



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

28 February 2025

International Public Sector Accounting Standards Board

International Federation of Accountants
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Exposure Draft 92 – Tangible Natural Resources

Thank you for the opportunity to comment on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

In our response to the IPSASB's Consultation Paper (CP) on Natural Resources, we expressed our overall support of the IPSASB's project. However, we also expressed significant concerns over the approach taken by the IPSASB on the recognition and measurement principles as we felt they were too narrow and would ultimately result in little to no recognition for any natural resource held for reasons other than exploitation or use. We felt that the CP seemed to focus too heavily on exploitation and use rather than holding natural resources for their protection and preservation.

In this ED, the IPSASB has removed some of the focus on exploitation and use, which we are pleased to see. We are of the view that the [draft] Standard has the potential to lead to the recognition of tangible natural resources. However, it seems that once you get past the main standard and into the accompanying authoritative and non-authoritative guidance, the possibility of this becomes lessened because the same narrow limits placed on recognition and measurement in the CP have been included in the application and implementation guidance.

In particular, we find that limits placed around control and measurement seem to be more stringent than that afforded to other assets. This seems inconsistent with ED 92.BC4 which states that "in response to this feedback [around the difficulty in demonstrating control over natural resources] the IPSASB noted that from a financial reporting perspective, control over natural resources, and the broader issue of whether natural resources can be recognized, should be considered on a case-by-case basis using the recognition and measurement principles in the Conceptual Framework..." We are not seeing that the [draft] Standard is allowing the exercise of judgment on a case-by-case basis because of limits placed around recognition and measurement that we do not see in the Conceptual Framework. We remain concerned that this approach may not lead to any meaningful change. Where judgement could theoretically be applied, instead we see an underlying theme emerge which seems to favour non-recognition over recognition in almost all cases. While we believe this could well be the outcome when applying the principles on a case-by-case basis, we are concerned with a draft standard that has an upfront underlying presumption that recognition will not be possible in all but the rarest of cases. As a result, we question whether the objectives of this project can be met. If this is the overall intent of the project, we continue to question the benefit or purpose of

introducing such a standard if it results in little change, even with the likelihood of future advancements in measurement techniques.

Therefore, we would once again encourage the IPSASB to reconsider what seems to be a firm stance on the inability to demonstrate control and/or reliably measure these assets. On the issue of control, we think the IPSASB could present a more balanced approach by also showing how control could be demonstrated. We think that control could potentially be demonstrated through different natural asset types, classes, or units of account, such as ecosystems. In our view the [draft] Standard as currently worded does not consider how control could be met at an ecosystem level for terrestrial or marine natural resources such as a wetland held for flood prevention, or a no fish zone held to protect fish stocks. This would also be in line with the recognition and measurement principles applied to other assets, which apply the same principles but do not contain the same limiting language when it comes to control or measurement. The use of natural infrastructure could be applied to define some ecosystem services¹. For example, consider a terrestrial and marine area held for protection and conservation which includes a lake, a river and various fauna and flora. In this example, the unit of account could be the area as a whole. In this case we do not think it is necessary to be able to account for every animal or every drop of water in the lake or river in the area held for protection or conservation. It is only the area as a whole that provides the ecosystem service potential to the public sector entity responsible for protecting and conserving it for future generations. On the issue of reliable measurement, we think the [draft] Standard should clarify that future developments in measurement techniques may arise resulting in the ability to make reasonable measurements, not currently possible. With the current wording in the [draft] standard, we see little room for future changes that would result in an ability to recognize and measure these assets.

Overall, we do acknowledge that there may be a significant cost to implement this [draft] Standard. It would be unfortunate if after all the effort/cost needed to adopt the standard, there were little to no tangible results. Tangible natural resources provide essential and critical services. For example, trees offering shade reduce urban heat and help maintain good air quality, wetlands contribute to flood protection, and grasslands protect against erosion. Since these assets are not recognized in financial statements, economic decisions may lead to their degradation instead of their preservation and conservation.

As a final consideration, we encourage the IPSASB to proactively engage with indigenous groups. While ED 92.BC3 mentions that the IPSASB received comments from indigenous groups to the CP, it is not clear to us whether there was active engagement with indigenous groups outside of those that responded. Given their long history and stewardship of the land, we think that it would be important to ensure that their perspectives on the recognition and disclosure of tangible natural resources are sought and considered in finalizing this [draft] Standard.

