
CONSULTATION PAPER,
NATURAL RESOURCES

The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
277 Wellington Street West, 6th floor
Toronto, Ontario M5V 3H2 CANADA

Brasília, Brazil
October 17, 2022


Dear Mr. Ross Smith,

The *Conselho Federal de Contabilidade* (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on IPSASB, *Natural Resources*. CFC, alongside with its regional arms - Regional Accounting Councils or *Conselhos Regionais de Contabilidade* (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Permanent Committee for Public Sector Accounting Standards linked to Conselho Federal de Contabilidade (CP CASP – acronym in Portuguese).

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,


Wellington do Carmo Cruz
Technical Vice-President
Conselho Federal de Contabilidade

CONTEXT AND GENERAL COMMENTS

The Brazilian Federation is composed by central, 26 states, the Federal District and 5,569 municipalities governments. These levels of governments are responsible for formulating, implementing, and evaluating public policies in cooperative and/or competitive arrangements.

The Natural Resources theme is relevant for Brazil, especially for the abundance internationally recognized as one of the largest "assets/stocks" of humanity. In this sense, we strongly support the process.

In the next section, we present our comments and answers on the specific matters for comment of the public consultation.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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?

Answer:

CP CASP/CFC foresees several challenges. The valuation report would have to be issued by a technical team, often not available in the public sector structure or without enough staff to meet the new demands, making it difficult for the information to reach the accounting sector. Furthermore, it is worth mentioning that the concept of human intervention can raise questions on the characterization of the natural resource, i.e. waters where navigation activities are carried out between inland lake and river ports, which can generate the discharge of waste in the waters and thus modification to their 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?

Answer:

CP CASP/CFC does not see any other connections between the projects.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB. Whenever possible, references to existing standards should be used (for example, the IPSAS for Social Benefits which mentions IFRS 17), once IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors (items 12 to 15) allows the use of recent pronouncements issued by standard-setting bodies.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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 because.

Do you agree with the IPSASB's Preliminary View?

Please provide the reasons supporting your view.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB, considering that its existence can be verified. The extracted resource in case should be treated by another accounting standard, i.e. IPSAS 12 - Inventories.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB, because it would not be possible to ascertain the ability to generate economic benefits or service potential, aspects that characterize a resource and, consequently, an asset, as established in item 5.7 of The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. In case the unextracted subsoil resource is not recognized due to the existence of uncertainty, the entity must assess whether this transaction should be treated as contingent assets (IPSAS 19) until the uncertainty is resolved.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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.

Answer:

The CASP/CFC CP agrees that the guidance in IPSAS 12, IPSAS 17 or IPSAS 27 on how to determine which IPSAS to apply to them is sufficient.

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 GPFRs, 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 GPFRs, 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 GPFRs 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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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 GPFRs 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.

Answer:

CP CASP/CFC agrees with the preliminary view presented by the IPSASB.

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 GPFRs, 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.

Answer:

CP CASP/CFC believes that it should not be mandatory, because in addition to the difficulty of ascertaining the actual existence of the resource, as is the case of subsoil resources, it is possible that natural resources are comprised under another aspect, as in the case of cultural heritage, disciplined by IPSAS 17 - Property, Plant and Equipment - and IPSAS 31 - Intangible Assets.