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The International Public Sector Accounting Standards Board

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Submission via website

28 February 2025

Dear Ross

COMMENT ON EXPOSURE DRAFT ON PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD (IPSAS) ON TANGIBLE NATURAL RESOURCES (ED 92)

We thank you for the opportunity to comment on ED 92.

We issued ED 92 for comment in our jurisdiction. We held a number of roundtable discussions to solicit views from preparers, auditors, technical experts, academics, consultants, professional bodies and users. We also received written responses from our stakeholders on the proposals in ED 92. The comment outlined in this response were developed by the Secretariat of the ASB and not the Board.

We support the alternative view and have concerns about the scope of the proposed IPSAS being a residual Standard, and the risk of inappropriate financial reporting for tangible natural resources other than those held for conservation.

As a result of the approach to the scope, our respondents found it difficult to understand when an item will be in the scope of the proposed IPSAS or an existing IPSAS. This is particularly the case for natural resources held to deliver services, including conservation, which they consider to be within the scope of IPSAS 45 on *Property, Plant and Equipment*. For this reason, we are of the view that tangible natural resources held for conservation should be treated as a subset of property, plant and equipment and do not support the guidance being included in a separate IPSAS. Clear guidance should be included in IPSAS 45 to explain how the property, plant and equipment principles apply to these resources.

Our reasons for supporting the alternative view are included in the responses to the specific matters for comment, outlined in Annexure A. Annexure B includes other matters for the IPSASB's consideration.

Should you have any questions regarding the comment outlined in this letter, please feel free to contact me.

Board Members: Mr A van der Burgh (Chair), Ms A Carstens, Mr A Hardien, Ms W de Jager,
Mr D Dlamini, Mr S Gcwabe, Mr S Khan, Ms A Muller, Prof R Small
Chief Executive Officer: Mrs J Poggiolini



Yours sincerely

A handwritten signature in black ink, appearing to read 'Elizna van der Westhuizen'.

Elizna van der Westhuizen

Head of Technical

ANNEXURE A

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.

We support the alternative view and do not agree with the scope of the proposed IPSAS being a residual IPSAS for all tangible natural resources.

The approach adopted to develop an IPSAS for tangible natural resources – a residual standard approach – differs from that of other IPSAS. The accounting requirements of other asset-related IPSAS specifically address the unique use, characteristics and accounting considerations of the resources within the scope of those IPSAS.

In our view, it is not possible to develop appropriate accounting principles and guidance to account for resources if the nature, characteristics and use of those resources are unknown. The consequence is that the accounting requirements may result in inappropriate financial reporting for items that are in the scope of the proposed IPSAS.

Our respondents noted that the broader scope and the proposed IPSAS not considering the unique use, characteristics and accounting considerations for tangible natural resources held for conservation impact the understandability of the proposed IPSAS. They noted that the result is that the proposed IPSAS could be considered “rules”-based in accounting for tangible natural resources held for conservation. For example, the indefinite useful life rebuttable presumption, fair value not applying to tangible natural resources held for conservation and the disclosure exemptions.

Our respondents found it difficult to distinguish resources that are in the scope of existing IPSAS, and IPSAS 45 in particular, from those that are in the scope of the proposed IPSAS. They found the proposed approach to the scope complex and difficult to apply as an entity first needs to assess if a resource is in the scope of existing IPSAS before the proposed IPSAS is applied.

We therefore support the alternative view that the proposed IPSAS should not be a residual IPSAS for tangible natural resources, and that guidance should be specific to tangible natural resources held for conservation. This will ensure that the requirements address the unique use, characteristics and accounting considerations for tangible natural resources held for conservation. Less judgement will be applied to conclude the scoping of a resource.

Should other tangible natural resources be identified, the unique use, characteristics and accounting considerations of those resources would need to be considered in developing appropriate accounting requirements at that time.

