

Friday, 28 February 2025

Mr Ian Carruthers
Chairman
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
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Submission via website: <https://www.ipsasb.org/publications/exposure-draft-ed-92-tangible-natural-resources>

Dear Ian

Exposure Draft 92, Tangible Natural Resources

As the representatives of over 310,000 professional accountants around the world, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on Exposure Draft 92, *Tangible Natural Resources* (the ED). We make this submission on behalf of our members and in the public interest.

We reiterate that we do not support the development of a new IPSAS for guidance relating to the recognition, measurement, display, and disclosure of tangible natural resources as proposed in the ED. This is for the reasons outlined in our [joint submission](#) to the preceding Consultation Paper – Natural Resources.

To reiterate the recommendation we made in our previous submission, we believe the reporting of information on natural resources would be better addressed as part of IPSASB's public sector sustainability reporting project. We do not consider that the principles and concepts that underpin financial statements can best capture and present meaningful information on natural resources. Instead, the resources of the IPSASB would be better served by identifying and establishing connectivity between public sector financial reporting and sustainability reporting. In the interim, we recommend the development of financial reporting guidance on applying the Conceptual Framework and existing IPSAS to tangible natural resources.

Consistent with our previous joint submission, we are concerned that very few tangible natural resources would be within the scope of the ED, invalidating the need for an accounting standard on this topic. In limited circumstances where a tangible natural resource was within the scope, we believe it is unlikely that the proposed recognition criteria in paragraph 8 of the ED would be met due to the following reasons:

- The key challenge we anticipate regarding tangible natural resources in the public sector is satisfying the concept of **control**. The public sector often holds tangible natural resources to protect, preserve, and/or restore them for future generations. The relationship is more akin to holding tangible natural resources as custodians rather than with ownership rights. Furthermore, in jurisdictions like Australia, where the public sector exists across multiple tiers of government

authority (federal government, state governments and local governments) it could be challenging to identify which tier of government exercises control over specific tangible natural resources.

- It is not clear how to justify the occurrence of a **past event** in relation to a tangible natural resource.
- It is common for significant measurement uncertainty to exist in relation to tangible natural resources due to a lack of an appropriate measurement basis. In addition, there could be significant costs incurred to arrive at a **reliable measurement** which outweigh the benefits. From a public sector perspective, accounting for tangible natural resources cannot be merely limited to assigning a monetary value in isolation without also considering non-financial aspects.

As these proposals in the ED remain unchanged from the previous consultation, our concerns remain unaddressed. In addition, we are concerned that the subjectivity of the recognition criteria could lead to inconsistency in its application. Furthermore, this degree of subjectivity could exacerbate the risk of financial mismanagement, where natural resource assets are brought on balance sheet offsetting a problematic overall and medium-term net liability position.

There are global concerns around natural resource depletion, overconsumption, and the public sector management of natural resources. We acknowledge that since releasing the ED, the IPSASB is now considering the following potential projects:

- Authoritative Guidance based on RPG 3 *Reporting Service Performance Information*.
- A Sustainability Reporting Standard on nature-related disclosures.

We would support these initiatives in principle due to the increasing demand for information on the sustainable consumption of natural resources.

We also note that the term “display” is used in the ED in the context of the information to be presented on the face of the statement of financial position. This is inconsistent with the terminology used in IPSAS 1 *Presentation of Financial Statements*.

The **Attachment** to this letter contains our responses to the specific matters for comment in the ED. Our responses should be considered within the context of our overarching view that a new IPSAS should not be developed. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) at Amir.Ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at Ram.Subramanian@cpaaustralia.com.au.

Sincerely

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Attachment

Response to Specific Matters for Comment

Specific Matter for Comment 1: Scope

This Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of any other existing IPSAS. 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?

We are unable to identify any tangible natural resources other than those held for conservation that could be within the scope of the ED, making its scope very limited. Therefore, we question the benefit of developing a new 'residual' IPSAS for tangible natural resources which are not within the scope of any other existing IPSAS. Furthermore, we are not comfortable with the development of a new IPSAS for tangible natural resources that are essentially unknown, or would present challenges to preparers in seeking to meet the high thresholds for recognition and measurement which we do not believe can be met for most natural resources that are envisaged as within the scope of this ED.

In addition, we are concerned that the subjectivity of the recognition criteria could lead to inconsistency in its application. Furthermore, this degree of subjectivity could exacerbate the risk of financial mismanagement, where natural resource assets are brought on balance sheet offsetting a problematic overall and medium-term net liability position.

Instead, as noted in our cover letter, in the short-term we recommend the development of guidance on applying the Conceptual Framework and existing IPSAS to tangible natural resources. In the long-term we recommend the IPSASB addresses this topic through its sustainability reporting project. In our view, any matters relevant to financial reporting in the context of natural resources should be addressed through exploring the "connectivity" between financial reporting and sustainability reporting.

Specific Matter for Comment 2: Definitions

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 with physical substance.

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

We are pleased to see that the IPSASB has removed the term "natural state" from the proposed definition of a natural resource which is consistent with our [joint submission](#) to the preceding Consultation Paper – Natural Resources, and other submitters' feedback. This resolves the main challenge in applying the definition as previously proposed, resulting in a proposed definition that is now more workable in practice.

Specific Matter for Comment 3: Depreciation

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?

Yes, we agree with the proposed rebuttable presumption on the basis that tangible natural resources are not typically used or consumed in a manner similar to tangible assets within the scope of other IPSAS.

Specific Matter for Comment 4: Exemption from Certain Disclosures

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?

Yes, we agree with the proposed disclosure exemption on the basis that this approach is aligned with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, which has an exemption from disclosing information which may prejudice an entity's position in a dispute with other parties.

Specific Matter for Comment 5: Cross-References to IPSAS 45, *Property, Plant, and Equipment*

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?

Yes, we agree that the cross-references are sufficiently clear.

Specific Matter for Comment 6: Transition

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?

We support allowing the option to apply the modified retrospective approach on the basis that entities would not have to restate comparative financial information. Applying the full retrospective approach would require entities to consider tangible natural resources which had previously met the recognition criteria but were derecognised prior to the date of initial application – in our view, this would not result in useful information.

Specific Matter for Comment 7: Amendment to the Description of ‘Heritage Asset’ in IPSAS 45, Property, Plant, and Equipment

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?

Yes, we agree with the proposed amendment on the basis that this approach is consistent with the ED being designed to be a residual standard.