¹ <https://www.intactcentreclimateadaptation.ca/Getting-Nature-into-Financial-Reporting/>

We are pleased to submit to the Board our response below to the specific questions posed in the Exposure Draft, along with some other considerations.

Sincerely,

A handwritten signature in black ink, appearing to read 'H Miller', with a stylized flourish at the end.

Heather Miller, CPA, CMA

Assistant Auditor General
Office of the Auditor General of Canada

Specific Matter for Comment 1: Scope (paragraphs 3-5)

This ED 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 ED. What other items would you anticipate being accounted for through this ED?

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

Yes, we agree with the proposed scope to include all tangible natural resources which are not within the scope of any other existing IPSAS, namely IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, and IPSAS 45, *Property, Plant, and Equipment*. We have also provided some examples below of other items we think could fall within the scope of this ED, although these other items could potentially also be considered assets held for conservation, as we think this is a very broad categorization.

While we agree with the proposed scope, we do not think the existing proposed amendments will ensure that natural resources are accounted for in the appropriate standard. We foresee a number of difficulties in determining which standard to apply as further described below.

We think this is particularly important since the principles and emphasis placed on specific recognition and measurement criteria are significantly different between existing IPSAS and this ED. For example, on the issue of control, IPSAS 45.AG10 provides the same four indicators of control as that found in ED 92.AG13. However, ED 92.AG13 mentions that “control may not exist even when most of these indicators are met” whereas IPSAS 45.AG10 mentions that “an entity is more likely to demonstrate control if it satisfies most of these indicators.” While both standards are clear that the assessment of control involves judgment, there seems to be a different emphasis placed on control in ED 92 versus that found in IPSAS 45. On the issue of measurement, ED 92.IG29 provides three factors that could indicate that a tangible natural resource may not be reliably measured, including whether a reasonable methodology exists or the availability of observable inputs. This particular factor is not found in other standards, including IPSAS 16, or IPSAS 45, or in the IPSASB Conceptual Framework (CF). This seems to be putting undue focus on an inability to reliably measure by introducing a factor that seems overly stringent when compared to other existing standards or the CF.

While we think that the application and implementation guidance in this ED will be helpful, we equally think that guidance should be provided in the existing standards as significant judgment will be necessary to determine which standard applies in the circumstances. We think this will be especially difficult when determining whether IPSAS 45 applies versus this ED since assets in scope of IPSAS 45 are typically held for their operational capacity rather than their financial capacity, which corresponds to what is also typically expected to be in scope of this ED. We also foresee challenges with IPSAS 16 given the example in paragraph 12 (b) which implies that land held for a currently undetermined future use is regarded as land held for capital appreciation. We think this principle could be broadly applicable to land that is held for the benefit of future generations and thus would be considered land held for conservation as defined in ED 92.AG4 and AG7. It is currently unclear to us whether land held for the benefit of future generations could be considered land held for a currently undetermined future use and thus in scope of IPSAS 16. This lack of clarity around what standard applies could lead to an inconsistent application by entities with similar land holdings. In the section below, we have provided additional comments on the challenges we see with the current scoping (mainly related to the proposed consequential amendments) and our suggestions for improvement.

Limited Consequential Amendments Proposed:

In applying the scoping paragraphs of the [draft] Standard, we see that currently there are no proposed consequential amendments for IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, other than a scope out paragraph that effectively sends preparers back to the [draft] Standard. Based solely on the definition of a tangible natural resource, one would likely start in the [draft] Standard, go to an existing standard, and then wind up back at the [draft] Standard. This seems to have the effect of creating somewhat of a circular reference if there is no guidance in IPSAS 12, 16, 27, or 45 for determining when a natural resource should be accounted for in scope of those standards. Since scoping is the first decision that must be made when applying a standard, this could lead to no natural resources being accounted for within any of the existing standards, when they likely should be.

Therefore, in order to achieve the IPSASB's objective of ensuring that existing standards are used to account for tangible natural resources in scope of those standards, we think it is critical for the IPSASB to provide sufficient guidance in those standards to ensure that entities do not default back to this ED, when accounting for these resources, if the purpose of holding those assets are consistent with the purpose of holding other inventories, investment properties, agriculture, or property, plant, and equipment (PP&E). One way to accomplish this could be to include a cross-reference to the guidance in this ED or to include similar guidance in the existing standards to that found in this ED.

