



27 February 2025

Mr Ross Smith
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International Federation of Accountants
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Submitted to: www.ifac.org

Dear Ross

IPSASB Exposure Draft 92 Tangible Natural Resources

1. Thank you for the opportunity to comment on the Exposure Draft, *Tangible Natural Resources* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.
2. We understand the intent of the proposals is to address the perceived gap in the potential recognition, measurement, presentation and disclosure of tangible natural resources in IPSAS, and recognise the benefit that disclosures and oversight of these types of resources may bring.
3. In 2022, we responded to the Consultation Paper (CP) noting that due to uncertainties over control and/or obtaining a reliable measurement, most natural resources will not be recognised as assets. This reason, along with several others, meant we proposed that the project be halted and relevant disclosures to understand environmental accountability and management of natural resources be considered in the IPSASB's sustainability reporting project. We noted that this information may also be more appropriately included in other areas of general purpose financial reports (GPFRs) rather than the general purpose financial statements (GPFS). Now the ED has been developed, our view has not changed.
4. Given many natural resources do not meet the asset recognition criteria, we disagree with the need for a standalone accounting standard. Tangible natural resources meeting the asset recognition criteria can be accounted for within existing IPSAS, such as IPSAS 12 *Inventories*, IPSAS 27 *Agriculture* and IPSAS 17/45 *Property, Plant and Equipment*. The relevant guidance within the ED could instead be included and made available within these Standards to help with their application to tangible natural resources.



5. In addition, we suggest that general recognition and measurement considerations for the different types of tangible natural resources (water, mineral deposits, animals, plants etc.), as researched by the IPSASB, be included in a separate non-authoritative document. We propose this separate staff guidance dedicated to natural resources is developed to help preparers understand if and when a tangible natural resource can be accounted for and how existing standards apply.
6. Furthermore, we note that the ED proposes the following disclosures:
 - the nature and quantity of tangible natural resources;
 - significance of tangible natural resources to achieving the entity's objective; and
 - the entity's custodial responsibility relating to tangible natural resources.

Considering the initial purpose of this project, in order for this information to be useful and satisfy user needs, these disclosures would need to encompass the broader scope of natural resources that the entity is responsible for managing, conserving and/or acting as custodian for, regardless of whether they meet the definition/recognition criteria of an asset. This broader information is outside the remit of GPFs, and should instead be included in sustainability reporting, or service performance reporting (as appropriate). The cost of providing these disclosures is also likely to be high. For example, it will be difficult to ascertain/substantiate the quantity of tangible natural resources in many circumstances, and the onus will fall on the preparer to prove that certain tangible natural resources do not meet either the definition/recognition criteria to require disclosure. We believe these costs would heavily outweigh ensuing benefits, given that without broader information on all natural resources (regardless of whether they meet the definition/recognition criteria), the disclosures would provide limited benefits for users seeking a complete understanding of an entity's environmental responsibility and management.

7. We consider the work comprising the research and analysis completed by the IPSASB leading to and included in the CP has largely fulfilled the purpose set out at the commencement of this project. This purpose was to respond to concerns that there was a gap in guidance outlining the accounting for natural resources. These concerns were driven by the significant economic importance of natural resources for many jurisdictions, and the lack of information on the monetary value and environmental impact/management of these resources until after they are exploited. The progression of this project to the ED will result in ineffective changes in reporting on natural resources due to the unlikelihood of asset recognition for many significant natural resources. That fact is illustrated by the ED which, despite implying that tangible natural resources are in scope and should be accounted for, includes only one example of a tangible natural resource which meets the recognition criteria – tangible natural resources held for conservation.

