summarizes the qualitative characteristics of information which are expected to have the most impact on natural resources and briefly explains how these characteristics may be applicable. The information is drawn from the Conceptual Framework and Exposure Draft 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* (ED 76).

Relevance

- 2.22. Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting through the information's confirmatory and/or predictive value. Confirmatory value refers to the ability to confirm or change past expectations, while predictive value refers to the ability to provide information on an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing these future services.¹¹
- 2.23. In the context of a natural resource, a measurement basis is relevant if it can fairly reflect the resource's contribution to the entity's cost of services, operational capacity, and financial capacity.¹²
- 2.24. In general, if an entity gains control of a natural resource because of the laws and regulations and incurred little or no acquisition costs, it is unlikely that there is a material amount to be recognized from a historical cost perspective. The discovery of new resources may also lead to obtaining control of a natural resource without incurring material acquisition costs (as the costs of exploration may be recognized as a separate asset as discussed in chapter 2). Furthermore, such a historical cost measure would not reflect the economic benefit or service potential embodied by the natural resource. Therefore, it is unlikely that historical cost would be relevant for natural resources.

¹⁰ Conceptual Framework, paragraphs 3.6-3.42.

¹¹ Conceptual Framework, paragraph 3.6-3.8. Furthermore, paragraph 2.1 of the Conceptual Framework notes that, "The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes."

¹² ED 76, paragraph 7.3.

- 2.25. For natural resources which are typically removed from their natural state for the purpose of being sold—for example, mineral ore or fossil fuels—a current value measurement basis such as fair value may be the most relevant. This is because as fair value is defined as “the price that could be received to sell an asset in an orderly transaction between market participants at measurement date,”¹³ and therefore would most readily reflect the asset’s ability to generate economic benefits through sale.
- 2.26. Other natural resources may be controlled for their operational capacity. For example, an entity which controls an uncultivated forest may choose to leave it in its natural state to maintain natural diversity or for the purpose of absorbing carbon dioxide. For these types of natural resources, a current operational value is likely to be the most relevant in providing information on operational capacity.¹⁴
- 2.27. As what is considered relevant for each type of in-scope resource differs significantly, the detailed consideration of measurement for subsoil resources, living resources, and water is addressed in detail in chapters 2-4.

Faithful Representation

- 2.28. Faithful representation refers to being representative of the economic and other phenomenon in a complete and neutral manner that is free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity, or circumstance.¹⁵
- 2.29. For the measurement basis of a natural resource to faithfully represent the underlying economic and other phenomenon, the basis will need to reflect the quantity of the resource, as well as the quality of the resource.

Verifiability

- 2.30. For a measurement basis to be verifiable, different knowledgeable and independent observers could reach general consensus (although not complete agreement) that the measurement represents the economic and other phenomena that it purports to represent without material error or bias or that an appropriate measurement method has been applied without material error or bias.¹⁶
- 2.31. For some natural resources, it may be difficult to have a measurement basis that is verifiable. There may be situations where a standardized measurement technique does not exist and independent, qualified parties with the same set of data could arrive at vastly different estimates. In these cases, it may not be possible to recognize the natural resource as a verifiable measurement basis does not exist.

Constraints on Information

- 2.32. To be useful, the measurement of a natural resource will need to balance the qualitative characteristics in a way that results in the most useful information. For example, as noted in paragraph 2.24, it is possible for a natural resource to be measured using historical cost, which

¹³ ED 76, paragraph 7.36

¹⁴ ED 76, paragraph 7.53.

¹⁵ Conceptual Framework, paragraph 3.10.

¹⁶ Conceptual Framework, paragraph 3.26.

would faithfully represent the cost of acquisition and be understandable and verifiable. However, such a measure would likely not be relevant.

- 2.33. An entity should also consider if the measurement of a natural resource will lead to material information. Information is material if its omission or misstatement could influence the discharge of accountability by the entity or the decision that users make based on the entity's GPFRs.¹⁷ In many cases, a natural resource will likely be material due to the quantity and value of the resources.
- 2.34. Finally, an entity will need to consider the cost of obtaining the information necessary to develop an appropriate measurement basis. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the cost incurred to provide and use the information.¹⁸ For natural resources, the selection of a measurement basis will be constrained by the costs of obtaining the information necessary to measure the resource.

Measurement Uncertainty

- 2.35. Regarding measurement uncertainty (i.e., the uncertainty over the *amount* of service potential or economic benefits represented by the element), the Conceptual Framework states that such uncertainty is reflected in the measurement of the element. For an asset, once it has been determined that an item can be measured in a way that achieves the qualitative characteristics and takes into account constraints on information, an entity should also assess whether a measurement technique can be used to appropriately reflect the uncertainty inherent within the information available at reporting date.
- 2.36. In rare instances, an item is not recognized if the level of measurement uncertainty in a single point estimate is so large that the relevance and faithful representativeness of the measure become questionable.¹⁹ In such situations, the IPSASB is considering non-financial disclosures similar to those proposed in ED 78, *Property, Plant, and Equipment*. These proposals include the disclosure of:
 - (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
 - (b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.
- 2.37. If an entity concludes that the level of measurement uncertainty is not so high that recognition and measurement of the natural resource becomes questionable, the item should be measured in accordance with the measurement principles in chapter 7 of the Conceptual Framework. [Reference to Conceptual Framework to be replaced with ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, as well as the guidance in ED 77, *Measurement*, depending on the timing of finalization.]

General Measurement Principles

- 2.38. Once an entity has concluded that an item meets the definition of an asset and can be measured in a way that achieves the qualitative characteristics of information in GPFRs, the final step in the recognition and measurement of an asset is to select an appropriate basis of measurement.

¹⁷ Conceptual Framework, paragraph 3.32.

¹⁸ Conceptual Framework, paragraph 3.39.

¹⁹ Conceptual Framework paragraphs 6.6 and 6.8.

- 2.39. An entity should select a measurement basis that most fairly reflects the costs 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.²⁰
- 2.40. The measurement bases proposed in ED 77, *Measurement*, and include historical costs basis under the historical cost model, or current operational value and fair value under the current value model.²¹

Application of the General Measurement Principles to Natural Resources

- 2.41. The selection of measurement bases and techniques will vary significantly based on the specific facts and circumstances surrounding each natural resource. As a result, for natural resources where the IPSASB preliminarily concludes that recognition as an asset is possible, chapters 3-5 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.

Overall Approach to the Recognition and Measurement of Natural Resources

- 2.42. After considering the recognition and measurement principles together, the IPSASB developed the following preliminary view on the recognition of natural resources:

Preliminary View 2—Chapter 2

For items which meet the general description of natural resources, the IPSASB's Preliminary View is that the recognition of the natural resource should be considered using the following steps:

- (a) A natural resource should be recognized in the GPFS if it meets the definition of an asset as defined in the IPSASB's Conceptual Framework, is certain, and can be reliably measured;
- (b) If the natural resource meets the definition of an asset, but is either uncertain, and/or cannot be measured reliably, non-financial disclosure of the natural resource should be considered; and
- (c) If the natural resource does not meet the definition of an asset, or meets the definition but is too uncertain, no recognition or disclosure of the item is required.