Examples of other items that could be in scope of this ED:

Examples include, assets held to combat erosion or reduce flooding (such as natural wetlands), assets that might be considered historical treasures (such as historic battlefields), assets held for tourism purposes and accessibility for the general public, and assets held as part of a government's commitments to reduce greenhouse gas emissions, like forests. Given the broadness of the concept of "assets held for conservation" as described in ED 92.AG4, it is possible that the examples listed could be captured within the overarching category of "assets held for conservation". In any case, we think further examples of items that would be included in this category, including items held for protection, would also be helpful.

Given the relationship between protection and conservation, we think it would be helpful to also expand the description of conservation in ED 92.AG4-AG7 to discuss in more detail the relationship between protection and conservation. For example, a marine protected area that still allows fishing of certain species.

Alternative View:

The Alternative View (AV) puts forth an alternative scope as the dissenting members do not agree that ED 92 should be a residual IPSAS for tangible natural resources. Instead, they feel that the scope of ED 92 should be limited to those resources held for conservation and the requirements and guidance should be specific to those resources. They feel that the current scope of ED 92 is too broad and could result in inappropriate financial reporting for tangible natural resources. We do not share this view as we think ED 92 should be broadly applicable to all tangible natural resources not in scope of another standard. Even if the IPSASB cannot currently provide examples other than tangible natural resources held for conservation, we still think that the [draft] Standard should allow for the inclusion of other items not in scope of any other standard that could arise in the future.

Specific Matter for Comment 2: Definitions (paragraph 6)

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 ED includes an Alternative View regarding its scope and the definition of tangible natural resources.

Yes, we agree with the proposed definition of a natural resource in this ED; however, we think the IPSASB should further define an item and a class of natural resources and provide additional guidance on the linkage between these elements and that of a unit of account as described further below. We also agree with the definition of a tangible natural resource as a natural resource with physical substance as this definition clarifies that the [draft] Standard does not apply to intangible natural resources such as the electromagnetic spectrum.

We note that the IPSASB continues to define natural resources in the context of “an item”. An item is commonly understood to mean “a distinct part in an enumeration, account, or series”². This definition suggest that an item is the lowest level, when considering a natural resource, whereas natural resources are often part of systems (e.g. a forest or watershed). The [draft] Standard then introduces the concept of a class and a unit of account for display and disclosure, and recognition and measurement, respectively. The definition of a class in ED 92.6 is “a grouping of tangible natural resources of a similar nature or held for a similar reason” whereas a unit of account is described similarly in ED 92.AG19 in that tangible natural resources can be aggregated together if they are subject to similar risks, managed together in aggregate or unlikely or unable to separately provide service potential to an entity. We find there is a lack of clear distinction between these two concepts and likewise how they link back to the definition of “an item”, potentially drawing from the concepts used in the IPSASB CF. Given this ambiguity, we think it would be helpful to clarify the distinction between an item, a class, and a unit of account as it pertains to a tangible natural resource. As it stands, it is unclear whether a class works as a system (which could also be considered a unit of account) or whether a class is meant to be completely independent of a unit of account. We note that there is a similar lack of clarity in IPSAS 45, however, we know from past practice and across accounting frameworks how to apply these terms to an item of PP&E. Given that tangible natural resources are new in terms of recognition, it may be more difficult to conceptualize how these terms are meant to be applied to tangible natural resources.

Finally, the AV suggests that the definition should be such that only tangible natural resources held for conservation are in scope of this ED. We do not share this view as we believe that all tangible natural resources should fall within the scope of a standard as further articulated above in our response to Specific Matter for Comment (SMC) 1. By limiting the [draft] Standard to only natural resources held for conservation, there is a risk that some natural resources will not be in scope of any standard.

² <https://www.merriam-webster.com/dictionary/item>

Specific Matter for Comment 3: Depreciation (paragraph 23)

This ED 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 that tangible natural resources should not be depreciated as explained further below.