8. We understand the requirements of the Standard are designed with the potential that other tangible natural resources (aside from those held for conservation) could be recognised and accounted for within the scope of this Standard, but it brings to question:
 - (a) Whether the requirements in the proposed Standard are appropriate when it is not fully understood exactly what natural resources in which circumstances will be recognised and accounted for in accordance with the proposed Standard (this point is aligned with paragraphs AV12 of the Alternative View); and
 - (b) Whether it is worthwhile to issue a separate Standard that includes distinct requirements (such as the presentation requirement on the face of the statement of financial position) if that Standard is likely to be used only to account for natural resources held for conservation, rather than natural resources with more significant economic impact, which were considered in detail and drove the commencement of this project, but are unlikely to be recognised e.g. mineral deposits, oil reserves.
9. In New Zealand, we consider natural resources held for conservation meet the definition of property, plant and equipment (PPE) - refer to our explanation in Appendix 1 to this letter. These natural resources have already been appropriately accounted for by the requirements of the IPSASB-based PPE Standard for many years. As ED 92 proposes the same recognition and measurement requirements as those contained in IPSAS 45, we do not see the benefit in creating a separate Standard. This is because it will impose additional costs for any jurisdictions that already recognise tangible natural resources held for conservation as PPE. For such jurisdictions, the proposed Standard will effectively require the carve out of natural resources held for conservation from PPE, and we expect this to require a significant amount of judgement - particularly when establishing primary use for dual purpose items. The same effect of the ED could be achieved with lower costs by simply including tangible natural resources held for conservation as PPE explicitly within the scope of IPSAS 45, with disclosures in wider GPFR on this and other types of natural resources.
10. We acknowledge the public interest in the stewardship of natural resources and the view that natural resources held for conservation are fundamentally different to PPE were key considerations for the IPSASB in the development of a separate Standard for tangible natural resources. However, in respect of these:
 - (a) We consider that the public interest issue of stewardship of natural resources could be equally addressed by our recommendations;
 - (b) The public interest issue could become exacerbated by the development of a Standard that provides the appearance to the public that many tangible natural resources can be accounted for, whereas in practice many natural resources would not meet the requirements for recognition;
 - (c) The view that natural resources held for conservation are fundamentally different to PPE seems predicated on conservation being the act of avoiding use as opposed

to being in use, whereas we hold the view that natural resources are in use if they are being conserved. More detail on our view is contained in Appendix 1.

11. To summarise our view:
 - (a) We do not believe a separate standard for natural resources is required;
 - (b) We do not believe that the most likely outcome from this Standard – splitting out natural resources held for conservation from PPE – justifies the resulting costs or achieves the objectives intended for this project;
 - (c) We would prefer that the guidance developed in the ED specific to tangible natural resources held for conservation is instead incorporated as part of the PPE and other relevant Standards;
 - (d) We consider that general guidance about accounting for natural resources, including information about uncertainties over control and/or reliable measurement of tangible natural resources, could be included in separate staff guidance instead; and
 - (e) We believe disclosures developed for tangible natural resources should be considered more broadly (that is, outside of the core GPFS) to satisfy user needs and to better balance the benefits with the costs of providing this information.
12. We have considered the SMCs and have commented where appropriate given our overall view on these proposals. These comments are included in Appendix 1 attached to this letter. We have also included a copy of our previous submission to the IPSASB on the CP in Appendix 2 which provides further background to our views. If you have any queries or require clarification of any matters in this letter, please contact Alex Stainer (alex.stainer@xrb.govt.nz) or me.

Yours sincerely



Carolyn Cordery

Chair – New Zealand Accounting Standards Board

APPENDIX 1

Response to Specific Matters for Comment

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?

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

1. We agree with the intent of the proposed scope to exclude all items that are already currently accounted for in other IPSAS.
2. However, we disagree with the proposed scope as we do not agree that tangible natural resources held for conservation should be included within the scope of this ED.
3. Tangible natural resources held for conservation that meet the criteria to be recognised as an asset should also meet the current definition of PPE 'tangible assets that are held for use in the production or supply of goods or services...'. This is on the basis that:
 - (a) We consider that the act of conservation – which involves careful management and monitoring of natural resources, including sometimes restricting access – is an important *service* that a government (and/or other public sector entities) provides to ensure the wellbeing of present-day citizens and future generations, as well as to meet the country's emission targets (in the case of conserving forests that absorb emissions).
 - (b) Tangible natural resources held for conservation are a vital part of delivering this abovementioned service of conservation and protection. Without natural resources to conserve, a government or other reporting entity would not be able to provide a conservation service. Accordingly, these tangible natural resources have a 'use' and are being 'used' as part of providing the abovementioned conservation service.
4. Thus, tangible natural resources held for conservation meet all the elements of the definition of PPE. On this basis, we consider that natural resources held for conservation are in the scope of IPSAS 45 *Property, Plant and Equipment*, and should be accounted for in accordance with that Standard, rather than being scoped into a separate standard.