Do you agree with the IPSASB's proposed approach to the recognition of natural resources?

If not, please provide your reasons.

²⁰ See ED 76 at: <https://www.ifac.org/system/files/publications/files/ED-76-Chapter-7.pdf>.

²¹ See ED 77 at: <https://www.ifac.org/system/files/publications/files/ED-77-Measurement.pdf>.

Appendix A: Development of the General Description of Natural Resources

- A.1. As noted in paragraph 1.14, the IPSASB developed the general description of natural resources by drawing upon the definitions of natural resources from a variety of sources. The following appendix summarizes the definitions which were considered by the IPSASB.

Plain English Definition

- A.2. The current plain English definition on Wikipedia 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.³¹

Definition from Economic Literature

- A.3. One economic text describes natural resources as follows:³²
- “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 International Statistical Standards

- A.4. The statistical standards guidance in GFSM 2014 and 2008 SNA currently define natural resources 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; and
 - (b) Paragraphs 13.44-13.51 of 2008 SNA 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.

South African GRAP

- A.5. The Standard of Generally Recognized Accounting Practice 110, *Living and Non-Living Resources* (GRAP 110) does not define natural resources, but the standard defines living and non-living resources as follows:³³
- “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.”
- A.6. Paragraph 10 of GRAP 110 further explains that after a non-living resource has been extracted, the resource no longer meets the definition of a non-living resource, The paragraph states:

³¹ https://en.wikipedia.org/wiki/Natural_resource; retrieved September 2020.

³² 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.

³³ The definitions of living and non-living resources are found in paragraph 8 of GRAP 110.

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“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.”

FASAB Definition

A.7. The Federal Accounting Standards Advisory Board's (FASAB) Technical Bulletin 2011-1 does not define natural resources generally, but Federal Natural Resources are defined as follows:³⁴

“Federal natural resources are resources that occur in nature (including nonrenewable and renewable natural resources) and meet all of the following criteria: (a) the federal government may exercise sovereign rights over the resources with respect to exploration and exploitation; (b) the federal government has the authority to derive revenues from the resources for its use; and, (c) the resources are contained on federal lands or the federal government substantially manages and/or controls the resources.”

³⁴ FASAB Technical Bulletin 2011-1, Appendix C.

**Extract from the [Draft] Natural Resources Consultation Paper: Black-Lined
Version**

2. Staff has included the revised chapters 1-2 and Appendix A from the [draft] Natural Resources Consultation Paper. This version shows the detailed revisions in tracked changes. Please note that only substantive changes have been highlighted. Editorial changes and relocation of text with no revisions have not been tracked.

Chapter 1: Purpose and Scope

Reasons for Undertaking the Project

- 1.1. 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.
- 1.2. The project meets the criteria for project prioritization as set out in the 2019-2023 Work Plan. The key reasons for adding the project were as follows:
 - (a) Prevalence - Significance of Natural Resources—Based on preliminary research, the IPSASB noted that natural resources account for a significant proportion of economic resources in many jurisdictions.¹ Therefore, the recognition-reporting 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.
 - ~~(b) Consequences - Need for Guidance—Based on responses to the strategy consultation, the IPSASB noted a 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.~~
 - ~~(c)(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 exploited (i.e., extracted, harvested, or utilized), and that the rights to access such resources are normally granted beforehand to third parties who then profit from their exploitation. 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, sustainability² or intergenerational fairness, because the resulting revenues are recognized with little or no offsetting expenses. Therefore, from a public interest perspective, the recognition—or, if recognition in the financial statements is not possible, more general reporting—of natural resources is an important issue, as information about these resources prior to their extraction or other use should inform policy decisions.~~
 - (c) Urgency - 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.
 - (d) Feasibility - When the IPSASB added the project to the 2019-2023 Work Plan, the IPSASB determined that there would be sufficient staff capacity to develop technically sound

¹ The IMF October 2018 Fiscal Monitor highlighted that for the 31 countries included in the report, natural resource economic assets were equal to 38% of Gross Domestic Product.

² ~~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*.~~

accounting guidance on the recognition, measurement, and presentation³ of natural resources within a reasonable time period.

Project Aims

- 1.3. ~~To address the concerns raised by constituents~~Consistent with the overall objectives of financial reporting by public sector entities, the objective of the ~~natural resources project is to develop~~ment of IPSAS guidance relating to ~~the accounting—i.e., the recognition, measurement, presentation, and disclosure—of~~ natural resources ~~prior to their exploitation is to provide information that is useful to users of the entity's General Purpose Financial Reports (GPFRs) for accountability purposes and for decision-making purposes.~~
- 1.4. The aim of the project is to develop IPSAS guidance relating to the accounting—i.e., the recognition, measurement, presentation, and disclosure—of natural resources by public sector entities.
- 1.5. As this project is a financial reporting project, any resulting IPSAS guidance will be developed in accordance with the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework).
- 4.4-1.6. During the IPSASB's preliminary outreach, some constituents advocated for the CP to include the discussion of broader public financial management (PFM) issues such as maintaining long-term sustainability of natural resources and preservation of intergenerational equity for citizens.
- 4.5-1.7. The IPSASB acknowledges that its overall objective is to strengthen PFM through increasing the adoption of accrual-based IPSAS, and that maintaining long-term sustainability and intergenerational equity are important. However, these issues do not directly relate to accounting for natural resources in GPFSS. Accordingly, this CP will not provide guidance on these broader issues. The focus of this CP is to propose preliminary views on the accounting of natural resources. Application of these preliminary views and the guidance included in future IPSAS related to these topics are likely to provide useful information for improving PFM.

Project Scope

- 4.6-1.8. This project focuses on the accounting for *tangible*, naturally occurring resources, including subsoil resources, living resources, and water in their natural state.
- 4.7-1.9. Other resources such as air and the electromagnetic spectrum may be considered natural resources in other contexts. However, these items have been excluded from this project, as the issues raised by constituents relate to the right to access these resources and may be within the scope of IPSAS 31, *Intangible Assets*.⁴ ~~rather than the recognition and measurement of the underlying resources:~~
 - (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 exploiting the underlying air itself. In other words, the use of the airspace for air travel depends on legal and technological limitations rather than consumption~~

³ The term "presentation" broadly relates to both the display and/or disclosure of information. See paragraphs 8.15-8.24 of the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

⁴ The IPSASB is currently considering a project to update IPSAS 31 and whether additional guidance is needed in areas such as electromagnetic spectrum rights.

of the underlying air. The accounting for these rights would more appropriately fall within the scope of IPSAS 31, *Intangible Assets*.

