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International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2, Canada

Comment Letter by GSG Impact and Social Value International to the IPSASB Consultation on Sustainability Reporting Standards Exposure Draft 1, *Climate-related Disclosures*

We would like to extend our congratulations to the board and the teams at the IPSASB on achieving the significant milestone of releasing the first Exposure Draft of Sustainability Reporting Standards for the public sector.

With National Partners in nearly 50 countries, representing 60% of the global population and a strong presence in emerging markets, GSG Impact is well-positioned to contribute to the global conversation on non-financial disclosures, ensuring that the voice of middle-income and emerging economies are heard and meaningfully integrated into the design process.

Social Value International is the global network for social impact and social value practitioners. With over 4000 members in 60 countries we unite under a common goal to change the way society accounts for value. Since 2007, Social Value International has been developing best practice based on principles for accounting for value.

As global organisations dedicated to advancing impact economies, we are strongly committed to increasing the availability of comparable and reliable information about the impact of organisations on people and planet. Improving the quality and transparency of information on the impact of every investment, business, and government spending decision is a key lever for a much-needed systemic change. Institutional investors, business leaders, government officials, and other market participants must collaborate to establish globally consistent standards for measuring, valuing, and accounting for impact. In this context, enhanced transparency, harmonised disclosure standards such as those being advanced by IPSASB, together with better data for decision-making, are essential foundational elements.

Building on this, we highlight the role played by the IPSASB in advancing high-quality financial reporting in the public sector for over 20 years, particularly through the development of accrual-based International Public Sector Accounting Standards (IPSAS). The global shift toward accrual accounting reflects the IPSASB's global influence, with 49 jurisdictions reporting on an accrual basis as of 2020 (30%), a figure expected to rise to 83 (50%) by the end of 2025 and 120

(73%) by 2030, according to the IFAC. These efforts contribute to enhancing transparency, accountability, and decision-making in the public sector, while strengthening governance and public trust through more comprehensive and comparable reporting.

Background

For years, GSG Impact has been a leading global advocate for impact transparency, including in prime international fora and standard-setting institutions, including IPSASB's Sustainability Reference Group (SRG).

In 2021, GSG Impact was mandated by the UK Presidency of the G7 to convene an industry-led Taskforce, bringing together 120 leaders from the worlds of investment, finance, government, and international organisations, to address a pivotal question for our time: *"How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?"*

The Impact Taskforce (ITF) introduced a series of ambitious yet practical and actionable recommendations, aimed at transforming the quality and transparency of information on the impact of business, investment and government decisions. Under the technical leadership of Douglas L. Peterson (former President and CEO of S&P Global) and with contributions from of a technical working group comprised of 20 leading global experts, the ITF called for "*mandatory accounting for impact as a destination*", a road comprised of four building blocks: a) the global baseline of sustainability disclosure standards; b) the "build" on this baseline to include impacts on all stakeholders; c) progress on impact valuation; and d) increased impact transparency in public sector accounting. In its call to action for governments, the ITF recommended adopting "*the necessary public sector accounting practices so that government expenditure meets demands for transparency, harmonisation and integrity of impact, and governments gain a better understanding of impacts and dependencies related to the national economy*".

After identifying the need of advancing impact transparency in public sector accounting and reporting as priority area, in 2023 the ITF once again called on governments to "*strive toward greater impact transparency by going beyond merely disclosing their expenditure and by measuring and reporting the impacts of their activities*" and to "*support ongoing efforts by IPSASB to advance much-needed impact transparency in the public sector*", also recognising that "*the adoption of public sector accounting practices that prioritize transparency, harmonization, and integrity in impact measuring and reporting can grant decision makers in the public sector a more profound understanding of impacts and dependencies within their national economies.*"

Adding to the above, in its Input Paper submitted to the ITF SVI raised concerns about the risk of bringing the private sector approach to sustainability reporting within public sector accounting. Such an approach "*with its focus on risk management and financial returns (...) could limit* *assessment and reporting to the risks of sustainability issues to public finances*", rather than a broader evaluation of their social and environmental impacts.

In this context, while challenges remain in ensuring the effective adoption and further development of these standards (some of which we address in our response below), we are confident that through collaboration, we can achieve our shared vision of an economic system where every business, investment, and government spending decision is made with complete information, transparency, and integrity, ultimately benefiting people and the planet.

Comment Letter to the Sustainability Reporting Standards Exposure Draft 1 (IPSASB SRS ED 1).

This Comment Letter was developed by GSG Impact in close collaboration with our National Partners and Social Value International (SVI).

Summary of key messages

1. While the definition of materiality in the proposed standards is clear, adopting a private-sector approach focused on risk management and financial returns could limit disclosures to the financial impact of sustainability issues on public finances, while overlooking the broader effects on the well-being of service recipients.

2. Tying the materiality definition to a diverse set of primary users with conflicting priorities could result in inconsistent and discretionary reporting. To address this, the IPSASB should prioritise a materiality definition centred on service recipients' well-being.

3. The scope of climate-related Public Policy Programmes in the Exposure Draft is clearly stated but the risk of potential selective reporting remains. This could allow entities to exclude programmes with significant negative climate impacts, leading to the omission, misstatement, or obscuring of material information. Further work is needed to set clearer thresholds for determining when climate-related objectives are considered "secondary" and thus exempt from reporting.

4. There is a risk in adapting the IFRS S1 and S2 focus on presumably technically trained users (i.e. "existing and potential investors, lenders and other creditors") to IPSASB's SRSs, where primary users also include citizens – alongside other service recipients and resource providers. With this, the burden of accessibility is placed on these individuals; SRSs should make disclosures more accessible, still ensuring comparability, and enabling informed decision-making without third-party assistance.