5. The view reflected in the ED that natural resources held for conservation are fundamentally different to PPE seems predicated on conservation being the act of avoiding use as opposed to being in use, and that items of PPE are typically consumed in the act of supplying a service (paragraph IG18). However, as explained above, we consider that natural resources are in use if they are being conserved (i.e. they are used as part of the service of conservation) – and we note that not all PPE are consumed in delivery of goods and services (e.g. land held for purposes of delivering services other than conservation is not necessarily consumed as it is used for providing services, as reflected by lack of depreciation).
6. Furthermore, a consequence of scoping tangible natural resources held for conservation into a separate standard is that such natural resources would have to be split out from the rest of PPE and presented separately in the statement of financial position – and we consider that the costs for preparers arising from this change would not be justified by benefits. Furthermore, for jurisdictions that are currently not recognising tangible natural resources held for conservation, specifying that such assets are PPE in the scope of IPSAS 45 would mean that such jurisdictions can account for these natural resources using a familiar standard with known and well-understood recognition and measurement criteria, rather than a new, separate standard.
7. In terms of examples of tangible natural resources that could fall within the scope of this ED, we do not anticipate any other natural resources being accounted for through this ED at this time. However, with the scope as open as it is currently drafted, it could mean that unforeseen tangible natural resources are recognised (either now or in future), and there could be unintended consequences if the requirements of the ED are not specifically fit for purpose in those circumstances.

Alternative view of ED 92

8. We have considered the alternative view provided within ED 92 and note the following in respect of the main aspects of this view:
 - (a) We disagree with the alternative view that requirements and guidance should be provided on tangible natural resources held for conservation in a separate standard. We do not believe a separate standard for natural resources is required. In respect of this, we agree in principle with the aspect of the alternative view that a clear use and characteristics of assets within the scope of a standard should be identified.
 - (b) We agree with the alternative view that if ED 92 is applied to resources other than tangible natural resources held for conservation the requirements and guidance may lead to inappropriate financial reporting.

APPENDIX 2

NZASB Submission to IPSASB Consultation Paper *Natural Resources*

26 October 2022

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Dear Ross

Consultation Paper, *Natural Resources*

1. Thank you for the opportunity to comment on the Consultation Paper, *Natural Resources* (the CP). The CP has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.
2. The subject of accounting for natural resources immediately raises several contentious questions as to who owns and controls them. In New Zealand, there is a broad range of legal and customary rights over natural resources which a reporting entity may have – including extraction, use, allocation, access, and management rights. Natural resources are typically not owned by one reporting entity, instead many types of natural resources are subject to joint or shared ownership. In addition, management of natural resources by the public sector often gives rise to specific obligations related to custodianship and preservation, rather than ownership rights that lead to the recognition of natural resources as assets.
3. We note the objective of the project is to provide information about natural resources that is useful to users of general purpose financial reports (GPFs) for accountability and decision-making purposes. In principle, we agree with the view that information about natural resources should be provided in GPFs where it relates to a recognised asset or where doing so is useful in understanding the reporting entity's financial position, financial performance, and cash flows. However, we are also of the view that due to uncertainties over control and/or obtaining a reliable measurement, most natural resources will not meet the asset recognition criteria and therefore will not be recognised as assets in GPFs.

4. Our view recognises the inherent limitations of financial statements and the restrictive nature of the related element definitions. Both of these leave us with significant doubt about the extent to which *relevant* information which is a *faithful representation* of natural resources can be provided within the confines of GPFs. Our concerns are particularly pronounced where an entity holds natural resources for preservation or restoration purposes rather than for financial gain.
5. Further, we are concerned that applying any guidance on accounting for natural resources in GPFs would be a prohibitively costly exercise for preparers due to the complex assessment required to determine whether natural resources are controlled by a reporting entity and whether they can be reliably measured. We consider that the naturally occurring resources which meet the asset recognition criteria and are appropriate and useful to report as assets in GPFs are those that are not in their natural state which are already largely captured by the existing accounting standards.
6. While not part of the stated objective of the project, the CP acknowledges the increasing focus among users internationally on the sustainable use of natural resources. It also suggests that financial information about natural resources could help to inform public financial management decisions and policy making in this respect.
7. Although the adage “what is measured is managed” rings true, we nevertheless consider that non-financial rather than financial measures are most important for accountability and decision-making for many natural resources, notably in relation to their sustainability. We are concerned that attempting to incorporate extensive disclosures of this nature into GPFs presents a risk of obscuring other information which is more relevant to achieving the objectives of financial reporting.
8. In New Zealand, most public sector entities are required to prepare a statement of service performance as part of their GPFs to provide information about how the entities are achieving their primary purposes. While many public sector entities may be required to consider how their activities impact natural resources, the extent to which they do so will often be less relevant when assessing whether they fulfil their primary purpose effectively. Therefore, rather than seeking to improve the reporting of information on natural resources through GPFs, we support the provision of information through other forms of general purpose reporting – such as broader sustainability-type reporting initiatives.
9. We note that the IPSASB has recently received feedback on its Consultation Paper, *Advancing Public Sector Sustainability Reporting* project. Our view is that a project of this nature would be more appropriate for reflecting the full extent of a governments’ obligations and activities related to natural resources due to its broader scope and the ability to develop a purpose-built reporting framework. We also consider that the sustainability would be more appropriate for promoting the sustainable management and preservation of natural resources. We are concerned that further work on the topic of natural resources within the confines of GPFs will potentially cause confusion and conflict while sustainability reporting frameworks are in their infancy.

