



**MINISTÈRE
DE L'ÉCONOMIE,
DES FINANCES
ET DE LA SOUVERAINETÉ
INDUSTRIELLE ET NUMÉRIQUE**

*Liberté
Égalité
Fraternité*

**Conseil de normalisation
des comptes publics**

Le Président

Paris, October 18, 2022

Mr Ross Smith
Technical director
International Public Sector Accounting
Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto
Ontario M5V 3H2 CANADA

Re: Response to Consultation Paper, *Natural Resources*

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Consultation Paper, *Natural Resources* published in May 2022 (the CP).

Beforehand, we would like to emphasise the importance to us of the connection of the present project to the sustainability reporting issue. This is because unexploited natural resources are most often common goods and subject to a sustainability issue. We actually draw from our own experience in France that common natural resources are subject to financial political decisions for availability and sustainability purposes. We therefore firmly believe that natural resources should be taken into account in some way in financial reporting. As of now, in accordance with accounting literature, natural resources are not inventoried in public sector entity's financial statements. This is why, while we agree that there is very little room for current possible recognition in the primary financial statements, we are of the view that there might be a need for specific sustainable information.

We would therefore appreciate if the connection between natural resources and sustainability reporting could be elaborated on further in a future IPSASB project on sustainability. We would suggest for instance developing criteria beyond that of the control of a resource. Such criteria could take into account the reporting entity's regulation capacity: entities entitled to regulate unexploited natural resources would be

required to report financially on their sustainability, even though they do not control them. Such natural resources would also have to be reliably measurable.

More specifically back to the CP, we are of the opinion that if the question is whether an equivalent standard to IFRS 6 is needed, then that project should definitely be taken onto the Boards' agenda. Else, if the IPSASB envisages a wider scope for the project, then the link to sustainability reporting should be clearly explored. Additionally, with respect to sustainability reporting, one could question the relevance of reporting on natural resources from the perspective of individual public sector entities. We would therefore suggest to consider limiting the requirements of information at a higher level/regrouping of reporting entities.

In addition, because of the vast variety of organisations and legislations across the world, we believe that achieving comparability in reporting on natural resources is a challenge that should be clearly communicated on.

Lastly, while we commend the IPSASB for the efforts put into the Natural Resources project, we also believe that many of the questions in the CP deal with analyses relating to the application of the Conceptual Framework principles and definitions. Consistent with our general comment above on the importance of the link with sustainability reporting, we would therefore suggest that further work should focus on the following topics:

- General description of unexploited natural resources,
- Guidance around how to interpret and apply "subject to human intervention" in three instances, namely subsoil resources, water and living resources,
- Connectivity with Sustainability Reporting, and
- How to better delineate GPFS and GPCR from a conceptual viewpoint based on the need to report on unexploited natural resources in the context of increasing concern around sustainability reporting?

We present detailed responses to the Specific Matters for Comments in the appendix.

Yours sincerely

Michel Prada

APPENDIX

Note: we agree with Preliminary Views (PV) 2 to PV 4, PV 6, PV 8 to PV 9 and Specific Matter for Comment 3. The comments below therefore only relate to those Preliminary Views and Specific Matters for Comment for which we elaborated a detailed response.

Preliminary View 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.

We understand from the description proposed that the scope of the project is natural resources that have been (so far) unexploited. Because petroleum is commonly described as a natural resource, even though it may have been subject to human intervention at some point in time, we would recommend that the project should be labelled more narrowly, for instance along the lines of "unexploited natural resources". We believe that adding "unexploited" vastly helps constituents better delineating and clarifying the scope of the project.

We believe that the description of a natural resource would benefit from using only the two following features: that it is a resource as described in the Conceptual framework and that it is not subject to human intervention. In our opinion, the latter feature would efficiently cover both requirement that the item should be naturally occurring and in its natural state.