Depreciation is defined in IPSAS 45.5 as “the systematic allocation of the depreciable amount of an asset over its useful life” and useful life is defined as “(a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by the entity.” While tangible natural resources may be used, consumed, sold, etc. if extracted and exploited, we do not think this principle holds true for tangible natural resources that are held for conservation or other purposes such as to meet climate commitments. We think that natural resources, especially those located on land, could be viewed as being not unlike the concept of land, which is normally not depreciated since it typically has an indefinite useful life, and can even appreciate over time. Natural resources held for conservation may often be located on land and we do not believe that the land is necessarily a separate component of the overall asset since the natural resources would likely not exist separately from this land. Applying that logic, we think it follows that the accompanying natural resources would also have an indefinite life similar to the land on which they are located. This might be the case for a unit of account that is made up of several different types of tangible natural resources, such as a forest. This might not be the case, however, for a living organism that is accounted for as a separate unit of account.

Since living organisms, by their very nature, have a finite life, it might not be appropriate to consider them as having an indefinite life. However, we think it is possible to consider them as having an indefinite life for accounting purposes since natural resources held for conservation or other purposes are typically managed in a way to preserve or conserve them, so they do not become endangered or extinct. In this case, we think the concept of consumption or use may have less relevance. On that basis, we agree that there should be a rebuttable presumption that tangible natural resources should not be depreciated which should be broadly applicable to all tangible natural resource held for reasons other than extraction or exploitation.

However, we find that paragraph AG21 seems to conflict with the rebuttable presumption as it mentions that “when a recognized tangible natural resource consists of multiple units of account with differing useful lives...each unit of account shall be measured separately.” If there is a rebuttable presumption that tangible natural resources have an indefinite life, it may be difficult to interpret and apply this application guidance paragraph which suggests that differing useful lives could give rise to different units of account. We recommend this inconsistency be addressed.

While we agree with the proposed rebuttable presumption, as a final consideration, we would encourage the IPSASB to consider including the concept of renewable and non-renewable tangible natural resources in the discussion on impairment in paragraph 33 of this ED. Currently the [draft] Standard does not provide guidance on the impairment of tangible natural resources but rather directs preparers to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*. These standards do not speak specifically to the impairment of tangible natural resources. We think there could be indicators or other aspects of impairment that are specific to tangible natural resources such as whether an asset is renewable or non-renewable. For example, the depletion of a non-renewable tangible natural resource could be an indicator of impairment whereas the depletion of a renewable tangible

natural resource may not be. Linked to the concept of renewable versus non-renewable natural resources, please refer to our comment related to sub-soil resources in the 'Other considerations' section below.

Specific Matter for Comment 4: Exemption from Certain Disclosures (paragraph 51)

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?

No, we do not agree with the proposed disclosure exemption, because we think it is too broad and could result in no disclosures being provided. This is due in part to the wording used in paragraph 51, which states (emphasis added): "In rare cases, the disclosure of some or all of the information required by paragraphs 45-50 can lead to further endangerment or degradation of a tangible natural resource. In such cases, an entity need not disclose the information but shall disclose the general nature of the tangible natural resource, together with the fact that, and the reason why, certain information has not been disclosed."

We could not think of an example where all of the information required by paragraphs 45-50 could lead to further endangerment or degradation. We also did not find that the example provided in BC31 was particularly relevant since the quantity and general location of endangered species may already be publicly available information in many cases. For example, it is public knowledge that there remains just two northern white rhinoceros in the world and where they are located.³ We are also aware that the International Union for Conservation of Nature's Red List of Threatened Species⁴ publishes information about the location and quantity of threatened species. In Canada, there is the example of wild American ginseng, which is listed as an endangered plant under the *Endangered Species Act*⁵. In this instance where disclosure could lead to further endangerment, general rather than specific location information is currently disclosed publicly⁶. We therefore do not believe that the example as described in the Basis for Conclusions (BfC) is relevant. We do not find this exemption to be similar to the approach taken in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* (as mentioned in BC31) which provides relief when disclosure would prejudice the entity's position in a dispute. We think that disclosing information on natural resources is not similar to disclosure that would lead to prejudice in a dispute with the entity. By not disclosing this information, we are left unclear on who would benefit from this non-disclosure as these items are already in danger. If this information is disclosed, the entity now has a more public responsibility not to cause further endangerment. In fact, we think that such disclosure could ensure that public sector entities are held accountable for their actions. Overall, we do not think there should be such a broad disclosure exemption, and we think that the IPSASB should consider changing the example in the BfC.