10. Overall, our view is that the natural resources project should not be progressed any further at this time. We consider the IPSASB's efforts are better spent on putting in place the enablers required to take the *Advancing Public Sector Sustainability Reporting* project forward first.
11. Finally, we encourage the IPSASB to explore the views of indigenous peoples in defining the aims of the project and how information about natural resources could be useful for accountability and decision-making purposes. As the original guardians of the natural resources, the views, beliefs and culture of a jurisdiction's indigenous people are a critical lens through which the reporting of information about natural resources should be examined. If the natural resources project continues in the future, we suggest consideration should be given to how the views of indigenous people can be incorporated into the process.
12. If you have any queries or require clarification of any matters in this letter, please contact Jamie Cattell (jamie.cattell@xrb.govt.nz) or me.

Yours sincerely

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

Carolyn Cordery

Chair – New Zealand Accounting Standards Board

Appendix

Preliminary View 1—Chapter 1

The IPSASB’s preliminary view is that a natural resource can be generally described as an item which:

- (a) Is a resource as described in the IPSASB’s Conceptual Framework;
- (b) Is naturally occurring; and
- (c) Is in its natural state.

Do you agree with the IPSASB’s Preliminary View, particularly whether the requirement to be in its natural state should be used to scope what is considered a natural resource?

If not, please provide your reasons.

Response to PV 1

Overarching comments

Our responses to PV 1 should be read within the context of our overarching view that this project should be deferred until the IPSASB’s sustainability project is further advanced.

The preliminary view is useful to the extent that the key elements of *naturally occurring* and *in its natural state* are appropriately defined. We have concerns about these definitions as discussed below.

Having said that, the preliminary view could be useful to the extent it would distinguish natural resources from other types of naturally occurring resources accounted for by other existing accounting standards. By limiting the scope of what is considered a natural resource to only those naturally occurring resources that are in their natural state, the discussion remains focused on the resources which users mainly consider the public sector has an obligation to protect and preserve for future generations. This outcome reflects the increased focus on the issues of natural resource depletion and overconsumption among users internationally.

We have raised some concerns with the proposed definition of natural state below.

Concerns regarding the definition of *natural state*

We have concerns with how the term *natural state* is defined by the CP. We note that for a resource to be in its natural state, the CP states that *it must not have been subjected to human intervention, which modifies its quantity and/or quality*. Depending on the unit of account, this could create a “one-way street” in which any activity that constitutes human intervention forever excludes a particular resource from being considered a natural resource, regardless of the fact that it may currently (or in future periods) be in a state indistinguishable from its natural state.

For example, in a case where a selection of trees is being harvested from a forest, if the unit of account is the forest area, the whole resource could cease to be in its natural state due to the harvesting activity. This does not seem like the appropriate outcome as very few people would consider the entire forest area to no longer be in its natural state simply because of the removal of a small number of trees.

As an illustration of how this view has been reflected in New Zealand, under the Forests Act 1949 there are areas of indigenous forest which may be subject to sustainable forest management plans. Under these plans entities or individuals may be permitted to harvest timber from the plan area on the basis that following the plan ensures sustainable forest management and that any logging activity will not harm the forest's "amenity values."¹

Applying the definition of natural state to these forests, it seems to us that as soon as there has been any logging, that area would no longer be in its natural state (as the quantity of trees has been changed) and therefore out of scope. This occurs in spite of the evidence that the primary objective of the government is to ensure the forest retains features which could be seen as analogous to its natural state rather than for its financial capacity as a source of timber. Even if it can be shown that the regulations are effective and the forest retains these characteristics, the forest cannot be "un-intervened" and therefore would always be out of scope under the CP definition.

The same issue arises in cases where the government conducts activities in order to return a resource to its original natural state. For example, in 2004 the didymo algae was found to have been inadvertently introduced to rivers in the South Island of New Zealand. The didymo algae is an invasive species which has an adverse effect on native wildlife. Assuming that the unit of account is the river (or a section of the river) based on the discussion in the CP, it appears that any attempt by the government to remove the algae would be considered human intervention. This would therefore prevent the recognition of the river as a natural resource because it has been subject to human intervention for the purposes of protection and preservation.