~~(b) The electromagnetic spectrum includes visible light, microwaves, and radio waves, which can be used for telecommunication purposes. It is common for governments to control the commercial use of the spectrum in its jurisdiction through licenses and similar mechanisms. Like air rights, control over the use of the spectrum relates 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.~~

4.8.1.10. In addition, the cost of activities relating to natural resources (for example, the maintenance of the resources), will not be the main focus of this project, as the accounting for many of these costs is already addressed by existing IPSAS. However, the resource-specific chapters touch on situations where existing IPSAS guidance can be supplemented by the activity-related guidance from international, national, or statistic accounting standards.

4.9.1.11. The accounting for land is also excluded from the project, as land is already within the scope of IPSAS 17, *Property, Plant and Equipment*. Furthermore, a government's sovereign power to issue licenses is excluded. While the exercise of sovereign powers can facilitate transactions that can result in the recognition of an asset, such an asset would arise from the transaction itself rather than from the sovereign power. This is further explained in Appendix C: Accounting for a Government's Sovereign Power to Issue Licenses.

Developing a General Description of Natural Resources

4.10.1.12. IPSAS literature currently does not have explicit guidance on natural resources or an explicit description or definition of what constitutes a natural resource. Therefore, by using a principled approach to develop a general description of natural resources and by proposing accounting guidance for these described items, the project effectively fills a gap in IPSAS literature.

4.11.1.13. In this Natural Resources CP, the IPSASB has developed a proposed general description of natural resources. A formal definition of natural resources may be developed later in the project based on constituent feedback and once the IPSASB has formulated more PVs.

4.12.1.14. To develop this general description, this CP draws from definitions of natural resources in more general, non-technical sources such as the plain English definition as well as definitions from economic texts. The general description also draws from international statistical standards such as the Government Finance Statistics Manual 2014 (GFSM 2014) and System of National Accounts 2008 (2008 SNA), as well as existing guidance developed by other international and national standards setters. The details on these various definitions can be found in Appendix A: Development of the General Description of Natural Resources.

Proposed General Description of Natural Resources

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

(a) Is a resource as described in the IPSASB's Conceptual Framework;

~~(a)~~(b) Is naturally occurring; and

~~(b)(c) Remains-Is~~ in its natural state.

~~4.14.1.16. Another-The first~~ attribute of natural resources is that they must be a resource as described in the Conceptual Framework—that is, they are capable of generating economic benefits or have service potential.⁵ When considering this characteristic ~~along with the above discussion on remaining in their natural state~~, items can only be considered natural resources if they are capable of being extracted or harvested for their economic benefits or service potential ~~but have not yet been subject to human intervention~~.

~~4.15.1.17.~~ Naturally occurring means that the resource came into existence without the actions of humankind.

~~1.16.—~~To ~~be remain~~ in its natural state, a natural resource must not have been subjected to human intervention. In general, human intervention include any actions which modify the quantity and/or quality of a natural resource ~~and a resource either is or is not in its natural state~~. Specific examples of actions that are considered human intervention vary for each of the natural resources within the scope of the CP ~~and are discussed in detail in chapters 3-5.:~~

~~1.17.—~~For subsoil resources, the item remains in its natural state until it has been extracted from the ground by human actions;

~~1.18.—~~For living resources, human intervention refers to interference by humans in the living resource's natural biological transformation.⁶ Human intervention encompasses not only harvesting a living resource, but also modifying the living resource's natural biological transformation prior to its harvest;⁷ and

~~4.19.1.18. Water remains in its natural state until it has been extracted by human actions.~~

~~1.20.—~~A natural resource is not taken out of its natural state in its entirety if only a part of that resource has been subjected to human intervention. For example, if a number of trees have been harvested from an uncultivated forest, only the harvested trees have been taken out of their natural state. The remaining trees in the uncultivated forest are still considered a natural resource, as they have not yet been harvested.

Preliminary View 1—Chapter 1

The IPSASB's Preliminary View is that a natural resource can be generally described as an item which:

(a) ~~Is a resource as described in the IPSAS's Conceptual Framework;~~

(b) ~~Is naturally occurring; and~~

(c) ~~Remains-Is~~ in its natural state; ~~and~~

~~(e) Is a resource as described in the IPSAS's Conceptual Framework. To remain in its natural state, a natural resource must not have been subjected to human intervention, which generally are actions that~~

⁵ Conceptual Framework, paragraph 5.7.

⁶ Paragraph 9 of IPSAS 27, *Agriculture*, states, "Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset."

⁷ Paragraph 9 of IPSAS 27 defines harvest as, "the detachment of produce from a biological asset or the cessation of a biological asset's life processes." The term can apply to both plants and animals.

~~modify the quantity and/or quality of a natural resource. The specific actions which are considered human intervention vary for each of the natural resources within the scope of this CP.~~

Do you agree with the IPSASB's proposed general description of natural resources?

If not, please provide your reasons.

Application of the General Description to Resources within the Scope of the Consultation Paper

~~1.21.~~ 1.19. The above attributes are useful in setting boundaries for what are included or excluded from the project. The first attribute is important as it aligns the general description of natural resources with the recognition criteria in the Conceptual Framework. That is, if an item is not a resource, it will not be possible for the item to be recognized as an asset. However, the lack of recognition and measurement in the financial statements does not preclude the IPSASB from proposing presentation of information regarding natural resources in either the note disclosures to the financial statements or as supplementary information in an entity's broader GPFRs.

1.20. The second and third attributes both reinforce the ~~notion-principle~~ that this project only considers resources which have not already been subjected to human intervention, ~~and therefore likely to be within the scope of an existing IPSAS~~. This delineation is important as the development of guidance on the described resources is expected to result in new information which improves transparency, accountability, and decision-making over natural resources.

~~1.22.~~ 1.21. If an item does not fit within the above general description of a natural resource but is still relevant to an entity's general purpose financial statements (GPFS), the entity should consider if an existing IPSAS would be relevant to the accounting of that item.⁸ Otherwise, if the item is not relevant to an entity's GPFS, the rest of this CP will likely not be relevant.

~~Costs of Related Activities~~

~~1.23.~~ 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 plain English, statistical accounting, and South African GRAP. However, it also points to the fact that a natural resource may lead to potential economic outflows and give rise to the entity incurring expenditures.

~~1.24.~~ These expenditures, which reflect activities relating to natural resources, are separate from the underlying natural resources and are generally already addressed by existing IPSAS. The accounting for these costs, including the consideration of whether these costs should be recognized as an asset or expensed, will largely depend on the specific nature of these costs and whether they fall within a specific IPSAS. For example, the costs incurred to construct or acquire fixed assets relating to natural resources, such as the equipment used to extract a resource, are addressed by IPSAS 17, as discussed in appendices C and D. General employee compensation is addressed by IPSAS 39, *Employee Benefits*, while other potential outflows are addressed by IPSAS 19 as noted in paragraph 1.43.

~~1.25.~~ During the IPSASB staff's preliminary outreach activities, a number of constituents also suggested for the IPSASB to consider the issue of costs of related activities in the CP, in particular the costs of exploration, evaluation, development, and extraction of subsoil resources. Although the costs of activities related to natural resources do not strictly fall in line with the description of natural

⁸ In some cases, the IPSASB may need to clarify that these items are included in the scope of the existing IPSAS.