Then, further guidance could be usefully provided on the concept "subject to human intervention" for each of the three resources that are being analysed in the CP. It would seem simpler to provide guidance on just one concept, that of human intervention, than on two concepts, "naturally occurring" and "in its natural state". We are of the opinion that going from two notions to only one notion would ensure greater comparability.

Additionally, with a view to a possible connection with sustainability reporting, we would recommend that the Board should explore distinguishing between renewable and non-renewable natural resources. We think that initiating this debate would be consistent with the current discussions as part of the revision of the 2008 SNA.

Specific Matter for Comment 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?

We are not convinced that the delineation in the proposed description is useful. We believe that whether the resource is or not subject to human intervention is critical to characterise a natural resource not in the scope of other IPSASs. Because of its importance, it should be mentioned as a feature of natural resources in the description.

Extensive guidance may be needed to fully grasp and implement the concept of "subject to human intervention" as it is a concept that may prove challenging to apply consistently. It may also be that practice only could reveal implementation challenges that would have to be resolved over time, as part of the ongoing standard-setting process.

Specific Matter for Comment 2

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?

We believe that the connection may even go further than using natural resources in a sustainable manner that would include for the public sector to maintain and to preserve natural resources. Indeed, finding alternatives to the use of non-renewable natural resources is a key theme when referring to the environment for sustainability reporting purposes.

Also, in its role as a regulator, a government should be able to inform on the availability of natural resources nationally as well as worldwide, especially those natural resources whose scarcity may endanger the economy of the jurisdiction. We would appreciate if the project could provide guidance as to whether this should be reported as part of sustainability reporting. Else, one could consider that a government could be held accountable for the appropriate allocation of natural resources. In that sense, a government may be held accountable for natural resources that are not assets, and related liabilities, in accordance with the Conceptual Framework definition. Addressing this issue could require a new definition of items that could have to be reported on; alternatively, it may lead to new formats for

financial statements. And eventually, as mentioned in our cover letter, the definition of the level of aggregation at which sustainability information should be reported on is critical.

Preliminary View 5

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 your reasons supporting your view.

We agree with preliminary view 5, but we question the use of such a step by step analysis if to conclude that existence and measurement uncertainties prevent from recognising the asset. If this is to allow for the provision of disclosures in the notes to the financial statements, then the intention should be clearly mentioned beforehand.

Also, we would suggest that the Board should explore providing different information on natural resources depending on the step of the analysis of the existence and recognition of an asset, for instance depending on whether uncertainty lies with existence or with measurement.

Preliminary View 7

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?

Please provide your reasons supporting your view.

We would agree with the Board's preliminary view on this topic with respect to primary financial statements.

However, we would question why not fully draw the consequences of subsoil resources meeting the definition of an asset (even if before existence uncertainty is assessed), that is that the resource should be disclosed in the notes to the financial statements because it meets the definition of an asset?

Preliminary View 10

Based on the discussions 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.

We believe that the objective of disclosures in paragraph 6.10 should be expanded on with guidance on how to report on unrecognised natural resources assets (paragraphs 6.11 and 6.12 only discuss recognised assets), as well as guidance on how to report on the nature of risks and opportunities associated with unrecognised natural resources assets.

Preliminary View 11

Based on the discussions in paragraphs 6.16-6.20, the IPSASB's preliminary view is that certain information conventionally found in the broader GPFRs 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.

We believe that the Board should consider the question of the delineation between GPFS and GPFR from a conceptual viewpoint.

Specific Matter for Comment 4

The proposals in paragraphs 6.16-6.20 (Preliminary View 11) are largely based on the IPSAS's RPGs. While these proposals are expected to be helpful to users of the broader GPFRs, the information needed 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.

With the current momentum on sustainability reporting, we believe that RPGs could be made standard requirements. That information is more challenging to obtain is an issue that should be solved overtime with IT systems getting better at providing and securing data. In addition, and maybe with a view to mitigate this concern, we note that auditors are currently in the process of discussing the level of confidence they are ready to assume when forming their opinions on the accounts and on sustainability reporting.