

Exposure Draft 92
[October] 2024
Comments due: [MM DD, 2024]

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

Tangible Natural Resources

IPSASB

International Public
Sector Accounting
Standards Board®

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REQUEST FOR COMMENTS

This Exposure Draft, *Tangible 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. Comments must be received in English to be considered. 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.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose guidance on the recognition, measurement, and presentation of tangible natural resources in the general purpose financial statements.

Guide for Respondents

The IPSASB would welcome comments on all the matters discussed in this Exposure Draft. Comments are most helpful if they indicated the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1: Scope (paragraphs 3-5):

This Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of any other existing IPSAS. (See paragraphs 3-4, BC7, and BC34.) Do you agree with the proposed scope? If not, what alternative scoping approach do you propose?

As a result of the proposed scope, tangible natural resources held for conservation are one common example of items which could fall within the scope of this Exposure Draft. What other items would you anticipate being accounted for through this Exposure Draft?

Specific Matter for Comment 2: Definition (paragraph 6):

This Exposure Draft defines a tangible natural resource as an item which is naturally occurring and embodies service potential, or the capability to generate economic benefits, or both.

Do you agree with the proposed definition? If not, why not?

Specific Matter for Comment 3: Depreciation (paragraph 24):

This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this [draft] IPSAS have indefinite useful lives on the basis that they are generally not used or consumed in the same manner as tangible assets within the scope of other IPSAS. Therefore, these tangible natural resources are not depreciated.

Do you agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated? If not, why not?

Specific Matter for Comment 4: Exemption from Certain Disclosures (paragraph 52):

As explained in paragraph BC31, this Exposure Draft exempts an entity from disclosing certain information which may lead to further degradation of tangible natural resources which are rare or endangered.

Do you agree with the proposed disclosure exemption? If not, why not?

Specific Matter for Comment 5: Cross-References to IPSAS 45, *Property, Plant, and Equipment* (paragraphs 15 and 55):

This Exposure Draft includes cross-references to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and the disclosure requirements for current operational value. This guidance was incorporated by cross-reference as the acquisition of tangible natural resources is expected to be rare in the public sector, and there is familiarity with the principles on the determination of cost, which are consistent with those found in IPSAS 17, *Property, Plant and Equipment*.

Do you agree that these cross-references are sufficiently clear? If not, how should the above guidance be incorporated into the Final Standard?

Specific Matter for Comment 6: Transition (paragraph 61):

This Exposure Draft allows the application of its requirements on a modified retrospective approach, by recognizing tangible natural resources which meet the recognition criteria on the date of initial application at their deemed cost, or on a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Do you agree that the option to apply the proposed guidance on a full retrospective basis will result in useful information? If not, why not?

Specific Matter for Comment 7: Amendment to the Description of 'Heritage Asset' in IPSAS 45, *Property, Plant, and Equipment* (Appendix B):

The IPSASB proposes to amend the description of 'heritage assets' in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this Exposure Draft.

Do you agree with the proposed amendment? If not, why not?

Specific Matter for Comment 8: Sufficiency of Proposed Implementation Guidance and Illustrative Examples:

This Exposure Draft includes non-authoritative guidance in the form of implementation guidance on 11 topics and 4 illustrative examples. This non-authoritative guidance was developed for topics that are potentially complex and difficult to apply in practice, are areas of concern for constituents, or where additional non-authoritative guidance could be useful.

Do you agree that the proposed implementation guidance and illustrative examples are sufficient? If not, what other topics would be helpful?

EXPOSURE DRAFT 92, TANGIBLE 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 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 recognition, measurement, and presentation requirements for tangible natural resources;
 - (b) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:
 - (i) The nature of, and risks associated with, tangible natural resources; and
 - (ii) The effects of tangible 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, except where:**
 - (a) **The resource is 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 resource consists 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 a resource is consistent with inventories within the scope of IPSAS 12, *Inventories*;**
 - (c) **The resource is held to earn rentals or capital appreciation, or both, which is consistent with an investment property within the scope of IPSAS 16, *Investment Property*; or**
 - (d) **The resource is a biological asset whose biological transformation is managed for sale, distribution, or conversion into agricultural produce. Such a resource would be a biological asset within the scope of IPSAS 27, *Agriculture*.**
4. **This [draft] Standard also does not apply to:**
 - (a) **Tangible natural resource-related obligations within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;**
 - (b) **Intangible assets as defined in IPSAS 31, *Intangible Assets*;**
 - (c) **Service concession assets within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*;**
 - (d) **Leases as defined in IPSAS 43, *Leases*;**
 - (e) **Tangible natural resources classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and**

- (f) **Exploration and evaluation assets within the scope of [draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources*.**
5. Tangible natural resources held for conservation are one common group of tangible natural resources which could fall within the scope of this [draft] Standard. Paragraphs AG3-AG7 provide additional guidance on these resources.

Definitions

6. **The following terms are used in this [draft] Standard with the meanings specified:**
- For the purposes of this [draft] Standard, a tangible 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 tangible natural resources means a grouping of tangible 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.**
- 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 AG8–AG9 provide additional guidance on the definitions in this [draft] Standard.

Recognition

8. **A tangible natural resource shall be recognized if, and only if:**
- (a) **It is probable that service potential associated with the natural resource will flow to the entity;**
 - (b) **The entity controls the tangible natural resource as a result of past events; and**
 - (c) **The tangible natural resource can be measured reliably.**
9. 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.
10. If an entity holds a tangible natural resource which meets the definition of an asset, but does not meet the recognition criterion in paragraph 8(c), the information required by paragraph 56 shall be disclosed in the notes to the financial statements. If subsequently, the tangible natural resource becomes reliably measurable, the entity shall, from that date, recognize the tangible natural resource in accordance with paragraph 8 and apply the measurement principles in this [draft] Standard.
11. Depending on the nature and risks associated with the item(s), as well as the objectives for which an entity holds the item(s), it may be appropriate to (a) disaggregate significant items into separate units of account, then applying the recognition criteria to each individual unit, or (b) aggregate individual items into one unit of account, then apply the recognition criteria to the aggregate value. Paragraphs AG17-AG21 provide additional guidance on determination of the unit of account.

Measurement

Initial Measurement

12. **Where a tangible natural resource is recognized as an asset as the result of an event that is not a transaction in an orderly market, including non-exchange transactions, 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 recognized tangible natural resource.**
13. For the purpose of this [draft] Standard, the initial measurement of a recognized tangible natural resource at its deemed cost in accordance with the requirement of paragraph 12, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraphs 18-23 and the supporting Application Guidance only apply where an entity elects to revalue a recognized tangible natural resource in subsequent reporting periods.
14. **A recognized tangible natural resource acquired through an exchange transaction shall be measured at its cost.**
15. When determining the cost of a recognized tangible natural resource acquired through an exchange transaction, the entity shall apply the principles on elements of cost and measurement of cost from paragraphs 14-22 of IPSAS 45.

Subsequent Measurement

16. **After initial recognition, an entity shall apply the measurement requirements from IPSAS 46 by choosing either the historical cost model in paragraph 17 or the current value model in paragraph 18 as its accounting policy. An entity shall apply the chosen policy to an entire class of recognized tangible natural resources.**

Historical Cost Model

17. **Where an entity subsequently chooses to measure a recognized tangible natural resource, which was initially measured at its cost or deemed cost, at its historical cost, the resource shall be carried at that cost or deemed cost less any accumulated depreciation (if applicable) and any accumulated impairment losses.**

Current Value Model

18. **Where an entity chooses to measure a recognized tangible natural resource after initial recognition using the current value model, a recognized tangible 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 depreciation (if applicable) and subsequent accumulated impairment losses. A tangible natural resource or part of the resource within the scope of this [draft] Standard is measured at current operational value. If the current value of a recognized tangible natural resource cannot be measured after initial recognition at cost, an entity shall apply the historical cost model to that resource.**
19. **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 21-23.**

20. **If a recognized tangible natural resource is revalued, the entire class of tangible natural resources to which that asset belongs shall be revalued.**
21. **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.**
22. **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.**
23. **Revaluation increases and decreases relating to individual assets within a class of tangible natural resources must be offset against one another within that class but must not be offset in respect of assets in different classes of tangible natural resources.**

Depreciation

24. **An entity shall assess whether the useful life of a recognized tangible natural resource is finite or indefinite, and if finite, the length of that useful life. There is a rebuttable presumption that recognized tangible natural resources within the scope of this [draft] IPSAS have indefinite useful lives, as these resources are typically not used or consumed like tangible assets within the scope of other IPSAS.**
25. A tangible natural resource with a finite useful life is depreciated, while a tangible natural resource with an indefinite useful life is not depreciated.

Assets with Indefinite Useful Lives

26. The term “indefinite” does not mean “infinite.” The useful life of recognized tangible natural resources should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projects of those factors. For example, a conclusion that the useful life of a recognized tangible natural resource is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current condition.

