



IPSAS EXPOSURE DRAFT 92: TANGIBLE NATURAL RESOURCES

Issued 27 February 2025

ICAEW welcomes the opportunity to comment on Exposure Draft 92: Tangible Natural Resources published by the International Public Sector Accounting Standards Board (IPSASB) on 31 October 2024, a copy of which is available from this [link](#).

We welcome the increasing focus on natural resources

- Natural resources are important and guidance on how to report on them is needed.
- However, we do not expect many tangible natural resources to be recognised as assets in the balance sheets of government or other public bodies because of this proposed standard.
- We didn't think a separate standard was warranted on how to account for natural resources that meet the criteria for recognition as an asset. An alternative would have been to amend IPSAS 45 'Property, plant and equipment' and IPSAS 31 'Intangible Assets' to include natural resources, in the same way as these standards were updated for heritage and infrastructure assets.
- However, given that IPSASB has now produced this new standard, further delay and resource allocation to amend other standards would not be beneficial. We therefore support the inclusion of this standard into the IPSAS suite of literature.

We think narrative reporting guidance on 'non-asset' natural resources would be useful

- As most natural resources controlled by governments and other public bodies will not meet the criteria to be recognised as assets, we believe that it would be more useful to provide consistent guidance to support narrative reporting on natural resources that do not meet the criteria to be recognised as an asset in financial statements.
- To meet user demand, narrative reporting could be split into those natural resources that will be used for conservation and those that will not. Guidance on the latter would be analogous to the 'reserves' disclosures required of extractive industries that provide additional information on mineral resources that are likely to or potentially could be recognised as assets in the future.
- For example, where natural resources are likely to provide a future income stream to governments (for example, through taxes or licensing revenue) there is a good case for providing users of annual financial reports with disclosures about such resources, even if they don't currently meet the criteria for recognition as an asset. Should these resources be developed, they are not going to be within scope of the natural resources standard but most likely inventory or property, plant and equipment.
- For clarity, assets held for conservation may also generate revenue, but this would always be a secondary objective of holding them, the primary being conservation.

This response has been prepared by ICAEW's Public Sector team, part of Reputation and Influence, in consultation with ICAEW's Public Sector Advisory Group.

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KEY POINTS

WELCOME FOCUS ON NATURAL RESOURCES

1. ICAEW congratulates IPSASB on issuing this draft standard on what is undeniably an important topic. We believe that governments and other supranational organisations have a vital custodial role to play in the preservation of our precious natural resources.
2. Nature plays an essential role in our eco-systems and in the health of our planet. In reference to IPSASB's consultation on climate-related disclosures, focusing narrowly on reductions in greenhouse gas emissions will not lead to sustainable outcomes if nature and biodiversity is not considered in equal measure.

SUITABILITY OF CONVENTIONAL ACCOUNTING STANDARDS

3. Generally Accepted Accounting Practice prohibits the recognition of resources as assets if they cannot provide rights to either service potential or future economic benefits and if they cannot be controlled. Should an asset meet these criteria, it must then be measurable for the asset to be recognised in the statement of financial position.
4. In our view, most natural resources will not meet the definition of assets due to a lack of control. The items that do meet the definition of an asset will need to be measurable, and while there is a growing list of potential measurement frameworks for nature/biodiversity, these tend to provide an economic value rather than a monetary value and will not meet the certainty threshold.
5. This consultation is for a draft financial reporting standard but we believe that the more useful disclosures around nature and biodiversity should be made in General Purpose Financial Reports, outside the confines of financial reporting standards. Given the important role governments play in the preservation of our natural assets, we would urge IPSASB to consider expanding their suite of sustainability standards to cover this topic.

SEPARATE ACCOUNTING STANDARD FOR TANGIBLE NATURAL RESOURCES

6. We believe that IPSASB could have saved some time and resources by including guidance on tangible natural resources in existing standards. We do not believe that these items have sufficiently unique uses or characteristics compared with other assets included in Property, Plant and Equipment. Heritage assets, for example, are also held for preservation and are not depreciated.
7. And while there is a public interest argument to be made that natural resources are important to all jurisdictions, the fact that most of these items will not meet the definition of an asset or the recognition criteria, diminishes the usefulness of a separate standard.
8. However, given the draft standard has now been produced, we support its inclusion into the IPSAS suite of literature. Nevertheless, IPSASB should plan on incorporating this important topic as part of their wider sustainability reporting suite, alongside the climate-related disclosures standard.

ANSWERS TO SPECIFIC QUESTIONS***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 2-4, 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?

