



Date: February 27, 2025

Mr. Ross Smith

Program and Technical Director,

International Public Sector Accounting Standards Board

International Federation of Accountants

529 5th Avenue

New York, New York 10017

RE: Comments on ED 92, *Intangible Natural Resources*

Dear Mr. Smith,

We welcome the opportunity to comment on ED 92, *Intangible Natural Resources*.

Our responses to the specific questions raised in the Exposure Draft as well as other comments are set out in Appendix 1.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Mr. Abdullah Alhomaïda via email at:

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Yours sincerely,

Abdullah Al Mehthil

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Appendix 1 - Exposure Draft 92, *Intangible Natural Resources*

Specific Matter for Comment 1:

Scope: The ED 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 ED. What other items would you anticipate being accounted for through this ED.

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

[Our Comments]

We do not agree. We have identified two concerns: the first relates to the wording of the scope, and the second pertains to the scope in substance.

In respect of wording, we do not understand why IPSASB did not consider the full definition of inventories according to IPSAS 12, when drafting paragraph 3.b of ED 92. Specifically, it did not include assets 'held for sale in the ordinary course of operations' as defined in IPSAS 12.9. Instead, it only includes assets 'held for distribution in the ordinary course of operations.'

More importantly, we agree that the Alternative View raises valid concerns about the scope of the proposed Standard. We believe that the proposed scope is overbroad and confusing. It should be limited to tangible natural resources that are and will continue to be held primarily for conversation (for example, resources held for their environmental, historical, cultural or aesthetic significance, i.e. those that "passively" provide service potential). It should expressly scope out subsoil resources and other tangible natural resources that are held for their capability to provide economic benefits or services through active use or consumption even if such use or consumption is not intended in the foreseeable future. These resources should fall within the scope of the relevant IPSAS (for example, IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45) if and when they meet the criteria for recognition thereunder. In other words, "conserving" a resource that is held for strategic purposes which would be accounted for in accordance with any of the IPSAS identified in paragraphs 4(a-d) of ED 91 should not make that resource within the scope of the proposed while being "conserved". For example, IPSAS 16, paragraph 13(g), indicates that property held for strategic purposes which would be accounted for in accordance with IPSAS 45 falls within the scope of IPSAS 45. The guidance in the draft Standard should be update accordingly, including for example, removing guidance and references pertaining to "subsoil resources", "water that is physically housed in a managed environment", "extraction".



In terms of resources that are and will continue to be held primarily for conservation, we also note that the scope should explicitly address resources that are actively managed or restored, such as reforested areas, rehabilitated wetlands, reproduced (captive bred) endangered species, etc. These resources may not clearly satisfy the "naturally occurring" criterion (as per the definition of a Natural Resource), as they often involve significant human intervention. It is recommended to add guidance on whether such resources are within the scope of this standard, ensuring common understanding and application of ED's scoped assets.

Although the IPSAB has not noted a specific question for comments on the recognition and measurement paragraphs (paragraph 8-22 of the ED), we note significant subjectivity in the recognition criteria and deemed cost model for initial measurement of a natural resource. We acknowledge the recognition criteria outlined in paragraph 8 of ED require that a tangible natural resource must meet three conditions to be recognized: (a) probable future economic benefits or service potential, (b) control by the entity, and (c) reliable measurement. While these criteria are conceptually sound, the practical application of the reliable measurement criterion, particularly for natural resources with features that cannot be replaced, such as mountain parks and complex ecosystems, is not very clear. Determining the cost or value of such resources can be highly complex and subjective, raising questions about their practical application for consistent and reliable measurement across entities. There is also the question of whether putting a monetary value on natural resources acquired through non-exchange transactions that are and will continue to be held primarily for conservation (for example, resources held for their environmental, historical, cultural or aesthetic significance) results in useful and relevant information and justifies the cost of valuation. Users may be mainly concerned with information about the quality, quantity and non-financial benefits of such resources (information that is beyond the remit of the IPSASB and of financial statements), and the associated rehabilitation, maintenance and other conservation costs (information that is already addressed by existing IPSAS). We believe that the IPSASB should therefore address the following issues:

- measurability of resources with irreplaceable features;
- whether valuing natural resources acquired through non-exchange transactions that are and will continue to be held primarily for conservation results in information that is cost-beneficial; and
- whether requirements to report on tangible natural resources should be considered after considering the work of the ISSB on developing reporting requirements associated with BEES.