Assets with Finite Useful Lives

27. **A recognized tangible natural resource shall be regarded as having a finite useful life when, based on an analysis of all the relevant factors, there is clearly a foreseeable limit to the period over which the asset is expected to provide service potential to the entity.**
28. The useful life of a recognized tangible natural resources may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.
29. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**

30. **The depreciable amount of a recognized tangible natural resource shall be allocated on a systematic basis over its useful life.**
31. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
32. **The depreciation method shall reflect the pattern in which the asset is expected to provide service potential to the entity.**
33. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date, and if there has been a significant change in the pattern in which the asset is expected to provide service potential to the entity, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.**

Impairment

34. **To determine whether a tangible natural resource within the scope of this [draft] Standard is impaired, an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Asset*. IPSAS 21 explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.**
35. **An entity is required to review tangible natural resources with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21.**

Derecognition

36. **The carrying amount of a recognized tangible natural resource, or a part thereof, shall be derecognized:**
 - (a) **On disposal;**
 - (b) **When the entity otherwise ceases to control the resource; or**
 - (c) **When no future service potential is expected from the resource.**
37. **The gain or loss arising from the derecognition of a recognized tangible natural resource shall be included in surplus or deficit when the item is derecognized.**
38. **The gain or loss arising from the derecognition of a recognized tangible natural resource shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**
39. **The consideration receivable on disposal of tangible 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.**

Reclassification

40. If the primary intended use of a recognized tangible natural resource or a specific component of that asset changes, the recognized tangible natural resource or its component shall be reclassified based on its new primary intended use. The net carrying amount of such an asset or its component immediately before reclassification shall be its cost for subsequent accounting in accordance with IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45.
41. An entity shall reclassify a recognized tangible natural resource, or a component of a recognized tangible natural resource, 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.

Presentation

Display

42. **An entity shall display recognized tangible natural resources within the scope of this [draft] Standard as a separate line item in the statement of financial position. If an entity presents its assets as current and non-current, recognized tangible natural resources are considered non-current assets.**
43. Based on the requirements in paragraph 88 of IPSAS 1, *Presentation of Financial Statements*, an entity is required to present separately tangible natural resources within the scope of this [draft] Standard as separate line items in the statement of financial position based on the entity's primary purpose for holding the resources. For example, tangible natural resources which are held for conservation purposes are presented separately from other tangible natural resources (if applicable) and described as 'tangible natural resources held for conservation' on the face of the financial statements.

Disclosure

44. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of the financial statements to evaluate:**
 - (a) **The nature of, and risks associated with, tangible natural resources within the scope of this [draft] Standard; and**
 - (b) **The effects of tangible natural resources on the entity's financial position, financial performance, and cash flows.**
45. Information regarding tangible natural resources which meet the definition of an asset must be disclosed in the financial statements, even when the asset is not recognized. (See paragraphs 56-58.)

Disclosures for Recognized Tangible Natural Resources

46. **For recognized tangible natural resources within the scope of this [draft] Standard, an entity shall disclose the following:**
 - (a) **A narrative description of the recognized tangible natural resource, including:**
 - (i) **The nature or type of the resource;**
 - (ii) **Information regarding the location and quantity of the resource;**

- (iii) **If applicable, the significant judgments applied to determine the various units of account of a tangible natural resource; and**
 - (iv) **The significance of the tangible natural resource in relation to achieving the entity's objectives, including how the tangible natural resource is expected to provide service potential;**
 - (v) **The significant judgments applied to determine that the tangible natural resource meets the asset recognition criteria;**
 - (b) **The measurement model and basis used for determining the gross carrying amount;**
 - (c) **If applicable, why the asset is depreciable, the depreciation method used, the useful lives or the depreciation rates used, and the gross carrying amount and the accumulated depreciation at the beginning and end of the period; and**
 - (d) **A reconciliation of the carrying amount at the beginning and end of the period, showing:**
 - (i) **Any additions;**
 - (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**
 - (iii) **Increases and decreases resulting from revaluations under paragraphs 19, 21-23 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21, as appropriate;**
 - (iv) **If applicable, depreciation;**
 - (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21, as appropriate;**
 - (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21, as appropriate; and**
 - (vii) **Other relevant changes.**
47. **The financial statements shall also disclose for each class of recognized tangible natural resources in the financial statements:**
- (a) **The existence and amounts of restrictions on title, legal, or similar limits on the use of tangible natural resources due to environmental or other regulatory requirements; and**
 - (b) **The existence and amounts of tangible natural resources pledged as securities for liabilities, or other custodial responsibilities.**
48. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For recognized tangible natural resources, such disclosure may arise from changes in estimates with respect to:
- (a) Residual values;
 - (b) Useful lives; and
 - (c) Depreciation methods.

49. **If a class of recognized tangible natural resources is stated at revalued amounts, the following shall be disclosed:**
- (a) **The effective date of the revaluation;**
 - (b) **Whether an independent valuer was involved;**
 - (c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**
 - (d) **The sum of all revaluation surpluses for individual tangible natural resources within that class; and**
 - (e) **The sum of all revaluation deficits for individual tangible natural resources within that class.**
50. In accordance with IPSAS 21, an entity discloses information on impaired tangible natural resources in addition to the information required by paragraphs 46(d)(iii) and 46(d)(v)-46(d)(vi).
51. Users of the financial statements may also find the following information relevant to their needs. Therefore, entities are encouraged to disclose the following:
- (a) When the historical cost model is used, the current value of a tangible natural resource when it is materially different from the carrying amount; and
 - (b) If applicable, the gross carrying amount of any fully depreciated tangible natural resources.
52. In rare cases, the disclosure of some or all of the information required by paragraphs 46-51 can lead to further endangerment or degradation of a tangible natural resource. In such cases, an entity need not disclose the information, but shall disclose the general nature of the tangible natural resource, together with the fact that, and the reason why, certain information has not been disclosed.

Current Value Measurement

53. As noted in paragraph 16, the initial measurement of a recognized tangible natural resource at its deemed cost does not require the entity to choose the current value model for its accounting policy for subsequent measurement. Where it does so, the requirements of paragraph 54 are applicable for recognized tangible natural resources which are subsequently measured using the current value model.
54. **An entity shall disclose information that helps users of its financial statements assess both of the following:**
- (a) **For tangible natural resources that are measured at current value in the statement of financial position after initial recognition, such as the items noted in paragraph 49, the measurement techniques and inputs used to develop those measurements; and**
 - (b) **For current value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**
55. To meet the objectives in paragraph 54, an entity shall consider the requirements for current operational value in paragraphs 80-84 of IPSAS 45.

Disclosure of Unrecognized Tangible Natural Resources

56. **Where a tangible natural resource meets the definition of an asset but is not recognized in the financial statements because, at initial measurement, its cost or deemed cost cannot be measured reliably, the entity shall disclose:**
- (a) **Qualitative information regarding the resource such as the nature or type of resource, its location, and if available, its quantity;**
 - (b) **The difficulties in obtaining a reliable measurement that prevented recognition; and**
 - (c) **The significance of the unrecognized tangible natural resource in relation to delivery of the entity's objectives.**
57. Where subsequent expenditures on unrecognized tangible natural resources are recognized, the disclosure requirements in paragraphs 46-55 will apply.
58. Where an entity acts as a custodian of an unrecognized tangible 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.

Effective Date and Transition

Effective Date

59. **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.**
60. 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

61. **An entity shall apply this [draft] Standard using one of the following two methods:**
- (a) **Using a modified retrospective approach by recognizing the tangible 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 tangible natural resources which had previously met the recognition criteria but were derecognized prior to the date of initial application; or**
 - (b) **Retrospectively in accordance with IPSAS 3.**
62. For the purposes of the requirements in paragraph 61, the date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard.
63. If an entity elects to apply this [draft] Standard using the modified retrospective approach in accordance with paragraph 61(a), the entity shall disclose this fact.

