

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

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

Natural Resources

IPSASB

International Public
Sector Accounting
Standards Board®



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

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

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

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EXPOSURE DRAFT XX, NATURAL RESOURCES

REQUEST FOR COMMENTS

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

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

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

EXPOSURE DRAFT XX, NATURAL RESOURCES

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Objective

1. **The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amounts, timing, and uncertainty arising from natural resources and expenditures on natural resource-related activities.**
2. To meet the objective in paragraph 1, this [draft] Standard:
 - (a) Sets out the accounting requirements for natural resources;
 - (b) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:
 - (i) The nature of, and risks and opportunities associated with, natural resources and their related activities; and
 - (ii) If applicable, the effects of natural resources and their related activities on the entity's financial position, financial performance, and cash flows.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for natural resources and their related activities as defined in this [draft] Standard.
4. **This [draft] Standard does not apply to items which fall within the scope of:**
 - (a) **IPSAS 31, *Intangible Assets*; and**
 - (b) **IPSAS 43, *Leases*.**

Definitions

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

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

For the purposes of this [draft] Standard, a natural resource is an item which:

 - (a) **Is naturally occurring; and**
 - (b) **Embodies service potential, or the capability to generate economic benefits, or both.**

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.
6. Paragraphs AG2–AG4 provide additional guidance on the definitions in this [draft] Standard.

Recognition

7. **A natural resource shall be recognized if, and only if:**
 - (a) **It is probable that future economic benefits or service potential associated with the natural resource will flow to the entity;**

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- (b) **The entity controls the natural resource as a result of past events; and**
 - (c) **The natural resource can be measured reliably. (See paragraph 15.)**
8. Paragraphs AG5–AG9 provide additional guidance on whether a natural resource meets the criteria to be recognized as an asset in the general purpose financial statements.
 9. If an entity holds a natural resource which meets the definition of an asset, but does not meet the recognition criterion in paragraph 7(c), information as required by paragraph 33 shall be disclosed in the notes to the financial statements. When information about the current value of the natural resource becomes available, the entity shall, from that date, recognize the natural resource in accordance with paragraph 7 and apply the measurement principles in this [draft] Standard.
 10. A natural resource held for conservation which is controlled by the entity as a result of past events and can be measured reliably shall be recognized as an asset if its conservation can lead to service potential which contributes to achieving the stated objectives of an entity.
 11. This standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of natural resource. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to disaggregate individually significant items into separate units of account depending on the objectives for which the entity holds the asset. For example, an entity may hold a natural forest for conservation but manage the biological transformation of a specific portion of the forest for agricultural produce. The managed portion of the forest would be considered a biological asset within the scope of IPSAS 27, *Agriculture*, while the remaining forest would be considered a natural resource held for conservation.
 12. If a natural resource is recognized as the result of an event which indicates that control was obtained in a prior period, such as the discovery of an existing resource within an entity's jurisdiction or changes in facts and circumstance which affects the ability to reliably measure a resource, the effect of recognizing the asset is recorded in net assets/equity for the period.

Measurement

Initial Measurement

13. **Where a natural resource is recognized as an asset as the result of a non-exchange transaction, the asset shall be measured initially at its deemed cost. An entity shall apply IPSAS 46, *Measurement*, when measuring the deemed cost of such a natural resource asset. Natural resource assets acquired through an exchange transaction shall be measured at its transaction price.**
14. Typically, natural resources are acquired through non-exchange transactions as the result of an event that is not a transaction in an orderly market. Paragraph 10 of IPSAS 46 requires an entity to use a current value measurement basis to determine the deemed cost of such an asset. When an entity acquires control of a natural resource in an exchange transaction, the transaction price from such a transaction would typically also approximate the current value of the asset.
15. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value. For an exchange transaction, if an entity is able to measure reliably the current value of either the asset

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received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Subsequent Measurement

16. **After recognition, an entity shall measure a natural resource asset based on its primary intended use.**

Natural Resource Assets Held for Conservation

17. **Recognized natural resource assets which are held primarily for conservation shall be carried at a revalued amount, being its current operational value, at the date of the revaluation.**
18. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. Both revaluation increases and decreases shall be recorded directly to net assets/equity in a revaluation reserve.**
19. As natural resource assets held for conservation are not held for use or sale, these assets are considered assets with indefinite useful lives and are not depreciated. However, an entity is required to review these assets annually for indications of impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*. An impairment could arise as the result of an event which has an other-than-temporary negative impact on the quantity or quality of the natural resource asset held for conservation (e.g., a forest held for conservation could be damaged by a fire), and the resulting impairment loss shall be recognized in surplus or deficit in the period in which the event occurs.