The section below expands on our arguments, following the Specific Matters for Comment (SMCs) in the IPSASB SRS ED 1 request for comments. A section on "next steps" concludes.

SMC 2: Own Operations (Appendix A1: Application Guidance – Own Operations)

Interoperability and harmonisation between private sector and public sector reporting standards are important, but this should not happen at the expense of primary users' information needs. In particular, we support that "disclosures about climate-related risks and opportunities to an entity's own operations should be guided by the information needs of its primary users which would reflect the entity's context, its public interest mandate and responsibilities" (AG 1.7) but we are concerned that the identification of these risks and opportunities mainly focus on the long-term fiscal sustainability of the entity (AG1.8) and its financial performance and cash flows for the reporting period (AG1.30-AG1.38), similar to the "single" or "financial" materiality of private sector disclosure standards (IFRS S1 and S2), rather than to the core function of the public sector which, as stated in IPSASB's Conceptual Framework: *"is to provide services that enhance or maintain the wellbeing of citizens and other eligible residents"*. Public sector SRSs should thus put greater emphasis on the fact that the primary role of the public sector is to deliver quality public services that enhance citizens' well-being, with fiscal sustainability considered in this context as a means to support and sustain that core function over time.

SMC 3: Scope of Public Policy Programs (paragraph 3 and AG2.4–AG2.6)

The scope of Public Policy Programmes subject to the proposed reporting standards (i.e. those with a primary objective to achieve climate-related outcomes) is clearly defined in the Exposure Draft (paragraph 3). However, the boundaries of such a definition are not as clear, which might lead to selective reporting (AG 2.6). The current approach may inadvertently allow reporting entities to avoid reporting on programmes which do not fall specifically under the current definition but still have negative climate impacts on climate, undermining the comprehensiveness and objectivity of the disclosures. In this regard, we adhere to the alternative view of Ms. Angel Ryan, where she states that only a limited amount of information will be disclosed, as the ED only focuses on policies that have a *primary* objective to achieve climate-related outcomes, overlooking policies with secondary climate objectives or non-climate related policies with a material "negative" impact on the climate (AV3. (c)).

Therefore, greater clarity is needed on the boundaries and thresholds of the scope, ensuring that disclosure is based on the notion of materiality rather than solely on a programme's expected outcomes. Assessing whether a Public Policy Programme's climate-related objective is "secondary" should not determine disclosure exemptions; the key factor should be whether its impacts are material. If a programme's impacts are material, they should be disclosed regardless of its primary classification.

SMC 7: Conceptual foundations (paragraphs B2–B15)

Definition of materiality (B8-B10)

The definition of materiality outlined in the Exposure Draft is clear in general terms (B.AG34-44). However, as mentioned before in response to SMC 2, transposing a private sector approach to sustainability reporting (with its focus on risk management and financial returns) to public sector accounting poses a considerable risk, as it may lead to the omission of relevant information for primary users – particularly service recipients – resulting in disclosures that are more aligned with the interest of resource providers. Hence, the notion of materiality in public sector SRSs should focus on how public services and investments affect service recipients' well-being in order to satisfy the information needs of the broader set of stakeholders.

Even at this pivotal stage, and while acknowledging the scope and understandable limitations of the IPSASB mandate, any effort to strengthen the connections between financial and sustainability disclosures and well-being accounting represents a step in the right direction. Ultimately, converging towards the monetary valuation of sustainability-related impacts will be crucial in meeting the needs of primary users to integrate these impacts into their decision-making and accountability assessments.

Definition of primary users of public sector general purpose financial reports (B.AG28–B.AG33)

Whilst the definition of primary users (outlined in paragraphs B.AG28-B.AG33) is clear, it encompasses a wide-ranging set of stakeholders with distinct and, at times, conflicting interests and incentives. A potential misalignment may arise between the accountability and decision-making information needs of service recipients – who are primarily concerned with maximising their well-being through the quality of public services delivered to them – and those of resource providers and their representatives, who are typically concerned with the long-term fiscal sustainability of the entity, given their vested interest in ensuring future repayment. The challenge lies in finding an approach that reconciles and harmonises this diverse array of needs in practice.

A dynamic notion of materiality combined with such a diverse set of primary users may enable the reporting entity a high degree of discretionality on the kind of information to be disclosed hence potentially hampering its comparability.

The ED then states that "climate-related disclosures are prepared for primary users who have a reasonable knowledge of public sector programs and operations" while recognising that "at times, even well-informed and diligent primary users may need the aid of an adviser to understand climate-related information" (B.AG32) and that "primary users incur the costs of analysis and interpretation" (C37).

Applying the IFRS S1 and S2 approach – designed for presumably technically trained users such as investors, lenders, and creditors – to IPSASB's SRSs presents a challenge, as the primary users of public sector reporting also include citizens, alongside other service recipients and resource providers. Placing the burden of accessibility on them could limit the effectiveness of reporting. To address this, SRSs should enhance the accessibility of disclosures while maintaining comparability, allowing all users to make informed decisions without requiring third-party assistance.

GSG Impact support going forward

GSG Impact is proud to be part of the Sustainability Reference Group (SRG), whose efforts and leadership play a pivotal role in ensuring the global relevance and widespread adoption of the future IPSASB Sustainability Reporting Standards. We reaffirm our commitment to being an active and constructive contributor to this group.

Finally, we would like to commend the IPSASB for its ongoing efforts and thank you for the opportunity to provide input during this consultation. We hope our insights prove valuable in advancing this Exposure Draft and looking forward to future developments, including new Sustainability Reporting Standards that build on SRS ED 1.

With our best wishes,

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