Appendix A

Application Guidance

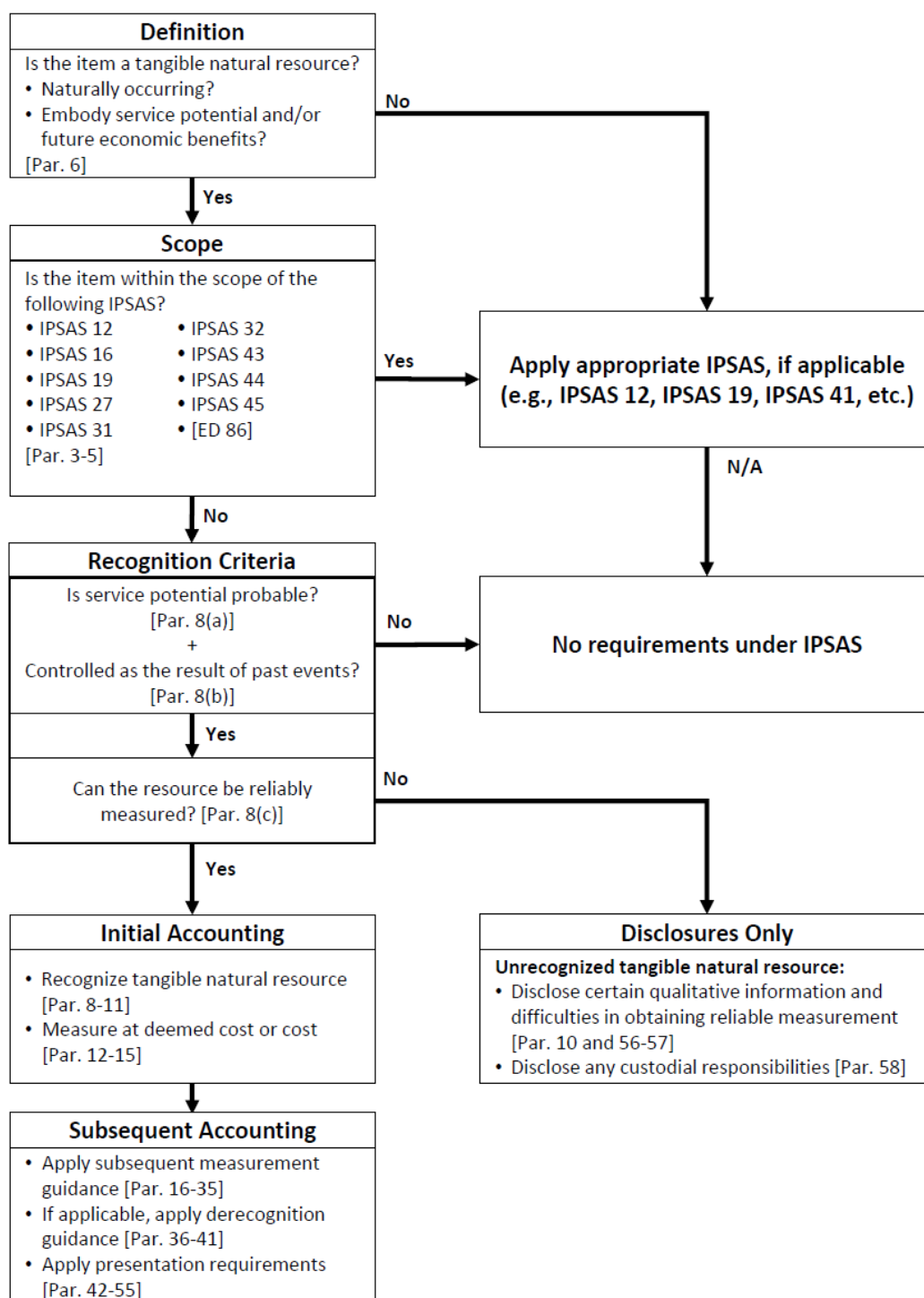
This Appendix is an integral part of [draft] IPSAS [X] (ED 92).

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

- (a) Flowchart Depicting the Application of [draft] IPSAS [X] (ED 92) (paragraph AG2);
- (b) Scope (paragraphs AG3–AG7);
- (c) Definitions (paragraphs AG8–AG9);
- (d) Recognition (paragraphs AG10–AG24);
- (e) Measurement (paragraphs AG25–AG32); and
- (f) Presentation (paragraphs AG33–AG34).

Flowchart Illustrating the Application of [draft] IPSAS [X] (ED 92)

AG2. The flowchart below may assist entities with the key considerations when applying this [draft] Standard.



Scope (paragraphs 3-5)

- AG3. This [draft] IPSAS applies to all tangible natural resources which are not within the scope of the IPSAS noted in paragraphs 3-4. As a result of this scoping approach, tangible natural resources outside the scope of these standards, such as those held for conservation, could fall within the scope of this [draft] IPSAS.

Tangible Natural Resources Held for Conservation

- AG4. Conservation is described as the act of managing and protecting a tangible natural resource from degradation.
- AG5. Tangible natural resources held primarily for conservation purposes, rather than their use or sale, may need to be considered assets because of the service potential provided in achieving the objectives of a public sector entity. For example, a public sector entity could have an objective to maintain the current state of a tangible natural resource for the benefit of its citizens in future generations. The conservation of the tangible natural resource would achieve this objective.
- AG6. As a result, a tangible natural resource held primarily for conservation, which is controlled by the entity as the result of past events and can be measured reliably, shall be recognized as an asset within the scope of this [draft] Standard.
- AG7. Some tangible natural resources held for conservation may could also be considered heritage assets in IPSAS 45, as these items are held for long periods and preserved for the benefit of future generations in addition to being naturally occurring tangible items that embody service potential and/or the capability to generate future economic benefits. Such tangible natural resources are however within the scope of this [draft] Standard.

Definitions (paragraphs 6-7)

- AG8. 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.
- AG9. For a naturally occurring item to be considered a resource, it must embody service potential, the capability to generate economic benefits, or both. An entity may demonstrate satisfaction of this criterion when there is a plan detailing how the item is expected to provide service potential or generate economic benefits for the entity, the entity's ability and intent to carry out the plan, and if necessary, how the entity will obtain the resources necessary to carry out this plan.

Recognition (paragraphs 8–11)

Application of the Recognition Criteria

- AG10. The recognition of a tangible natural resource as an asset involves an assessment of any uncertainties related to the existence and measurement of the item. 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 impacts the assessment of whether the item is a recognizable asset because an item that is subjected to existence uncertainty may not be considered a resource until this uncertainty has been resolved.

- AG11. An entity evaluates all costs related to a tangible natural resource at the time they are incurred using the recognition principle in paragraph 8. These costs include costs incurred initially to acquire a tangible natural resource.

Control as a Result of Past Events

- AG12. An entity can obtain control of a resource through an event that is not a transaction in an orderly market, which could include non-exchange transactions or the exercise of sovereign powers, or through exchange transactions, such as a purchase from a third party. 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. For example, a government entity may be required to pass legislation and establish a legal framework to make use of certain tangible natural resources in its jurisdiction, before being able to conclude that these resources can be controlled.
- AG13. In assessing whether it presently controls a tangible 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 entity can achieve its objectives with the resource; or
 - (d) The existence of an enforceable right to service potential arising from the resource.

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.

- AG14. No one indicator is more important than another indicator. Legal ownership is only one indicator demonstrating control of a tangible 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 service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to the service potential. In such circumstances, an entity considers substance over form in determining whether it controls the asset.

Changes in the Ability to Reliably Measure A Resource due to Changes in Facts and Circumstances

- AG15. When a tangible natural resource becomes reliably measurable due to changes in facts and circumstances, an entity applies the guidance on changes in accounting estimates in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*.

Exchange of Assets

- AG16. One or more tangible natural resources may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. For a tangible natural resource acquired through a non-monetary 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.

Unit of Account

- AG17. As noted in paragraph 11, an entity is required to use judgment to identify the unit of account to which the recognition and measurement guidance are applied. This [draft] Standard does not prescribe a unit of account for a recognized tangible natural resource.
- AG18. The following factors can indicate that significant components of a tangible natural resource may constitute separate units of account:
- (a) The components are separately identifiable and measurable;
 - (b) The components are material in relation to the overall asset as well as to the financial statements as a whole; and
 - (c) There are different reasons for holding the various components within the tangible natural resource. For example, an entity may hold a natural forest mainly for conservation, but a specific portion of the forest is managed for the growth of agricultural produce. The managed portion of the forest would be considered a biological asset within the scope of IPSAS 27 while the remaining forest would be considered a tangible natural resource held for conservation within the scope of this [draft] Standard.
- AG19. In contrast, the following factors can indicate that separate tangible natural resources may be aggregated into one single unit of account:
- (a) The items are subject to similar risks, despite having some different physical characteristics;
 - (b) The items are managed together in aggregate and likely subject of the same transactions; and
 - (c) The items within the unit of account are unlikely or unable to separately provide service potential to the entity.
- AG20. Continuing with the conservation example in paragraph AG18(c), if the conserved forest is part of a reservation, the entity could manage the whole reservation on an integrated basis. Activities such as controlling access into the reservation and monitoring the biodiversity within the area could be performed on a reservation-wide basis with the different species of plants and animals within the reservation not being managed individually. In this case, it may be appropriate to account for the various tangible natural resources within the reservation as a single unit of account.
- AG21. The determination of the unit of account may also impact the subsequent measurement of a tangible natural resource. When a recognized tangible natural resource consists of multiple units of account with differing useful lives, and the cost or current value of each unit is significant in relation to the total cost or current value of the resource, each unit of account shall be measured separately.

Subsequent Expenditures

- AG22. An entity recognizes subsequent expenditures on tangible natural resources in accordance with the recognition principle in paragraph 8. Under this principle, the costs of day-to-day maintenance and other expenditures which do not result in incremental service potential are recognized in surplus or deficit as incurred. Costs of day-to-day maintenance may primarily consist of the costs of labor and consumables and could include, for example, when rangers are employed to protect a tangible natural resource or when some form of chemical treatment is applied.

AG23. In contrast, a tangible natural resource or its components may require restoration or regeneration due to certain events. For example, a portion of a forest may be destroyed by wildfires, and an entity may have to plant certain species of trees to repopulate the forest. The carrying amount of the trees that were replaced is derecognized in accordance with the paragraphs 36-39 of this [draft] Standard. Under the recognition principle in paragraph 8, an entity would recognize the cost of repopulating the forest as an asset, as these costs result in incremental service potential that would likely flow to the entity. Depending on the specific facts and circumstances (for example, whether the replanted trees are actively managed or used for other services during their growth stage), an entity should consider if the costs of replanting the trees could be recognized as an asset within the scope of this [draft] Standard or another Standard such as IPSAS 45.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

AG24. The recognition of a subsequent expenditure as an asset is unaffected by whether or not the underlying tangible natural resource was initially recognized. If the subsequent expenditure relates to a tangible natural resource that were not initially recognized because its cost or deemed cost could not be measured reliably, it should nonetheless be reviewed in light of paragraph 8 to determine whether or not it should be recognized as an asset.