~~resources, chapter 3 of this CP considers the recognition of the costs of related activities in the context of subsoil resources.~~

~~1.26. 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. These items meet the first and second attributes, as only the resources in their natural state—i.e., unextracted subsoil resources, uncultivated⁹ or unharvested living resources, and unextracted water—are considered in this project. Once removed from their natural state, these resources would be considered inventories or biological assets and agricultural produce.~~

~~1.27. Furthermore, the Conceptual Framework already alludes to the fact that subsoil resources, living resources and water can all be considered resources.¹⁰ The concept of a resource will be further analyzed below in the context of the asset recognition criteria in the Conceptual Framework.~~

Potential Natural Resources which are not within Scope of the CP

~~1.28. As noted in the introduction, items such as air and electromagnetic spectrum could be considered natural resources in other contexts, and these other resources do indeed fit into the above attributes. However, as explained in paragraph 1.9, these items will not be covered in this project since they raise additional issues which will require further study.~~

Structure of the Remaining Sections of Approach Taken in this Consultation Paper

~~1.22. For items qualifying as natural resources, chapter 2 of this CP considers the general recognition principles within the Conceptual Framework and addresses the issue of whether a natural resource should be recognized.~~

~~1.23. Chapters 3-5 of this CP address how these general principles can be applied to the natural resources which are within the scope of this CP, which include subsoil resources, water, and living resources.~~

~~1.29-1.24. Finally, chapter 6 of this CP address the potential presentation of natural resources.~~

~~1.30. The first chapter of the CP focuses on a general description of what is considered a natural resource in the context of this project. Chapter 1 will then summarize the existing general principles on recognition and measurement within the Conceptual Framework that could be applied to the three in-scope natural resources, as well as guidance from the IPSASB's Recommended Practice Guidelines (RPGs). This chapter also further articulates the project's scope.~~

~~1.31. Applying the general principles from chapter 1, chapters 2-4 of the CP will outline the IPSASB's PVs on the recognition and measurement specific to each of the types of natural resources within the scope of this project. The PVs are:~~

- ~~(c) Formulated primarily from the application of the general recognition and measurement principles from the Conceptual Framework;~~
- ~~(a) Informed by existing IPSASB guidance; and~~

⁹—Some living resources, such as cultivated forests, are considered biological assets and not natural resources. This is because even though they have not yet been harvested, the resource's biological transformation has been changed by human intervention and they are no longer in their natural state. See chapter 3 of this CP for details.

¹⁰—Paragraph 16 in the Preface to the Conceptual Framework refers to “natural... resources such as mineral reserves, water, fishing grounds, [and] forests.”

- ~~(b) Consider the natural resources-related practices in various countries, including any national public sector accounting guidance and the private sector practices.~~
- ~~1.32. Chapter 5 will outline any overarching issues, including the IPSASB's PVs on any additional information related to natural resources that may be useful to the users of public sector GPFs. The chapter will also consider whether such information will be best included as disclosures in the financial statements or as supplemental information presented in an entity's broader GPFs.~~

Application of the IPSASB's Conceptual Framework

- ~~1.33. For the in-scope natural resources, this CP first focuses on determining when a natural resource meets the criteria to be recognized as an asset. This analysis is 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 also considers factors which are specific to each natural resource. For example, the analysis of the recognition of subsoil resources as an asset considers jurisdictional laws and regulations and whether the resources can be controlled by an entity in the context of the applicable legal framework.~~
- ~~1.34. If the IPSASB reaches a PV 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 PVs on which measurement bases most appropriately reflect a natural resource's operational capacity or financial capacity or the cost of related services. 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 techniques. The measurement analysis also includes 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.~~
- ~~1.35. For instances where the IPSASB reaches a PV that a certain in-scope natural resource did not meet the recognition criteria, the natural resource would not be recognized as an asset. Therefore, the CP will not discuss the measurement of these natural resource in the financial statements.~~
- ~~1.36. However, certain information relating to the measurement of natural resources may be useful to readers of the financial statements. Therefore, chapter 5 will consider if such information could be presented as note disclosures within the general-purpose financial statements or as supplemental information within an entity's broader GPFs, such as the information prepared using the IPSASB's RPGs.~~
- ~~1.37. The last chapter of the CP will also focus on overarching issues which may apply to all three in-scope natural resources. These include the consistency of PVs with existing IPSAS, as well as other current IPSASB projects such as the Conceptual Framework—Limited Scope Update project and the Measurement project.~~

Consideration of Other Existing IPSASB Guidance

- ~~1.38. The objective of this project is to develop an IPSAS that directly addresses the recognition, measurement, presentation and disclosure of natural resources. However, existing IPSASB~~

literature may also be applicable and will be incorporated into the detailed analysis in chapters 2-5 of this CP.

IPSAS Related to Natural Resources

- 1.39. While there are currently no IPSAS that provide explicit guidance on natural resources, there are a number of existing IPSAS that do apply to items and activities which relate to natural resources. For example, there is guidance in IPSAS regarding property, plant, and equipment, which were acquired or constructed to develop or extract natural resources, or the costs incurred to extract natural resources. Other existing IPSAS provide accounting guidance for items that are recognized *after* a natural resource has been removed from their natural state. For example, the IPSAS on agriculture and inventory provide guidance on harvested living resources or extracted subsoil resources and water. At a high level, existing IPSAS guidance that may be applicable are as follows:
- 1.40. IPSAS 17 is applicable to the capital assets acquired or constructed to explore, evaluate, or develop natural resources, while IPSAS 31, *Intangible Assets*, is applicable to resource-related intangible assets such as exploration licenses acquired by an entity.¹⁴ IPSAS 32, *Service Concession Arrangement: Grantor*, is also applicable to certain arrangements where an unrelated entity is extracting natural resources on behalf of a public sector entity. In addition, IPSAS 12, *Inventories*, is applicable to extracted natural resources while resources whose biological transformation is actively managed falls within the scope of IPSAS 27, *Agriculture*. However, it should be noted that the above noted standards do not explicitly apply to the underlying natural resources when in their natural state.
- 1.41. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, is applicable to provisions and contingent liabilities which arise as a result of a public sector entity's legislation, policies or decisions regarding natural resources. For example, a government may announce plans to decommission or rehabilitate unused mines or open pits. As another example, a government may provide funding to farmers or public sector landowners to preserve any uncultivated forests located in 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.
- 1.42. 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

- 1.43. The IPSASB currently has a number of projects on its work program which relate to the development or amendment of accounting standards in a number of areas. Certain draft standards and current IPSASB projects may also impact the IPSASB's PVs and should be considered. For example, the views on measurement of natural resources will need to be consistent with the proposed guidance in Exposure Draft 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* (ED 76) and Exposure Draft 77,

¹⁴ The IPSASB has issued an ED 78, *Property, Plant, and Equipment*, which includes proposals to replace IPSAS 17, *Property, Plant, and Equipment*, with a standard that includes additional guidance on measurement, infrastructure, and heritage assets. See <https://www.ifac.org/system/files/publications/files/ED-78-Property-Plant-Equipment.pdf> for more details.

