

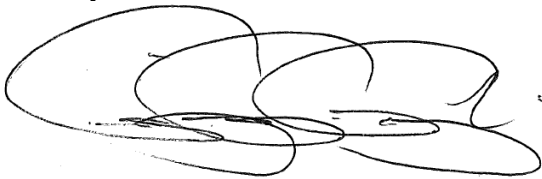
December 29, 2024

Mr. Ian Carruthers, Chairman  
International Public Sector Accounting Standards Advisory Board  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

Dear Chairman Carruthers and Members of the Board –

Thank you for the opportunity to comment on *Exposure Draft 92, Tangible Natural Resources*. I hope my enclosed responses to the specific matters for comment (SMC) will be useful to the Board.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ricky A. Perry, Jr.', with a large, stylized flourish extending from the end of the signature.

Ricky A. Perry, Jr., CPA, CGFM  
United States of America

Enclosure

*Disclaimer: The enclosed comments provided in this letter are strictly my own views. They are not intended to reflect or convey the views of the FASAB or others on staff. Official positions of the FASAB are determined only after extensive due process and deliberations.*

SMC Responses

**SMC 1**

*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, BC8, and BC34.) Do you agree with the proposed scope? If not, what alternative scoping approach would you propose and why?*

*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?*

*This Exposure Draft includes an Alternative View regarding its scope and the definition of tangible natural resources.*

No. Although I mostly agree with the *intended* (emphasis added) scope and applicability, which is summarized by paragraph 5 of the proposal, I have several concerns related to the clarity and design of the scope and applicability proposals, including:

- **Paragraph 3.a:** This scope exception paragraph asserts that tangible natural resources could be “consistent with an item of property, plant, and equipment within the scope of IPSAS 45, *Property, Plant, and Equipment*.” This language is incongruous with paragraphs 3 and 5 of IPSAS 45.

IPSAS 45 does not appear to be applicable to tangible natural resources under paragraph 3.b of IPSAS 45 in its current form or under the proposed conforming amendment thereto (shown in Appendix B of the exposure document). Furthermore, natural resources themselves do not meet the definition of property, plant, and equipment under paragraph 5 of IPSAS 45. If practitioners are applying IPSAS 45 to natural resources, I believe this matter may warrant further research and Board action, because this would likely signal considerable reporting and practice issues.

Proposed paragraph 3.a in this exposure document, therefore, raises unnecessary questions about the scope and applicability of IPSAS 45 that would not otherwise be raised in practice.

While I support the proposed amendment to IPSAS 45 shown in Appendix B, I am concerned that the proposed paragraph 3.a may induce unnecessary confusion in practice.

- **Paragraph 3.b:** This scope exception paragraph, coupled with the proposed amendment to IPSAS 12, *Inventories*, may create unnecessary confusion in practice when determining the scope and applicability of guidance to natural resources subject to IPSAS 12.

The proposed scope exception under proposed paragraph 3.b duly notes that certain natural resources are within the scope of IPSAS 12, and I agree with this (see extant par. 12 of IPSAS 12). My concern is that the proposed amendment to paragraph 3.c of IPSAS 12 is not sufficiently clear on this point. The proposed amendment to IPSAS 12 could include additional explanation, such as an “except for” sentence explaining what types of natural resources fall under the scope of IPSAS 12. Such an approach would be consistent with other scope-out paragraphs under IPSAS 12 (see extant par. 3.a and 3.b of IPSAS 12).

- **Paragraph 3.c:** This scope exception paragraph asserts that tangible natural resources could be “held to earn rentals or capital appreciation, or both, which is consistent with an investment

property within the scope of IPSAS 16, *Investment Property*.” This language is incongruous with paragraphs 6 and 7 of IPSAS 16.

IPSAS 16 does not appear to be applicable to tangible natural resources under paragraph 6.b of IPSAS 16 in its current form or under the proposed conforming amendment thereto (shown in Appendix B of the exposure document). Furthermore, natural resources themselves do not meet the definition of investment property under paragraph 7 of IPSAS 16. If practitioners are applying IPSAS 16 to natural resources, I believe this matter may warrant further research and Board action, because this would likely signal considerable reporting and practice issues.