Other Natural Resource Assets

20. **After recognition, some recognized natural resources may fall within the scope of IPSAS 45, *Property, Plant, and Equipment*, IPSAS 12, *Inventories*, IPSAS 27, *Agriculture*, or IPSAS 16, *Investment Property*, as their primary intended use is consistent with the assets within the scope of these standards:**
 - (a) **An entity shall apply the subsequent measurement requirements, including any guidance on impairment, from IPSAS 45, *Property, Plant, and Equipment*, to natural resource assets that meet the definition of property, plant, and equipment (e.g., tangible assets that are held for use in the production or supply of goods or services for longer than one reporting period, etc.);**
 - (b) **An entity shall apply the subsequent measurement requirements, including any guidance on impairment, from IPSAS 12, *Inventories*, to natural resource assets that meet the definition of inventory (e.g., materials that are consumed in the production process or items held for sale or distribution in the ordinary course of operations, etc.);**
 - (c) **An entity shall apply the subsequent measurement requirements, including any guidance on impairment, from IPSAS 27, *Agriculture*, to natural resource assets which meet the definition of biological assets, except for bearer plants, or agricultural produce at the point of harvest; and**
 - (d) **An entity shall apply the subsequent measurement requirements, including any guidance on impairment, from IPSAS 16, *Investment Property*, to natural resource**

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assets which meet the definition of an investment property (e.g., property held to earn rentals or for capital appreciation or both).

Reclassification

21. If the primary intended use of a recognized natural resource asset held for conservation or a specific component of that asset changes, the natural resource asset or its component shall be reclassified based on its new primary intended use. An entity shall remeasure such an asset or its component to its current value immediately before reclassification, and the current value at the time of reclassification shall be considered its deemed cost for the purposes of applying IPSAS 45, IPSAS 12, IPSAS 27 or IPSAS 16.

Derecognition

22. **The carrying amount of a natural resource asset held for conservation shall be derecognized:**
- (a) **On disposal;**
 - (b) **When no future economic benefits or service potential is expected from its conservation or disposal; or**
 - (c) **When the entity has lost control of the asset.**
23. When an entity disposes of a natural resource asset held for conservation, the asset is revalued to its current value immediately before disposition. The difference between the net disposal proceeds, if any, and the carrying amount of the item shall be recognized as a gain or loss arising from the derecognition of the item in surplus or deficit. In addition, the entity shall reclassify the accumulated revaluation reserve associated with the item into surplus or deficit as a realized gain or loss.
24. **An entity shall apply the derecognition guidance from IPSAS 45, *Property, Plant, and Equipment*, IPSAS 12, *Inventories*, IPSAS 27, *Agriculture*, or IPSAS 16, *Investment Property*, to the derecognition of natural resources which fall within the scope of these Standards.**

Presentation**Display**

25. **An entity shall display recognized natural resource assets held for conservation as a separate line item in the statement of financial position. If an entity presents its assets as current and non-current, recognized natural resource assets held for conservation are considered non-current assets.**
26. When a recognized natural resource asset falls within the scope of IPSAS 12, IPSAS 16, IPSAS 27, IPSAS 45, an entity shall apply the display (presentation) requirements from these Standards.
27. In some circumstances, specific natural resource assets should be separately presented and information specific to these assets should be separately disclosed in accordance with the requirements in paragraphs 92, 107, and 134 of IPSAS 1, *Presentation of Financial Statements*. References in IPSAS 1 to 'class of property, plant, and equipment' shall be read as a 'class of natural resources.'