~~Measurement (ED 77). 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~~

~~1.44. Recommended Practice Guidelines (RPGs) provide guidance on the broader aspects of financial reporting that are outside the core financial statements. RPGs are pronouncements that provide guidance on good practice in the preparation of GPFs. However, unlike IPSAS, RPGs do not establish requirements, and compliance with RPGs is not required in order for an entity to assert that its financial statements comply with IPSAS. While financial statements are the cornerstone of sound financial reporting, they cannot provide all the information that users need to:~~

- ~~(a) Evaluate the long term fiscal sustainability or the ability of an entity to meet service delivery and financial commitments;~~
- ~~(b) Understand the financial position, financial performance, and cash flows presented in an entity's general purpose financial statements and gain further insights into the operations of the entity; and~~
- ~~(c) Report service objectives and the extent to which those service objectives have been achieved.~~

~~1.45. Therefore, the IPSASB has issued RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, RPG 2, *Financial Statement Discussion and Analysis*, and RPG 3, *Reporting Service Performance Information*. Paragraph 1.62 provides an overview on how the guidance in the RPGs could be applicable to natural resources.~~

~~Other Non-Authoritative IPSASB Guidance~~

~~1.46. The objective of this project is to develop one or more IPSAS on the recognition, measurement, presentation, and disclosure of natural resources. However, the topics of sustainability and environmental management, in particular climate change, often comes to mind when contemplating the extraction of natural resources. The IPSASB staff developed a Staff Questions and Answers Document highlighting the IPSAS and RPGs which could be relevant to climate change responding to questions posed on existing IPSASB guidance. This document can be found at: <https://www.ifac.org/system/files/publications/files/IPSASB-Staff-QA-Climate-Change-Relevant-Guidance.pdf>.~~

National Public Sector Accounting Guidance

~~1.47. GRAP 110 issued by the South African Accounting Standards Board classified natural resources into living and non-living resources. Under GRAP 110, non-living resources other than land are not recognized as assets, and the disclosure of information such as the nature and type of non-living resources, any related liabilities or contingent liabilities, and the amount of compensation received for the disposition of any non-living resources, are required.~~

~~1.48. For living resources, GRAP 110 sets out the criteria that must be met for a living resource to be recognized as an asset and requires living resource assets to be initially measured at cost, which includes the cost of acquisition and any costs directly attributable to bringing the living resource to the location and condition necessary for it to be capable of operating in its intended manner. Subsequent to initial recognition, an entity may choose to measure living resource assets at costs or fair value using a revaluation model if fair value can be reliably measured.~~

- 1.49. In the United States, the FASAB issues standards and guidance for the United States federal government and component entities. In Statement of Federal Financial Accounting Standards 38, *Accounting for Federal Oil and Gas Resources* (SFFAS 38), and Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*, the FASAB requires federal government entities to report the present value of estimated royalties from proved oil and gas reserves and certain non-renewable resources in the entities' Required Supplementary Information, which are schedules that are outside the general purpose financial statements.
- 1.50. In addition, the Australian Water Accounting Standards Board developed a set of standards on the recognition, quantification, presentation, and disclosure of water volumes in the jurisdiction. The South African government has also implemented a similar set of standards to monitor and track water. However, neither of these standards relate to financial reporting, as these standards are used to produce reports which track water volume levels and flows for management purposes.

Consideration of Government Finance Statistics and System of National Accounts

- 1.51. 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 fiscal policy, especially the performance of the general government sector and the broader public sector of an economy.¹² Meanwhile, financial statements produced using IPSAS are used for accountability and to support decision making.
- 1.52. 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.
- 1.53. 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. Where such harmonization is not possible, the supplementary guidance is developed to ensure that differences can be understood and managed.¹³
- 1.54. In developing the PVs 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. The detailed statistical accounting guidance on recognition and measurement can be found in Appendix B: International Statistical Standards Guidance.

Private Sector Practices

- 1.55. 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.

¹²—GFSM (2014), paragraph 1.2.

¹³—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>

NATURAL RESOURCES

- ~~1.56. 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 removal from their natural state which prevent the entity from recognizing these resources as assets.~~
- ~~1.57. However, there are a number of accounting standards and industry practices which apply to transactions and events that are indirectly related to natural resources. A detailed discussion of the private sector practices related to subsoil resources is included in Appendix C: Supplemental Information on Subsoil Resources. Appendix D: Supplemental Information on Living Resources, provides a similar discussion for living resources.~~

Chapter 2: Should a Natural Resource be Recognized?~~s: General Description, Recognition, and Measurement~~

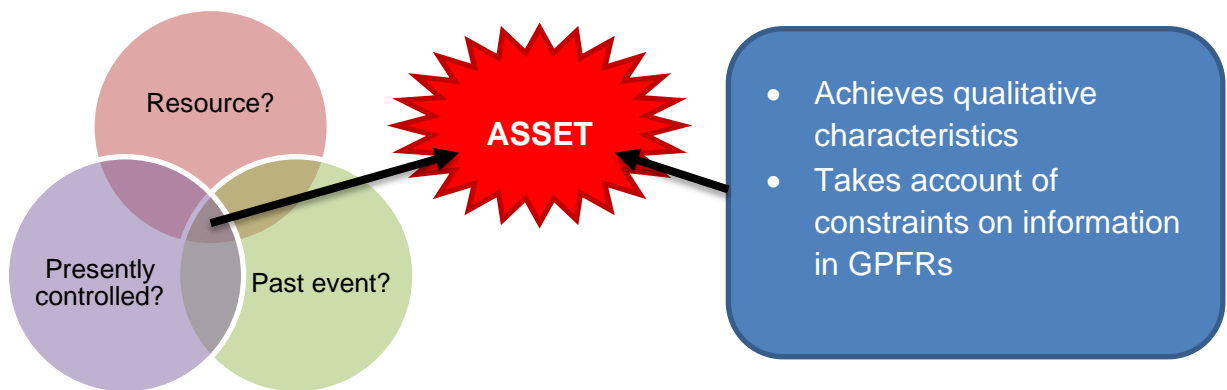
General Recognition Principles in the Conceptual Framework

- 2.1. The core accounting question in this CP is whether a natural resource which meets the description in chapter 1 can be recognized as an asset in the GPFS prepared under IPSAS. The IPSASB's Conceptual Framework provides the principles to be used in developing IPSAS, including principles on asset recognition and measurement. Therefore, before applying the principles to specific issues on the subsoil resources, living resources and water, it is important to discuss these general principles.

Recognition Criteria

To be Recognized as an Asset in the Financial Statements, an Item Must:

- 1) Meet the definition of an asset: 2) Be Measurable in a way that...



- 2.2. For an entity to recognize a natural resource as an asset in the financial statements, 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 GPFRs."