Measurement (paragraphs 12-35)

Measurement of an Asset Held for Its Operational Capacity

AG25. Generally, a tangible natural resource held with the primary objective of generating a financial return will be within the scope of IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45, and the measurement of a non-current tangible natural resource held for sale would be determined by IPSAS 44. As a result, a tangible natural resource within the scope of this [draft] Standard will generally be held for its operational capacity, and its current value shall be measured at current operational value.

Application of the Current Value Model

AG26. The frequency of revaluations depends upon the changes in current values of the recognized tangible natural resources being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some recognized tangible natural resources may experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for other recognized tangible natural resources. For example, a mature recognized tangible natural resource held for conservation with only insignificant annual changes in current value may only be require a revaluation every three or five years.

AG27. When a recognized tangible 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) and accumulated impairment loss forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 21 and 22.

AG28. A class of recognized tangible 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;
- (b) Certain species of animals; and
- (c) Forests in designated areas.

When grouping recognized tangible 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 may fall within the scope of another IPSAS (see paragraph 3(a)).

AG29. The items within a class of recognized tangible 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.

AG30. Some or all of the revaluation surplus included in net assets/equity in respect of recognized tangible natural resources may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring the some or the whole of the surplus when the assets with the class of tangible natural resources to which the surplus relates are derecognized. However, if depreciation is applicable, some of the surplus may be transferred as the assets are depreciated. In such a case, the amount of surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets, and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

Depreciation

AG31. Although there is a rebuttable presumption that recognized tangible natural resources within the scope of this [draft] IPSAS have indefinite useful lives, a recognized tangible natural resource may still be regarded as having a finite useful life based on an analysis of all relevant factors. In such cases, a significant part of the recognized tangible natural resource may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

AG32. To the extent that an entity depreciates separately some parts of a recognized tangible natural resource, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the useful lives of its parts.

Presentation (paragraphs 42-58)

Disclosure of Unrecognized Tangible Natural Resources when Cost or Current Value Cannot be Measured Reliably

- AG33. The disclosures required by paragraph 56 for unrecognized tangible natural resources should ensure that, when read in the context of information about recognized tangible natural resources, the financial statements provide useful and relevant information about the entity's overall holding of tangible natural resources, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to delivery services.
- AG34. These disclosures may be presented in aggregate for groups or classes of tangible natural resources, provided this aggregation does not obscure significant information.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 88(ba), 107(ca), and 153T are added, and paragraphs 92 and 134 are amended. New text is underlined, and deleted text is struck through.

...

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

...

(ba) Tangible natural resources with a description of the purpose for holding the resource (e.g., Tangible natural resources held for conservation);

...

Information to be Presented on the Face of the Statement of Financial Position

...

92. This use of different measurement models for different classes of assets suggests that their nature or function differs and, therefore, ~~that~~ they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45. Similarly, different classes of tangible natural resources can be carried at historical cost or current value in accordance with [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

...

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

...

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

...

(ca) Disposals of items of tangible natural resources;

...

Disclosure of Accounting Policies

...

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies fair-current value or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some

IPSASs specifically require disclosure of particular accounting policies, including choice made by management between different policies allowed in those Standards. For example, IPSAS 45 and [draft] IPSAS [X] (ED 92) requires disclosure of the measurement bases used for classes of property, plant, and equipment or classes of tangible natural resources. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

Effective Date

...

153T. Paragraphs 88(ba) and 107(ca) were added, and paragraphs 92 and 134 were amended by [draft] IPSAS [X] (ED 92), *Tangible 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 92) 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) Tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

...

Effective Date

...

51K. Paragraph 3(c) was added by [draft] IPSAS [X] (ED 92), *Tangible 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 92) at the same time.

...

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6(b) and 101M are added. New text is underlined.

...

6. This Standard does not apply to:

...

- (b) Tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

...

Effective Date

...

101M. Paragraph 6(b) was amended by [draft] IPSAS [X] (ED 92), *Tangible 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 92) 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) Tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*.

...

Effective Date

...

56K. Paragraph 3(e) was added by [draft] IPSAS [X] (ED 92), *Tangible 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 92) at the same time.

...

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

Paragraphs 62D, 62E, and 154R are added. New text is underlined.

...

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

...

[draft] IPSAS [X] (ED 92), Tangible *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 tangible 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 tangible 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 tangible natural resources 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 by [draft] IPSAS [X] (ED 92), *Tangible 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 92) at the same time.

...

Amendments to IPSAS 45, *Property, Plant, and Equipment*

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

3. This Standard does not apply to:

...

- (b) Tangible natural resources within the scope of [draft] IPSAS [X] (ED 92), *Natural Resources*
~~the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);~~

...

Effective Date

...

85D. Paragraphs 3(b) and AG2 were amended by [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, issued in [MM DD YYYY]. An entity shall apply these amendments 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 92) at the same time.

...

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 generation. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 92).

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 tangible 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 for natural resources and set out a number of the IPSASB's overarching preliminary views, as well as preliminary views specific to subsoil resources, water, and living resources.

Development of Exposure Draft 92, *Tangible 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 potential relevance of 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. Having considered the topics that might need to be covered such as assets held for conservation purposes, the IPSASB decided that the proposed guidance on natural resources should be located in a standalone IPSAS in order to address the challenges around recognition of such assets explicitly, for public interest reasons, as well as highlighting the importance of the topic in the public sector and providing guidance in a single place in order to facilitate implementation by preparers.

Focus on Tangible Items

- BC5. When the IPSASB developed the project brief and the 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 greater priority than the development of guidance for intangible natural resources, such as the electromagnetic spectrum;

- (b) The IPSASB decided that focusing on tangible natural resources alone in this project would be a more efficient 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 comprehensive update of the accounting guidance for intangible assets.
- BC6. The IPSASB noted that the above reasons continued to be valid when it developed the exposure draft (ED). As a result, the IPSASB decided to limit the focus of the ED to tangible natural resources and named the ED, "[draft] IPSAS [X], (ED 92), *Tangible Natural Resources*".

Scope (paragraphs 3-5)

- BC7. The IPSASB noted that some items which could be considered a tangible natural resource may have a primary intended use within the scope of another existing IPSAS. The IPSASB therefore decided to exclude such items from the scope of this [draft] Standard to avoid duplication of guidance.
- BC8. The IPSASB also discussed whether this [draft] Standard should include guidance on the accounting and disclosure of natural resource-related obligations and decided that these obligations would be within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. As a result, it decided that no additional guidance would be provided in this [draft] Standard.

Definitions (paragraphs 6-7)

- BC9. When the IPSASB developed the CP, it had proposed 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.

- BC10. In response to constituents' concerns, the IPSASB decided to develop a definition of 'tangible natural resource' in ED 92 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.
- BC11. These frameworks envisioned nature as a collection of 'environmental assets,' which, at the time ED 92 was developed, were defined as the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity.
- BC12. 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 could not be incorporated as it was 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.

- BC13. 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 tangible natural resource to refer to service potential or the capability to generate economic benefits rather than broadly referring to benefits to humanity.
- BC14. Finally, because ED 92 focuses on tangible items only, using the term 'tangible 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. This differentiation will avoid unintended interactions between tangible natural resources in financial reporting under IPSAS and the reporting of naturally occurring items in the sustainability and statistical reporting context. The guidance from the other internationally relevant reporting frameworks could however still be relevant in considering the financial reporting treatment of items that these frameworks classify under the land, freshwater and ocean realms.
- BC15. As a result, the IPSASB developed the definition of 'tangible natural resources' in paragraph 6 of [draft] ED 92 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 objectives of financial reporting under IPSAS.

Recognition (paragraphs 8-11)

- BC16. When the IPSASB developed the CP, the Board included preliminary views indicating that the recognition of tangible natural resources, especially subsoil resources, as assets in the GPFS would be challenging due to the definition of an asset, the asset recognition criteria in the Conceptual Framework, as well as limitations in the technologies currently used to identify, quantify, and establish the existence of certain tangible 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 tangible natural resources, the IPSASB looked to the recognition criteria in the Standards for other tangible assets, such as IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, and IPSAS 45, *Property, Plant, and Equipment*. The IPSASB noted that most of these standards shared similar recognition criteria regarding the probable flow of future economic benefits or service potential to the entity and the ability to reliably measure the asset. These two criteria were used as a starting point to develop the recognition criteria for tangible natural resources in paragraph 8 of ED 92. However, due to the [proposed] scope in paragraphs 3-4,, the items which are within the scope of this [draft] Standard are unlikely to generate economic benefits. As a result, the reference to future economic benefits was removed, and the recognition criteria focuses on the probable flow of service potential to an entity.
- 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 tangible 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 tangible natural resources.

- BC19. The IPSASB considered using the term “natural assets” to refer to tangible natural resources which have met the asset recognition criteria. However, this term was already used in the GPFRs of various public sector entities to broadly refer to items which include tangible natural resources, infrastructure developed from tangible natural resources, or ecosystems. The IPSASB also considered using the term “tangible natural resource assets” but noted that some tangible natural resources may meet the definition of an asset and remain unrecognized as they cannot be measured reliably. As a result, this [draft] Standard refers to tangible natural resources which meet the asset recognition criteria as ‘recognized tangible natural resources’.