Proposed paragraph 3.c in this exposure document, therefore, raises unnecessary questions about the scope and applicability of IPSAS 16 that would not otherwise be raised in practice.

While I support the proposed amendment to IPSAS 16 shown in Appendix B, I am concerned that the proposed paragraph 3.c may induce unnecessary confusion in practice.

- **Paragraph 3.d:** This proposed scope exception paragraph, coupled with the proposed amendment to IPSAS 27, *Agriculture*, may create unnecessary confusion in practice when determining the scope and applicability of guidance to biological assets subject to IPSAS 27.

The proposed scope exception under proposed paragraph 3.d duly notes that certain biological assets are within the scope of IPSAS 27, and I agree with this (see extant par. 6 and 9 of IPSAS 27). My concern is that the proposed amendment to IPSAS 27 under Appendix B could include additional explanation, such as an “except for” sentence explaining what types of natural resources fall under the scope of IPSAS 27. Such an approach would be consistent with paragraph 3.b of IPSAS 27.

Another concern I have is that proposed paragraph 3.d does not entirely align with the IPSAS 27, paragraph 9. Specifically, paragraph 3.d does not integrate the full definition of agricultural activities. Agriculture activities also include “conversions into additional biological assets for sale or for distribution at no charge or for a nominal charge.” This language is not included in the proposed paragraph. Was this omission intentional? Did the IPSASB intend to scope out biological assets that will be converted into additional biological assets for sale or distribution at no charge or for a nominal charge? If so, it would be helpful to more fully integrate the definition of agricultural activities to close this inadvertent gap: “...*is managed for sale, distribution, or conversion into agricultural produce or into additional biological assets for sale or distribution.*”

- **Paragraph 4.a:** Does the reference to “resource-related obligations within the scope of IPSAS 19” harmonize with paragraph 43 in this exposure document? Is the reference to IPSAS 19 here necessary?

Paragraph BC19 appears to express an intent that “no additional guidance on such obligations (such as contingent liabilities) would be provided in this [draft] Standard.” I agree with this intent and the related scope and applicability outcomes; however, I am raising a question regarding clarity. In my opinion, paragraph 4.a is not instructive unless additional language is inserted to explain that the proposed IPSAS does not cover accounting for provisions, contingent liabilities, and contingent assets; rather, IPSAS 19 would apply (see also: extant par. 1.e of IPSAS 19). Perhaps language on the application of IPSAS 19 would be helpful. This approach would be conceptually consistent with other proposed paragraphs in the proposal (par. 47, 49) that direct practitioners to other relevant IPSAS requirements within the measurement requirements (rather than through cross-references in the scope section).

- **Paragraph 4.b and BC6-BC7:** I do not agree with limiting the scope of the proposed standards to *tangible* (emphasis added) natural resources.

Paragraph BC6.a notes that “constituents indicated that the development of guidance for tangible natural resources, such as subsoil resources, was a greater priority.” The statement appears to contain a contradiction, because some subsoil resources may be considered intangible in practice, such as natural gas and helium. It seems appropriate to scope such natural resources into the proposed standards without regard to tangibility. Perhaps the Board should explore including all natural resources within the scope of the standard and then scoping out specific types, such as the electromagnetic spectrum, if determined appropriate.

I would be interested to know more about how the Board reached the conclusion in paragraph BC6.c that “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.” I am not convinced that practitioners would want to apply two IPSAS to natural resources based on the tangibility attribute when it may introduce unnecessary complexities or inconsistencies in practice and reporting.

- **Paragraph BC8:** I disagree with characterizing this as a “residual standard.” This paragraph raises concerns about scope and applicability.

I generally concur with paragraphs AV2.a and AV4-AV7 of the alternative view (except for my additional concern regarding the tangibility attribute and scoping out intangible natural resources, such as natural gas and helium). The “residual” approach that was employed when designing the scope section of this proposal may create undue challenges and inconsistencies for practitioners implementing the standards.

