

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

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

Natural Resources

IPSASB

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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.

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Objective

1. The objective of this [draft] Standard is to establish the principles that an entity shall apply to report relevant information to users of financial statements about the nature, amounts, timing, and uncertainties arising from tangible natural resources.
2. To meet the objective in paragraph 1, this [draft] Standard:
 - (a) Sets out the accounting requirements for natural resources;
 - (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 on the entity's financial position, financial performance, and cash flows.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for tangible natural resources as defined in this [draft] Standard.
4. **This [draft] Standard does not apply to:**
 - (a) **Items that are to be consumed in the production process or rendering of services or held for sale or distribution (see IPSAS 12, *Inventories*);**
 - (b) **Property within the scope of IPSAS 16, *Investment Property*;**
 - (c) **Natural resource-related obligations. These obligations are within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;**
 - (d) **Biological assets related to agricultural activity (see IPSAS 27, *Agriculture*);**
 - (e) **Intangible assets within the scope of IPSAS 31, *Intangible Assets*;**
 - (f) **Leases as defined in IPSAS 43, *Leases*;**
 - (g) **Natural resources classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*;**
 - (h) **Tangible, non-current assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes (see IPSAS 45, *Property, Plant, and Equipment*); and**
 - (i) **The recognition and measurement of exploration and evaluation assets (see [draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources*).**
5. Paragraph AG2 provides additional guidance on the scope of this [draft] Standard.

Definitions

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

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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.

A **class of natural resources** means a grouping of natural resources of a similar nature or held for a similar reason for that is shown as a single item for the purpose of display and disclosure in the financial statements.

Conservation is the act of managing and protecting a natural resource from degradation due to human activity.

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.

- 7. Paragraphs AG3–AG5 provide additional guidance on the definitions in this [draft] Standard.

Recognition

- 8. **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;**
 - (b) **The entity controls the natural resource as a result of past events; and**
 - (c) **The natural resource can be measured reliably. (See paragraph 19.)**
- 9. Paragraphs AG6–AG10 provide additional guidance on whether a natural resource meets the criteria to be recognized as an asset in the general purpose financial statements.
- 10. If an entity holds a natural resource which meets the definition of an asset, but does not meet the recognition criterion in paragraph 8(c), information as required by paragraph 52 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 8 and apply the measurement principles in this [draft] Standard.
- 11. This [draft] 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.
- 13. An entity evaluates all natural resource-related costs using the recognition principle in paragraph 8 at the time they are incurred. These costs include costs incurred initially to acquire a natural resource and costs incurred subsequently to add to, or replace part of, the resource.

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14. An entity accounts for a subsequent expenditure incurred for natural resource activities based on the nature of the expenditure and whether the asset recognition criteria are met. In some cases, the expenditure may fall within the scope of another IPSAS (see paragraph 4), and the entity shall consider the recognition criteria in the relevant IPSAS. The determination of whether such a subsequent expenditure is an asset is unaffected by whether or not the underlying natural resource was initially recognized.

Reclassification

15. If the primary intended use of a natural resource asset 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. The carrying amount of such an asset or its component before reclassification shall be considered its deemed cost for the purpose of applying IPSAS 45, IPSAS 12, IPSAS 27 or IPSAS 16.
16. An entity shall reclassify a natural resource asset, or a component of a natural resource asset, as an asset held for sale within the scope of IPSAS 44 if it meets the classification criteria specified in paragraphs 11-19 of IPSAS 44.