Recommendation

We recommend that the definition of *natural state* be relaxed to allow for the inclusion of resources which are naturally occurring and have been subjected to human intervention – when the goal of that intervention is to preserve or restore the natural state of the resource (rather than to exploit it for financial returns).

If standard-setting activity is taken forward, additional guidance on the unit of account will require development to ensure that preparers are considering in a consistent manner and at the appropriate level of analysis whether natural resources are in their natural state.

¹ The Forests Act 1949 provides the following definitions for Amenity Values and Sustainable Forest Management.

Sustainable forest management means the management of an area of indigenous forest land in a way that maintains the ability of the forest growing on that land to continue to provide a full range of products and amenities in perpetuity while retaining the forest's natural values.

Amenity values means those natural or physical qualities and characteristics of an area that contribute to people's appreciation of its pleasantness, aesthetic coherence, and cultural and recreational attributes.

Specific Matter for Comment 1—Chapter 1

The IPSASB's preliminary description of natural resources delineates between natural resources and other resources based on whether the item is in its natural state.

Do you foresee any challenges in practice in differentiating between natural resources and other resources subject to human intervention? If so, please provide details of your concerns. How would you envisage overcoming these challenges?

Response to SMC 1

In addition to concerns raised in response to the description of natural resources in PV 1, we foresee several challenges arising in practice when determining whether natural resources are in their natural state.

These challenges primarily centre around what constitutes human intervention, which will lead to a resource no longer being considered a natural resource.

All resources undergo changes in state in response to the prevailing conditions in their environment. There are very few resources on the planet that have not been impacted by human intervention in some way, either intentional or unintentional. This creates a challenge when differentiating between natural resources and other resources based on the extent to which they have been subject to human intervention.

Consider for example, a reduced population of indigenous plants in a particular forest area due to a human caused phenomena such as acid rain. In this case it seems clear that human action has caused the current conditions, but it is not clear to us whether the natural state of the forest would therefore be its current state (assuming only indirect human intervention from acid rain), an estimated state based on the assumption that the acid rain had never occurred, or some other time between those two points.

As noted above, in many cases natural resources will be subject to human intervention in the form of activities to preserve or restore the natural resources. It is likely that these activities will have a direct impact on the quality and quantity of the resource. However, in our view the resource should remain a natural resource until it has been exploited for financial gain such as through cultivation or extraction activities.

Our view is that these challenges can be addressed only partially by ensuring there is a robust definition of what is meant by the term "natural state" and ensuring that supporting guidance provides sufficient detail and clarity about when human intervention results in the resource no longer being in its natural state.

Specific Matter for Comment 2—Chapter 1

The IPSASB noted that the natural resources project and sustainability reporting in the public sector are connected in that this project focuses on the accounting for natural resources while sustainability reporting may include consideration of how natural resources can be used in a sustainable manner.

In your view, do you see any other connections between these two projects?

Response to SMC 2

Our response to SMC 2 should be read within the context of our overarching view that this project should be deferred until the IPSASB’s sustainability project is further advanced

In our opinion, there is significant crossover in the concepts and underlying objectives of the two projects. Despite the natural resources project being primarily about whether natural resources can be recognised as assets in General Purpose Financial Statements (GPFs), it seems to us that the reason for considering this question is at least, in part, about ensuring they are used sustainably. For this reason, we consider that the IPSASB’s project on *Advancing Sustainability Reporting in the Public Sector* is better suited to considering the broader information needs of users in relation to natural resources.

If both projects continue simultaneously, we consider there is a real risk of confusion arising from conflicts in terminology and objectives between wider sustainability-type reporting and reporting in GPFs or broader GPFRs. We note that the sustainability reporting project will have a significantly broader scope than this project which narrowly focuses on resources that meet the definition of assets in the conceptual framework. Therefore, we consider important that the terminology related to natural resources should be driven by the broader sustainability project rather than developed independently in the natural resources project. We expect that once the work on sustainability is more mature, the benefits of recognising natural resources in GPFRs will be able to be articulated and considered in the context of sustainability more clearly.

Preliminary View 2—Chapter 2

The IPSASB's preliminary view is that a natural resource should only be recognised in GPFS if it meets the definition of an asset as defined in the IPSASB's Conceptual Framework and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Response to PV 2

In principle, we agree with the preliminary view that a natural resource should be recognised as an asset in GPFSs only if it meets the asset definition, the recognition criteria, achieves qualitative characteristics and takes account of constraints on information in GPFRs as provided for in the IPSASB's Conceptual Framework.

