

**Meeting:** IPSASB Consultative Advisory Group

**Meeting Location:** Toronto, Canada

**Meeting Date:** June 12, 2023

## Agenda Item

# 7

For:

☐ Approval

☒ Discussion

☐ Information

### NATURAL RESOURCES

<b>Project summary</b>	The objective of the natural resources project is to develop a Consultation Paper, then one or more Exposure Drafts to address the issues relating to the recognition, measurement, presentation and disclosure of natural resources.	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Discussion Items</b>	<a href="#">Definition of Natural Resources</a>	<a href="#">7.1</a>
<b>Other supporting items</b>	<a href="#">Appendix A: IPSASB Due Process Checklist</a>	<a href="#">7.2</a>

## Definition of Natural Resources

### Background

1. At the March 2023 IPSASB meeting, staff presented the IPSASB with a preliminary analysis of constituents' responses to the Consultation Paper, *Natural Resources*. (See [Agenda Item 12.2.1](#) from March 2023.) Many respondents raised concerns over the general description of natural resources, which was proposed as follows:

"A natural resource can be generally described as an item which:

  - (a) Is a resource as described in the IPSASB's Conceptual Framework;
  - (b) Is naturally occurring; and
  - (c) Is in its natural state."
2. The CP explained that to be in its natural state, a natural resource must not have been subject to human intervention, such as cultivation or mineral extraction, which modifies the quantity and/or quality of the natural resource.
3. Respondents were particularly concerned with the following:
  - (a) The requirement for natural resources to be in their natural state – Many noted that whether an activity changes the quantity and/or quality of a resource is not always clear, and this will lead to issues in practice when determining what items were within the scope of the project;
  - (b) Lack of specificity on the degree of intervention required – Other respondents noted that because the CP did not specify what degree of human intervention was needed to remove a resource from its natural state, activities which were only meant to conserve or preserve a resource could unintentionally remove these items from the scope of the project. Conversely, some argued that due to climate change, all naturally occurring resources have already been subjected to some degree of human intervention; and
  - (c) Lack of clarity for the objective and scope of the project – Some respondents noted that the broad general description contributed to confusion over the objective and scope of the project and what the ultimate standard would require. Some preparers were concerned that the IPSASB expected constituents to develop a detailed inventory of all naturally occurring items within its jurisdiction, which was not the IPSASB's intention.
4. To address these issues, staff presented an analysis to the IPSASB noting that the requirement for natural resources to remain in their natural state was meant to delineate between resources within the scope of this project and other resources that are already addressed by existing IPSAS. The IPSASB agreed with the staff's conclusion that this delineation was required and instructed staff to use a principles-based approach to develop a definition that delineates between natural resources and other resources. (See [Agenda Item 12.2.2](#) from March 2023.)
5. This paper outlines a proposed approach to revised general definition of natural resources and poses specific questions to CAG members for advice and input.

**Proposed Approach to Address Constituents' Concerns**

6. Staff noted that to adequately address constituents' concerns, in addition to revising the definition of natural resources, it is also necessary to clarify the scope and objective of the natural resources project.
7. Staff propose to:
  - (a) Clarify the scope of the project and the resulting exposure draft;
  - (b) Define<sup>1</sup> "natural resource" in a way that does not require an item to be in its natural state or rely on the concept of human intervention; and
  - (c) Explicitly explain the consequences of using the term "resource" as defined in the Conceptual Framework.

*Scope Clarification*

8. As noted in paragraph 4, the original purpose of the requirement for a natural resource to be in its natural state was to delineate between natural resources and other resources that are already addressed by existing IPSAS. All tangible items consist of parts that were, at some point, naturally occurring, so without such a delineation, any proposed guidance on natural resources could be interpreted to also apply to items such as inventories or agricultural assets.
9. In Specific Matters for Comment 3 of the CP, the majority of respondents noted that there is currently sufficient scoping guidance in existing standards to determine which IPSAS applies to items such as inventories, property, plant, and equipment, and agricultural assets.
10. Based on the need to delineate between natural resources and other resources, and the feedback that the current scoping guidance in existing IPSAS is sufficient, staff propose to clarify that the scope of the natural resources project, and the resulting exposure draft, to only encompass tangible natural resources (as defined below in paragraph 12) that are not within the scope of:
  - (a) IPSAS 12, *Inventories*;
  - (b) IPSAS 16, *Investment Property*;
  - (c) IPSAS 17 (or IPSAS 45), *Property, Plant, and Equipment*;
  - (d) IPSAS 27, *Agriculture*; and
  - (e) IPSAS 31, *Intangible Assets*.
11. The above scope clarification does not rely on the concept of being in a natural state or human intervention, which respondents noted would be problematic. By using the scope of existing IPSAS, which respondents also noted was well-understood, the resulting exposure draft should provide a practical means for constituents to delineate between natural resources and other resources.

