

Swiss Comment to

CP Natural Resources

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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). The SRS-CSPCP has discussed the CP Natural Resources.

2. General Remarks

The SRS-CSPCP is of the opinion that the *Consultation Paper (CP)* presented is logically constructed, sensible and pragmatic. However, for the Swiss federal government (i.e. *Confederation*), this CP is not relevant. Indeed the cantons (i.e. states) or the municipalities are the ones who own the natural resources concerned.

After examining the circulated CP, the SRS-CSPCP questions the distinction between natural resources and other goods. For example, it would like to know from what point a normal forest should be considered to be a nature park. The IPSAS Board should comment on this.

3. 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.*

The SRS-CSPCP agrees with the criteria mentioned for the differentiation of natural resources. It is, however, of the opinion that criterion (c) is too broad. A clearer distinction should be found. The SRS-CSPCP points out that reservoirs and canals are scarcely in a natural state. The following questions arise: is only the water in a reservoir a natural resource or the entire structure? To what extent does one control the water and how should it be measured? The SRS-CSPCP wishes that these questions be clarified by the IPSAS Board in a future *Exposure Draft* on this topic.

4. 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?*

The SRS-CSPCP does indeed foresee major challenges in differentiating between resources in their natural or no longer natural state. Above all it is difficult to judge until when a resource is in its natural state. Furthermore, the question arises of how to treat a resource, which changes from a natural resource to one subjected to human intervention (e.g. conversion from natural woodland to commercial woodland) or vice versa. The SRS-CSPCP, therefore, proposes adding in a future standard on Natural Resources *Implementaion Guidance* in order to clarify this question.

5. 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?

The SRS-CSPCP sees a clear connection between the two topics. It is conceivable that a sustainable use of a natural resource can have an effect on its measurement. This raises the question whether the sustainability has an effect on the measurement.

The SRS-CSPCP would like the IPSAS Board to comment on whether a polluted resource can be considered as a natural resource. Or in general the SRS-CSPCP would like to know whether sustainability is a condition for a resource to be considered a natural resource or whether sustainability only has an effect on the measurement (the value) of the resource.

6. Preliminary View 2-Chapter 2

The IPSASB's preliminary view is that a natural resource should only be recognized 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.

The SRS-CSPCP agrees with this view.

7. 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.

The SRS-CSPCP agrees with this view.

8. 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.*

The SRS-CSPCP agrees with this view.

9. 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.*

The SRS-CSPCP agrees with this view.

10. 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.*

The SRS-CSPCP agrees with this view.

11. 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.*

The SRS-CSPCP is of the opinion that subsoil resources should be recognized as assets as soon as the criteria for an asset are satisfied, even if it is difficult to determine their value. Also in existing IPSAS Standards the valuation of assets or liabilities may be very uncertain (e.g. provisions).

The SRS-CSPCP is of the opinion that, where substantial uncertainty exists, subsoil resources should be measured prudently and adjusted annually.

12. 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 recognize 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 recognize 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 recognized as an asset in the GPFS.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons supporting your view.

The SRS-CSPCP poses itself various questions in connection with the recognition of water:

- 1) Can water be controlled at all?
- 2) Frequently, as for example with water (e.g. in a reservoir) the output, but not the input (e.g. in the form of rain or melt water) can be controlled
- 3) Can concession water given to a company out of rivers be considered as a natural resource?
- 4) For the SRS-CSPCP it is obvious that water in canals and reservoirs must be treated differently from water in lakes and rivers, and the question arises whether a differentiation according to use would be possible.

Based on these considerations, for the SRS-CSPCP the proposals made by the IPSAS Board are in part not clear. For recognition purposes, the criterion of control is important and in its considerations the IPSAS Board should rely on this. The SRS-CSPCP would like the IPSAS Board to comment on whether partial control of the water is sufficient for recognition.

13. 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 there sufficient guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS to apply for these items necessary?

If not, please explain the reasons for your view.

The SRS-CSPCP is of the opinion that in the IPSAS Board's above statement the resources, which are not subject to human intervention and cannot be controlled, are missing. This applies above all to animals living in the wild. They may not be recognized. In addition our committee critically questions whether control of animals living in the wild is at all possible/conceivable. In addition the SRS-CSPCP wishes that it be established in a later ED that immovable resources (e.g. jungle) may not be recognized twice (the actual resource and the land, on which it stands).

The expression «activities» must be clearly defined. Does this term also cover activities, which e.g. are related to the maintenance of the balance of eco-systems or the decarbonization of the atmosphere? Or in other words: does this term also cover environmental services, which are provided by natural resources? If so, do these activities belong in this CP? These are the services/activities, which determine very much the value of such resources. One can think of the value of the Amazon rain forest, which remains preserved in its natural state.

14. 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 recognized 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 judgment 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 recognized 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 recognized as an asset in the GPFS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

The SRS-CSPCP agrees with this view.

15. 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.

The SRS-CSPCP agrees in general with the view of the IPSAS Board. It points out that the text in Section 6.12 (b) goes too far. In the notes should be listed not the physical quantities, but only the general principles for measuring the natural resources. In addition it warns against overloading the notes. This request has also been made by the SRS-CSPCP in connection with various IPSAS Consultation Papers in the past.

16. 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 recognized or unrecognized 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.*

The SRS-CSPCP agrees with this view.

17. 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 GPFs, the information necessary to prepare these reports may be more challenging to obtain compared to the information required for traditional GPFs 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.

The SRS-CSPCP is of the opinion that application of the RPGs should definitely continue to be optional. The committee stresses inter alia the application difficulties for smaller entities. In addition, frequently the RPGs contain not only accounting, but also politically strategic aspects. The mixing of these aspects with accounting should absolutely be avoided.

Lausanne, October 3, 2022