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Disclosure

28. **The objective of the disclosure requirements is for the entity disclose sufficient information to enable users of the financial statements to evaluate:**
- (a) **The nature of, and risks and opportunities associated with, natural resources; and**
 - (b) **If applicable, the effects of natural resources on the entity's financial position, financial performance, and cash flows.**
29. Only information regarding natural resources or related expenditures which meet the definition of an asset are disclosed in the financial statements. Information regarding natural resources or naturally occurring items which do not meet the definition of an asset but are important to an understanding of an entity's finances and ability to deliver services, is more appropriately presented in the entity's broader General Purpose Financial Reports.
30. When a recognized natural resource asset falls within the scope of IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45, an entity shall apply the disclosure requirements from these Standards.
31. For natural resources held for conservation, an entity shall disclose the following:
- (a) A narrative description of the natural resource asset, including:
 - (i) The nature or type of the resource;
 - (ii) Information regarding the location, quantity, and quality of the resource;
 - (iii) Reasons for conserving the asset, details regarding conservation activities, and how these activities are expected to impact the asset; and
 - (iv) The significance of the natural resource in relation to achieving of the entity's objectives, including how the natural resource is expected to be used in service delivery;
 - (b) The significant judgments applied to determine that the natural resource meets the asset recognition criteria;
 - (c) The measurement basis used, and significant judgments and assumptions applied to measure the asset;
 - (d) Impairment (and reversal of impairments) recognized in the reporting period;
 - (e) A reconciliation of the carrying amount at the beginning and end of the period, showing increases and decreases resulting from revaluations, purchases, sale, acquisitions through non-exchange transactions, distribution through non-exchange transactions, reclassification to assets within the scope of other IPSAS, and if applicable, impairment; and
 - (f) The existence and amounts of restrictions on title, legal, or similar limits on the use of natural resources due to environmental or other regulatory requirements;
 - (g) Other related obligations, including natural resources pledged as securities for liabilities, contractual commitments for acquisitions, or other custodial responsibilities; and
 - (h) The accounting policy applied to the accounting of conservation activities and the amount of expenditures incurred for these activities in the period.
32. Where an entity acts as a custodian of an unrecognized natural resource, the entity shall explain in the Notes to the Financial Statements the nature of its custodial responsibilities, including the legislation or similar means that establishes the custodial responsibilities over the resource.

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33. Where a natural resource meets the definition of an asset and is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose in the Notes to the financial statements:
 - (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
 - (b) The significance of the unrecognized natural resource in relation to delivery of the entity's objectives.
34. The disclosure requirements in paragraphs 30–33 can be presented for individual natural resources or for classes of natural resources if an appropriate basis for aggregation exists.

Effective Date and Transition

Effective Date

35. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is permitted. If an entity applies this [draft] Standard for a period beginning before [MM DD YYYY], it shall disclose that fact.**
36. When an entity adopts the accrual basis IPSAS of accounting, as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

37. **An entity shall apply this [draft] Standard using one of the following two methods:**
 - (a) **Recognize the natural resources which meet the recognition criteria when this [draft] Standard is initially applied. The cumulative effect of initially applying this [draft] Standard is recognized as an adjustment to the ending balance of accumulated surpluses/(deficits) (or other component of net assets/equity, as appropriate); or**
 - (b) **Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
38. For the purposes of the requirements in paragraph 37(a), the date of initial application is the end of the annual reporting period in which an entity first applies this [draft] Standard.

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED XX).

AG1. This application guidance is organized into the following categories:

- (a) Definitions (paragraphs AG2–AG4);
- (b) Recognition (paragraphs AG5–AG9);
- (c) Accounting for subsequent expenditures incurred for natural resource-related activities (paragraphs AG10–AG11);
- (d) Flowchart Illustrating the Application of [draft] IPSAS [X] (ED XX) (paragraph AG12).

