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TANGIBLE NATURAL RESOURCES

ED 92 CONSULTATION RESPONSE



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Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.



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Dear IPSASB secretariat

ED 92: Tangible Natural Resources

Thank you for the opportunity to comment on Exposure draft 92: tangible natural resources.

The IPSASB and staff are to be commended on their work on ED 92 as it was designed to address a key gap in the IPSASB literature and a potentially large omission: tangible natural assets which are prevalent in the public sector. Without a standard setting out the definition, scope, recognition and measurement, these classes of assets are not recorded on public sector entity's financial statements. As we know what is not measured is not managed.

However, as the ED is conceived, it is questionable whether the desired outcome, that is to address the gap in the IPSASB literature, will be achieved. The ED states that this is a residual standard i.e. if the item is not covered by other standards in the suite of standards it falls within the scope of this standard. As noted in the basis of conclusions, the current approach and definition was developed as a response to feedback on the consultation paper. However, it does not appear that all concerns raised in the feedback have been addressed. For example, para. BC10 – BC16 does not fully address the definition issues and so the impression is that it falls between being a specific standard or a 'catch all residual standard'. Specifically, it excludes sub-soil (para BC2, and IG13 onwards) which would be where minerals (para IG13) would be found. There is an imperative to record these so that these potential assets are not lost to nations through mismanagement, or worse, corruption. The dial on corruption in Transparency International's corruption perception index has not moved at all and over half of the world's nations are below 50 (where 0 is highly corrupt and 100 very clean).

Furthermore, ED 92 focuses on conservation as the main example for the scope of tangible natural assets. However, given that globally, tangible natural resources are likely to be significant, it is odd that the standard seems to be limited to conservation?

As a result, I have some sympathy with the alternative view. The alternative view makes compelling arguments for the measurement basis to consider the current operational use value. However, I do not think that ED 92 should be limited to conservation. Natural resources have been an omission in the literature and by limiting this to conservation once again kicks the can further down the road.



Therefore, there are two options, further enhance/add clarification to the tangible natural resources with greater consideration to wider sources of data such as the S&P assessment of mineral wealth as a proxy for recognition. In this instance measurement will remain an issue and a disclosure requirement may address the reporting requirements, as is the case for heritage assets for example where it is not reliably measurable (as per IPSAS 45).

The other option is to adopt the alternative view and accept the proposed ED is not a catch all and addresses the important area of conservation in the suite of IPSAS literature. In the meantime, work can continue to develop an IPSAS to cover natural resources. It is best to spend more time to get this right given the prevalence of such assets in the public sector.

Thank you once again for the opportunity to comment. Detailed comments referring to the specific matters for comment (SMC) are included in the annex.

Please do not hesitate to contact me for further information.

Yours sincerely,

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Annex: Specific Matters for Comment

SMC 1: Do you agree with the scope?

No. As the standard is conceived it is uncertain that the aim to address the gap in IPSAS literature will be achieved.

This area has been a long-standing gap where there is potential for loss to the citizen and wider stakeholders through mismanagement of tangible natural resources to, at worse, corruption where rare minerals and other natural resources that could generate economic benefits are lost to nations. Having a requirement to, at the minimum, recognise these on government financial statements/notes would be a major step forward to address this situation.

By excluding sub-soil for example specifically minerals, which is referred to in detail in para IG13, reduces the applicability of the proposed ED and it mostly addresses conservation assets. This is not to downplay the importance of such assets and anything that requires these assets to be recorded are a priority. However, it does not address all tangible natural assets/resources.

Fundamentally the challenge is that the scope of the standard compared to what has been drafted do not align. Hence this anomaly has influenced subsequent matters for comment too.

SMC 2: Do you agree with the definition of natural resources and tangible natural resources?

The definition aligns with the Conceptual Framework. However, there is potential for confusion given the overlap with other standards such as heritage assets in IPSAS 45 and sustainability reporting considerations as these evolve.

SMC 3: Depreciation.

There is a rebuttable Assumption that tangible natural resources are not depreciated as they have an indefinite life. This assumption would hold true in the case of conservation assets where these are not going to be exploited or extracted. However, if this assumption is applied to all tangible natural resources, then the assumption would not hold true. There may be instances where jurisdictions would want to derive economic benefits of tangible natural assets such as in the case of minerals. But these are specifically excluded.

SMC 4: The ED proposes some exemptions from disclosure in certain circumstances.

Agree. This is a sensible approach to avoid unintended consequences such as disclosing locations of endangered species that could be poached. However, there is a risk that the exemption could be used as a catch all to avoid such recognition and disclosure. A post implementation review would help identify whether this is a case.

SMC 5: Cross references to IPSAS 45 para 15 and 54 regarding costs.

Given the fundamental concerns with the scope of the ED, the alternative approach holds merit and initial cost, and subsequent measurement should be viewed through the lens of conservation



exclusively. Hence the current operational value best represents how these assets should be measured.

SMC 6: Transition to adopt the modified retrospective approach.

If this is in respect of conservation assets only then the modified retrospective approach is pragmatic.

SMC 7: Proposed change to heritage assets description.

Agree. This is a sensible option to avoid confusion. Some conservation programmes are also heritage assets, by clarifying the reporting requirements will aid the preparers and ensure consistency across different entities, which in turn will prevent consolidation issues and aid comparability across jurisdictions.

SMC 8: Sufficiency of post implementation guidance

One of the many positive developments over the last few years has been the IPSAS staff team and IPSASB's efforts to support implementation and all guidance is invaluable. In many cases, it is not the theory that is challenging but the practical implementation issues.

The implementation guidance is helpful in explaining what is included and excluded in the assessment of tangible natural resources. However, it may be better to signpost some fundamental assumptions earlier ie exclusion of subsoil, water and others.



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