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RE: EXPOSURE DRAFT 92 – TANGIBLE NATURAL RESOURCES

Thank you for the opportunity to provide our comments on the International Public Sector Accounting Board's (IPSAB) Exposure Draft 92, Tangible Natural Resources. This is a landmark standard for the public sector, and we applaud IPSASB's work developing this guidance in a timely fashion.

Our response to your specific matters for comment on this Exposure Draft are outlined below. We are generally supportive of the Board's views, and look forward to supporting public sector entities in adopting this standard.

I would welcome the opportunity to discuss our views with you at any time.

Best regards,

A handwritten signature in black ink, appearing to read "Bailey Church". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

Bailey Church, CPA, CA, CIA
Chair, Global International Public Sector Accounting Standards Working Group
KPMG LLP



- 1. Specific Matter for Comment 1: Scope (paragraphs 3-5): This Exposure Draft 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 Exposure Draft. What other items would you anticipate being accounted for through this Exposure Draft?**

Yes, we support the proposed scope, and the exclusion of tangible natural resources otherwise under the scope of existing IPSAS. The accounting treatment for tangible natural resource items should be based on a public sector entity's intent for the use of that item. We anticipate debate between preparers and auditors with respect to items falling under the scope of this standard beyond tangible natural resources held for conservation.

For example, could the proposed standard apply to mineral resources which do not yet fall under IPSAS 50? Current geopolitical events are demonstrating a strong interest in countries with vast reserves of mineral resources which may not have been fully explored and evaluated. As demonstrated in the recent mineral rights agreement signed by the governments of the United States and Ukraine, such resources can provide a future economic benefit prior to meeting the criteria of being explored and evaluated in IPSAS 50.

- 2. Specific Matter for Comment 2: Definitions (paragraph 6): This Exposure Draft defines a natural resource as an item which is naturally occurring and embodies service potential, the capability to generate economic benefits, or both, and a tangible natural resource as a natural resource with physical substance. Do you agree with the proposed definitions? If not, why not?**

Yes, we agree with the proposed definitions.

- 3. Specific Matter for Comment 3: Depreciation (paragraph 23): This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this [draft] Standard have indefinite useful lives on the basis that they are generally not used or consumed in the same manner as tangible assets within the scope of other IPSAS. Therefore, these tangible natural resources are not depreciated. Do you agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated? If not, why not?**

We support IPSASB's view that tangible natural resources recognized within the scope of this standard would typically have indefinite useful lives based upon the recognition criteria and scope exclusions established. We believe that the concept of impairment is more pertinent to tangible natural resources than useful life, which presumes a fixed period over which tangible natural resources will provide economic benefit to the public sector entity.

- 4. 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?**



Yes, we concur with the disclosure exemption. This assessment will be subject to significant professional judgement though, and preparers and auditors alike would benefit from more guidance regarding situations where this exemption would be appropriate. Our view is that such exemptions should be exceptional and unique.

- 5. Specific Matter for Comment 5: Cross-References to IPSAS 45, Property, Plant, and Equipment (paragraphs 15 and 54): This Exposure Draft includes cross-references to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and the disclosure requirements for current value. This guidance was incorporated by cross-reference as the acquisition of tangible natural resources is expected to be rare in the public sector, and there is familiarity with the principles on the determination of cost, which are consistent with those found in IPSAS 45. Do you agree that these cross-references are sufficiently clear? If not, how should the above guidance be incorporated into the Final Standard?**

We support the principles of initial measurement as outlined in paragraphs .12 to .15. For clarity of presentation though, we would suggest a corollary of the structure employed in IPSAS 45, paragraphs .11 to .12.

Under that logic, ED92.12 would include a directive statement that a “tangible natural resource shall be measured initially at its deemed cost, unless it is acquired through an exchange transaction. An entity shall apply IPSAS 46, Measurement, when measuring the deemed cost of a recognized tangible natural resource.”

ED92.14 then clarifies that, “A recognized tangible natural resource acquired through an exchange transaction shall be measured at its cost. “

- 6. Specific Matter for Comment 6: Transition (paragraph 60): This Exposure Draft allows the application of its requirements on a modified retrospective approach, by recognizing tangible natural resources which meet the recognition criteria on the date of initial application of the [draft] Standard at their deemed cost, or on a full retrospective basis in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. Do you agree that the option to apply the proposed guidance on a modified retrospective basis will result in useful information? If not, why not?**

Yes, we support the option provided to apply the proposed guidance on a modified retrospective basis. Full retrospective application as provided for in IPSAS 3 would require public sector entities to have extensive data informing the measurement of tangible natural resources which were previously held. This would be a very onerous requirement for most public sector entities and could impact the public sector’s adoption of the standard.

- 7. 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?**

Yes, we support IPSASB’s proposed amendment.



- 8. 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?**

Yes, we are of the view that the proposed implementation guidance and illustrative examples are sufficient for the needs of the majority of public sector entities.