Measurement (paragraphs 12-35)

- BC20. To operationalize the principles from IPSAS 46, *Measurement*, and to be consistent with the Standards on other tangible assets such as IPSAS 45, the IPSASB proposed that the measurement of a recognized tangible natural resource at initial recognition should be determined based on whether or not control of the asset was obtained as the result of an event that is a transaction in an orderly market. Tangible natural resources which were recognized as the result of an event that is not a transaction in an orderly market, which could include a non-exchange transaction, would be recognized at their deemed cost (current value). In contrast, resources recognized as the result of an exchange transaction in an orderly market would be recognized at cost.
- BC21. The IPSASB noted that it is more likely for a tangible natural resource within the scope of this [draft] IPSAS to be recognized from an event that is not a transaction in an orderly market, such as non-exchange transactions or the exercise of sovereign powers. In such cases, as there will be no direct cost information available, such assets will need to be initially measured at deemed cost.
- BC22. While the acquisition of tangible natural resources in an exchange transaction is possible, such transactions are expected to be rare in the public sector. Based on these observations, the measurement guidance was drafted in a different order to focus on the initial measurement of events which are not a transaction in an orderly market.
- BC23. As the acquisition of tangible natural resources from exchange transactions is expected to be rare in the public sector, for clarity and conciseness, the IPSASB also proposed to cross-reference to the guidance on elements of cost and measurement of cost from IPSAS 45 rather than duplicating the guidance in this [draft] Standard.
- BC24. For subsequent measurement of recognized tangible natural resources, the IPSASB decided to leverage the subsequent measurement guidance from IPSAS 45 and allow an entity to subsequently measure the asset using either the historical cost model or a current value model, independently of whether it was initially measured at cost or deemed cost.

Depreciation

- BC25. The IPSASB noted that the recognized tangible natural resources within the scope of this standard are not typically used or consumed in a similar manner as tangible assets within the scope of other existing IPSAS. As a result, the IPSASB decided to include a rebuttable presumption that recognized tangible natural resources have an indefinite useful life and are typically not depreciated. For a recognized tangible natural resource that clearly has a finite useful life, the guidance on depreciation from IPSAS 45 was incorporated into this [draft] Standard.

Derecognition (paragraphs 36-41)

BC26. Like the guidance on recognition and measurement, the IPSASB also decided to leverage the guidance from IPSAS 45 when developing the guidance on the derecognition of tangible natural resources. The IPSASB also considered whether specific guidance on the sale and leaseback of tangible natural resources should be developed but noted that such scenarios are expected to be exceptionally rare in practice. Furthermore, entities can leverage the general guidance on sale and leaseback transactions from IPSAS 43, *Leases*, if such situations do occur, so no specific guidance was needed.

Presentation (paragraphs 42-58)

BC27. The IPSASB decided to incorporate the disclosure proposals for recognized tangible natural resources from the CP, which are broadly consistent with the disclosure requirements from IPSAS 45.

BC28. In addition, when the IPSASB developed the CP, it had also proposed the following financial statement disclosures for unrecognized natural resources to address both the accountability and decision making objectives for financial reporting in the public sector:

- (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.

BC29. The IPSASB decided to retain the proposed disclosures noted in paragraph BC28(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC28(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 tangible natural resource.

BC30. Respondents to the CP were particularly concerned by the requirements in paragraph BC28(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 tangible natural resources that meet the definition of an asset is to be disclosed in the financial statements.

Exemption from Disclosure of Information Regarding Rare or Endangered Tangible Natural Resources

BC31. In some situations, the disclosure of information regarding rare or endangered tangible natural resources may lead to their further endangerment or degradation. For example, disclosing the information on the quantity and location of endangered species may lead to their illegal poaching. To address this concern, the IPSASB decided to exempt an entity from the disclosure of such information. This approach is analogous to paragraph 109 of IPSAS 19, which exempts an entity from disclosing information which may prejudice its position in a dispute with other parties.

Effective Date and Transition (paragraph 59-63)

- BC32. The IPSASB noted full retrospective application of this [draft] Standard may lead to some scenarios where an entity would need to account for tangible 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 using a modified retrospective approach and only recognize tangible natural resources which meet the recognition criteria on the date of initial application.
- BC33. 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 is not related from a technical perspective and their application would not impact the implementation of this [draft] Standard, the IPSASB decided it was unnecessary to 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).

Application Guidance (Appendix A)

Tangible Natural Resources Held for Conservation

- BC34. Based on the broad scoping approach explained in paragraph BC7, the IPSASB decided that tangible natural resources held for conservation are an important example of natural resources which could fall within the scope of this [draft] Standard. Based on this decision, the IPSASB decided to use the following approach when developing guidance on these tangible natural resources:
- (a) As tangible natural resources held for conservation are just one example of natural resources, there is no need to develop separate principles specific to these items. The general principles on recognition, measurement, display, and disclosure in this [draft] Standard are applicable;
 - (b) As separate principles are not needed, the IPSASB decided to describe what is meant by conservation in the application guidance rather than introducing a formal definition in the [draft] Standard; and
 - (c) Guidance relating to the application of the general principles to tangible natural resources held for conservation is included as application guidance in the [draft] Standard.
- BC35. The IPSASB observed that some tangible natural resources held for conservation could also have the characteristics of heritage assets as described in IPSAS 45. To assist with situations when this potential overlap exists, the IPSASB decided to amend the description of heritage assets in IPSAS 45 to remove the references to environmental and natural features. As a result, tangible natural resources held for conservation which would otherwise also meet the description of heritage assets would fall within the scope of this [draft] Standard.

Identification of Potential Tangible Natural Resources

- BC36. In response to the CP, some constituents raised concerns regarding whether it was necessary to perform a detailed exercise to create an inventory of all naturally occurring items in a jurisdiction in order to identify all potential tangible 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 ED 92 was developed, the IPSASB noted that the definition of tangible natural resources in paragraph 6, along with the related application guidance in paragraph AG9 of the [draft] Standard, will limit the potential tangible natural resources to naturally occurring items that are subject to a detailed management plan demonstrating how such items would provide service potential or generate economic benefits for the entity. In addition, Section B.1 of the Implementation Guidance was developed to explain how an entity can effectively identify all potential tangible natural resources without individually considering each naturally occurring item in the jurisdiction.

Recognition upon Changes in Facts and Circumstances

BC37. The IPSASB noted that a tangible natural resource which was initially not recognized as it could not be reliably measured could subsequently become measurable due to changes in facts and circumstances. The IPSASB considered developing guidance specific to such changes but noted that no additional guidance was required, as such scenarios are already addressed by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. As a result, the IPSASB decided to only include application guidance signposting to IPSAS 3 when such changes in facts and circumstances occur.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

BC38. 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. The IPSASB applied the same principle to subsequent expenditures relating to unrecognized tangible natural resources in general and developed the guidance in paragraph AG24.

Subsequent Measurement

BC39. The IPSASB noted that tangible natural resources which are held for financial capacity are typically within the scope of other Standards such as IPSAS 12, IPSAS 44, and IPSAS 45. As a result, the IPSASB decided that because the tangible natural resources within the scope of this [draft] Standard are not held for their financial capacity, if an entity elects to subsequently measure these natural resources at current value, a current operational value measurement basis should be used.

Amendments to Other IPSAS (Appendix B)

BC40. Based on the [proposed] guidance 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)*. These amendments relate to the presentation of tangible natural resources as a separate line item in the statement of financial position, excluding tangible natural resources within the scope of this [draft] IPSAS from the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, and exemptions regarding the recognition and measurement of tangible natural resources in an entity's transitional IPSAS financial statements.

Implementation Guidance and Illustrative Examples

- BC41. The IPSASB decided to add implementation guidance and illustrative examples to [draft] IPSAS [X] for topics that are complex and potentially difficult to apply in practice, are an area of concern for constituents, or would benefit from additional non-authoritative guidance.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 92).

Section A: Scope

A.1 Determination of Whether a Tangible Natural Resource Falls Within the Scope of [Draft] IPSAS [X] or Another IPSAS

When might items meeting the definition of a tangible natural resource be accounted for under [draft] IPSAS [X] (ED 92), and when might they be accounted for under another IPSAS?