We also want to emphasise the importance of considering how information about natural resources achieves the qualitative characteristics and takes account of the constraints on information in GPFRs. Specifically, we think that before developing an accounting standard on natural resources, a fulsome discussion of how financial information about natural resources achieves the qualitative characteristics of *relevance* and *faithful representation* is required. We think such a discussion should include how financial information about natural resources can achieve these qualitative characteristics while also taking account of the cost-benefit constraint.

When considering our response to PV 2, we agree with the view that most natural resources will not meet the asset recognition criteria (and will not therefore be reported in GPFS), due to uncertainties over control and/or obtaining a reliable measurement. We therefore question the benefit of developing an accounting standard for natural resources if the primary purpose is to establish requirements concerning asset recognition.

We feel that naturally occurring resources for which it is appropriate and useful to be reported in GPFSs as assets are primarily resources which are not in their natural state. These types of naturally occurring resources are already largely captured by existing accounting standards (such as property, plant and equipment, intangibles, and biological assets).

Preliminary View 3—Chapter 3

The IPSASB's preliminary view is that guidance on exploration and evaluation expenditures, as well as development costs, should be provided based on the guidance from IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and IAS 38, *Intangible Assets*.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Response to PV 3

We do not expect exploration and evaluation activities conducted by the public sector would be significantly different than those conducted by the for-profit sector. We therefore agree that guidance for exploration and evaluation expenditure should be based on the guidance in IFRS 6 and IAS 38. We suggest this guidance be brought into IPSAS through a stand-alone IFRS alignment project, rather than attempting to do so as part of a broader natural resources project.

Regarding IAS 38, we note that the IASB is currently researching improvements to the accounting for intangible assets. As this standard may be significantly amended or replaced as a result of the IASB's work, we recommend ensuring that sufficient flexibility is retained to address this in due course.

Preliminary View 4—Chapter 3

The IPSASB's preliminary view is that IPSAS 12, IPSAS 17, and IPSAS 31 should be supplemented as appropriate with guidance on the accounting for costs of stripping activities based on IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Response to PV 4

We have not provided a response to this preliminary view.

Preliminary View 5—Chapter 3

The IPSASB's Preliminary view is that, before consideration of existence uncertainty, an unextracted subsoil resource can meet the definition of an asset.

Do you agree with the IPSASB's Preliminary View?

Please provide the reasons supporting your view.

Response to PV 5

Our responses to PV 5 should be read within the context of our overarching view that this project should be deferred until the IPSASB's sustainability project is further advanced.

In principle unextracted subsoil resource could meet the definition of an asset when a public entity has access rights that give it control over the resource, but only when the resource can be identified and reliably measured. In our view due to the nature of unextracted subsoil resources we think it is highly unlikely that this recognition criteria could be satisfied for subsoil resources prior to their extraction.

Preliminary View 6—Chapter 3

The IPSASB's preliminary view is that existence uncertainty can prevent the recognition of unextracted subsoil resources.

Do you agree with the IPSASB's Preliminary View?

Please provide the reasons supporting your view.

Response to PV 6

Consistent with our response to PV 5, we agree with this preliminary view.

We are particularly persuaded by the point made in paragraph 3.28 as it offers a rebuttal to the argument some may raise, that quantities and existence can be estimated using geological techniques. Geological surveys and models provide estimates of possible unextracted subsoil reserves, but not with enough certainty for recognition of an asset in GPFSs.

We agree with the view as provided in paragraph 3.37 of the CP:

...the accounting setters, regulators, preparers, and auditors in the private sector have reached a consensus that such geological estimates cannot be used to support recognition of subsoil resources in the financial statements because it may be difficult for an entity to select a measurement basis which is verifiable.

We see no reason the public sector should take a different approach.

Preliminary View 7—Chapter 3

The IPSASB’s preliminary view is that the selection of a measurement basis for subsoil resources that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs may not be feasible due to the high level of measurement uncertainty. Based on this view, the recognition of subsoil resources as assets in the GPFS will be challenging.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide the reasons supporting your view.

Response to PV 7

Consistent with our response to PV 5 and PV 6, we partially agree with this preliminary view.

We consider that this preliminary view is not strong enough. The way that it is phrased implies that there is a reasonable possibility that an appropriate measurement basis could be determined for some subsoil resources. Based on the discussion in the CP about the reliability of currently available geological estimates, we suggest a more appropriate view would be that it is “highly unlikely that unextracted subsoil resources will be able to be recognised as assets in the GPFS.”