Placement of the guidance

On the placement of the proposed guidance, we recommend that tangible natural resources held for conservation be considered as a subset of property, plant and equipment instead of included in a separate standard. Clear guidance needs to be included in IPSAS 45 to explain how the property, plant and equipment principles apply to tangible natural resources held for conservation, similar to the approach adopted for heritage and infrastructure assets. Our reasons for this recommendation are:

- Paragraph AG5 explains that a tangible natural resource held primarily for conservation has service potential to achieve the entity's service delivery objectives. Because the item has service potential it is a resource from the entity's perspective. When the resource meets the definition of an asset, we are of the view that it meets the definition of property, plant and equipment as it is tangible, is held for use in the production or supply of goods or services, and is expected to be used during more than one reporting period. This is because the resource is used to deliver a service through its conservation for future generations.

We note that this same conclusion, i.e. that a resource conserved for future generations is a way in which a resource is used to deliver a service, was reached for heritage assets to be a subset of property, plant and equipment.

- The IPSASB concluded that the principles in IPSAS 45 fully apply to heritage and infrastructure assets as the heritage and infrastructure nature of the assets is not by itself a reason for developing a separate IPSAS. This approach should be applied consistently in developing guidance for other items that are subsets of property, plant and equipment, such as tangible natural resources held for conservation.
- It will resolve the difficulty of distinguishing when a resource is in the scope of IPSAS 45 or the proposed IPSAS.
- Our concerns highlighted in our response to SMC 5 about cross-references to the subsequent measurement requirements of IPSAS 45 and the disclosure requirements for current value can be resolved if tangible natural resources held for conservation are classified as a subset of property, plant and equipment.

If the IPSASB is not in support of the proposal to include guidance on tangible natural resources held for conservation in IPSAS 45, we support the development of guidance in a separate IPSAS only if the scope of the proposed IPSAS is limited to tangible natural resources held for conservation, for the reasons explained above.

Other resources that may fall within the scope of the proposed IPSAS

Our respondents could not identify any tangible natural resources, other than those held for conservation, that will be accounted for in the proposed IPSAS.

Local examples of tangible natural resources held for conservation include:

- world heritage sites, for example Table Mountain and Robben Island;
- national parks, for example Cape Nature reserves;

- endangered species, for example rhinos; and
- natural attractions, for example Bourke’s Luck potholes.

Other resources identified do not meet the criteria to be accounted for in the proposed IPSAS. For example, minerals underground prior to extraction. We agree with the proposed implementation guidance that such items cannot be recognised.

Specific matter for comment 2: Definitions (paragraph 6)

The Exposure Draft defines a natural resource as an item which is naturally occurring and embodies service potential, the capacity 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 Exposure Draft includes an Alternative view regarding its scope and the definition of tangible natural resources.

We agree with the definition of a tangible natural resource but support the alternative view on the definition of a natural resource.

As noted in our response to SMC 1, guidance should be developed specifically for tangible natural resources held for conservation, based on the unique use, characteristics and accounting considerations of these resources. As tangible natural resources held for conservation only have service potential in achieving the entity’s service delivery objectives and generating economic benefits is not the main purpose for holding the resource, we support the alternative view - i.e. the definition of a natural resource, for purposes of this proposed IPSAS, need not refer to the capacity to generate economic benefits.

We note that based on the proposed definition of a natural resource, measurement requirements are included to measure resources held for operational and financial capacity. As we are of the view that the guidance should be specific to tangible natural resources held for conservation, we support the alternative view that the subsequent measurement guidance should be limited to current operational value. If tangible natural resources are considered a subset of property, plant and equipment (see our recommendation to SMC1), guidance needs to be included in IPSAS 45 to explain how the property, plant and equipment principles apply to tangible natural resources held for conservation.

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 the rebuttable presumption that tangible natural resources held for conservation are not depreciated.

However, based on our views on the scope of the proposed IPSAS (see SMC 1), we agree with the alternative view that, without knowing what tangible natural resources other than those

held for conservation could fall within the scope of the proposed IPSAS, including the rebuttable presumption could lead to inappropriate financial reporting for tangible natural resources other than those held for conservation.

