

## Swiss Comment to

### ED 92 Tangible Natural Resources

<b>Table of Content</b>	<b>Page</b>
<b>1. Introduction.....</b>	<b>1</b>
<b>2. General Remarks.....</b>	<b>1</b>
<b>3. Specific Matter for Comment 1: Scope (paragraphs 3-5) .....</b>	<b>1</b>
<b>4. Specific Matter for Comment 2: Definitions (paragraph 6).....</b>	<b>2</b>
<b>5. Specific Matter for Comment 3: Depreciation (paragraph 23) .....</b>	<b>3</b>
<b>6. Specific Matter for Comment 4: Exemption from Certain Disclosures (paragraph 51) .....</b>	<b>3</b>
<b>7. Specific Matter for Comment 5: Cross-References to IPSAS 45 Property, Plant, and Equipment (paragraphs 15 and 54) .....</b>	<b>3</b>
<b>8. Specific Matter for Comment 6: Transition (paragraph 60).....</b>	<b>4</b>
<b>9. Specific Matter for Comment 7: Amendment to the Description of 'Heritage Asset' in IPSAS 45 Property, Plant, and Equipment (Appendix B) .....</b>	<b>4</b>
<b>10. Specific Matter for Comment 8: Sufficiency of Proposed Implementation Guidance and Illustrative Examples .....</b>	<b>4</b>

## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation). SRS-CSPCP has discussed ED 92 Tangible Natural Resources.

## 2. General Remarks

SRS-CSPCP's view on this ED is rather critical. With the Consultation Paper great expectations were raised in respect of the accounting for water and mineral resources. But it now turns out that many tangible natural resources are to be recorded in accordance with existing standards. The consequence is that the recording of large and important assets, such as water and mineral resources, will possibly not be clarified. The question arises what assets are covered by ED 92. The concept in this ED is interesting, but there are only a few specific details, even in the examples.

SRS-CSPCP is further of the view that the definition of tangible natural resources, which are dealt with in this ED, is too restrictive. And if the definition is adequate for treatment of assets under this new Standard, for the most part they cannot be valued.

On the other hand, SRS-CSPCP has a very positive attitude to the alternative view. It appreciates the desired "positive" (in the sense of exhaustive) definition of tangible natural resources. Like the authors of the alternative view, SRS-CSPCP believes there are hardly any tangible natural resources other than those which are held for conservation and therefore could fall within the scope of ED 92; with the exception of those "held for future generations".

## 3. 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.*

SRS-CSPCP criticises the definition of tangible natural resources on the basis that it is a "negative" definition, i.e., it defines what is out of scope of this ED. A "positive" definition would be preferable. The *alternative view*, on the other hand, contains a "positive definition", in that only natural resources, which are held for conservation, fall under the scope of ED 92. Nevertheless, in the *alternative view* it is not clear whether it also applies to assets, which are held for the conservation of future generations. The expression "*held for future generations*" is not clear or apprehensible as such. It should be clarified by the IPSAS Board.

SRS-CSPCP could see two ways of describing more precisely the scope of this ED: either (1) in ED 92 water and natural resources should be explicitly mentioned, or (2) water and natural resources should be expressly excluded, and only the assets, which are held for conservation (including of future generations) should be included in this ED (see *alternative view*). In the second case, accounting for water and natural resources should, once again, be

included in the IPSAS Board's work programme, since this key issue has not yet been addressed.

In general, SRS-CSPCP is of the view that the distinction from "regular fixed assets" is unclear.

Furthermore, SRS-CSPCP wonders why AG 7 states that assets, which could fall under IPSAS 45 and ED 92, must be accounted for under ED 92.

Furthermore, SRS-CSPCP has noted that according to AG 8 only biophysical fixed assets fall under ED 92. It wonders whether e.g. gold and salt, which are geophysical elements, can be considered to be natural resources. SRS-CSPCP requests therefore that the IPSAS Board define the expression "biophysical" or else replace with a term that includes "geophysical". SRS-CSPCP invites the IPSAS Board to re-consider its definition of tangible natural resources to avoid conflicts with other IPSAS and prevent contradictions. It would be advantageous to establish "positive" definitions of tangible natural resources.