Specific Matter for Comment 2:

Definitions: This ED 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?

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

[Our Comments]

We do not agree. Consistent with our response to SMC 1, the draft Standard should focus on conservation-only resources, and the term should therefore be 'natural resource held primarily and continually for conservation'.

Again, the "naturally occurring" criterion (in the definition of Natural Resource) requires reconsideration for practical application, particularly concerning conservation. The current definition of "naturally occurring" as existing without human intervention is overly simplistic and creates ambiguity. We understand that conservation often necessitates active intervention (e.g., habitat restoration, invasive species removal, reproduction of endangered species), and many natural environments have been influenced by human activity over time. A literal interpretation could inadvertently exclude resources actively managed for conservation, contradicting the standard's intent.

Specific Matter for Comment 3:

Depreciation: The ED includes a rebuttable presumption that the tangible natural resources 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?

[Our Comments]

Living tangible natural resources such as plants and animals have finite lifespans and should be depreciated considering the period over which they are expected to provide service potential.

We believe that other parts of the guidance in IPSAS 45 on determining whether assets have finite or indefinite useful lives (for example IPSAS 45.AG32) are also relevant and could be reproduced in the context of natural resources held for conservation in the proposed Standard.



Specific Matter for Comment 4:

Exemption from certain disclosures: This ED 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?

[Our Comments]

We agree with the proposed disclosure exemption.

Specific Matter for Comment 5:

Cross references to IPSAS 45 Property, plant and equipment: This ED includes cross-references to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and disclosure requirement for current value (paragraphs 15 and 54). Do you agree that these cross-references are sufficiently clear? If not, how should the above guidance be incorporated into the final standard?

[Our Comments]

We agree with the cross-reference to IPSAS 45, Property, Plant and Equipment, for assets acquired through exchange transactions, since the economic substance of such a transaction is essentially the same.

Specific Matter for Comment 6:

Transition: This ED allows the application 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.

[Our Comments]

We agree with the proposed transitional provisions. However, we note that the period to the effective date needs to be sufficiently long, given the complexity of identifying and collecting the necessary information.



Specific Matter for Comment 7:

Amendment to the description of Heritage Assets in IPSAS 45, Property, plant and equipment: The IPSASB proposes to amend the description of 'heritage assets' in IPSAS 45 so that heritage assets which are tangible natural resources are accounted from within the scope of this draft Standard. Do you agree? If not, why not?

[Our Comments]

Based on our disagreement with the proposed scope (SMC 1), we do not agree with the consequential amendment. We agree that a heritage asset that is a natural resource should be dealt with under standard if and only if the heritage asset is and will continue to be primarily held for conservation, i.e. it "passively" provides service potential. If it is primarily held for economic benefits or will be actively used to provide services, it should be dealt with under IPSAS 45.

Specific Matter for Comment 8:

Sufficiency of proposed implementation guidance and illustrative examples: The non-authoritative guidance in this draft Standards 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 the proposed implementation guidance and illustrative examples are sufficient? If not, what other topics would be helpful?

[Our Comments]

Based on our disagreement with the scope (SMC 1), and our request to scope out subsoil resources and other tangible natural resources with the potential to provide economic benefits or services through active use or consumption even if such use or consumption is not intended in the foreseeable future, it follows that the implementation guidance and illustrative examples should be updated for these exclusions.