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<sup>1</sup> While a general description of natural resources was used in the CP, terms with specific meanings will need to be defined in the ED and final standard to be consistent with the approach used in other IPSAS.

*Definition of Natural Resources*

12. As the issue of delineating between natural resources and other resources is addressed by the scope clarification proposed in paragraphs 8-11, the revised definition of natural resources can be simplified as follows:

“A natural resource is a tangible item which is:

- (a) Naturally occurring; and
- (b) Is a resource (which staff propose to define as a right to either the service potential of the capability to generate economic benefits, or a right to both.)”

*Clarification of “Resource”*

13. A “resource” is defined in the Conceptual Framework as “a right to either service potential or the capability to generate economic benefits, or both.” Service potential is the capability of a resource to provide services that contribute to achieving the entity’s objectives, while economic benefits are cash inflows or a reduction in cash outflows.<sup>2</sup>
14. Paragraph BC5.3 of the Conceptual Framework explains that resources provide benefits to an entity in the form of service potential or the capability to generate economic benefits, and that while these benefits do not have to have already flowed to the entity for a resource to exist, the benefits must be capable of being accessed by the entity.
15. Based on this discussion in the Conceptual Framework, staff propose to explain in the exposure draft that for a naturally occurring item to be considered a resource, it must be readily accessible and currently capable of:
- (a) Being used in a service delivery program (e.g., the subject matter of a resource preservation or conservation program);
  - (b) Being used in the production and/or sale of services; or
  - (c) Being exchanged for cash or other resources.
16. Examples of items that could be a natural resource (which may or may not meet the criteria to be recognized as an asset) include:
- (a) Organisms that are currently an endangered species and are actively protected by a preservation or conservation program; and
  - (b) Unextracted mineral or hydrocarbon reserves that could be readily and feasibly extracted, refined, and sold.

\*These examples only consider whether a naturally occurring item meets the definition of a natural resource, not whether the natural resource can be recognized as an asset.

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<sup>2</sup> Conceptual Framework, paragraphs 5.6-5.10.

17. In contrast, not all naturally occurring items within a jurisdiction are considered natural resources. An item whose existence is uncertain calls into question whether it is truly accessible by an entity. Items which do not have any currently known potential use or cannot be feasibly extracted or harvested are also not considered resources, as there is no realistic way for an entity to access the item's possible economic benefits or service potential.
18. For example, certain species of weeds are inedible, do not have any medicinal purposes, and cannot be used as raw materials for any purpose. These plants are not considered resources for accounting purposes and therefore cannot be a natural resource as defined in paragraph 12. If a future scientific discovery leads to possible economic benefits or service potential, an entity will need to reassess if the item is a resource at that time. The mere possibility of such a future discovery does not warrant meeting the definition of a resource at the present time.
19. The above clarification that only specific naturally occurring items meet the definition of a resource should manage constituents' concerns over expectations to inventory all naturally occurring items in a jurisdiction.