Definitions (see paragraphs 5–6)

- AG2. Naturally occurring items are the living and non-living components of the Earth, together constituting the biophysical environment, which came into existence in nature without the actions of humankind.
- AG3. Natural resources may embody service potential or the capability to generate economic benefits, or to both, in a number of ways, including:
- (a) The extraction or harvest of natural resources for use or sale (e.g., the harvest of timber from a forest for use as fuel or for sale);
 - (b) Regulating biological processes and influencing climate, hydrological and biochemical cycles, and thereby maintaining environmental conditions (e.g., the ability of forests to absorb atmospheric carbon); and
 - (c) Providing intangible services related to ecosystems whose existence and functioning contributes to a range of cultural benefits (e.g., the enjoyment provided to visitors to a national park)
- AG4. For some naturally occurring items, until the item is extracted, there will be uncertainty over the quantity of the item in a given location as well as whether the item exists. This uncertainty impacts the assessment of whether the item is a natural resource, as the purported service potential or the capability to generate economic benefits may not exist.

Recognition (see paragraphs 7–12)

- AG5. The recognition criteria in paragraph 7 are similar to the recognition criteria from other Standards which address tangible assets. Some tangible assets are considered a resource because they embody future economic benefits and/or service potential that flow to an entity when the asset is used in the entity's operations or sold for cash flows. Natural resources held for conservation differ from these assets, as their conservation, rather than their use or sale, leads to service potential that would help the entity achieve its objectives. For example, a public sector entity could have an objective to regulate the environment or to provide experiential services for the benefit of its citizens. The conservation of a forest which acts as a national park would help achieve these objectives.

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- AG6. As noted in paragraph 7, for a natural resource to be recognized as an asset, it must be probable that future economic benefits or service potential associated with the resource will flow to the entity. Typically, this criterion is satisfied when the entity has a plan detailing its ability and intent to use, sell, or conserve the natural resource, including how the entity will obtain the resources necessary to carry out this plan.
- AG7. In assessing whether it presently controls a natural resource, an entity assesses whether one or more of the following indicators of control exists:
- (a) Legal ownership;
 - (b) Access to the resource, or the ability to deny or restrict others to access the resource;
 - (c) The means to ensure that the resource is used or conserved to achieve its objectives; or
 - (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

An entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgement, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

- AG8. No one indicator is more important than another indicator. Legal ownership is only one indicator demonstrating control of a natural resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to the service potential or ability to generate future economic benefits. In such circumstances, an entity considers substance over form in determining whether it controls the asset.
- AG9. An entity can obtain control of a resource through exchange transactions, such as purchase or development, or non-exchange transactions, which include the exercise of sovereign powers. In assessing when control arises from the exercise of sovereign powers, an asset arises when the sovereign power is exercised, and the rights to receive resources exist.

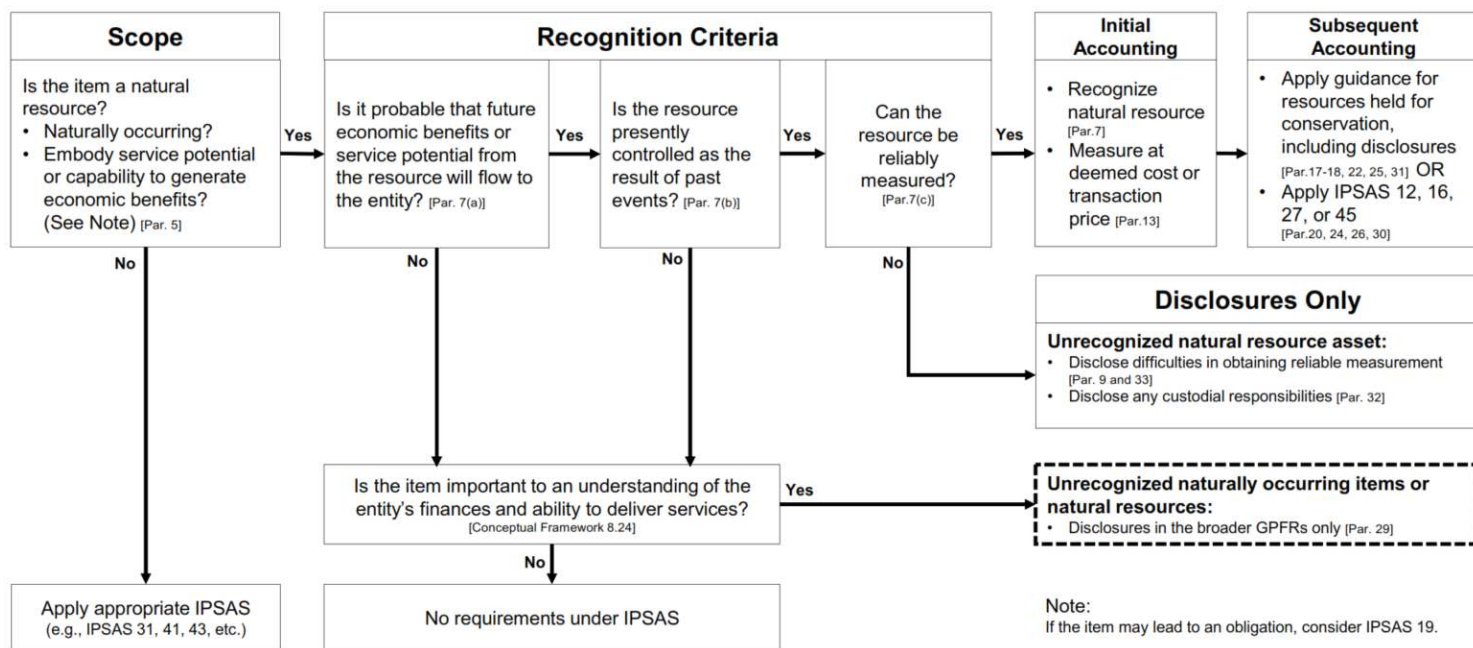
Accounting for Subsequent Expenditures Incurred for Natural Resource-Related Activities