On a related point, we note that ED 92.57 requires disclosure when an entity acts as custodian of an unrecognized tangible natural resource. Since this requirement is not a sub-paragraph of paragraph 55 which includes the disclosures required when a tangible natural resource meets the definition of an asset but is not recognized because it cannot be measured, we can only presume that this disclosure would be required for any unrecognized tangible natural resource, whether they meet the definition of an asset or not. If this was not the IPSASB's intention, which could be presumed based on the Disclosure Only box in

³ <https://www.fauna-flora.org/species/northern-white-rhino/#:~:text=There%20are%20now%20just%20two,in%20Kenya%27s%20OI%20Pejeta%20Conservancy>

⁴ <https://www.iucnredlist.org/>

⁵ <https://www.ontario.ca/laws/statute/07e06>

⁶ <https://www.kingstonist.com/news/epa-violations-regarding-wild-american-ginseng-costs-local-man-over-24k/>

ED 92.AG2 which suggests that custodial responsibilities should only be disclosed if the item meets the definition of asset but cannot be measured, we think this should be clarified. At a minimum, the perceived inconsistency between the main standard and its application guidance should be resolved.

If the requirement to disclose custodial responsibilities applies only to those tangible natural resources that meet the definition of an asset but are not recognized because they cannot be reliably measured, we agree that this would be relevant information to disclose. However, if the requirement was to also require this disclosure for all other unrecognized tangible natural resources, we are not persuaded that there is any information value in disclosing the custodial responsibilities for those unrecognized tangible natural resources as it does not relate to a tangible natural asset controlled by the public sector entity.

Specific Matter for Comment 5: Cross-Reference to IPSAS 45, *Property, Plant, and Equipment* (paragraphs 15 and 54)

This ED 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 to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and the disclosure requirements for current value are sufficiently clear.

Specific Matter for Comment 6: Transition (paragraph 60)

This ED 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?

Yes, we agree that the option to apply the proposed guidance on a modified retrospective basis will result in useful information.

Specific Matter for Comment 7: Amendment to the Description of 'Heritage Asset' in IPSAS 45, *Property, Plant, and Equipment* (Appendix B)

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?

No, we do not agree with the proposed amendment to the description of 'heritage asset' in IPSAS 45. The amendment would change the existing description as follows:

IPSAS 45.AG2: “Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, ~~environmental~~, historical, ~~natural~~, scientific, or technological features...”

By making the above amendment, the IPSASB could inadvertently be relegating all tangible natural resources that are also heritage assets, including those with environmental or natural features, to a standard that elevates the aspect of control and measurement to the point where it might be considered rare to recognize them. Even though IPSAS 45.7 notes that reliable measurement may not be possible and IPSAS 45.IG6-IG8 provides guidance on control, in our view the principles provided in these standards would not seem to preclude recognition in the same way that this ED seems to. For that reason, we think that the proposed amendment to change the description of a heritage asset could effectively result in the derecognition of previously recognized heritage assets under IPSAS 45. In addition, the paragraph quoted above clearly states that only heritage assets that are PP&E are in scope of IPSAS 45 and thus any other heritage assets that are tangible natural resources would be in scope of ED 92. For that reason, we disagree with the proposed amendment as we do not believe it is necessary.

However, if the guidance on control and reliable measurement in the [draft] Standard versus IPSAS 45 was similar, we would be in agreement with the proposed amendment because then all tangible natural resources that are heritage assets would have an equal chance of being recognized / measured regardless of whether they were in scope of IPSAS 45 or ED 92.

Specific Matter for Comment 8: Sufficiency of Proposed Implementation Guidance and Illustrative Examples

The non-authoritative guidance in this [draft] Standard 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 that the proposed implementation guidance and illustrative examples are sufficient? If not, what other topics would be helpful and why?

No, we do not agree that the proposed implementation guidance and illustrative examples are sufficient. We have identified the following other topics that we think would be helpful and have provided our rationale.

Topic Area	Comment
Scoping	Since there are no consequential amendments being proposed for IPSAS 45 or IPSAS 16 other than a scoping paragraph that sends the preparer back to the [draft] Standard if not in scope of either of those standards, we think that more illustrative examples should be provided to help determine how the scoping paragraphs would be applied in practice.