- IG1. [Draft] IPSAS [X] (ED 92) defines a tangible natural resource as a naturally occurring item which embodies service potential, the capability to generate economic benefits, or both. Once an entity has concluded that an item meets this definition, the entity will need to assess if the tangible natural resource is accounted for within the scope of [draft] IPSAS [X] or another IPSAS.
- IG2. The determination of which Standard is applicable is driven by the entity's primary intended purpose for holding the item. This assessment of the entity's intended reason for holding an asset is the same as the scoping assessment that is done for all other IPSAS on tangible assets. In accordance with the scoping requirements of [Draft] IPSAS [X] (ED 92), only items which meet the definition of a tangible natural resource and do not fall within the scope of the Standards noted in paragraphs 3-4 are within the scope of [draft] IPSAS [X] (ED 92).
- IG3. The following scenarios illustrate this assessment:
- (a) If an entity concludes that it could recognize the water held in a controlled environment as an asset and intends to sell this water, the asset is accounted as inventory within the scope of IPSAS 12, *Inventories*. This is because materials or supplies to be consumed in the production process or in the rendering of services or items held for distribution in the ordinary course of operations or in the process of production for sale or distribution, meet the definition of inventories in IPSAS 12, regardless of whether or not they are naturally occurring;
 - (b) An entity controlling a population of trees could manage their biological transformation with the intention of harvesting and selling the mature trees as lumber. In this scenario, the trees are considered biological assets within the scope of IPSAS 27, *Agriculture*. In some situations, an entity may decide to only sell a specific portion of the trees as lumber and use the remainder for other purposes. In this case, the entity will need to assess whether the population consists of multiple units of account and apply the scoping requirements to each unit. See paragraphs AG17-AG21 and Implementation Guidance C.3 for additional information regarding the unit of account;
 - (c) A public sector entity could control a forest and enact legislation to restrict access to the area and prohibits the use of resources from the forest. The intention of the legislation is to conserve the forest by minimizing the impact of human activity on fauna and flora in the area. As a result of the legislation, the primary intended purpose of holding the forest is not to be used as an item within the scope of IPSAS 45, *Property, Plant, and Equipment*, not to be sold as inventory or agricultural products, and not to be managed for capital appreciation or to earn rental income. The entity concludes that this forest is a tangible natural resource within the scope of [draft] IPSAS [X] (ED 92) by applying the requirements in paragraphs 3-4.

- (d) An entity may have the intention to conserve a tangible natural resource without any legislation in place to restrict access to the resource or its use. In these situations, the tangible natural resources may be primarily held for conservation purposes but could also be used to provide ancillary services. For example, a forested area that is primarily held for conservation may also be used as a park for the benefit of visitors on a limited basis. To determine whether to apply [draft] IPSAS [X] (ED 92) or another IPSAS, the entity would need to apply judgment to determine whether the resources is held primarily for conservation. See Implementation Guidance C.4 on conservation for more details. If a specific region of the reservation is set aside for use by visitors, the entity should assess whether there are multiple units of account. See Implementation Guidance C.3 on unit of account for more details.

Section B: Definitions

B.1 Identification of Natural Resources

Does an entity applying [draft] IPSAS [X] (ED 92) need to consider whether all tangible naturally occurring items within its jurisdiction are tangible natural resources within the scope of this [draft] IPSAS?

- IG4. No, it is unlikely that all tangible naturally occurring items within a jurisdiction would meet the recognition criteria, as they are unlikely to be resources if they are not actively managed. To meet the definition of a tangible natural resource in paragraph 6 of [draft] IPSAS [X] (ED 92), a naturally occurring item must embody service potential, the capability to generate economic benefits, or both. As explained in paragraph AG9 of [draft] IPSAS [X] (ED 92), this criterion is typically satisfied when an entity has a detailed plan demonstrating the technical and financial feasibility of how the naturally occurring item can provide service potential or generate economic benefits, and whether the entity will obtain the resources necessary to carry out this plan. Therefore, one acceptable approach to ensure that the analysis of potential tangible natural resources is complete is to consider existing programs or plans to develop programs relating to naturally occurring items. By focusing on such programs or plans, an entity will not need to individually analyze each naturally occurring item within its jurisdiction.

Section C: Recognition

C.1 Determination of Control

What key considerations should an entity consider when assessing whether they control certain types of tangible natural resources such as water and living resources?

- IG5. In general, the control of a tangible natural resource can be assessed based on the indicators listed in paragraph AG13 of [draft] IPSAS [X] (ED 92). Sometimes, a tangible natural resource may consist of multiple units of account due to the different nature and risks associated with the specific parts of the resource, as well as the objectives for which an entity holds the resource. In such cases, the assessment of control is performed separately for each unit of account.
- IG6. Some entities may have the objective of conserving a tangible natural resource, and this is accomplished by prohibiting or restricting the use of the resource rather than using it in a manner like how other tangible assets are conventionally used. Implementation Guidance C.4 provides more information on how conservation can provide service potential to an entity.

- IG7. For a tangible natural resource, the indicators of control are often directly impacted by the nature of the resource, as well as laws and regulations that are specific to the resource. The following discussion highlights some of the more prevalent factors that should be considered when assessing control over water and living resources:

Water

- IG8. Generally, the physical movement of free-flowing water such as oceans, seas, lakes, and rivers cannot feasibly be controlled. Therefore, it is unlikely for an entity to be able to demonstrate control over these bodies of water.
- IG9. Water that is physically housed in a managed environment could potentially be controlled for accounting purposes. For example, some underground aquifers located in a jurisdiction can act as naturally occurring reservoirs holding ground water. An entity could demonstrate control over the water in such aquifers when:
- (a) The entity has legal ownership of the aquifer and its contents in accordance with the applicable laws and regulations, and such legal ownership confers enforceable rights to the service potential embodied in the water. This is often the case for aquifers located within a jurisdiction;
 - (b) The entity has the means to manage the volume of water actively to ensure that it is available for meeting the entity's objectives. This is typically achieved by having an appropriate structure to house the water and control its flow; and
 - (c) The entity can restrict others from accessing to the water. Such restrictions can consist of physical barriers such as fences, legislative mechanisms which legally prohibit other parties from access, the use of security personnel to prevent unauthorized access to the water, or a combination of the above.

Living Resources

- IG10. Depending on the applicable laws and regulations, a public sector entity may have legal ownership of the living resources located within its jurisdiction, and such legal ownership could lead to an enforceable right to the service potential embodied in the resources. However, this assessment is not always straightforward. An entity may have difficulties demonstrating control over living resources that can move about, such as fish and animals, without some means to limit their movement to an area that is controlled by the entity. For example, even with physical barriers in place, it may not be feasible to effectively control the movements of certain animals. Since these animals can freely roam out of the areas controlled by an entity into neighboring jurisdictions, it would be difficult for any entity to assert control. In contrast, it is generally easier to demonstrate control over plants, as these resources cannot relocate on their own.
- IG11. Control over living resources also requires the ability to prevent others from accessing the resource. Like water, restricting access to living resources can be implemented through physical means such as barriers and fences, legislation prohibiting the use of the living resource, or using security personnel to guard the living resources.
- IG12. An entity's ability to direct the use or disposal of a living resource in a manner it sees fit is a strong indicator of control. In the most extreme case, the unfettered ability to sell a living resource for cash or other resources would be a strong indicator of control over the resource. Similarly, the ability to freely harvest a living resource for one's own use or for sale is another strong indicator of control. However, in these scenarios, an entity should carefully consider whether these living resources are

within the scope of [draft] IPSAS [X] (ED 92), as items that are used in production or held for sale are likely considered inventory within the scope of IPSAS 12 or biological assets within the scope of IPSAS 27.

C.2 Difficulties in the Recognition of Subsoil Resources

Is the existence of a program to extract mineral deposits sufficient to allow an entity to recognize the unextracted minerals as assets in its financial statements?

- IG13. Generally, no. As noted in paragraph AG10, for some naturally occurring items, until the item is extracted, there will be uncertainty over the existence, quantity, and quality of the item, and this uncertainty impacts whether the item can be considered a resource. Because subsoil items such as minerals or petroleum deposits are usually located deep underground, an entity is unlikely to be able to reliably establish the existence, quantities, and quality of these items with a degree of certainty needed for recognition prior to their extraction. Even if an entity has obtained detailed geological studies to estimate the deposits, or if the entity has established a program to issue exploration and mining licenses, there is typically a high degree of uncertainty and variability which impedes the entity's ability to recognize the unextracted deposits as assets.

C.3 Unit of Account

How should the unit of account for a tangible natural resource be determined?

- IG14. Paragraph 11 of [draft] IPSAS [X] (ED 92) requires an entity to consider if a tangible natural resource should be disaggregated into separate units of account or if individual tangible natural resources should be aggregated into one unit of account. In addition, paragraphs AG17-AG21 provide guidance on the factors to consider when determining the appropriate unit of account. Once an entity has determined the appropriate unit of account for a tangible natural resource, the scoping, recognition, and measurement requirements are applied separately to each unit of account.
- IG15. While the physical characteristics of a tangible natural resource may have some impact on the appropriate determination of a unit of account, the key determining factor is typically the entity's intended reason for holding the resource. As noted in paragraph AG19, components of the same tangible natural resource that are held for different reasons and managed separately are typically separate units of account. In contrast, it may be appropriate for physically distinct items which are held for the same reasons and managed together to be grouped into one unit of account.
- IG16. The determination of the appropriate unit of account requires the application of judgment and depends on the facts and circumstances specific to each tangible natural resource. In some cases, a tangible natural resource may consist of multiple units of account that are each accounted for within different Standards. In other cases, some units of account may meet the asset recognition criteria while others remain unrecognized. Because of these significantly different potential outcomes, the determination of appropriate the unit of account is critical when accounting for tangible natural resources.

C.4 Conservation

How is conservation different from the uses of tangible assets within the scope of other IPSAS?