The Definition of an Asset

- 2.3. The first recognition criterion is that an item must meet the definition of an element to be recognized. In the context of this CP, the focus is whether a natural resource can meet the definition of an asset, which 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 the result of a **past event**.

A Resource

- 2.4. Paragraph 5.7 of the Conceptual Framework defines a resource as "an item with service potential or the ability to generate economic benefits." The Conceptual Framework further explains that

physical form is not a necessary condition of a resource, and that the service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource. Service potential is the capacity to provide services that contribute to achieving the entity's objectives without necessarily generating net cash inflows. Economic benefits can include the generation of cash inflows (e.g., from the sale of an asset for cash or other resources) or reductions in cash outflows (e.g., in the form of cost savings or synergies).

2.5. In general, the natural resources within the scope of this project *do* meet the definition of a resource as set out in the Conceptual Framework:

- (a) Subsoil resources such as minerals or fossil fuels can generate economic benefits through sale. Extracted subsoil resources can also be used in construction or the manufacture of goods, or combusted as fuel;
- (b) Some living resources can be harvested for a wide variety of uses. For example, an uncultivated forest can be harvested and processed into timber, which then can be used in construction or sold;
- (c) Water can be treated and ~~be used~~ used as drinking water. In addition, water can also be ~~used for economic benefits~~ used in the production and supply of electricity.

2.6. The natural resources within the scope of this project may also have service potential. For example, ~~the utilization of harvested living resources for research purposes or in training colleges. extracted subsoil resources could be used by an entity in construction activities and certain harvested living resources can be used in manufacturing processes.~~

Presently Controlled by the Entity

2.7. For a resource to be recognized as an asset by an entity in the financial statements, it must be controlled by the entity. The Conceptual Framework notes that control of a resource entails the ability 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 resource.¹⁴

2.8. To determine if an entity has control over a resource, paragraph 5.12 of the Conceptual Framework provides a list of indicators that should be considered:

- (a) Legal ownership;
- (b) Access to the resource, or ability to deny or restrict access to the resource;
- (c) The means to ensure that the resource is used to achieve its objectives; and
- (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

2.9. For a natural resource, the factors such as legal ownership or access to resources are often directly impacted by laws and regulations that are specific to the natural resource. For example, many jurisdictions have legislation that sets out how an entity can obtain control over a subsoil resource. Other legislation may also restrict an entity's ability to realize a natural resource's service potential or economic benefits. The detailed consideration of control over subsoil resources, living resources, and water are explored in chapters 3-5 of this CP.

¹⁴ Conceptual Framework, paragraph 5.11.

Past Event

- 2.10. The definition of an asset also requires that an entity presently controls the resource as the result of a past event. Entities can gain control of a resource through a variety of means, including by purchasing them in an exchange transaction, by developing the resource, or obtaining control through a non-exchange transaction.¹⁵
- 2.11. Natural resources are resources which have not yet been subjected to human intervention. Therefore, it is possible for an entity to gain control of a natural resource through methods other than acquisition, which is the typical means to obtain control of an asset. The analysis in chapters 3-5 considers the ~~resource-specific issues regarding 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.~~

Application of the Definition of an Asset to Natural Resources

- 2.12. Since the general description of natural resources already considers if the item is a resource as described in the IPSASB's Conceptual Framework, the key consideration of whether a natural resource meets the definition of an asset is whether the reporting entity presently controls the resource as the result of a past event.
- 2.13. If an entity can demonstrate that control presently exists as the result of a past event, the entity concludes that the natural resource meets the definition of an asset and continues with the analysis of whether the item can be recognized.
- 2.14. However, if the natural resource is not presently controlled, or if the past event giving rise to control has not yet occurred, the natural resource would not meet the definition of an asset and there would be no requirement to recognize or disclose the item.

Existence Uncertainty and Asset Recognition

- 2.15. The Conceptual Framework identifies two sources of uncertainty that are relevant in the recognition of an element: uncertainty over the existence of an element and measurement uncertainty.
- 2.16. Uncertainty over the *existence* of an element is addressed by considering all available evidence, facts, and circumstances at reporting date to make a neutral judgement about whether an item satisfies all the essential characteristics of an element. In other words, uncertainty over the existence of an element should be considered in the first recognition criterion when determining whether the item satisfies the definition of an element.¹⁶
- 2.17. When finalizing chapter 6 of the Conceptual Framework, the IPSASB decided that a standardized probability threshold should *not* be adopted for recognition purposes. Rather, the IPSASB concluded that an assessment of all available evidence in determining whether an element exists and takes account of uncertainty about the flows of service potential or the ability to generate economic benefits is a more appropriate approach. The IPSASB also noted that existence uncertainty could relate to more than one specific characteristic of an element.¹⁷

¹⁵ Conceptual Framework, paragraph 5.13.

¹⁶ Conceptual Framework paragraphs 6.5 and BC6.2.

¹⁷ Conceptual Framework, paragraphs BC6.3-BC6.7.

- 2.18. The Conceptual Framework's basis for conclusions explains that when determining if an item meets the definition of an asset, there could be uncertainty over whether a resource presently exists, uncertainty over whether the entity controls the resource, or uncertainty over the existence of a past event giving rise to control. All three sources of uncertainty should be considered when determining if the item meets the definition of an asset.
- 2.19. If an entity concludes that there is no uncertainty over whether an item meets the definition of an asset, the entity then considers the second recognition criterion—that is, whether the item is capable of being measured in a way that achieves the qualitative characteristics and take accounts of constraints on information in the GPFRs. In situations where an entity concludes that there is uncertainty over the existence of an item, the item does not meet the definition of an asset and should not be recognized or disclosed in the entity's GPFS.

Capable of Being Measured in a Way that Achieves the Qualitative Characteristics and Takes Account of Constraints on Information in GPFRs

- 2.20. The second recognition criterion is that for an item to be recognized as an element, it is necessary to be able to attach a monetary value to that item. The measurement of this monetary value needs to achieve the qualitative characteristics of information, as set out in chapter 3 of the Conceptual Framework, which are **relevance**, **faithful representation**, **understandability**, **timeliness**, **comparability**, and **verifiability**. The basis of measurement should also consider the constraints on information in the GPFRs, which include materiality, cost-benefit considerations, and achieving an appropriate balance between the qualitative characteristics.¹⁸
- 2.21. The following discussion summarizes the qualitative characteristics of information which are expected to have the most impact on natural resources and briefly explains how these characteristics may be applicable. The information is drawn from the Conceptual Framework and Exposure Draft 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* (ED 76).

Relevance

- 2.22. Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting through the information's confirmatory and/or predictive value. Confirmatory value refers to the ability to confirm or change past expectations, while predictive value refers to the ability to provide information on an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing these future services.¹⁹
- 2.23. In the context of a natural resource, a measurement basis is relevant if it can fairly reflect the resource's contribution to the entity's cost of services, operational capacity, and financial capacity.²⁰
- 2.24. In general, if an entity gains control of a natural resource because of the laws and regulations and incurred little or no acquisition costs, it is unlikely that there is a material amount to be recognized from a historical cost perspective. The discovery of new resources may also lead to obtaining

¹⁸ Conceptual Framework, paragraphs 3.6-3.42.