Measurement**Initial Measurement**

17. **Natural resource assets acquired through an exchange transaction shall be measured at its transaction price. 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.**
18. 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.
19. 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 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

20. **An entity shall choose either the historical cost model in paragraph 22 or the current value model in paragraph 23 as its accounting policy and shall apply that policy to an entire class of natural resource assets.**
21. **When the measurement requirements are applied to the natural resource asset after recognition, an entity shall apply IPSAS 46.**

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Historical Cost Model

22. **After recognition, a natural resource shall be carried at its historical cost, less any accumulated impairment losses.**

Current Value Model

23. **After recognition, a natural resource whose current value can be measured reliably shall be carried at a revalued amount, being its current value at the date of revaluation, less any subsequent accumulated impairment losses.**
24. Due to the scoping requirements in paragraph 4, natural resource assets which are recognized within the scope of this [draft] Standard are likely to be held primarily for conservation. As these items are held primarily for their operational capacity and not financial capacity, their current value measurement basis is generally their current operational values.
25. **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. The accounting treatment for revaluations is set out in paragraphs 32-34.**
26. The frequency of revaluations depends upon the changes in current values of the natural resources being revalued. When the current value of a revalued assets differs materially from its carrying amount, a further revaluation is necessary. Some natural resources experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for other natural resources, such as a mature natural resource held for conservation, with only insignificant changes in current value. Instead, it may be necessary to revalue the item only every three or five years.
27. When a natural resource is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of revaluation, the asset is treated in one of the following ways:
- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by proportionately to the change in carrying amount. The accumulated depreciation (if applicable) at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
 - (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.
- The amount of the adjustment of accumulated depreciation (if applicable) forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 32 and 33.
28. **If a natural resource is revalued, the entire class of natural resource to which that asset belongs shall be revalued.**
29. Impairment losses and reversals of impairment losses of an asset under IPSAS 21, *Impairment of Non-Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.
30. A class of natural resources is a group of assets of a similar nature or held for similar reasons. The following are examples of separate classes:
- (a) Wildlife, habitat areas, bodies of water in conservation reserves;

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- (b) Certain species of animals; and
- (c) Forests in designated areas.

When grouping natural resources into classes, an entity may identify items with similar nature, but held for different reasons or functions, or vice versa. For example, while various forests might be physically similar in nature, some may be held for conservation purposes and others for commercial or agricultural purposes. This may result in the entity identifying a class of forests within the scope of this [draft] IPSAS, while other forests of a similar nature fall within the scope of another IPSAS (see paragraph 4).

31. The items within a class of natural resources are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
32. **If the carrying amount of a class of assets is increased as a result of revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**
33. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**
34. **Revaluation increases and decreases relating to individual assets within a class of natural resources must be offset against one another within that class but must not be offset in respect of assets in different classes.**
35. Guidance on the effects of taxes on surpluses, if any, resulting from the revaluation of natural resources can be found in the relevant international or national accounting standard dealing with income taxes.

Depreciation

36. **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.**

Impairment

37. An entity is required to review these assets annually for indications of impairment in accordance with IPSAS 21. 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.

Compensation for Impairment

38. **Compensation from third parties for natural resources that were impaired, lost, or given up shall be included in surplus and deficit when the compensation becomes receivable.**

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39. Impairments or losses of natural resources, related claims for payments of compensation from third parties, and any subsequent purchase of replacement assets are separate economic events and are accounted for separately as follows:
- (a) Impairments of natural resources are recognized in accordance with IPSAS 21, as appropriate;
 - (b) Derecognition of natural resources is determined in accordance with this [draft] Standard;
 - (c) Compensation from third parties for natural resources that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable;
 - (d) The cost of natural resources restored or purchased as replacement is determined in accordance with this [draft] Standard.

Derecognition

40. **The carrying amount of a natural resource asset shall be derecognized:**
- (a) **On disposal;**
 - (b) **When no future economic benefits or service potential is expected from the resource or its disposal; or**
 - (c) **When the entity has lost control of the asset.**
41. **The gain or loss arising from the derecognition of a natural resource shall be included in surplus or deficit when the item is derecognized (unless IPSAS 43, Leases, requires otherwise on a sale and leaseback).**
42. If, under the recognition principle in paragraph 8, an entity recognizes in the carrying amount of an item of natural resource the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired.
43. **The gain or loss arising from the derecognition of an item of natural resource shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**
44. The consideration receivable on disposal of natural resources is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 47, *Revenue*, reflecting the effective yield on the receivable.
45. When natural resource assets are subsequently measured using the current value model, the revaluation surplus include in net assets/equity in respect of the natural resources may be transferred directly to accumulated surplus or deficits when the assets are derecognized. This may involve transferring the surplus when the assets with the class of natural resources to which the surplus relates are derecognized.

