

International Public Sector Accounting Standards Board  
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Dear Sir/Madam,

### **Consultation Paper on Natural Resources**

We are pleased to respond to the invitation from the International Public Sector Accounting Standards Board (IPSASB) to comment on the Consultation Paper (CP) *Natural Resources* on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms. “PricewaterhouseCoopers” or “PwC” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

We acknowledge the importance of natural resources for the wealth and wellbeing of governments and their citizens and therefore, strongly support the IPSASB developing guidance around presenting natural resources in the context of general-purpose financial statements to enhance decision making of public sector entities when managing natural resources and accountability towards citizens and other stakeholders.

We are not sharing with you a full response to the consultation paper but summarise below some key messages that we believe the IPSASB should consider in further developing the natural resource project. Our key messages are as follows:

- *Relationship between financial reporting and sustainability reporting.*  
The CP does highlight that it is not intended to directly address the issue of environmental sustainability. While the primary objective of the standard on natural resources is to address the financial reporting aspects, the current natural resources project provides a unique opportunity to rethink more broadly the interrelationships between mandatory financial reporting (IPSASs), non-mandatory financial reporting

(RPGs) and sustainability reporting. We encourage the IPSASB to continue its analysis and consult as to which type of information should be provided in financial reporting and whether it should be mandatory or optional to best serve the accountability and decision-making objectives of financial reporting. In this respect, it is worth reminding that requiring disclosure of a certain type of information in a RPG if the public sector entity elects to apply this RPG, does not make it mandatory. One aspect to be further analysed might be the friction between the consumption of the natural resources, which provide immediate economic benefits, and their preservation which might help achieve sustainability goals, such as lowering carbon footprint, and also have longer-term positive indirect consequences on public finances.

- *Measurement objective.*

The measurement objective is a fundamental one and is the next logical step from our previous comment which questions the relationship between financial reporting and sustainability reporting and to what extent sustainable considerations, even if longer term and more indirect, should be taken into account in financial reporting. What should the standard on natural resources aim to capture on the statement of financial position? The objective of financial reporting is to provide information which is useful for accountability and decision making. The CP reminds that, in the context of a natural resource, a measurement basis is relevant if it can fairly reflect the resource's contribution to the entity's cost of services, operational capacity and financial capacity. We believe the CP should address what measurement principles would best help achieve this objective and best inform public financial management decisions and policy making in respect of natural resources. For forests, for example, should the measurement aim to capture the monetary value of the resource, or in other terms how much cash flows can the entity generate from it? Should this be limited to the short-term cash flows, both positive and negative, for example the value of the wood against the loss of value associated with the carbon capture of the forest? Should the measurement also reflect, the harder to measure, tangible benefits of the forest to water quality, biodiversity, air and soil quality as well as social impact as a place for people to visit? If the negative and indirect impacts are not considered in the measurement, would appropriate disclosures be sufficient to satisfy the accountability and decision-making objectives of financial reporting? We encourage the IPSASB to explore further the practical application of the 'financial capacity' or 'operational capacity' concepts in the context of natural resources deriving value from sustainability-type characteristics.

- *Recognition and measurement uncertainty.*

We agree with the IPSASB that challenges and uncertainties may be associated with the recognition and measurement of natural resources. For example, challenges may arise regarding control of the natural resources, including about the question of the rights of indigenous people to natural resources, uncertainties regarding the existence of natural resources or about the quantities of natural resources that can be extracted (for subsoil resources) and the associated costs. We also agree that the conceptual framework (CF) definitions of resources and assets together with the qualitative characteristics should

determine the accounting treatment. At the same time, we are of the view that, given the importance of the future standard for the stewardship of the resources and the accountability objective of financial statements, some moderate level of uncertainty should not prevent from recognising assets on the statement of financial position. We feel the CP is taking the direction of suggesting that in virtually all cases, recognition and measurement will be difficult. In our opinion, each public sector entity should exercise its judgement to determine whether available information is sufficiently reliable, taking into account the local specific facts and circumstances. The general requirements of IPSAS 1 about key sources of estimation uncertainty would be applicable. We also encourage the IPSASB to develop guidance and illustrative examples about the factors to consider when determining if reliable measurement can be achieved. We believe that the issue is particularly important in the specific case of subsoil resources.

- *Delineation between natural resources and other resources based on whether the item is in its natural state or not.*

We see challenges in practice in differentiating between natural resources and other resources based on whether the resources are in their natural state, that is without human intervention. We acknowledge that the “in its natural state” concept might be working better in certain contexts (subsoil resources) than it might in others (living resources). Human intervention may vary in scope and significance. Limited human interventions that do not substantially change the nature of the resource (for example interventions to preserve or restore the natural resources) should in our view not prevent the resource from being qualified as a natural resource. We also think that the concept of unit of account might be helpful to navigate these challenges.

If you would like to discuss any of these points in more detail, please contact Henry Daubeney ([henry.daubeney@pwc.com](mailto:henry.daubeney@pwc.com)) or Patrice Schumesch ([patrice.schumesch@pwc.com](mailto:patrice.schumesch@pwc.com)).

Yours sincerely,



PricewaterhouseCoopers