¹⁹ Conceptual Framework, paragraph 3.6-3.8. Furthermore, paragraph 2.1 of the Conceptual Framework notes that, "The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes."

²⁰ ED 76, paragraph 7.3.

control of a natural resource without incurring material acquisition costs (as the costs of exploration may be recognized as a separate asset as discussed in chapter 2). Furthermore, such a historical cost measure would not reflect the economic benefit or service potential embodied by the natural resource. Therefore, it is unlikely that historical cost would be relevant for natural resources.

- 2.25. For natural resources which are typically removed from their natural state for the purpose of being sold—for example, mineral ore or fossil fuels—a current value measurement basis such as fair value may be the most relevant. This is because as fair value is defined as “the price that could be received to sell an asset in an orderly transaction between market participants at measurement date,”²¹ and therefore would most readily reflect the asset’s ability to generate economic benefits through sale.
- 2.26. Other natural resources may be controlled for their operational capacity. For example, an entity which controls an uncultivated forest may choose to leave it in its natural state to maintain natural diversity or for the purpose of absorbing carbon dioxide. For these types of natural resources, a current operational value is likely to be the most relevant in providing information on operational capacity.²²
- 2.27. As what is considered relevant for each type of in-scope resource differs significantly, the detailed consideration of measurement for subsoil resources, living resources, and water is addressed in detail in chapters 2-4.

Faithful Representation

- 2.28. Faithful representation refers to being representative of the economic and other phenomenon in a complete and neutral manner that is free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity, or circumstance.²³
- 2.29. For the measurement basis of a natural resource to faithfully represent the underlying economic and other phenomenon, the basis will need to reflect the quantity of the resource, as well as the quality of the resource.

Verifiability

- 2.30. For a measurement basis to be verifiable, different knowledgeable and independent observers could reach general consensus (although not complete agreement) that the measurement represents the economic and other phenomena that it purports to represent without material error or bias or that an appropriate measurement method has been applied without material error or bias.²⁴
- 2.31. For some natural resources, it may be difficult to have a measurement basis that is verifiable. There may be situations where a standardized measurement technique does not exist and independent, qualified parties with the same set of data could arrive at vastly different estimates. In these cases, it may not be possible to recognize the natural resource as a verifiable measurement basis does not exist.

²¹ ED 76, paragraph 7.36

²² ED 76, paragraph 7.53.

²³ Conceptual Framework, paragraph 3.10.

²⁴ Conceptual Framework, paragraph 3.26.

Constraints on Information

- 2.32. To be useful, the measurement of a natural resource will need to balance the qualitative characteristics in a way that results in the most useful information. For example, as noted in paragraph 2.24, it is possible for a natural resource to be measured using historical cost, which would faithfully represent the cost of acquisition and be understandable and verifiable. However, such a measure would likely not be relevant.
- 2.33. An entity should also consider if the measurement of a natural resource will lead to material information. Information is material if its omission or misstatement could influence the discharge of accountability by the entity or the decision that users make based on the entity's GPFRs.²⁵ In many cases, a natural resource will likely be material due to the quantity and value of the resources.
- 2.34. Finally, an entity will need to consider the cost of obtaining the information necessary to develop an appropriate measurement basis. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the cost incurred to provide and use the information.²⁶ For natural resources, the selection of a measurement basis will be constrained by the costs of obtaining the information necessary to measure the resource.

Measurement Uncertainty

- 2.35. Regarding measurement uncertainty (i.e., the uncertainty over the *amount* of service potential or economic benefits represented by the element), the Conceptual Framework states that such uncertainty is reflected in the measurement of the element. For an asset, once it has been determined that an item can be measured in a way that achieves the qualitative characteristics and takes into account constraints on information, an entity should also assess whether a measurement technique can be used to appropriately reflect the uncertainty inherent within the information available at reporting date.
- 2.36. In rare instances, an item is not recognized if the level of measurement uncertainty in a single point estimate is so large that the relevance and faithful representativeness of the measure become questionable.²⁷ In such situations, the IPSASB is considering non-financial disclosures similar to those proposed in ED 78, *Property, Plant, and Equipment*. These proposals include the disclosure of:
- (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
 - (b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.
- 2.37. If an entity concludes that the level of measurement uncertainty is not so high that recognition and measurement of the natural resource becomes questionable, the item should be measured in accordance with the measurement principles in chapter 7 of the Conceptual Framework. [Reference to Conceptual Framework to be replaced with ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, as well as the guidance in ED 77, *Measurement*, depending on the timing of finalization.]

²⁵ Conceptual Framework, paragraph 3.32.

²⁶ Conceptual Framework, paragraph 3.39.

²⁷ Conceptual Framework paragraphs 6.6 and 6.8.

General Measurement Principles

- 2.38. Once an entity has concluded that an item meets the definition of an asset and can be measured in a way that achieves the qualitative characteristics of information in GPFRs, the final step in the recognition and measurement of an asset is to select an appropriate basis of measurement.
- 2.39. An entity should select a measurement basis that most fairly reflects the costs 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.²⁸
- ~~2.40. The measurement bases proposed in ED 77, *Measurement*, and include historical costs basis under the historical cost model, or current operational value and fair value under the current value model.~~²⁹
- ~~2.41. For this decision, this CP will draw upon ED 76, as the IPSASB has proposed to replace chapter 7 of the Conceptual Framework with the concepts in the exposure draft. As noted in ED 76:~~
- ~~2.42. “7.2 The objective of the measurement is:~~
- ~~2.43. 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.~~
- ~~2.44. 7.3 The selection of a measurement basis for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables user to assess:~~
- ~~2.45. Cost of services—the cost of services provided in the period in historical or current terms;~~
- ~~2.46. Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; or~~
- ~~2.47. Financial capacity—the capacity of the entity to fund its activities.~~
- ~~2.48. 7.4 The selection of measurement bases also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.”~~
- ~~2.49. ED 76 also notes that on initial measurement, an item is measured at its transaction price (which, in the context of natural resources, is the price paid to acquire the asset), unless the transaction price does not faithfully present relevant information about the entity in a manner that is useful in holding the entity to account, and for decisions-making purposes.~~³⁰
- ~~2.50. Subsequent to initial measurement, there are three key decisions to be made regarding measurement:~~³¹
- ~~2.51. Measurement model—At the highest level, a decision needs to be made between measuring the natural resource using a historical cost model or a current value model;~~

²⁸ See ED 76 at: <https://www.ifac.org/system/files/publications/files/ED-76-Chapter-7.pdf>.

²⁹ See ED 77 at: <https://www.ifac.org/system/files/publications/files/ED-77-Measurement.pdf>.

³⁰ ED 78, paragraph 7.5.

³¹ ED 78, paragraphs 7.7-7.12.