9. We have failed to identify other tangible natural resources other than those held for conservation and therefore agree with the Alternative View that the scope should be for tangible natural resources held for conservation only, which will have consequences for the financial reporting as explained in the Alternative view. For example, we agree with the Alternative View that the primary purpose of holding natural resources is not to generate economic benefits and therefore believe that fair value is an inappropriate measurement basis for assets held for their operational capacity.
10. There appear to be a number of similarities with the heritage assets project that IPSASB embarked upon a few years ago. The importance of stewardship and preservation and difficulty in measuring heritage assets were key themes of that project.
11. It may be confusing to users of General Purpose Financial Reports to see a separate line item for tangible natural resources on the statement of financial position and to then find further references to natural resources within other disclosure notes.
12. Focusing more narrowly on natural resources held for conservation would create a more easily understood distinction with other natural resources included in property, plant and equipment or inventories.

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?

13. We agree with the proposed definition.
14. Since natural resources must be naturally occurring, we fail to see how these could be held in a financial capacity. The primary purpose of holding natural resources is to preserve these assets for future generations; should they also enable an entity to earn revenue we would see this is a secondary impact. Therefore, only current operational value should be considered as a current value measurement; fair value is inappropriate.

Specific Matter for Comment 3: Depreciation (paragraph 23)

This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognised 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?

15. We agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated. We support the flexibility this proposal provides.

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?

16. We agree with the proposed disclosure exemption as long as this is not used to avoid reporting requirements. Those seeking to degrade natural resources, such as poachers and illegal loggers, are unlikely to review annual reports to obtain information as to the location and quality of these natural assets. Any exemption to reporting must be proportional to the potential risks.

Specific Matter for Comment 5: Cross-Reference 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 costs in an exchange transaction and the disclosure requirements of 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 costs, 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?

17. There would be no need to cross reference to IPSAS 45 if the guidance on natural resources were contained in that standard rather than in a separate standard. However, the cross-referencing is clear in our view.
18. Given the decision to create a separate standard, we recommend that more specific guidance is provided relating to the 'elements of cost' guidance in paragraphs 14-22 of IPSAS 45. There is no guidance on costs for site-preparation and when an item is naturally occurring and when not. For example, if land needs to be de-contaminated but is then left to recover to become a nature reserve, at what point would it meet the definition of a natural resource?

Specific Matter for Comment 6: Transition (paragraph 60)

This Exposure Draft allows the application of its requirements on a modified retrospective approach, by recognising tangible natural resources which meet the recognition criteria on the date of initial application of the [draft] Standard at their deemed cost, or on full retrospective basis in accordance with IPSAS 3, Accounting Policies, Change 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?

19. We agree with the option to apply the proposed guidance on a modified retrospective basis. It would provide decision useful information whilst minimising compliance costs.

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 assets' 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?

20. We agree with the updated description of heritage assets in IPSAS 45 yet the updates further reinforce our view that natural resources are held for conservation purposes.

21. If a natural resource is held for their rarity and/or significance in relation to environmental or natural features then this is for conservation purposes, to protect the asset for the benefit of future generations. Describing these assets as heritage assets, as the question above seems to indicate, is not helpful, they are assets held for conservation.

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?

22. We support the implementation guidance (IG) and illustrative examples (IE) as these cover all the key considerations in our view, but we suggest further clarification relating to human intervention as explained below.
23. Although IPSASB has moved away from an earlier definition of 'natural resources' as described in BC10, the current definition nevertheless states that a natural resource must be naturally occurring.
24. We question if the IGs and/or IEs sufficiently cover the scenarios where human intervention to improve or intervene in natural resources has occurred. For example, we agree that improving soil quality which leads to improved growth of a forest would constitute relevant expenditure as per IG21. This example goes on to say that the improved soil quality would lead to increased service potential, which is why it may be capitalised.
25. Linking this to AG23, it is questionable whether the act of repopulating a forest is in line with the definition of a natural resource. The definition makes clear that the resource must be naturally occurring. If one were to purely link natural assets to service potential, it could lead to the recognition of 'human-made' natural resources that are inferior in quality compared with the equivalent that has had no human intervention.
26. For example, the variety of flora and fauna is never replicated in re-forested land when compared to ancient woodlands. This potential greenwashing of recognising inferior natural resources is a problem which a financial reporting standard is ill equipped to manage. Current disclosure requirements focus on location and quantity, not quality.
27. It would be useful to have an example of when an asset might meet the definition of a natural asset following human intervention. We recommend adding this additional guidance to the rewilding example covered in IG22 to IG24.