- AG10. An entity accounts for a subsequent expenditure incurred for conservation activities based on the nature of the expenditure and whether the asset recognition criteria are met. The determination of whether such a subsequent expenditure is an asset is unaffected by whether or not the underlying natural resource was initially recognized.
- AG11. The determination of whether a subsequent expenditure incurred for conservation activities should be recognized as an asset depends on whether the expenditure meets the recognition criteria in paragraph 7. Expenditures that do not meet the recognition criteria are expensed as incurred in the statement of financial performance.

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Flowchart Illustrating the Application of [draft] IPSAS [X] (ED XX)

AG12. The following flowchart illustrates the key considerations when applying this [draft] Standard. It is provided as an aid in the application of [draft] IPSAS [X] (ED XX) and does not take the place of the [draft] Standard.



[Placeholder]

AG13. [Placeholder for additional AGs.]

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 88(ba) and 153U are added. New text is underlined.

...

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

...

(ba) Natural resources held for conservation;

...

Effective Date

...

153U. Paragraph 88(ba) was added by [draft] IPSAS [X] (ED XX), *Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Amendments to IPSAS 12, *Inventories*

Paragraphs 3(c) and 51K are added. New text is underlined.

...

3. This Standard does not apply to:

...

- (c) The recognition and initial measurement of natural resources. (See [draft] IPSAS [X] (ED XX), *Natural Resources*.)

...

Effective Date

...

51K. Paragraph 3(c) was added by [draft] IPSAS [X] (ED XX), *Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

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...

Amendments to IPSAS 16, *Investment Property*

Paragraph 101M is added, and paragraph 6(a) is amended. New text is underlined, and deleted text is struck through.

...

6. This Standard does not apply to:

...

- (b) The recognition and initial measurement of natural resources, including mMineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources. (See [draft] IPSAS [X] (ED XX), *Natural Resources*.)

...

Effective Date

...

101M. Paragraph 6(b) was amended by [draft] IPSAS [X] (ED XX), *Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3(e) and 56K are added. New text is underlined.

...

3. This Standard does not apply to:

...

- (e) The recognition and initial measurement of natural resources. (See [draft] IPSAS [X] (ED XX), *Natural Resources*.)

...

Effective Date

...

56K. Paragraph 3(e) was added by [draft] IPSAS [X] (ED XX), *Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

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Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

Paragraphs 62D, 62E, and 154R are added, and paragraph 64 is amended. New text is underlined, and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

[draft] IPSAS [X] (ED XX), *Natural Resources*

62D. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to natural resources until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

62E. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS at the same time as considering the recognition of natural resources in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 12, 16, 27, and 45, it is not required to recognize natural resource assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

...