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Presentation**Display**

46. **An entity shall display natural resource assets as a separate line item in the statement of financial position. If an entity presents its assets as current and non-current, natural resource assets are considered non-current assets.**
47. In some circumstances, specific natural resource assets should be separately presented and information specific to these assets should be separately disclosed in accordance with the requirements in paragraphs 92, 107, and 134 of IPSAS 1, *Presentation of Financial Statements*. References in IPSAS 1 to 'class of property, plant, and equipment' shall be read as a 'class of natural resources.'

Disclosure

48. **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.**
49. Only information regarding natural resources which meet the definition of an asset are disclosed in the financial statements.
50. For natural resources within the scope of this [draft] Standard, 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) If applicable, the significant judgments applied to determine the various units of account of a natural resource;
 - (iv) For natural resources held for conservation, reasons for conserving the asset, details regarding conservation activities or management plans, and how these activities are expected to impact the asset; and
 - (v) 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) If applicable, information regarding impairment (and reversal of impairments) recognized in the reporting period as required by IPSAS 21;
 - (e) A reconciliation of the carrying amount at the beginning and end of the period, showing increases and decreases resulting from revaluations, purchases, disposal, acquisitions

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- 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.
51. 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.
52. 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.
53. The disclosure requirements in paragraphs 50–52 can be presented for individual natural resources or for classes of natural resources if an appropriate basis for aggregation exists. As noted in paragraph 5, some natural resources are within the scope of another Standard. An entity may present the disclosures required by paragraphs 50–52 of this [draft] Standard together with the disclosures required by other Standards if this aggregation will lead to a better understanding of the disclosed information.
54. In rare cases, the disclosure of some or all of the information required by paragraphs 50–52 can lead to further endangerment or degradation of a natural resource. In such cases, an entity need not disclose the information, but shall disclose the general nature of the natural resource, together with the fact that, and the reason why, certain information has not been disclosed.

Effective Date and Transition

Effective Date

55. **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.**
56. 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

57. **An entity shall apply this [draft] Standard using one of the following two methods:**

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- (a) **Prospectively by recognizing the natural resources which meet the recognition criteria on the date of initial application of this [draft] Standard at their deemed costs (current values as at the date of initial application). The entity shall recognize the cumulative effect of initially applying this [draft] Standard as an adjustment to the opening balance of accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity need not consider natural resources which had previously met the recognition criteria but were derecognized prior to the date of initial application; or**
 - (b) **Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
58. For the purposes of the requirements in paragraph 57, the date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard.
59. If entity elects to apply this [draft] Standard prospectively in accordance with paragraph 57(a), the entity shall disclose this fact.

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) Scope (paragraph AG2);
- (b) Definitions (paragraphs AG3–AG5);
- (c) Recognition (paragraphs AG6–AG12);
- (d) Application of the recognition criteria to specific resources (paragraphs AG13–AG20);
- (e) Flowchart Illustrating the Application of [draft] IPSAS [X] (ED XX) (paragraph AG21).

Scope (see paragraphs 3–5)

AG2. Some natural resources are held for purposes which fall within the scope of another IPSAS. For example:

- (a) 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 is consistent with an item of property, plant, and equipment within the scope of IPSAS 45, *Property, Plant, and Equipment*;
- (b) The asset could consist 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 is consistent with inventories within the scope of IPSAS 12, *Inventories*;
- (c) 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, *Investment Property*; or
- (d) 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, *Agriculture*.

While these items meet the definition of a natural resource, an entity shall account for these items using the Standards noted in (a)–(d) above.

Definitions (see paragraphs 6–7)

AG3. 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.

AG4. 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);

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- (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);
- (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); and
- (d) The conservation of certain natural resources can also generate service potential through achieving the objective of conserving the resource for the enjoyment of future generations.