Preliminary View 8—Chapter 4

Based on the discussions in paragraphs 4.11-4.31, the IPSASB’s preliminary views are:

- (a) It would be difficult to recognise water in seas, rivers, streams, lakes, or certain groundwater aquifers as an asset in the GPFS because it is unlikely that they will meet the definition of an asset, or it is unlikely that such water could be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs;
- (b) Water impounded in reservoirs, canals, and certain groundwater aquifers can meet the definition of an asset if the water is controlled by an entity;
- (c) Where water impounded in reservoirs and canals meets the definition of an asset, it may be possible to recognise the water in GPFS if the water can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs; and
- (d) In situations where the financial capacity or operational capacity of a water resource cannot be reliably measured using currently available technologies and capabilities, the resource cannot be recognised as an asset in the GPFS.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons supporting your view.

Response to PV 8 (a)

We agree with the preliminary view that water resources in seas, rivers, streams, or lakes are unlikely to meet the definition of an asset for financial reporting purposes. As provided for in paragraph 4.16 of the CP, we agree that it is unlikely water in its natural state could be feasibly monitored and measured reliably due to continuous changes in water levels as part of the natural water cycle.

We also agree that groundwater aquifers present similar existence and measurement challenges and therefore it is unlikely these resources will meet the definition of an asset. Our understanding is that groundwater aquifers are subject to the same forces as other natural water sources.

Freshwater reserves are arguably the most important natural resource on the planet. Under the broader topic of sustainability-reporting, we encourage the IPSASB to develop guidance on the information required by users to assess the management and preservation of this crucial resource. We see this information being provided for through other forms of general purpose reporting, not GFRs.

Response to PV 8 (b) and (c)

It is not yet clear to us whether impounding water is not a form of human intervention that would lead to the resource being out of scope and being accounted for by an existing standard. To the extent that changing the quality or quantity in a particular location is sufficient to be considered human intervention, it seems that impounded water would not be in its natural state.

We suggest that further analysis and research is required on the current accounting for impounded water to assess whether specific guidance is needed in this area.

Response to PV 8 (d)

We agree with this preliminary view, and that an asset can only be recognised in GFRs when it can be reliably measured.

Specific Matter for Comment 3—Chapter 5

Living organisms that are subject to human intervention are not living resources within the scope of this CP. The accounting treatment of those living organisms, and activities relating to them and to living resources, is likely to fall within the scope of existing IPSAS.

In your view, is the guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS to apply for these sufficient?

If not, please explain the reasons for your view.

Response to SMC 3

Based on the limited consultation conducted, nothing has come to our attention that indicates there are any significant issues that need to be addressed regarding living organisms that are subject to human intervention (i.e. cultivation or preservation).

Preliminary View 9—Chapter 5

Based on the discussions in paragraphs 5.18-5.41, the IPSASB's preliminary views are:

- (a) It is possible for a living resource held for financial capacity to meet the definition of an asset, be measurable in a way that achieves the qualitative characteristics and takes account of the constraints on information in the GPFs, and thus meet the criteria to be recognised as an asset in GPFs;
- (b) If a living resource with operational capacity meets the definition of an asset an entity will need to exercise judgement to determine if it is feasible to measure the living resource in a way which achieves the qualitative characteristics and takes account of the constraints on information in the GPFs, and so meet the criteria to be recognised as an asset in the GPFs; and
- (c) In situations where the financial capacity or operational capacity of a living resource cannot be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFs using currently available technologies and capabilities, the living resource cannot be recognised as an asset in the GPFs.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Response to PV 9

Our response to PV 9 is consistent with PV 2.

In principle, we agree with the preliminary view that living resources should only be recognised as assets in GPFs if they meet the definition of an asset, and are measurable in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFs as provided for in the IPSASB's Conceptual Framework.

However, we consider that living resources which are appropriate and useful to report as assets in GPFs are already largely captured by existing accounting standards (i.e. IPSAS 12, IPSAS 17, or IPSAS 27).

Further, when considering our response to PV 9, we are of the view that most living resources that are defined as natural resources by the CP will not meet the asset recognition criteria and should not therefore be reported in GPFs. This is due to uncertainties over control and/or obtaining a reliable measurement of living resources that are naturally occurring and in their natural state.

Finally, it should be emphasised that in the potentially few instances that living resources could be recognised as assets in GPFs, this should only be done where doing so provides useful information for accountability and decision-making purposes.

Preliminary View 10—Chapter 6

Based on the discussion in paragraphs 6.7-6.15, the IPSASB's preliminary view is that certain information conventionally disclosed in GPFs should be presented in relation to natural resources.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Response to PV 10

If a natural resource is recognised as an asset in an entity's GPFs, we agree that information required to understand how that asset was accounted for should be disclosed in those financial statements.

