28 February 2025

International Public Sector Accounting Standards Board
Mr Ian Carruthers, IPSASB Chair
and Mr Ross Smith, IPSASB Program and Technical Director
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Dear Sir/Madam,

Exposure Draft on ED 92 Tangible Natural Resources

We are pleased to respond to the invitation from the International Public Sector Accounting Standards Board (IPSASB) to comment on Exposure Draft (ED) 92 *Tangible 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 tangible natural resources in the context of general-purpose financial statements to enhance decision making of public sector entities when managing tangible natural resources and accountability towards citizens and other stakeholders.

We are not sharing with you a full response to the exposure draft but summarise below our main comments on the proposed tangible natural resources standard.

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- ***Development of a separate standard dealing with tangible natural resources.***

  We support the development of a separate standard which will underscore the importance of tangible natural resources in the public sector. Specific guidance on how to account for and report such resources is missing in the existing IPSASB's literature and is particularly welcome to equip governments with useful information to support better fiscal and environmental decisions and make them accountable for the management of these resources for the benefit of current and future generations.

  The specific guidance included in the proposed standard is useful. For example, the clarification that naturally occurring items are unlikely to be resources if they are not actively managed (need for a plan detailing how the naturally occurring item is expected to provide service potential or generate economic benefits, need for an entity to have the intent and ability - including having the necessary financial resources - to carry out the plan) will prevent abusive recognition of many items. ED 92 also addresses specific challenges regarding the accounting and reporting of common types of tangible natural resources, such as forests, living plants and animals, water and subsoil resources, and clarifies the applicable standard in various situations (e.g. using the flowchart included in AG2). These additions will ensure greater consistency and transparency in the accounting and reporting of these resources.

- ***Recognition and measurement uncertainties.***

  How to deal with recognition and measurement uncertainties constitutes in our view the most sensitive subject of the proposed guidance. It is indeed essential to strike the right balance between the need for sufficiently reliable financial information before an asset can be recognised and the incremental usefulness brought by balance sheet information compared to a simple disclosure in the notes to the financial statements.

  We agree with the recognition criteria for tangible natural resources: probability of future economic benefits or service potential associated with the resource, control over the resource and ability to measure it reliably.

  We acknowledge that challenges and uncertainties may be associated with the recognition and measurement of tangible natural resources. For example, challenges may arise regarding control of the natural resources, uncertainties regarding the existence, the quantities and/or the quality of natural resources that can be extracted (for subsoil resources) or about the application of certain measurement concepts, such as current operational value. IG28 indicates that in some situations, the level of uncertainty in an estimate is so large that the relevance and faithful representativeness of a measure is questionable, even if disclosures are provided to explain the estimation techniques applied by the entity.

When tangible natural resources that meet the definition of an asset cannot be measured reliably, we support the requirement to provide appropriate disclosure. This is particularly important where tangible natural resources are a vital part of the economy.

We believe that application of the proposed principles is particularly challenging for naturally occurring items primarily held for their service potential which, when controlled as a result of an event that is not a transaction in an orderly market, would initially be recognised at their deemed cost using current operational value, i.e., the amount that the entity would pay for the remaining service potential of the asset at the measurement date. This will require the exercise of judgment. However, the prudent guidance included in ED 92, which puts a high hurdle to asset recognition, should reduce the risk of significant asset overstatement.

Finally, we would like to address more specifically the case of subsoil resources, which represent a major component of wealth in certain countries. We note that ED 92 puts a very high hurdle to their recognition, while not prohibiting them, depending on whether asset recognition criteria may be met based on facts and circumstances. Recognising subsoil resources on the statement of financial position when a sufficient degree of reliability exists as to their existence and measurement provides more useful information to the users of financial statements, including policymakers, investors, and the public. This would ultimately lead to improved decision-making and enhanced accountability for the management of these valuable resources. We would therefore welcome more specific guidance on the circumstances that would enable their recognition under the tangible natural resources standard, and on what the interactions are with other standards, including in the following two scenarios: (1) in case the government plans to exploit itself such resources, the link with IPSAS 50, Exploration for and evaluation of mineral resources, and (2) in case the government has the sovereign right to grant licenses to others to extract and operate the resources, that is how to determine the future economic benefits when exploration and evaluation activities will be performed by entities outside the government reporting entity.

- ***Post-implementation review.***

  Application of the new proposed rules will require a great deal of judgment, especially regarding the recognition and measurement of certain tangible natural resources. This makes the standard on tangible natural resources a good candidate for a post-implementation review a few years after its introduction to evaluate the challenges encountered in its application and to identify areas that may require further refinement or greater consistency. By undertaking a post-implementation review, the IPSASB can collect valuable feedback from stakeholders, pinpoint implementation issues, and make necessary adjustments to its guidance. This review will help ensure that the standard remains relevant and effective in achieving its objectives and addressing user's needs.

- ***Relationship between financial reporting and sustainability reporting.***

  As part of a longer-term project, either as part of its post-implementation review (see above) or in its next strategy and work program consultation, we encourage the IPSASB to consider the relationship between financial reporting and sustainability reporting. The tangible natural resources project provides a unique opportunity to rethink the interrelationships between mandatory financial reporting (IPSASs), non-mandatory financial reporting (RPGs), and sustainability reporting. We believe that the IPSASB should continue its analysis and consult on 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. It is important to note that requiring disclosure of certain information in an 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 tension between the consumption of 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. This tension is particularly sensitive in the public sector whose primary objective is to deliver services to the population while financial resources are rather a means to achieve this objective. A holistic approach would align financial reporting with broader sustainability objectives, promoting responsible resource management and long-term value creation.

If you would like to discuss any of these points in more detail, please contact Patrice Schumesch (patrice.schumesch@pwc.com)

Yours sincerely,

MF Clarke

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