- IG17. Paragraph AG4 of [draft] IPSAS [X] (ED 92) describes conservation as the act of managing and protecting a tangible natural resource from degradation. While this description does not prescribe the reasons for conservation, tangible natural resources are often conserved for the benefit of future generations. Typically, an item held for conservation will not directly provide economic benefits to the entity but could nevertheless meet the asset recognition criteria. This is because in the public sector, assets are often held for their service potential rather than their capability to generate cash flows. If a public sector entity has the objective of conserving a tangible natural resource for the public or its citizens, the act of conservation is achieving this objective.
- IG18. Conservation is distinct from the uses of tangible assets within the scope of other IPSAS, as these other Standards typically address the immediate or near-term use of an asset to provide service potential or economic benefits to the entity. In addition, these other uses often lead to the consumption of an asset, whereas conservation typically involves avoiding or limiting the use of a resource in a way which leads to their consumption.
- IG19. An entity is required to exercise judgement to determine whether a tangible natural resource is held for conservation. As noted in Implementation Guidance A.1, there may be situations where clear legislation is in place to conserve a tangible natural resource by restricting its use. In other situations, a tangible natural resource could be held for conservation and also be used to provide ancillary services.
- IG20. Without clear legislation, it may be necessary to analyze the details of the relevant conservation program to determine whether a tangible natural resource is held primary for conservation. Some factors to consider include:
- (a) The intended purpose of the conservation program: The specification to protect a particular resource, such as a particular species or group of species, is a strong indicator that the tangible natural resource is held for conservation. In contrast, programs which are more concerned with enhancing or promoting the use of a resource, such as the maintenance of green spaces to attract more visitors, may indicate that conservation is not the primary objective;
 - (b) The nature and intent of program activities: Conservation activities will vary depending on the facts and circumstances for each resource. For some mature tangible natural resources, a conservation program may simply focus on limiting the impact of human activities on the resource. In other situations, an entity may need to perform activities such providing feed or treatment for diseases to actively prevent the degradation of a resource. Regardless of the specific activities, activities which are performed to maintain the state of a tangible natural resource are indicative of conservation;
 - (c) The existence of a significant profit element: Some tangible natural resources held for conservation may be used to earn ancillary revenues to partially recover the costs of maintaining the resource. However, in some situations, a tangible natural resource may be managed to earn a profit. A program which focuses on the generation of revenues or profits may indicate that the resource is not primary held for conservation.

C.5 Subsequent Expenditures Incurred to Conserve a Tangible Natural Resource

How should an entity account for subsequent expenditures incurred to conserve a tangible natural resource?

- IG21. The recognition principle in paragraph 8 of [draft] IPSAS [X] (ED 92) is applicable to the expenditures incurred for conservation activities. The resulting accounting is consistent with the accounting for subsequent expenditures relating to property, plant, and equipment in IPSAS 45:
- (a) Expenditures which are incurred to maintain the current state of a tangible natural resource are similar to maintenance expenses for property, plant, and equipment. These expenditures are therefore recognized as expenses in surplus or deficit as incurred;
 - (b) In contrast, expenditures that result in incremental service potential are recognized as an asset based on the recognition principle in paragraph 8. Depending on the nature of the expenditure, it could result in an increase to the carrying amount of the recognized tangible natural resource, similar to additions in IPSAS 45, or in the recognition of a separate asset. For example, the construction of a fence around a tangible natural resource will result in the recognition of a separate asset within the scope of IPSAS 45.

C.6 Change in Primary Use

How would an entity account for land that is set aside for “rewilding”?

- IG22. “Rewilding” is the act of limiting human influence in an area with the aim of restoring the naturally occurring processes and biodiversity in that environment. In general, a change in an entity’s primary intended reason for holding a tangible natural resource may lead to a change in which IPSAS is applicable to the resource. In the context of rewilding land, such a change may occur when there is evidence that an entity has ceased to use the land as an investment property or property, plant, and equipment. A change in use may be evidenced by events such as ending the occupation or use of the land, termination of a lease of the property to another party, or the removal of structures on the land. The assessment of whether a change in use has occurred is similar to the assessment of transfers of property, plant, and equipment to or from investment property, as described in paragraph 66 of IPSAS 16.
- IG23. Consistent with transfers of property, plant, and equipment to or from investment property, the net carrying amount of the land then becomes the carrying amount of the tangible natural resource within the scope of [draft] IPSAS [X] (ED 92) upon the change in use. In some cases, an entity may begin to use a tangible natural resource in a manner which places it within the scope of another IPSAS, such as inventory within the scope of IPSAS 12 or a biological asset within the scope of IPSAS 27. In these situations, the entity applies the guidance on reclassification in paragraphs 40-41 of [draft] IPSAS [X] (ED 92).
- IG24. The entity should also consider if a change in use meets one of the indicators of impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*.

Section D: Measurement

D.1 Determination of Current Operational Value

How would an entity determine current operational value for a tangible natural resource within the scope of [draft] IPSAS [X]?

- IG25. In general, current operational value (COV) can be measured using a market approach or a cost approach. The use of a market approach does not necessarily result in a fair value measurement, as market prices can be used to estimate an asset's entry price.
- IG26. For tangible natural resources, an active market with transactions involving an identical asset may not be available. However, an entity could still apply the market approach by using the price from an orderly transaction involving a similar asset. For example, an entity holding a forest for conservation may estimate its COV using an appraisal value of a similar forest and adjusting the value for specific differences in characteristics that may impact its service potential, such as differences in the size of the forested area or restrictions in how the forested area can be used.
- IG27. If an active market for similar assets does not exist, an entity could also estimate COV using a cost approach by estimating the cost of developing a similar asset. Continuing with the forest example, the entity could estimate the forest's COV by accumulating the estimated costs of acquiring, planting, and growing saplings into mature trees, as well as the value of the land if it is not a separate unit of account.

D.2 Inability to Reliably Measure Current Value

When may an entity conclude that the current value of a tangible natural resource cannot be reliably measured?

- IG28. The use of estimates is an essential part of the accrual basis of accounting, and there will often be uncertainty associated with the measurement of a tangible natural resource. In some situations, the level of uncertainty in an estimate is so large that the relevance and faithful representativeness of a measure is questionable, even if disclosures are provided to explain the estimation techniques applied by the entity. Under these circumstances, the current value of the tangible natural resource cannot be reliably measured.
- IG29. The following factors may indicate that a tangible natural resource cannot be reliably measured:
- (a) There is a significantly wide range of potentially reasonable values;
 - (b) There is no reasonable way to assess the probabilities of various estimates; or
 - (c) There is no reasonable methodology or observable inputs available to measure the resource.

Section E: Display and Disclosure

E.1 Grouping of Disclosures

Do IPSAS require an entity to present all disclosures that relate to items which meet the definition of a tangible natural resource in one note, even when they are within the scope of other IPSAS?

- IG30. The definition of tangible natural resources in paragraph 6 of [draft] IPSAS [X] (ED 92) encompasses items which could be within the scope of other IPSAS based on how the entity uses the asset to achieve its objectives. In practice, the disclosures required by each IPSAS are often

separately presented in the notes to the financial statements. For example, the disclosures relating to inventories are typically grouped into one note, while disclosures relating to property, plant, and equipment are grouped into another note.

- IG31. IPSAS generally neither require nor prohibit an entity from grouping the disclosures of tangible natural resources within the scope of this and other Standards into a single note. However, if an entity decides to group the disclosures, it needs to ensure that this grouping does not obscure the information presented. This is typically accomplished by reconciling the information disclosed in the note with the amounts that are included in the various financial statement captions which contain tangible natural resources.
- IG32. The decision to group the disclosures of tangible natural resources together will depend on the entity's judgement on whether this results in more useful information for users of the financial statements compared to the potential costs of reorganizing the notes. When making this decision, the entity should consider the aggregation and disaggregation principles in IPSAS 1, *Presentation of Financial Statements*, as well as the requirements in IPSAS 18, *Segment Reporting*.

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X] (ED 92).

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, to particular natural resources on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 92).

Scope

IE2. Examples 1-2 illustrate the application of paragraphs 3-5 of [draft] IPSAS [X] (ED 92) on the scope of the [draft] Standard.

Example 1: Accounting for Physically Similar Assets that Have Different Uses

IE3. A public sector entity controls two regions of forested land in its jurisdiction, Region A and Region B. Both regions have similar physical characteristics and were initially uncultivated forests containing the same species of flora and fauna. There is no legislation that explicitly dictates how Regions A and B are to be used, but the regions are managed in accordance with different programs that have been created by the entity.

IE4. In accordance with the entity's program, Region A is opened to visitors. Parts of Region A have been landscaped or cleared to create hiking paths and campgrounds within the area, and some of the vegetation in the region have also been replaced with species that are deemed to have higher aesthetic value or are safer for visitors. Visitors can pay a nominal fee to reserve a specific campground, but they can enter and use the campgrounds for free without a reservation. In addition, the entity has hired a team of security personnel to patrol the region to monitor the visitors, ensure their safety, and to enforce any reservations.

IE5. In contrast, the entity has announced to the public that Region B is a reserve and constructed fencing to limit the human access to the area. Unlike Region A, the flora and fauna in Region B has been left in its natural state. While the entity has also hired a team of security personnel to patrol Region B, this security team has been instructed to deter individuals from trespassing into the region.