#### **4. 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?*

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

In the definition, SRS-CSPCP misses the specification that natural resources may serve conservation purposes. For this reason it is of the view that the alternative view provides the better definition. However, in the alternative view, certain elements are also missing, e.g. the fact that natural resources are held for the conservation of future generations.

SRS-CSPCP is also critical about the term "*naturally occurring*". It wonders whether a protective forest (e.g. to protect against avalanches) can be considered as a natural resource in the sense of ED 92.

As SMC1 and SMC2 are relatively close to each other, SRS-CSPCP takes the liberty of repeating its response to SMC 1:

SRS-CSPCP criticises the definition of tangible natural resources on the basis that it is a "negative" definition, i.e., it defines what is out of scope of this ED. A "positive" definition would be preferable. The *alternative view*, on the other hand, contains a "positive definition", in that only natural resources, which are held for conservation, fall under the scope of ED 92. Nevertheless, in the *alternative view* it is not clear whether it also applies to assets, which are held for the conservation of future generations. The expression "*held for future generations*" is not clear or apprehensible as such. It should be clarified by the IPSAS Board.

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considered to be natural resources. SRS-CSPCP requests therefore that the IPSAS Board define the expression "biophysical" or else replace with a term that includes "geophysical". SRS-CSPCP invites the IPSAS Board to re-consider its definition of tangible natural resources to avoid conflicts with other IPSAS and prevent contradictions. It would be advantageous to establish "positive" definitions of tangible natural resources.

**5. 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?*

SRS-CSPCP wonders why the formulation in IPSAS 31.87 (treatment of an intangible asset with an indefinite future life) is not used for ED 92. It asks IPSASB to re-consider the formulation in ED 92 in order to align it with IPSAS 31. Otherwise, SRS-CSPCP agrees that natural resources should not be depreciated systematically.

**6. 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?*

SRS-CSPCP has no opinion on this question, because such cases do not occur in Switzerland. SRS-CSPCP would, however, like to raise a problem in Paragraph 50, which should state that, when the historical cost method is used, the *current value* is also to be disclosed, if it is materially different from the carrying amount. The problem is that, when applying the current value model, it must be made clear whether the asset is held for *operational capacity (COV)* or for *financial capacity (fair value)*. But under the historical cost method this distinction is not made. The difficulty, therefore, is in determining whether *COV* or *fair value* is to be applied. SRS-CSPCP requests the IPSASB to clarify this issue.

**7. 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?*

In view of the numerous cross-references to IPSAS 45, SRS-CSPCP wonders whether it really makes sense to have a separate standard for tangible natural resources. This question arises, in particular, because in the definitions, as mentioned in the responses to SMC 1 and SMC 2, are unclear and difficult to implement.

As there are some inconsistencies in the cross-references to IPSAS 45 (see AV.11), SRS-CSPCP requests the IPSAS Board to review the cross-references for consistency.

**8. 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?*

SRS-CSPCP agrees with the proposal of the IPSASB. It does however asks IPSASB to allow for an adequate transition period.

**9. 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?*

SRS-CSPCP's opinion is that the amendment of the definition of "Heritage Asset" in IPSAS 45 is a logical consequence of this ED. It does, however, point out that the issues already discussed (see General Remarks and the responses to SMC 1 and SMC 2) also affect also the amendment of the description of Heritage Asset.

**10. 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?*

SRS-CSPCP is of the view that it is essential that more examples should be adduced. In addition, in the examples it should be explained which principles they clarify. What is the meaning, e.g. of "naturally occurring" (for example, glaciers as clearly physical substance vs. underground coal deposits)? In addition, in border-line cases the conditions for control and measurability could be difficult to apply (for example protected maritime area, to which access can be regulated vs mineral deposits in the ground because of a lack of exploration and therefore quantity and quality are not measurable). SRS-CSPCP requests that negative examples, i.e. natural resources, which are governed by this standard, also be included.

SRS-CSPCP takes once again the liberty of here again repeating its response to SMC 1.

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Winterthur, February 24, 2025