Topic Area	Comment
Land and its interaction with other natural resources located on land	<p>The CP specifically excluded land in its natural state. In our Office's response to the CP, we found that this exclusion was unclear since many natural resources are located on land in its natural state and therefore, we were unclear on what exactly was out of scope.</p> <p>We note that ED 92 does not specifically exclude land; however, neither does it provide guidance on how to determine whether land should be accounted for in scope of ED 92 or in scope of another standard. If the unit of account is, for example, a natural wetland, which includes the land on which it is situated, water, flora, and fauna, it is unclear whether you would account for the land separately from the water, flora and fauna even if you were to conclude that the unit of account is the wetland as a whole. We think it could be easier to demonstrate control over the wetland as a whole as opposed to the water, flora and fauna on an individual basis.</p> <p>Illustrative Example 3 relates to unused publicly owned land for which the entity plans to conserve the habitats in the area. It is unclear from reading this example what is considered the unit of account, specifically whether it is only the plot of land, or also other natural resources located on the land that are considered the habitats the entity plans to conserve. We think it would be helpful if this was clarified. We also think this could help to better support why a plot of land cannot be reliably measured. If that plot of land was accounted for as PP&E or as investment property, we think it could likely be measured as we think it would be rare to conclude that land cannot be measured reliably.</p> <p>We also think it would be helpful to include implementation or other guidance on the interaction of land with other natural resources, as currently ED 92 is silent on this matter. Furthermore, we think this ED should explicitly address whether a plot of land held for conservation (but not necessarily being actively managed) could be either land held for capital appreciation based on the existing requirements in IPSAS 16.12(b) which states that "land held for a currently undetermined future use" is an example of investment property or land in scope of the [draft] Standard. For example, a remote wilderness area being held for an undetermined purpose that could benefit future generations; guidance on determining whether such land is in scope of IPSAS 45, IPSAS 16 or the [draft] Standard would be helpful.</p>
Tangible natural resources that are held for their financial capacity that would be in scope of this ED	<p>This ED mentions both tangible natural resources held for their financial capacity and those held for their operational capacity. We could not think of any example of tangible natural resources held for their financial capacity that would not be in scope of other existing standards. This is also consistent with BC39 which notes that tangible natural resources which are held for their financial capacity are typically within the scope of other standards. Since the draft Standard implies that in-scope tangible natural resources could be held for their financial capacity, we think the IPSASB should either include an example of a natural resource held for its financial capacity that is not in scope of IPSAS 12, IPSAS 16, IPSAS 17, or IPSAS 45, or alternatively, remove the guidance on measurement of items held for their financial capacity.</p>

Topic Area	Comment
Guidance on how the concept of service potential differs between PP&E and a tangible natural resource	Service potential is defined in the IPSASB CF.5.8 as “the capability of a resource to provide services that contribute to achieving the entity’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.” We think it would be helpful if this ED specifically described how an asset held for the benefit of future generations possesses service potential and how that differs from an item of PP&E that also possesses service potential. We think this would also help to determine which standard applies in a given circumstance as we currently find that the distinction is unclear.
Demonstrating that the definition of an asset is met	There are currently no examples on demonstrating that the definition of an asset is met. Given the judgment that will be required in this area, we think an example demonstrating that the definition is met and one demonstrating that the definition is not met would be helpful in the applying the standard.
Determining the unit of account	There are currently no examples on determining the unit of account. We think this will be an area of significant judgment. Therefore, some examples of how one would make this determination would be helpful.
Display and disclosure	There are currently no examples illustrating how the presentation and disclosure requirements would be applied. We think this would help preparers understand what is expected with respect to these requirements.
Heritage assets	It would be helpful to include some examples of heritage assets held for conservation.

Other considerations:

In addition to the Specific Matters for Comment, we identified the following additional comments for consideration:

Reference	Comment
ED 92.3 (a)-(d)	This comment is related to our response to SMC 1 above. The scoping paragraphs provide that the nature of a tangible natural resource could be consistent with an item of PP&E, inventories, an investment property, or a biological asset. If the nature is consistent with any of these items, these tangible natural resources would be accounted in scope of another standard (IPSAS 45, IPSAS 12, IPSAS 16, or IPSAS 27). While we agree with this principle, we think that without also amending IPSAS 45, IPSAS 12, IPSAS 16, and IPSAS 27 to specifically mention that these standards can include tangible natural resources, there is a risk that an entity will not apply the appropriate standard. We think this is important because existing standards do not include the same emphasis on control and measurement as that found in this ED, which could result in no recognition if accounted for under this ED or derecognition if these items were previously accounted for within an existing standard. To minimize this risk, we think further consequential amendments should be made to existing standards so that it is explicitly clear that those standards could include tangible natural resources that otherwise meet the definition of the items in scope of those standards.

