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International Public Sector Accounting Standards Board (IPSASB)

Via email

Dear IPSASB,

Below is our response to IPSASB's Tangible Natural Resources Exposure Draft. We have provided an overall response rather than a response to each exposure draft question.

We commend IPSASB on its leadership on this issue. We believe recognition of tangible natural resources (TNR) is an important step forward in accounting standards, comparable to the step forward of recognition of tangible capital assets/property plant and equipment.

We believe recognition of TNR in the financial statements is necessary and appropriate because they represent assets of the public sector entity and are an essential part of the public sector entity's stewardship and accountability.

We believe TNR should be reported in the financial statements rather than a separate schedule or report because such accounting makes the financial statements more complete, and achieves articulation with other parts of the financial statements and other reporting concepts. This standard brings TNR into the double-entry booking foundation of accounting and public sector financial reporting. For example, dispositions of TNR for gains would then impact the statement of operations, or impairments of TNR would represent losses. If TNR are reported in other reports outside the financial statements, this necessary articulation and accountability is lost, and the benefits that arise from such articulation for accountability and stewardship may not be realized.

We agree with the measurement requirements in the standard and the guidance suggesting current operational value. We note that there may be difficulties in measurement and valuation, but that these are implementation issues that can be overcome in the same way that implementation issues associated with various other accounting advances, such as pensions, financial instruments, environmental contamination and liabilities, and other complex accounting matters that have been overcome. In practice, what will likely occur is that for a few years several methods may emerge and be used, learning will occur, expertise will develop and evolve, and eventually particular methods will become the most accepted, and practice will advance.

We agree with the definitions, depreciation, exemptions for further degradation, cross-references to IPSAS 45, transition requirements and heritage asset amendments. We do not agree with the implementation guidance and illustrative examples.

¹ The views herein are those of the authors and do not necessarily reflect the views of the Office of the Auditor General of Alberta.

We note the following concerns with the standard as proposed:

We note that TNR may be held for both conservation and use and it is not necessary to force a determination of “primarily” why they are held. The definition of sustainability recognizes the concept of meeting future needs, but it also recognizes meeting current needs. The word “conservation” in the exposure draft and “maintain the current state” (paragraph AG5) may imply that conservation means “no use” and paragraph 5 which states “Tangible natural resources held for conservation are one common group of tangible natural resources...” may be seen as TNR that is used is outside the scope of the standard and cannot be recognized. Several TNR may be used sustainably. Lumber may be sustainably harvested from a forest or fish sustainably caught from a body of water, and the forest/body of water could still be a TNR (and outside other IPSAS standards because it is maintained for conservation purposes as well as an entire forest). Water may be sustainably withdrawn from a body of water, and the body of water is still a TNR. A potential resolution to this issue is that the accounting for TNR that are also potentially inventories or property plant and equipment or agricultural assets should all result in the same accounting treatment. To advance tangible natural resource accounting, we suggest IPSASB be much less concerned about whether the asset is held “primarily” for conservation or for some other reason, and instead lessen this requirement to “asset held for conservation purposes, in addition to other purposes” and for now accept that some TNR may be in different captions on the statement of financial position (inventories, agricultural assets, property plant and equipment, or tangible natural resources).

The requirements in the standard are sound and principle-based but in our view the application material inappropriately erodes such principles by establishing unrealistic pseudo-requirements for TNR to be recognized. For example:

- Paragraph AG9 suggests the entity needs a plan detailing how the item is expected to provide service potential to support recognition of TNR, and includes many other requirements such as ability and intent to carry out the plan, and how entity will obtain resources to carry out the plan. This is far too high of a requirement. Instead, we suggest the example be changed to “The entity may demonstrate service potential by, for example, having existing public policy programs concerning the tangible natural resource, or laws or regulations regarding the tangible natural resource, or other mechanisms that demonstrate the public sector entity has control over the tangible natural resource.” Requiring a plan for TNR recognition is like requiring a public sector entity to have a plan for all the operations of a building it owns, including all future maintenance and construction and benefits to be provided, before it can record the building as an asset.
- AG13 statement that “control may not exist even when most of these indicators are met” should be removed.
- IG8 says that an entity is unlikely to demonstrate control over free-flowing bodies of water such as oceans, seas, lakes and rivers. This is setting the threshold too high for control and seems to assume that control means control over every water molecule. Instead, guidance should be added to IG8 that control over free-flowing water is presumed if the public sector entity has legislative authority over the body of water (including where such authority may be shared with other jurisdictions because of flow of water between jurisdictions), and paragraph IG9 removed.
- IG11 is too stringent in saying that control over living resources also requires the ability to prevent others from accessing the resource and unnecessarily refers to fences and barriers.

In our view, the concept of control that should be used is similar to infrastructure assets like roads. It would be inappropriate to only recognize roads when a public sector entity has enclosed every road in a physically secure structure to which access is controlled, so why is IPSASB requiring the same for TNR?

- IG13 also requires too high a bar for recognition or measurement for subsoil resources; instead of dismissing detailed geological studies to estimate deposits, it should state that where detailed geological studies support existence of the asset, it may be recognized, and the general question of whether existence is sufficient to recognize a subsoil resource should be answered with a “Generally, yes” rather than “Generally, no.” It should not be necessary for the entity to have mined, refined and stored in vault every kilogram of subsoil resource to meet the threshold for recognition and measurement.

We note that for Property, Plant and Equipment (IPSAS 45.6) there is no explicit requirement for control in the recognition requirements, although it is implied by the definition of asset and defining property, plant and equipment as tangible assets. Recognition of property, plant and equipment requires that it is probable that the entity will obtain economic benefits or service potential, and it can be reliably measured. We suggest that the same be done for TNR and 8 (b) be removed from the TNR recognition criteria. This does not mean that we believe that control is unnecessary to recognize a TNR but instead moves it to a more background characteristic within the definition of an asset itself, which will place less emphasis on control than is in the proposed standard and application material.

The importance of tangible natural resources and their stewardship – related to the very health of the planet – merits a much less extreme and unwarranted interpretation of control as is in the proposed application material and guidance, such that an entity may more readily recognize tangible natural resources and the principles that are in the requirements of the standard are not undermined.

We suggest IPSASB:

- remove the specific control element from the recognition criteria in paragraph 8
- add to the definitions that a tangible natural resource is a tangible asset. This will incorporate the concept of control due to the asset definition
- rewrite the application material more with the view that control can be presumed when a public sector entity has legislative jurisdiction over a tangible natural resource such that it can set laws and regulations regarding use of that tangible natural resource by itself or others, or has ownership of the tangible natural resource via sovereignty
- remove the examples that work against or undo the requirements of the standard
- add application material to clarify that sovereignty over the tangible natural resource is sufficient and that whether the entity has exercised that sovereignty by passing laws or regulations is not necessary.

Without such changes, the standard effectively is more of a standard for the prevention of recognition of tangible natural resources, which is not in the public interest.

We suggest application material be added to deal with situations where control of the TNR may be shared or unclear. For example there may be competing claims to the TNR, or the public sector entity may share control of the TNR with others, such as Indigenous peoples. It is not clear if this

prohibits recognition of the asset, or if it is some type of joint control, or recognition of an asset with associated contingent liabilities.

We note that if the TNR is considered an inventory, IPSAS 12 should then allow deemed cost as a basis of recognition.

Sincerely,

Wayne Morgan

Colin Semotiuk