Effective Date

...

154R. Paragraphs 62D and 62E were added, and paragraph 64 was amended by [draft] IPSAS [X] (ED XX), *Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

Amendments to IPSAS 45, Property, Plant, and Equipment

Paragraphs 3(b) and AG2 are amended, and paragraph 87C is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

...

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- (b) The initial recognition and measurement of natural resources, including Mmineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see [draft] IPSAS [X] (ED XX), *Natural Resources*—the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);

...

Heritage Assets

- AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, ~~environmental~~, historical, ~~natural~~, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments museum collections, and works of art.

...

Effective Date

...

- 87C. Paragraphs 3(b) and AG2 were amended by [draft] IPSAS [X] (ED XX), *Natural Resources*, issued in [MM DD YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD YYYY], it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.**

...

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED XX).

Introduction

- BC1. In March 2020, the IPSASB approved the project brief for the Natural Resources project due to the significance of natural resources in many jurisdictions, the growing public concerns for sustainable management of the natural environment, and the lack of explicit accounting guidance on natural resources. The aim of the project is to develop IPSAS guidance relating to the recognition, measurement, display, and disclosure of natural resources by public sector entities in their general purpose financial statements (GPFS). As the project is a financial reporting project, the project brief stated that any resulting IPSAS guidance will be developed in accordance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).
- BC2. In May 2022, the IPSASB issued the Consultation Paper, *Natural Resources* (CP). The CP discussed the application of the principles in the Conceptual Framework to the accounting of natural resources and set out a number of the IPSASB's preliminary views on the general accounting of natural resources, as well as preliminary views specific to subsoil resources, water, and living resources.

Development of Exposure Draft XX, Natural Resources

- BC3. Respondents to the CP generally agreed with the IPSASB's preliminary views. Many respondents acknowledged that natural resources are likely to only meet the asset recognition criteria in very limited circumstances, while others suggested that it may be more appropriate to report information on natural resources in the broader general purpose financial reports (GPFRs) due to the expected difficulties in recognition. In response to this feedback, and considering the original aim of the project, the IPSASB decided in March 2023 to proceed with developing this [draft] Standard based on the recognition and measurement principles in the Conceptual Framework.

Scope

- BC4. When the IPSASB developed the project brief and the Consultation Paper, *Natural Resources* (CP), the Board decided to limit the scope of the project to tangible items for the following reasons:
- (a) The feedback from constituents indicated that the development of guidance for tangible natural resources, such as subsoil resources, water, and living resources, was a priority compared to the development of guidance for intangible natural resources, which include items such as the electromagnetic spectrum;
 - (b) The IPSASB decided that focusing on tangible natural resources in this project would be a better use of its staff resources; and
 - (c) The development of guidance for intangible natural resources would be better accomplished if it was part of a more wholesome update of the accounting guidance for intangible assets.

The IPSASB decided that these reasons continue to be valid when [draft] IPSAS [X] (ED XX), *Natural Resources*, was developed. As a result, [draft] IPSAS [X] (ED XX) continues to focus only on tangible natural resources.

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Definition of Natural Resources

BC5. When the IPSASB developed the CP, it had decided to describe a 'natural resource' 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.

While the IPSASB noted that the requirement to be in its natural state was necessary to delineate between natural and other resources, respondents to the CP noted that the general description would be difficult to implement due to a lack of clarity on what is in its natural state and what is considered naturally occurring.

BC6. In response to constituents' concerns, the IPSASB decided to develop a definition of 'natural resource' in [draft] IPSAS [X] (ED XX) using a top-down approach, starting with the broader concept of 'nature' as defined in other internationally relevant reporting frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) Framework and the United Nation's System of Environmental-Economic Accounting (2012) (UN SEEA) Central Framework.

BC7. These frameworks envisioned nature as a collection of 'environmental assets,' which, at the time [draft] IPSAS [X] (ED XX) was developed, was defined as the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity.

BC8. The IPSASB noted that the term 'environmental assets' embodies the same key characteristics as how 'natural resources' was described in the CP. However, this term cannot be incorporated as is into IPSAS, as the term 'asset' already has a specific definition in the IPSASB's Conceptual Framework that is not consistent with how it is defined and used in the TNFD or UN SEEA frameworks.