Reference	Comment
ED 92.3 (c)	<p>This paragraph mentions resources held to earn rentals. It is unclear whether this would include mineral rights, logging rights, or other rights currently held by public sector entities that earn royalties from these rights. In Canada, some federal, provincial or territorial governments earn royalties from businesses that exploit natural resources controlled by governments.</p> <p>IPSAS 45.3 (b) currently scopes out mineral rights, such as oil, natural gas, and similar non-regenerative resources, directing preparers to relevant international or national accounting standards dealing with such items. The proposed amendment would change this paragraph in IPSAS 45 to refer instead to ED 92. This suggests to us that mineral rights (and other similar rights) would be in scope of ED 92; however, ED 92 does not seem to provide any guidance on accounting for these rights. We think ED 92 should explicitly address the accounting for mineral and other rights.</p>
ED 92.6	<p>A class is defined as (<u>emphasis added</u>) “a grouping of tangible natural resources of a similar nature or held for a similar reason that is shown as <u>a single item for the purpose of display and disclosure</u> in the financial statements.” This definition is different than the definition of a class of PP&E in IPSAS 45. A class is defined in that standard as (<u>emphasis added</u>) “a grouping of assets of a similar nature or function in an entity’s operations that is shown as <u>a single item for the purpose of disclosure</u> in the financial statements.”</p> <p>Paragraph 42 provides an example of a class which is described as “tangible natural resources held for conservation” versus tangible natural resources held for other reasons. This seems to be broader than a class for PP&E, which is typically items like buildings, equipment, etc. In addition, we note that for disclosure purposes, paragraph 45 requires disclosure for each “recognized tangible natural resource”. It is unclear to us what level of disclosure this relates to as it could be for each tangible natural resource or it could be for a unit of account which might be at a higher level such as a wetland, and may consist of different kinds of flora and fauna. We think this should be clarified in the standard.</p>
ED 92.AG13	<p>This paragraph describes the indicators of control. The last sentence suggests that control may not exist even when most of the indicators are met. This suggests to us that all indicators must be met to conclude that an entity controls a tangible natural resource. This is not consistent with the concepts in IPSASB CF5.12 which lists the same indicators but merely states that they are not conclusive determinants of whether control exists but that identification and analysis of them can inform that decision. This means to us that determining whether control exists is a matter of judgment. Therefore, it seems unclear why AG13 makes such a definitive statement around control over a tangible natural resource. We think that the last sentence should be removed so as not to imply that all indicators must be present for control to exist.</p>

Reference	Comment
IPSAS 12.3 (c)	The proposed scope exclusion for tangible natural resource appears to be in a section that only mentions that the Standard (i.e. IPSAS 12) does not apply to the <u>measurement</u> of inventories in scope of ED 92. This would suggest that tangible natural resources that are inventories would only apply the measurement guidance in ED 92. We therefore wonder whether the scope out paragraph for tangible natural resources should be in a different section of IPSAS 12 such that all aspects of the tangible natural resource, including recognition and measurement, are in scope of ED 92.
ED 92.BC3	We note that this paragraph mentions that the IPSASB received comments from indigenous groups indicating that control over natural resources might be difficult to demonstrate. It is not clear to us whether additional outreach with indigenous groups was undertaken during the development of the ED. We are aware that in Canada, there are specific indigenous perspectives around control of tangible natural resources and disclosure of endangered species. Given their long history and stewardship over the land, we would encourage the IPSASB to engage in active dialogue with these groups to ensure that their perspectives are sought and considered in a final standard.
ED 92.IG3 (c)	This paragraph mentions that “as a result of legislation, the primary intended purpose of holding the forest is not to be used as an item within the scope of IPSAS 45, <i>Property, Plant, and Equipment...</i> ” For consistency with the rest of the sentence described, it would be more helpful to explain why the forest is not in scope of IPSAS 45. For example, it is not being held to provide a good or service to the public but rather it is held to protect and conserve for future generations. This would also help to link it with the discussion in IG17.
ED 92.IG4	This paragraph mentions that it is unlikely that all naturally occurring tangible items within a jurisdiction would meet the asset recognition criteria as they are unlikely to be resources if they are not <u>actively managed</u> . It is not clear what is meant by ‘actively managed’. We can think of other assets such as vacant land, that could be argued are not actively managed and yet meet the definition of a resource. We think this should be clarified as there is no guidance on what this means within ED 92.
ED 92.IG5, AG21	<p>ED 92.IG5 mentions that (<u>emphasis added</u>) “a tangible natural resource may consist of <u>multiple units of account</u> due to different nature and risks associated with the specific part of the resource, as well as the objectives for which an entity holds the resources. In such cases, the assessment of control is performed separately for each unit of account.” We find this sentence confusing as it seems to be mixing the concept of components and unit of account and calling them the same thing. A unit of account by definition is the level at which you apply the recognition criteria (ED 92.11).</p> <p>We recommend changing the underlined wording to clarify that a tangible natural resource can consist of different types of natural resources bundled into one unit of account. It is at that level (i.e. the unit of account) that the assessment of control is performed.</p>