AG5. 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 8–16)

Future Economic Benefits or Service Potential

- AG6. The recognition criteria in paragraph 8 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 held for its operational or financial capacity. 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 in future generations. The conservation of a forest would help achieve these objectives.
- AG7. As noted in paragraph 8, 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.

Control as a Result of Past Events

- AG8. 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.

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- AG9. 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.
- AG10. An entity can obtain control of a resource through exchange transactions, such as through purchase 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.

Unit of Account

- AG11. As noted in paragraph 11, this [draft] Standard does not prescribe a unit of account for a natural resource asset, and judgment is required in determining whether a component of a natural resource should be accounted for separately. The following indicators can be helpful in identifying significant components of a natural resource which may constitute a separate unit of accounting:
- (a) The components are separately identifiable and measurable;
 - (b) The materiality of the components in relation to the overall asset as well as to the financial statements as a whole; and
 - (c) Whether the entity has different reasons for holding the individual components.

Accounting for Subsequent Expenditures Incurred for Conservation Activities

- AG12. Conservation activities which are performed to maintain the quantity and/or quality of a natural resource held for conservation generally do not add to the future economy benefit or service potential of the asset. Therefore, the expenditures for such activities generally do not meet the recognition criteria and are expensed as incurred in the statement of financial performance.

Application of the Recognition Criteria to Specific Resources*Subsoil Resources*

- AG13. As noted in paragraph AG5, uncertainty over the existence of an item can prevent it from meeting the definition of a resource. Based on the estimation techniques that are currently available, there is sufficient uncertainty over the existence of subsoil resources to prevent them from being considered a resource. As a result, subsoil resources generally cannot be recognized as assets.

Water

- AG14. Water can generate economic benefits or service potential in a variety of ways, including being used for agricultural activities, or extracted and treated, then sold as inventory. The recognition of water as an asset will depend on whether an entity can demonstrate that it controls the water as the result of past events and whether the water can be measured reliably. Generally, free-flowing bodies of water such as oceans, seas, lakes, and rivers cannot be feasibly controlled, and therefore, it is unlikely that they can be recognized as assets.
- AG15. Water that is managed and housed in a controlled environment could potentially meet the definition of an asset and could be recognized as an asset if an appropriate measurement technique is

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available. However, an entity should consider whether such a body of water is used for a purpose that places it within the scope of another Standard.

Living Resources

- AG16. Many living resources can generate economic benefits through sale or have service potential in a variety of ways. For example, certain bacteria can be used as bioremediation agents in soil or groundwater decontamination, and plants can regulate the environment and contribute to biodiversity. As a result, living resources are generally considered to be resources.
- AG17. Like water, the recognition of a living resource as an asset will depend on whether an entity can demonstrate that it controls the living resource as the result of past events and whether the living resource can be reliably measured. An entity's ability to direct the use or disposal of a living resource is a strong indicator of control. Additionally, the ability to physically access the living resource or prevent others from access can also indicate control. Generally, it would be more difficult for an entity to demonstrate control over motile living resources, such as fish and animals, without some means to limit their movement. In contrast, it is generally easier to demonstrate control over non-motile living resources such as plants.
- AG18. Some living resources can be harvested, processed, then sold as products in an active market. For these living resources, a market price can be used to determine their current value. However, an entity should consider whether these resources fall within the scope of another Standard such as IPSAS 12.
- AG19. For other living resources which are not held for use or sale, the determination of an appropriate measurement basis may not be possible based on currently available scientific and technological knowhow and measurement techniques. If an entity has determined that it controls a living resource as the result of past events, but the living resource cannot be reliably measured, the disclosure requirements in paragraph 52 are applicable. If the entity is able to reliably measure the living resource at a future date, the living resource is recognized as an asset at that time using the guidance in paragraph 12.