However, we think that in taking a narrow focus on whether and how natural resources can meet the asset recognition criteria, the CP in general fails to fully articulate how financial information about natural resources achieves the objectives of financial reporting — to provide information about the **entity** that is useful to users of GPFs for accountability and decision-making purposes.

We note in paragraph 6.10 of the CP, the proposed objective of disclosures on natural resources is to provide information that enables users of financial statements to evaluate:

- (a) The effects of natural resource assets on an entity's financial position, financial performance, and cash flows; and
- (b) The nature of, and risks and opportunities associated with natural resource assets.

Where the financial capacity of a natural resource is the most relevant information, recognition and related disclosures might provide some useful information for the purposes outlined above. For example, where the natural resource is a significant component of a jurisdiction's wealth, plays a key role in its economy, or is primarily held for financial gain. In these cases financial information about the natural resource could provide a more complete picture which helps users evaluate whether the government is effectively managing that natural resource.

However, when considering disclosure requirements, it is important to be clear about what goal recognition and disclosure is expected to achieve. It seems to us that the more relevant disclosures with regard to natural resources with financial capacity is information about whether the regulatory regime in place for these resources is being managed effectively. Information in monetary terms provided by financial statements is only one lens through which this could be examined. However, we are not convinced that this is the most appropriate way to do so based on the discussion in the CP. We suggest that this purpose would be more effectively achieved through some form of specific regulatory reporting rather than through GPFs.

Where a natural resource is primarily held by the public sector for preservation or restoration purposes, we are sceptical that the financial information provided by recognising the natural resource as an asset can faithfully represent the value of the natural resource. For these natural resources the most relevant disclosures will likely be non-financial information about how the reporting entity is fulfilling these purposes rather than the financial information provided by recognising the resource as an asset. Again, we consider that this would be more effectively

achieved through some other form of specific reporting rather than through GPFs such as sustainability reporting.

Further, we note that the vast majority of natural resources would not meet the criteria for recognition as assets. We think that other information regarding a reporting entity's rights and obligations in relation to natural resources could be useful in other forms of general purpose reports provided under a broader sustainability-type framework, for example whether an entity has an obligation to restore a natural resource or to undertake specific activities in order to fulfil a jurisdiction's international commitments. This information would be useful regardless of whether the underlying resource is recognised as an asset.

Preliminary View 11—Chapter 6

Based on the discussion in paragraphs 6.16-6.20, the IPSASB's preliminary view is that certain information conventionally found in broader GPFs should be presented in relation to recognised or unrecognised natural resources that are relevant to an entity's long-term financial sustainability, financial statement discussion and analysis, and service performance reporting.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Response to PV 11

Where information is relevant to understanding the long-term financial sustainability, financial statement discussion and analysis, and service performance of an entity we would expect this to be disclosed in broader GPFs. However, without more concrete proposals about what any such disclosures could include, it is difficult to form a specific view.

We consider that the information discussed by the RPGs is of greater relevance for natural resources held for their financial capacity than for those held for restoration or preservation purposes. This is particularly true with regard to RPG 1 which would be primarily relevant where natural resources play a significant role in funding the entity.

Our view is that RPG 3 may be more applicable where natural resources are held for restoration or preservation. We expect that public sector performance in relation to these resources is frequently assessed through non-financial measures. As RPG 3 allows for and encourages entities to use a mixture of indicators in reporting on their service performance objectives we consider the guidance in RPG 3 is better suited to reporting on natural resources.

However, in New Zealand many public sector entities are required to prepare a statement of service performance as part of their GPFs to provide information about how the entities are achieving their primary purposes. While many public sector entities will need to operate sustainably or have regard to the impact of their activities on natural resources, the extent to which they do so will often be less relevant to assessing whether they fulfil their primary purpose effectively. Therefore, we note the view expressed in our cover letter that the broader project on sustainability is better suited to addressing issues related to reporting of information on natural resources by the public sector than this narrow scope project.

Specific Matter for Comment 4—Chapter 6

The proposals in paragraphs 6.16-6.20 (Preliminary View 11) are largely based on the IPSASB's RPGs. While these proposals are expected to be helpful to users of the broader GFRs, the information necessary to prepare these reports may be more challenging to obtain compared to the information required for traditional GFS disclosures. As noted in paragraph 6.17, the application of the RPGs is currently optional.

In your view, should the provision of the natural resources related information proposed in Preliminary View 11 be mandatory? Such a requirement would only be specifically applicable to information related to natural resources.

Please provide the reasoning behind your view.

Response to SMC 4

We have not provided a response to this SMC.