We would welcome more guidance on:

- The application of the term 'naturally occurring' in the context of conservation activities involving significant human intervention such as reforestation and reproduction of endangered species.
- The meaning of "service potential" in the context of natural resources held primarily for conservation.
- Measurement of natural resources with irreplaceable features such as mountain parks and complex ecosystems.



- Whether the inputs to and the outputs from a reproductive conservation activity for living resources fall within the scope of the proposed standard or another IPSAS.

Other Comments:

Text	Comment/suggestion
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, <u>amounts, timing, and uncertainties</u> arising from tangible natural resources.	Amounts, timing and uncertainties normally relate to cashflows. It is advisable to use wording similar to the objective paragraph in IPSAS 45.
2. To meet the objective in paragraph 1, this [draft] Standard: (a) Sets out the recognition, measurement, and presentation requirements for tangible natural resources; and (b) Requires an entity to provide disclosures in <u>their</u> 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	<u>its</u>
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: (c) The resource is held to earn rentals or capital appreciation, <u>or both, which is consistent with</u> 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	<u>or both. The nature of such a resource is consistent with...</u> <u>produce. The nature of such a resource is consistent with a biological asset</u>



<p><u>produce. Such a resource would be a biological asset within the scope of IPSAS 27, Agriculture</u></p>	
<p>14. A recognized tangible natural resource acquired through an exchange transaction shall be measured at its cost.</p>	<p>In some situations, items are acquired through expropriation with compensation that is materially different from fair value, so we suggest the following addition:</p> <p><u>However, if the transaction price does not faithfully present relevant information about the resource, deemed cost shall be used to measure the initial value of the resource in accordance with paragraphs 10 and 11 of IPSAS 46.</u></p>
<p>18. Where an entity chooses to measure a recognized tangible natural resource after initial recognition using the current value model, and its current value can be measured reliably, it shall be carried at a revalued amount, being its current value at the date of revaluation, less any subsequent accumulated depreciation (if applicable) <u>and subsequent accumulated impairment losses</u>. A tangible natural resource or part of the resource within the scope of this [draft] Standard is measured at fair value if it is held for its financial capacity, or at current operational value if it is held for its operational capacity. 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.</p>	<p><u>and any subsequent accumulated impairment losses</u></p>
<p><u>38. The consideration receivable on disposal of tangible natural resources is recognized initially at its fair value. If payment for the item</u></p>	<p>This paragraph should be revised after IPSAS 45, paragraph 67 as amended by IPSAS 47. It should read as follows:</p>



<p><u>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.</u></p>	<p><u>The amount of consideration to be included in the gain or loss arising from the derecognition of a natural resource is determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 and AG104-AG106 of IPSAS 47, Revenue. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.</u></p>
<p>45. For recognized tangible natural resources within the scope of this [draft] Standard, an entity shall disclose the following:</p> <p>(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 <u>the period</u>; and</p> <p>(d) A reconciliation of the carrying amount at the beginning and end of <u>the period</u>, showing:</p>	<p><u>the reporting period</u></p> <p><u>the reporting period</u></p>
<p>58. 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.</p>	<p>We note that the period to the effective date needs to be sufficiently long, given the complexity of identifying and collecting the necessary information.</p>
<p>60. 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 asset recognition criteria on the date of initial application of this [draft] Standard</p>	<p><u>at their historical costs or, where no reliable historical cost information is available, at their deemed costs (current values), as at the date of initial application</u></p>