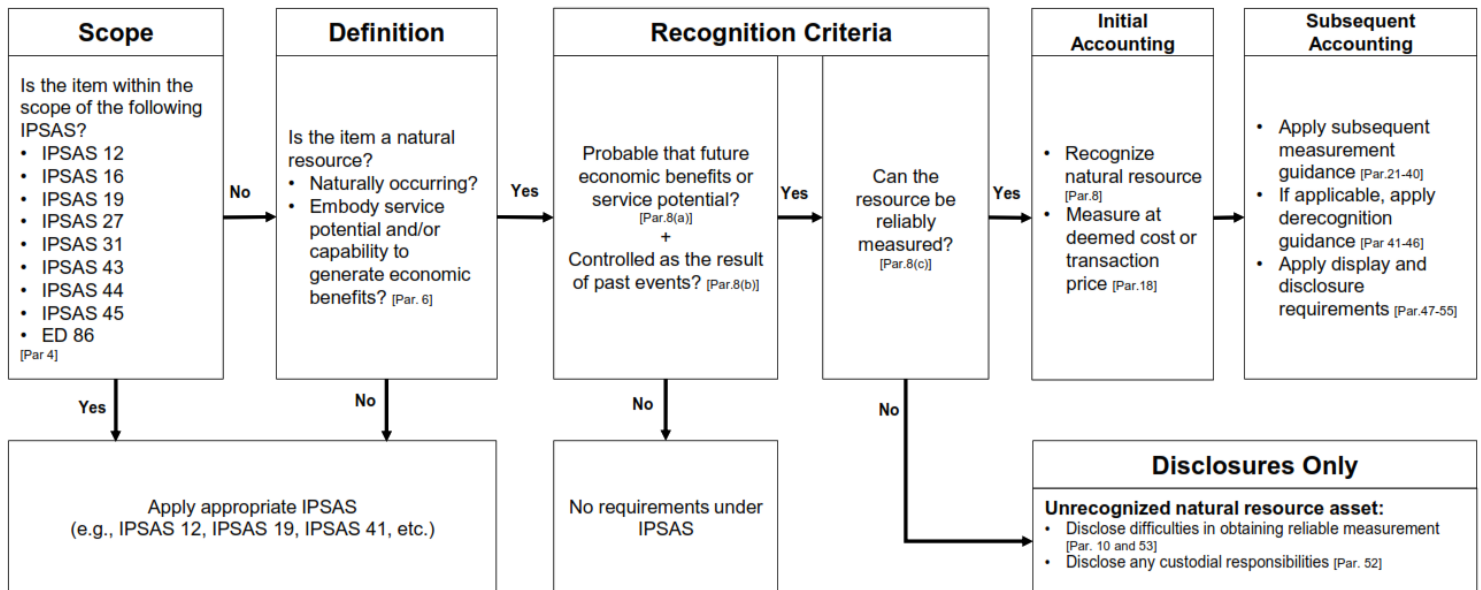
Natural Resources Held for Conservation

- AG20. A natural resource which is primarily held for conservation, is controlled by the entity as the 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.

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

AG21. 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.



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

...

153T. 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 within the scope of [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 within the scope of [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 within the scope of [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.

...

EXPOSURE DRAFT XX, NATURAL RESOURCES

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:

...

EXPOSURE DRAFT XX, NATURAL RESOURCES

- (b) The initial recognition and measurement of natural resources within the scope of [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);

...

Effective Date

...

87D. Paragraph 3(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.

...

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.
- BC4. Due to the similarities between the proposed guidance on the recognition and measurement of natural resources and the guidance regarding assets within the scope of existing IPSAS, the IPSASB considered whether the guidance proposed in this [draft] Standard should be located in a standalone IPSAS or as amendments to existing IPSAS. The IPSASB decided that the proposed guidance on natural resources should be located in a standalone IPSAS for public interest reasons, such as to highlight the importance of the topic and to facilitate implementation by preparers.

Scope

- BC5. 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

EXPOSURE DRAFT XX, NATURAL RESOURCES

- (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.