**Questions for CAG Members:**

**Do CAG members have advice on how the IPSASB should move forward on this issue?**

**Do CAG members foresee any specific challenges with the proposed approach?**

## Appendix A: IPSASB Due Process Checklists

**Project:** Natural Resources

#	Due Process Requirement	Yes/No	Comments
<b>A. Project Brief</b>			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its March 2020 meeting (see <a href="#">Agenda Item 10</a> ).
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the <a href="#">March 2020 IPSASB meeting (section 10)</a> .
A3.	The IPSASB CAG has been consulted on the project brief.	Yes	At the June 2019 meeting, the CAG was consulted on the following topics, which fed into the development of the project brief: <ul style="list-style-type: none"> <li>• Potential scope of the project</li> <li>• Potential approaches to incorporate IFRS 6 into IPSAS</li> <li>• Proposed project communication plan</li> </ul> (See <a href="#">Agenda Item 6</a> from the June 2019 CAG Meeting.)
<b>B. Development of Proposed International Standard</b>			
B1.	The IPSASB has considered whether to issue a consultation paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	In the approved project brief, the IPSASB agreed that a CP should be developed as part of this project. The <a href="#">CP, Natural Resources</a> , was approved in March 2022 (see item 4 in the <a href="#">March 2022 Approved Minutes of the Meeting</a> ) and published in May 2022 with a comment period ending in October 2022.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	Yes	A preliminary analysis of the responses to the CP was presented to the IPSASB at the March 2023 meeting. (See <a href="#">Agenda Item 12</a> from the March 2023 IPSASB Meeting.)

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#	Due Process Requirement	Yes/No	Comments
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	<p>The CAG was consulted on the following topics in relation to the development of the CP:</p> <ul style="list-style-type: none"> <li>Recognition of Sovereign Power to Issue Exploration Licenses</li> </ul> <p>(See <a href="#">Agenda Item 4</a> from the December 2020 CAG Meeting.)</p> <ul style="list-style-type: none"> <li>General Description of Natural Resources</li> <li>Uncertainty and Asset Recognition</li> </ul> <p>(See <a href="#">Agenda Item 3</a> from the June 2021 CAG Meeting.)</p> <ul style="list-style-type: none"> <li>Definition of Natural Resources</li> </ul> <p>(See Agenda Item 7 from the June 2023 CAG Meeting.)</p>
B4.	The IPSASB has approved the issue of the exposure draft.	TBD	[Pending]
<b>C. Public Exposure</b>			
C1.	The approved exposure draft has been posted to the IPSAS website for public comment for an appropriate period.	TBD	[Pending]
C2.	Comments on the exposure draft have been posted to the IPSASB website after the end of the exposure period.	TBD	[Pending]
<b>D. Consideration of Respondents' Comments on an Exposure Draft</b>			
D1.	Staff have provided the IPSASB, as part of the public agenda papers, with an analysis summarizing the significant issues raised by respondents, outlined their proposed disposition, and, as appropriate, explained why significant changes recommended by respondents have or have not been accepted.	TBD	[Pending]

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#	Due Process Requirement	Yes/No	Comments
D2.	The IPSASB has deliberated significant matters raised in the comment letters, and significant decisions have been minuted.	TBD	[Pending]
D3.	The IPSASB has considered whether there are any issues raised by respondents, in addition to those summarized by Staff, that it considers should have been discussed by the IPSASB.	TBD	[Pending]
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	TBD	[Pending]
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	TBD	[Pending]
D6.	The IPSASB has assessed whether there has been substantial change to the exposed document such that re-exposure is necessary.	TBD	[Pending]
D7.	If applicable, the IPSASB has voted on a resolution in favor of re-exposure.	TBD	[Pending]
D8.	The basis of the IPSASB's decision with respect to re-exposure has been minuted.	TBD	[Pending]



#	Due Process Requirement	Yes/No	Comments
D9.	If the exposure draft has been re-exposed, the explanatory memorandum accompanying the re-exposure draft explained the reasoning for re-exposure and the changes made as a result of the earlier exposure.	TBD	[Pending]
<b><i>E. Approval</i></b>			
E1.	The Program and Technical Director has confirmed to the IPSASB that due process has been followed effectively the final standard is approved for issuance.	TBD	[Pending]
E2.	The IPSASB has approved the final revised content of the exposed standard in accordance with its Terms of Reference.	TBD	[Pending]
E3.	If applicable, the IPSASB has set an effective date for application of the final standard.	TBD	[Pending]
E4.	The IPSASB's basis for conclusions has been prepared and included in the final standard.	TBD	[Pending]

Completed by: IPSASB Staff as of June 2023.