<p><u>at their deemed costs (current values) as at the date of initial application.</u> 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</p>	<p>This would provide a relief from deemed cost to any resources with reliable historical cost information.</p>
<p>AG2. The flowchart below may assist entities with the key considerations when applying this [draft] Standard.</p>	<p>It is not clear why IPSAS 31 and IPSAS 41 are referenced while the item is a tangible natural resource.</p>
<p>AG25. Generally, a tangible natural resource held with the primary objective of generating a financial return will be within the scope of <u>IPSAS 12, IPSAS 16, IPSAS 27, or IPSAS 45</u>, and the measurement of a non-current tangible natural resource held for sale would be determined by IPSAS 44. A tangible natural resource within the scope of this [draft] Standard that is held for conservation will generally be held for its operational capacity, and its current value shall be measured at current operational value. Tangible natural resources within the scope of this [draft] Standard that are held for other purposes could be measured at fair value if they are held for their financial capacity.</p>	<p>IPSAS 43 too if the resource is leased out.</p>
<p>AG28. A class of recognized tangible natural resources is <u>a group</u> of assets of a similar</p>	<p><u>a grouping</u></p>



<p>nature or held for similar reasons. The following are examples of separate classes:</p> <p>(a) Conservation areas consisting of wildlife, habitat areas, and bodies of water which are all subjected to the same management activities;</p> <p>(b) Certain species of animals; and</p> <p>(c) Forests in designated areas.</p> <p>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] Standard, while other forests of a similar nature may fall within the scope of <u>another IPSAS (see paragraph 3(a))</u>.</p>	<p><u>another IPSAS (see paragraph 3).</u></p>
<p>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 <u>living resources</u>:</p>	<p><u>living resources.</u></p>
<p>IG9. Water that is physically housed in a managed environment could potentially be controlled. For example, some underground aquifers located in a jurisdiction can act as naturally occurring reservoirs holding ground water. An entity could demonstrate control over</p>	<p>It is not clear how these indicators are relevant to resources within the scope of the proposed Standard. They are not typical of a held-for-conservation type of asset.</p>



<p>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; <u>(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.</u> 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.</p>	
<p>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, <u>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.</u> 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 within the scope of [draft] IPSAS [X] (ED 92), as items that are used in production or held for sale are likely considered</p>	<p>It is not clear how these indicators are relevant to resources within the scope of the proposed Standard. They are not typical of a held-for-conservation type of asset.</p>



inventory within the scope of IPSAS 12 or biological assets within the scope of IPSAS 27.	
<p>C.2 Difficulties in the Recognition of Subsoil Resources (Paragraph AG10)</p> <p>Is the existence of a program to extract mineral deposits sufficient to recognize the unextracted minerals as assets in the financial statements?</p> <p>IG13. Generally, no. As noted in paragraph AG10, for some naturally occurring items, there will be uncertainty over the existence, quantity, and quality of the item until it is extracted, 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 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.</p>	Extraction of mineral deposits indicates IPSAS 12. Again, resources are typically held for their ability to generate economic benefits should be scoped out.
IE7. The entity also observes that, regardless of whether the restrictions <u>on the access and use of</u> Region B are self-imposed, the facts and <u>circumstance</u> support the conclusion that the primary reason for holding the asset is for conservation rather than a use that would place it within the...	<u>on accessing and using</u> <u>circumstances</u>



IE11. Example 3 illustrates the application of paragraphs 10 and 55 of [draft] IPSAS [X] (ED 92) <u>on</u> the disclosure of a tangible natural resource which meets the definition of an asset but is not recognized as it cannot be reliably measured.	<u>To</u>
IE13. To determine the current value of the land, the entity <u>retained</u> 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 on which to measure the land's current value.	<u>engaged / hired</u>
IE24. In this case, the example facts outlined in paragraphs IE18-IE18 continue to be applicable. However, during 20X2, the entity <u>classified the Resource A</u> as an asset held for sale and sold it for cash consideration of CU 70 million. As the resource was previously unrecognized, there were no carrying amount to offset the consideration received, and the sale resulted in a gain of CU 70 million	<u>classified Resource A</u>
IE25. Prior to the application of [draft] IPSAS [X] (ED 92), the entity's statement of financial position <u>as at the December 31, 20X2</u> would have consisted of cash and accumulated surpluses or deficits of CU 70 million.	<u>as at December 31, 20X2</u>