BC9. Furthermore, the concept of providing benefits to humanity is similar to the concept of providing service potential or the capability to generate economic benefits in the IPSASB's Conceptual Framework. However, because the objective of financial reporting using IPSAS is to provide information about an individual entity for accountability and decision-making purposes, the IPSASB decided it would be more appropriate for a natural resource to refer to service potential or the capability to generate economic benefits rather than broadly referring to benefits to humanity.

BC10. Finally, because [draft] IPSAS [X] (ED XX) focuses on only tangible items, using the term 'natural resources' rather than 'environmental assets' is another way to highlight the differences from the concepts in the TNFD Framework and the UN SEEA Central Framework.

BC11. As a result, the IPSASB developed the definition of 'natural resources' in paragraph 5 of [draft] IPSAS [X] (ED XX) based on the term 'environmental assets' from the TNFD Framework and UN SEEA Central Framework but modified the definition to reflect the conventional nomenclature and objective of financial reporting under IPSAS.

Identification of Potential Natural Resources

BC12. In response to the CP, some constituents also raised concerns regarding whether it was necessary to perform a detailed inventorying exercise of all naturally occurring items in a jurisdiction to identify all potential natural resources. These respondents noted that such an exercise would be extremely

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costly, even if the resulting recognition, measurement, and disclosure impact in the GPFS will be minimal. When [draft] IPSAS [X] (ED XX) was developed, the IPSASB noted that the detailed recognition criteria in paragraph 7 along with the related application guidance in paragraph AG5 of the [draft] Standard will limit the potential natural resources to naturally occurring items that are subject to a detailed plan demonstrating the feasibility of using, selling, or conserving such items. In addition, Section A.1 of the Implementation Guidance was developed to explain how an entity can effectively identify all potential natural resources without individually considering each naturally occurring item in the jurisdiction.

Recognition and Measurement of Natural Resources

- BC13. When the IPSASB developed the CP, the Board included preliminary views indicating that the recognition of natural resources, especially subsoil resources, as assets in the GPFS would be challenging due to the definition of an asset and the asset recognition criteria in the Conceptual Framework, as well as limitations in the technologies currently available to identify and quantify certain natural resources.
- BC14. As noted in paragraph BC3, the IPSASB decided to proceed with developing this [draft] Standard based on the recognition and measurement principles in the Conceptual Framework. To operationalize the application of the asset recognition criteria to natural resources, the IPSASB looked to the recognition criteria in the Standards for other tangible assets, such as IPSAS 12, *Inventories*, IPSAS 45, *Property, Plant, and Equipment*, IPSAS 16, *Investment Property*, and IPSAS 27, *Agriculture*. The IPSASB noted that most of these standards shared similar recognition criteria regarding future economic benefits or service potential and the ability to reliably measure the asset. These two criteria were used as a starting point to develop the recognition criteria for natural resources in paragraph 7 of this [draft] IPSAS [X] (ED XX).
- BC15. The IPSASB also noted that unlike property, plant, and equipment, investment property, or inventories where the determination of control is relatively straight forward when an entity incurs cost to acquire, develop, or construct the asset, the assessment of control for natural resources is more complex and will require the application of judgement to facts and circumstances specific to each resource. As a result, the IPSASB also included the demonstration of control from past events as an explicit recognition criterion for natural resources.
- BC16. The IPSASB noted that after recognition and initial measurement, natural resources which meet the asset recognition criteria would generally have the following primary intended uses:
- (a) The asset could be held for conservation;
 - (b) The asset could be held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and is expected to be used for more than one reporting period. The nature of such an asset would be consistent with an item of property, plant, and equipment within the scope of IPSAS 45;
 - (c) The asset could be in the form of materials or supplies to be consumed in the production process or in the rendering of services, held for distribution in the ordinary course of operations or in the process of production for sale or distribution. The nature of such an asset would be consistent with inventories within the scope of IPSAS 12;
 - (d) The asset could be held to earn rentals for capital appreciation, or both, which is consistent with an investment property within the scope of IPSAS 16; or