~~2.52. Measurement bases—Once a measurement model has been selected, a specific measurement approach, or a measurement basis, needs to be selected. The measurement bases include historical costs basis under the historical cost model, or current operational value, and fair value under the current value model. The measurement basis selected should best meet the qualitative characteristics while taking into account the constraints on information in financial reports; and~~

~~2.53-2.40. Measurement techniques—After selecting a measurement basis, an entity needs to select a specific method to estimate the amount at which the asset is measured. The selection of a measurement technique depends on the characteristics of the asset and the availability of observable data.~~

Application of the General Measurement Principles to Natural Resources

~~2.54. As noted in paragraph 2.24, there could be situations where an entity obtains control over a natural resource without incurring material acquisition costs. In these situations, initial measurement at the transaction price may not be appropriate, as recognition of a natural resource at nominal value may not faithfully present relevant information about the asset. Thus, as noted in paragraphs 2.25-2.26, a current value approach may be a more appropriate measurement model at initial recognition.~~

~~2.55-2.41.~~ The selection of measurement bases and techniques will vary significantly based on the specific facts and circumstances surrounding each natural resource. As a result, for natural resources where the IPSASB preliminarily concludes that recognition as an asset is possible, chapters 3-5 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.

Overall Approach to the Recognition and Measurement of Natural Resources

~~2.56-2.42.~~ After considering the recognition and measurement principles together, the IPSASB developed the following preliminary view on the recognition of natural resources:

Preliminary View 2—Chapter 2

For items which meet the general description of natural resources, the IPSASB's Preliminary View is that the recognition of the natural resource should be considered using the following steps:

- ~~(a) A natural resource should be recognized in the GPFS if it meets the definition of an asset as defined in the IPSASB's Conceptual Framework, is certain, and can be reliably measured;~~
- ~~(b) If the natural resource meets the definition of an asset, but is either uncertain, and/or cannot be measured reliably, non-financial disclosure of the natural resource should be considered; and~~
- ~~(c) If the natural resource does not meet the definition of an asset, or meets the definition but is too uncertain, no recognition or disclosure of the item is required.~~

Do you agree with the IPSASB's proposed approach to the recognition of natural resources?

If not, please provide your reasons.

Reporting of Natural Resources in Broader GPFRs

2.57. Regardless of the decisions on recognition and measurement of natural resources in the financial statements, the IPSASB acknowledges that natural resources have significant economic value, and that information regarding natural resources should be provided either in the note disclosures of the financial statements or in the broader GPFRs. The IPSASB's existing RPGs provide additional guidance on broader financial reporting which might be useful in the context of natural resources as follows:

RPG	Objective of RPG	Example where RPG could be Applied for Natural Resources
<i>RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances.</i>	Provide guidance on the long-term fiscal sustainability information of a public sector entity's finances. ³²	<ul style="list-style-type: none"> • Projections of natural resource-related future cash outflows and inflows and underlying assumptions over a predetermined time horizon; and • Narrative discussions of revenue, service and debt dimensions related to natural resources.³³
<i>RPG 2, Financial Statement Discussion and Analysis.</i>	Provides an explanation of significant items, transactions and events affecting the financial statements to enable users to understand the financial position, financial performance and cash flows. ³⁴	<p>To provide:</p> <ul style="list-style-type: none"> • An overview of the entity's operations and the environment it operates in;³⁵ • Information about the entity's objectives and strategies, as they apply to natural resources;³⁶ • An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance, and cash flows;³⁷ and • A description of the entity's principal risks and uncertainties relating to natural resources that affect an entity's financial statements.³⁸

³² See paragraphs 24-26 and 56 of RPG 1.

³³ The dimensions of revenue, service and debt are interrelated because changes in one dimension affect the other dimensions.

³⁴ See paragraph 13 of RPG 2.

³⁵ See paragraphs 16(a) and 19 of RPG 2.

³⁶ See paragraphs 16(b), 20 and 21 of RPG 2.

³⁷ See paragraphs 16(c), 22-26 of RPG 2.

³⁸ See paragraphs 16(d), 27-31 of RPG 2.

RPG	Objective of RPG	Example where RPG could be Applied for Natural Resources
RPG 3, Reporting Service Performance Information.	Provides guidance on reporting service performance information to assist users to assess an entity's service performance efficiency and effectiveness.³⁹	With respect to services and performance objectives relating to natural resources, to provide information on the: <ul style="list-style-type: none"> • Services provided by the entity;⁴⁰ • Entity's service performance objectives;⁴¹ • Inputs, Outputs, Outcomes and Efficiency⁴²; and • Extent of its achievement of these objectives.⁴³

~~2.58. The presentation of information on natural resources, either in note disclosures in the financial statements or as supplemental information in an entity's broader GPFs, is discussed in chapter 5 of the CP.~~

³⁹ See paragraphs 1 of RPG 3.

⁴⁰ See paragraphs 1 of RPG 3.

⁴¹ See paragraphs 8, 23-26 of RPG 3.

⁴² See paragraphs 8, 11, 12, 13, 14, 15, 16, 17, 18, 19 of RPG 3

⁴³ See paragraphs 1, 8 and 10 of RPG 3.

Appendix A: Development of the General Description of Natural Resources

- A.1. As noted in paragraph 1.14, the IPSASB developed the general description of natural resources by drawing upon the definitions of natural resources from a variety of sources. The following appendix summarizes the definitions which were considered by the IPSASB.

Plain English Definition

- A.2. The current plain English definition on Wikipedia 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.⁵³

Definition from Economic Literature

- A.3. One economic text describes natural resources as follows:⁵⁴
- “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 International Statistical Standards

- A.4. The statistical standards guidance in GFSM 2014 and 2008 SNA currently define natural resources 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; and
 - (b) Paragraphs 13.44-13.51 of 2008 SNA 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.

South African GRAP

- A.5. The Standard of Generally Recognized Accounting Practice 110, *Living and Non-Living Resources* (GRAP 110) does not define natural resources, but the standard defines living and non-living resources as follows:⁵⁵
- “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.”
- A.6. Paragraph 10 of GRAP 110 further explains that after a non-living resource has been extracted, the resource no longer meets the definition of a non-living resource, The paragraph states:

⁵³ https://en.wikipedia.org/wiki/Natural_resource; retrieved September 2020.

⁵⁴ 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.

⁵⁵ The definitions of living and non-living resources are found in paragraph 8 of GRAP 110.

“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.”

FASAB Definition

A.7. The Federal Accounting Standards Advisory Board's (FASAB) Technical Bulletin 2011-1 does not define natural resources generally, but Federal Natural Resources are defined as follows:⁵⁶

“Federal natural resources are resources that occur in nature (including nonrenewable and renewable natural resources) and meet all of the following criteria: (a) the federal government may exercise sovereign rights over the resources with respect to exploration and exploitation; (b) the federal government has the authority to derive revenues from the resources for its use; and, (c) the resources are contained on federal lands or the federal government substantially manages and/or controls the resources.”

⁵⁶ FASAB Technical Bulletin 2011-1, Appendix C.