Some of our stakeholders agree that tangible natural resources held for conservation should not be depreciated as depreciation implies that the resources are consumed. They, however, disagree with the reason why tangible natural resources held for conservation are not depreciated. They consider some tangible natural resources held for conservation to have finite useful lives, for example, a rhino or tree. We recommend that the proposed IPSAS clearly explains that the unit of account is deemed to have an indefinite useful life, rather than the individual items that make up the unit of account. This will ensure that the rebuttable presumption is applied to the unit of account and not the individual resources.

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?

We support the exemption to not disclose certain information which may lead to further degradation of tangible natural resources which are rare or endangered.

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?

If a separate IPSAS is developed, we do not support the cross-references to the guidance in IPSAS 45. The guidance should be incorporated in the final IPSAS.

We support the alternative view that the requirements and guidance specific to tangible natural resources held for conservation should be included in the proposed IPSAS. In our view, all the guidance specific to tangible natural resources held for conservation should be included if a separate IPSAS is developed. This is to ensure that the IPSAS is a stand-alone standard and guidance is not generic but considers the unique characteristics, use and accounting considerations of the items within the scope of the IPSAS.

If tangible natural resources are classified as a subset of property, plant and equipment, guidance needs to be included in IPSAS 45 to explain how the property, plant and equipment principles are applied to tangible natural resources held for conservation to address the unique use and characteristics of these resources, similar to the approach adopted for heritage and infrastructure assets.

We further note that not all the guidance in IPSAS 45 is appropriate for tangible natural resources held for conservation. For example, in our view, not all the disclosure requirements in IPSAS 45 for current value are appropriate based on our response to SMC 2 that tangible natural resources held for conservation are held for their operational capacity.

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?

We agree with the option to apply the proposed IPSAS on a modified retrospective basis and that it will result in useful information.

Even though some of our respondents proposed the prospective application of the proposed IPSAS when considering cost versus benefit, the majority of our respondents supported the option to apply the proposed guidance on a modified retrospective basis, in addition to a full retrospective basis.

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?

We support the amendment of the description of “heritage asset” in IPSAS 45.

The majority of our respondents agreed with the proposed amendment to the description of “heritage assets”. They deem the clarification necessary to distinguish heritage assets from tangible natural resources 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?

We support the proposed IPSAS including implementation guidance and illustrative examples that explain the application of the principles in the proposed IPSAS. Our stakeholders generally find non-authoritative guidance useful.

We recommend that additional guidance and/or examples be considered in the following areas:

- How the unit of account is applied to a conservation area that comprises land with living animals, plants, rock formations, and/or other tangible natural resources, and the applicable IPSAS in accounting for each of these components of the conservation area.
- Assessing if a tangible natural resource held for conservation should be impaired or derecognised, and the impact on the useful life (if any) where there are expectations that the resource will deteriorate following, for example, climate-related threats or natural aging of endangered species.
- Examples of other tangible natural resources held for conservation, other than forests, that are in the scope of the proposed IPSAS.
- If the definition of a natural resource is retained, examples of when and how a tangible natural resource held for conservation is held for economic benefits.

ANNEXURE B

OTHER COMMENT

Paragraph .10 requires an entity to measure a tangible natural resource subsequently when, on initial recognition the resource met the definition of an asset but cannot be measured reliably. We are of the view that the following additional guidance or requirements should be included when information becomes available to reliably measure the tangible natural resource that could not be recognised initially:

- (a) guidance on when, and how often, an entity should assess if information becomes available;
- (b) guidance on how to account for the tangible natural resource when a reliable measure becomes available, for example as an adjustment to surplus or deficit on the date that a reliable measure becomes available; and
- (c) disclosure requirements providing a description of the tangible natural resource for which a value was determined, along with the events or circumstances that led to a reliable value becoming available and the value at which the resource is recognised.