- BC6. The IPSASB noted that some items which meet the definition of a natural resource have a primary intended use as described in paragraph AG2. As these assets are already within the scope of existing IPSAS, the IPSASB decided to exclude these items from the scope of this [draft] Standard in order to avoid duplication of guidance.
- BC7. The IPSASB also discussed whether this [draft] Standard should include guidance on the accounting and disclosure of natural resource-related obligations. The IPSASB decided that the accounting and disclosure of these obligations would be within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, and that no additional guidance would be required in this [draft] Standard.

Definition of Natural Resources

- BC8. 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.

- BC9. 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.
- BC10. 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.
- BC11. 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.
- BC12. 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

EXPOSURE DRAFT XX, NATURAL RESOURCES

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.

- BC13. 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.
- BC14. As a result, the IPSASB developed the definition of 'natural resources' in paragraph 6 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

- BC15. 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 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 8 along with the related application guidance in paragraph AG7 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

- BC16. 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.
- BC17. 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, IPSAS 45, IPSAS 16, and IPSAS 27. 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 8 of this [draft] IPSAS [X] (ED XX).
- BC18. 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.

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- BC19. 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 8 of this [draft] Standard; and
 - (b) The recognition of such subsequent expenditures is unaffected by whether or not the underlying natural resource was initially recognized.
- BC20. Regarding the recognition of natural resources held for conservation, the IPSASB noted that although these resources are not held for sale or use in a manner similar to other tangible long-term assets, these resources can embody service potential if their conservation contributes to the objectives of an entity. As a result, the IPSASB concluded that natural resources held for conservation could meet the asset recognition criteria if they are controlled by an entity as the result of past events and can be reliably measured. This decision has been incorporated into paragraph AG20 of this [draft] Standard.

Measurement

- BC21. The IPSASB decided that the measurement of a natural resource at initial recognition should be determined based on whether control of the asset was obtained in an exchange or non-exchange transaction. This approach is consistent with the measurement guidance for other long-term assets such as property, plant, and equipment in IPSAS 45.
- BC22. For subsequent measurement of recognized natural resource assets held for conservation, the IPSASB decided to leverage the subsequent measurement guidance for property, plant, and equipment from IPSAS 45 and allow an entity to subsequently measure a natural resource asset using either the historical cost model or a current value model.
- BC23. The IPSASB decided that natural resource assets held for conservation have an indefinite useful life and therefore should not be depreciated. In addition, the IPSASB decided that because natural resources held for conservation are not held for their financial capacity, if an entity elects to subsequently measure such resources at current value, a current operational value measurement basis should be used.

Display and Disclosure

- BC24. 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 is important to an understanding of the entity's finances or delivery of services.

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- BC25. The IPSASB also decided to retain the proposed disclosures noted in paragraph BC24(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC24(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.
- BC26. Respondents to the CP were particularly concerned by the requirements in paragraph BC24(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. Information regarding natural resources which do not meet the asset definition is more appropriate for reporting in the broader GPFRs.
- BC27. In addition to the disclosure proposals carried forward from the CP, the IPSASB decided to also require the disclosure of information specific to natural resources held for conservation, as well as the judgments used to determine of units of account of a natural resource.

Effective Date and Transition

- BC28. The IPSASB noted full retrospective application of this [draft] Standard may lead to some scenarios where an entity would need to account for natural resources which have been derecognized prior to the date of initial application. To provide transitional relief, the IPSASB decided that an entity could elect to apply this [draft] Standard prospectively and only recognize natural resources which meet the recognition criteria on the date of initial application.
- BC29. The IPSASB initially considered if this [draft] Standard should be applied together with [draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources*, and [draft] IPSAS [X] (ED 87), *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*. However, as the proposed guidance in these [draft] Standards are not related from a technical perspective and their application do not impact each other, the IPSASB decided to no longer require the application of this [draft] Standard at the same time as the application of [draft] IPSAS [X] (ED 86) and [draft] IPSAS [X] (ED 87).

Amendments to Other IPSAS

- BC30. Based on the proposals in this [draft] Standard, the IPSASB decided to amend certain presentation requirements in IPSAS 1, *Presentation of Financial Statements*, the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, as well as certain exemptions in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*.

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