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- (e) The asset could be a biological asset whose biological transformation is managed for sale, distribution, or conversion into agricultural produce. Such an asset would be a biological asset within the scope of IPSAS 27.
- BC17. As the assets described in paragraphs BC16(b)–BC16(e) are already within the scope of existing IPSAS, the IPSASB decided to refer to the existing guidance in these standards for the subsequent measurement (including impairment), derecognition, display, and disclosure of these assets.
- BC18. For subsequent measurement of recognized natural resource assets held for conservation, the IPSASB decided it would be most appropriate to carry these assets at their current value, as current value would reflect the current condition of the asset and allow constituents to assess the effectiveness of the conservation activities.
- BC19. The IPSASB also decided that natural resource assets held for conservation have an indefinite useful life, and that the impact from the revaluation of these assets should be recognized directly in a revaluation reserve due to the following reasons:
- (a) Natural resources held for conservation are meant to be held for the long-term, so it is unlikely that any increases or decreases in value would be realized and have any direct impact on cash flows;
 - (b) Similarly, if these resources are conserved for the benefit of future generations, the recognition of changes in value in surplus or deficit in the current period is logically inconsistent with this objective;
 - (c) Allowing the recognition of the change in value in surplus or deficit risks opening the statement of financial performance to potential manipulation; and
 - (d) Recording changes in the value of natural resources in a revaluation reserve will increase transparency if such a reserve is displayed or disclosed separately. In contrast, if changes were recorded in surplus or deficit, the amounts will effectively be “buried” within accumulated surpluses or deficits over time.

Display and Disclosure

- BC20. When the IPSASB developed the CP, it had also proposed the following financial statement disclosures for unrecognized natural resources:
- (a) Qualitative disclosures for a natural resource which meets the definition of an asset but could not be recognized due to the inability to measure the resource reliably. These disclosures focused on explaining the difficulties in obtaining a reliable measurement and the significance of the natural resource to the delivery of the entity's objectives;
 - (b) Qualitative disclosures regarding custodial responsibilities relating to a natural resource, regardless of whether the resource is recognized; and
 - (c) Qualitative disclosures on unrecognized natural resources that do not meet the definition of an asset but are important to an understanding of the entity's finances or delivery of services.
- BC21. The IPSASB also decided to retain the proposed disclosures noted in paragraph BC20(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC20(b) was also retained, as it relates to potential obligations which are similar in nature to contingent liabilities or potential obligations from pledges, rather than the underlying unrecognized natural resource.

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BC22. Respondents to the CP were particularly concerned by the requirements in paragraph BC20(c) and noted that such disclosures in the financial statements would likely not be auditable. As a result, the IPSASB decided to clarify that only information regarding natural resources that meet the definition of an asset is to be disclosed in the financial statements, and that information regarding natural resources which do not meet the asset definition is more appropriate for reporting in the broader GPFs.

Effective Date and Transition

BC23. The IPSASB decided to allow either prospective or full retrospective application of this [draft] IPSAS [X] (ED XX). The IPSASB noted that obtaining a reliable measurement of a recognized natural resource asset at multiple points in time would be required for full retrospective application, and this requirement may be overly onerous for some entities. In addition, the IPSASB noted that prospective application of the standard is unlikely to result in the loss of material information, as most natural resources would not meet the recognition criteria, while those that are recognized, such as natural resources held for conservation, are unlikely to have a direct impact on an entity's operations and cash flows.

Application Guidance: Accounting for Subsequent Expenditures Incurred for Natural Resources-Related Activities

BC24. The IPSASB noted that in IPSAS 45, the accounting for subsequent expenditures on heritage property, plant, and equipment is driven by whether the subsequent expenditure meets the recognition principles in IPSAS 45, and that this assessment is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. Applying this principle to natural resources in general, the IPSASB decided that:

- (a) Subsequent expenditures incurred for natural resources-related activities should be recognized and measured based on the guidance in paragraph 7 of this [draft] IPSAS [X] (ED XX); and
- (b) The recognition of such subsequent expenditures is unaffected by whether or not the underlying natural resource was initially recognized.

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