Reference	Comment
ED 92.IG8	<p>This paragraph mentions that “generally, the physical movement of free-flowing water such as oceans, seas, lakes, and rivers cannot feasibly be controlled. Therefore, it is unlikely that an entity is able to demonstrate control over these bodies of water”. This statement seems to ignore the unit of account. For example, if the unit of account is an ecosystem, it seems that the control aspect is considered at the ecosystem level and not at the individual natural resource level. It is therefore unclear how this guidance would be applied if the unit of account is at a higher level than the body of water. It seems feasible to us, that control could be demonstrated over an ecosystem, as a whole, that contains a body of water.</p> <p>We recommend that the implementation guidance also explore the concept of control at an ecosystem level since AG19 allows for separate tangible natural resources to be aggregated into one single unit of account. We would also recommend softening the language used to allow for the possibility that over time it may become more likely that an entity can demonstrate control over water. By stating up front that it is unlikely that an entity can demonstrate control, this seems to remove the possibility of exercising professional judgment in making this determination based on the principles in this draft Standard.</p>
ED 92.IG12	<p>This paragraph mentions that 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 but that the entity should carefully consider whether these living resources are inventory as items that are used in production or held for sale are (emphasis added)“<u>likely considered inventory</u> within the scope of IPSAS 12 or <u>biological assets</u> within the scope of IPSAS 27.” We think this would depend on the entity’s primary purpose for holding the tangible natural resource. It seems to us that if you could sell the asset, this would be a strong indicator of control even if that is not the purpose for holding the asset. On that basis, we would recommend that the underlined wording be changed to “may be considered inventory...or biological assets.”</p>
ED 92.IG13	<p>This paragraph mentions that generally unextracted minerals cannot be recognized as assets in the financial statements because there is typically a high degree of uncertainty and variability over the quantity and quality of the resource until it is extracted. This seems to focus solely on extracting and exploiting a subsoil resource whereas there may be other reasons for holding the unextracted resource, such as for conservation.</p> <p>As previously mentioned in our CP response, we recommend that the IPSASB consider whether there could be other circumstances that would allow the recognition of unextracted resources, such as holding the resource underground to reduce greenhouse gas emissions. In that case, it does not seem like you would need to know the precise quantity and quality of the minerals because that is not the purpose for which you are holding the resource.</p>

Reference	Comment
ED 92.IE13	<p>This example deals with land and the inability to measure the land's current value. This does not seem like a realistic example. If the land was accounted for under IPSAS 45, it seems doubtful that the same conclusion on measurement would be reached. Consider using a different example such as a wetland or a wilderness to illustrate this principle.</p>
ED 92.IG29 (c)	<p>This paragraph lists factors that might indicate a tangible natural resource cannot be reliably measured. Factor (c) is that (<u>emphasis added</u>) "there is <u>no reasonable methodology</u> or observable inputs available to measure the resource." It is unclear what is meant by the underlined wording. Consider whether the underlined wording should be changed to "no reasonable <u>currently available</u> methodology" as methodologies might evolve in the future.</p> <p>This paragraph also suggests that if there are no observable inputs available, that the resource may not be reliably measured. Many items are already measured with only unobservable inputs (e.g. Level 3 fair value measurement). IPSAS 46.B12 does not suggest that measurement may not be possible if there are no observable inputs. Consider addressing this inconsistency.</p>