## SMC 2

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

*Do you agree with the proposed definitions? If not, why not?*

*This Exposure Draft includes an Alternative View regarding its scope and the definition of tangible natural resources.*

Although I do not agree with the scope of the proposed standards excluding certain intangible natural resources, (see SMC 1 response above), the above definitions are accurate definitions of these terms. I do not object to the definitions.

## SMC 3

*This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this [draft] Standard 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?*

I partially agree. While I concur with the proposals of paragraphs 23-29, including the rebuttable presumption approach, I do not fully concur with all of the proposals under paragraphs 30-32.

Paragraphs 30-32 include guidance on internal control over financial reporting, which is a risk-based concept affected by management and governed by internal control standards and frameworks. Reviews of useful lives on an annual basis may create additional burdens on reporting entities performing such reviews. Such a frequency may not make sense within the context of natural resources held for conservation when considering that any changes to the estimated useful lives would have a minimal effect on the annual depreciation amounts, given the very long useful lives associated with these assets. Consideration should also be given to the characteristics of the reporting entity, its portfolio of assets, risk, and materiality when designing internal controls in this area.

Would these internal control requirements fall under the domain and authority of the IPSASB? If so, I would suggest that these reviews could often be done much less frequently without undermining fair presentation in accordance with the proposed standard. The cost-benefit of doing annual reviews of the useful lives of assets held for conservation simply does not make sense when reporting entity resources would likely be better devoted to other internal control over financial reporting activities.

#### **SMC 4**

*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?*

I concur with the proposal for the reasons set forth under paragraph BC31 of the exposure document.

#### **SMC 5**

*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 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 45.*

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

No. I generally concur with paragraphs AV2.b and AV8-AV11 of the alternative view. I believe that limiting the requirements to natural resources held for conservation would clarify the scope, simplify the adoption process and the measurement guidance, and result in the removal of confusing guidance and irrelevant measurement bases, such as the language addressing fair value and financial capacity. In my opinion, the alternative view is a more clear and effective design approach for the accounting outcomes sought by the majority of the Board. Relatedly, I also agree with paragraphs AV2.c and AV12 of the alternative view. I especially concur with their concern regarding the unknown uses and

specific characteristics of potential other assets that may inadvertently fall within the scope of this ED as designed. Unless such assets are prevalent and material, which seems doubtful, the suggested scoping approach of Ms. Valera and Mr. van der Burgh is more practical, efficient, and clear.

#### SMC 6

*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 of the [draft] Standard 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 modified retrospective basis will result in useful information? If not, why not?*

No. I have concerns about paragraph 60 of the exposure document. Paragraphs IG25-IG29 provide guidance that highlights the undue burdens associated with initially measuring these assets at current operational value.

Current operational value is not a relevant measurement basis to users of general-purpose financial reports for these types of assets, because current operational value is not reflective of the historical cost of natural resources under management and the related effects on cumulative results.

If historical cost information is not available, entities are unlikely to be able to reliably measure the current operational values of natural resources held for conservation (see par. IG28-IG29). Even if the range current operational values are sufficiently narrow to allow for certain natural resources held for conservation to be recognized, I do not believe this measurement basis is relevant to decision-making or assessing accountability. Rather, the requirements of paragraphs 10 and 55 would provide sufficient and useful information to internal and external users regarding reporting entity management stewardship responsibilities without placing undue measurement burden on practitioners.

#### SMC 7

*The IPSASB proposes to amend the description of 'heritage asset' in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this [draft] Standard.*

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

I do not have enough information to express an agreement or disagreement with the amendment itself. However, I have concerns about the amendment, and I disagree with the basis for the amendment for the following reasons:

- Tangible natural resources do not meet the definition of property, plant, and equipment, thereby making this amendment seemingly unnecessary.
- Perhaps certain heritage assets exist that (a) hold significance in relation to their environmental or natural features, (b) are not tangible natural resources, and (c) would otherwise meet the unamended description of heritage assets under AG2 of IPSAS 45. If that is the case, these amendments may result in practice issues.