IE6. Based on the facts presented in paragraphs IE3-IE5, the entity concludes that Region A and Region B are held for different reasons and intended uses despite the fact that both regions initially had similar physical characteristics. The entity notes that Region A is used to provide services as the area is open for use by the public for camping and hiking, and this use is consistent with definition of property, plant, and equipment—i.e., Region A is a tangible asset that is used in the production or supply of goods or services and is expected to be used during more than one reporting period. This assessment is not impacted by the fact that these services are provided to the public for free. As a result, the entity concludes that Region A is within the scope of IPSAS 45, *Property, Plant and Equipment*.

IE7. The entity also observes that regardless of whether the restrictions on the access and use of Region B are self-imposed, the facts and circumstance support the conclusion that the primary

reason for holding the asset is for conservation rather than a use that would place it within the scope of IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, or IPSAS 45. As a result, the entity concludes that Region B is within the scope of [draft] IPSAS [X] (ED 92).

Example 2: Costs to Develop Natural Spaces

- IE8. A government entity has a “Rain Garden Program” in place to develop natural spaces in urban areas. These “rain gardens” are green spaces consisting of planted trees and other vegetation which help reduce the risk of flooding in the area and are considered more desirable than traditional constructed infrastructure such as dikes and reservoirs.
- IE9. Because these rain gardens are used accomplish the same objectives as constructed infrastructure, the government entity concludes that they are considered property, plant, and equipment within the scope of IPSAS 45. The entity would apply the recognition and measurement guidance from IPSAS 45 to assess whether the costs incurred to develop the green spaces, such as the costs of plants and landscaping expenditures, can be recognized as an asset. This assessment is separate from the consideration of whether the land on which the rain garden is located is an asset.
- IE10. In some jurisdictions, the developed natural spaces such as the rain gardens in this example may be referred to as “modified natural assets”, “enhanced natural assets”, or “green infrastructure”. Regardless, the assessment of which IPSAS to apply is based on the entity’s primary intended use of the item.

Disclosure of Unrecognized Tangible Natural Resources

- IE11. Example 3 illustrates the application of paragraphs 10 and 56 of [draft] IPSAS [X] (ED 92) on the disclosure of a tangible natural resource which meets the definition of an asset but is not recognized as it cannot be reliably measured.

Example 3: Unused Publicly Owned Land

- IE12. A public sector entity obtains control of a plot of land in an uninhabited area through the exercise of its sovereign powers. Due to its remote location, the entity concludes that it will not use the land as property, plant, and equipment, hold it as an investment property for capital appreciation, or sell the land in the ordinary course of business as inventory. However, the entity plans to conserve the habitats in the area and concludes that the land meets the definition of an asset. Based on these facts, the entity concludes that the plot of land is within the scope of [draft] IPSAS [X] (ED 92) and should be initially measured at its deemed cost (current value) in accordance with paragraph of 12.
- IE13. To determine the current value of the land, the entity retained a number of valuation specialists to assist in the estimation process. Due to the remote location of the land, the entity and the valuation specialists agreed that there is no reasonable basis to measure the land’s current value.
- IE14. As a result, the entity concludes that the plot of land is an asset that cannot be reliably measured. Therefore, the entity applies the disclosure requirements in paragraph 56 of [draft] IPSAS [X] (ED 92) and discloses:
- (a) The location and physical characteristics of the land;

- (b) An explanation of the difficulties in obtaining a reliable measurement of the land's current value; and
 - (c) The significance of the land in relation to the delivery of the entity's objectives.
- IE15. If the land was not held for conservation, and it was not possible to use it as property, plant and equipment, investment property, or inventory, the entity would likely conclude that the land is not a resource, as it does not embody service potential or the capability to generate economic benefits. If that is the case, the land would not meet the definition of an asset and the disclosures in paragraph 56 would not be applicable. However, the land may be disclosed in the entity's broader general purpose financial reports.

Transition

- IE16. Example 4 illustrates the potential similarities and differences resulting from the application of [draft] IPSAS [X] (ED 92) using the modified retrospective transition approach and the full retrospective approach.

Example 4: Differences Between the Modified Retrospective and Full Retrospective Transition Methods

(Note: To isolate the impact of the transactional provisions, this example assumes that other than the events or transactions specified below, there are no other transactions within the entity.)

- IE17. A central government entity with a December 31 year-end applies [draft] IPSAS [X] (ED 92) in year 20X4. As its 20X4 financial statements present comparative information for the 20X3 year, the date of initial application of [draft] IPSAS [X] (ED 92) is January 1, 20X3. The entity has elected to use the historical cost model in the subsequent measurement of tangible natural resources and concluded that resource in question has an indefinite useful life—i.e., it should not be depreciated.
- IE18. When the country's constitution was established many years ago, the entity obtained control over a significant tangible natural resource in its jurisdiction (Resource A). At the time, Resource A's current value was CU 50 million. However, the entity did not consider recognition of an asset, as their accounting framework at the time did not require the recognition of tangible natural resources.

Case A – The Central Government Continues to Control the Resource on the Date of Initial Application

- IE19. Since 20X2, the current value of Resource A has increased to CU 70 million. The entity has continued to control Resource A throughout 20X2 to 20X4.
- IE20. The entity considered the transitional requirements in paragraph 61 of [draft] IPSAS [X] (ED 92) and noted the following.

Modified Retrospective Approach (Paragraph 61(a))

- IE21. The modified retrospective approach requires the recognition of any tangible natural resources that are controlled by an entity on to the date of initial application at their current value on that date. The cumulative effect of initially applying [draft] IPSAS [X] (ED 92) is recognized as an adjustment to opening accumulated surpluses/(deficits).
- IE22. As a result, the entity recognizes Resource A as an asset at CU 70 million on January 1, 20X3 and adjusts its opening accumulated surpluses/(deficits) by CU 70 million.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors (Paragraph 61(b))

- IE23. If the entity applies [draft] IPSAS [X] (ED 92) in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained. This approach would result in the following:
- (a) Resource A would be recognized as an asset of CU 50 million upon the establishment of the country's constitution; and
 - (b) Because the entity elected to subsequently measure tangible natural resources using the historical cost model, on the date of initial application, Resource A would not be adjusted to CU 70 million. The recognized asset and the opening accumulated surpluses/(deficits) would remain at CU 50 million.

Case B - Resource was Sold Prior to the Date of Initial Application

- IE24. In this case, the example facts outlined in paragraphs IE16-IE17 continue to be applicable. However, during 20X2, the entity classified the Resource A as an asset held for sale and sold it for cash consideration of CU 70 million. As the resource was previously unrecognized, there was no carrying amount to offset the consideration received, and the sale resulted in a gain of CU 70 million.
- IE25. Prior to the application of [draft] IPSAS [X] (ED 92), the entity's balance sheet on the December 31, 20X2 would have consisted of cash and accumulated surpluses/(deficits) of CU 70 million.
- IE26. The entity considered the transitional requirements in paragraph 61 of [draft] IPSAS [X] (ED 92) and noted the following:

Modified Retrospective Approach (Paragraph 61(a))

- IE27. The modified retrospective approach does not require the reconsideration of any tangible natural resources that were no longer controlled on the date of initial application. As a result, the entity does not need to make any adjustments to its opening balance sheet.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors (Paragraph 61(b))

- IE28. If the entity applies [draft] IPSAS [X] (ED 92) in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained and its subsequent sale in year 20X2. This approach would result in the following:
- (a) Resource A would have been recognized as an asset valued at CU 50 million back when the country's constitution was established. Since the 20X4 financial statements only include comparative information for the 20X3 year, this adjustment will only be reflected in the 20X3 opening accumulated surpluses/(deficits);
 - (b) In year 20X2, the sale of Resource A would have resulted in a gain of only CU 20 million (CU 70 million cash consideration less Resource A's carrying amount of CU 50 million). Since the entity is only presenting comparative information for the 20X3 year, this gain will only be reflected in the opening accumulated surpluses/(deficits) in the 20X3 financial statements; and

- (c) Although the gain in year 20X2 is different from the gain recognized before the application of [draft] IPSAS [X] (ED 92), it should be noted that the accumulated surpluses/(deficits) on the date of initial application continues to the CU 70 million (consisting of CU 50 million from the initial recognition of Resource A and the gain of CU 20 million from the sale of the resource).

Comparison with GFS

In developing [draft] IPSAS [X] (ED 92), *Tangible Natural Resources*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under [draft] IPSAS [X] (ED 92) and GFS will depend on the facts and circumstances of the tangible natural resource.
- [Draft] IPSAS [X] (ED 92) only provides guidance on tangible natural resources, while GFS provides guidance on broader types of natural resources.
- Under [draft] IPSAS [X] (ED 92), the recognition of a tangible natural resource as an asset is based on control. Under GFS, the recognition of assets is based on economic ownership.
- [Draft] IPSAS [X] (ED 92) initially measures tangible natural resources at deemed cost or cost depending on whether recognition resulted from a transaction in an orderly market. Under GFS, natural resources are measured at market prices.
- After initial recognition, [draft] IPSAS [X] (ED 92) provides entities with an accounting policy option to measure tangible natural resources at historical cost or at current values. Under GFS, naturally occurring resources are subsequently measured at market prices. This measurement approach may align with current values under IPSAS in some circumstances.
- [Draft] IPSAS [X] (ED 92) includes disclosure requirements that are not present in GFS memorandum items.

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