Technical Note

Characteristics of Public Sector Entities and the Reporting Entity for Sustainability Reporting

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Acronyms and abbreviations

BC	Basis for Conclusions
CDSB	Climate Disclosure Standards Board
CSRD	Corporate Sustainability Reporting Directive (of the European Union)
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, social and governance
ESRS	European Sustainability Reporting Standards
EU	European Union
FReM	HM Treasury's Government Financial Reporting Manual
FSB	Financial Stability Board
GGC	Greening Government Commitments
GGS	General Government Sector
GPFR	General Purpose Financial Reports/Reporting
GPFS	General Purpose Financial Statements
GRI	Global Reporting Initiative
GRI Standards	GRI Sustainability Reporting Standards
GSSB	Global Sustainability Standards Board
IRC	Integrated Reporting Council
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IPSAS-CF	IPSAS Conceptual Framework
ISO	International Organization for Standardization
ISSB	International Sustainability Standards Board
KIPF	Korea Institute of Public Finance
MDG	Millennium Development Goal
NFRD	Non-Financial Reporting Directive (of the European Union)
NZ	New Zealand
PULSAR	World Bank Public Sector Accounting and Reporting Program
RPG	Recommended Practice Guidelines
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
SEC	Securities and Exchange Commission
SRG	Sustainability Reporting Guidance
TCFD	Task Force on Climate Related Financial Disclosures
UK	United Kingdom
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
VRF	Value Reporting Foundation
WSJ	Wall Street Journal
ZHAW	Zurich University of Applied Sciences (acronym for its name in German)

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Preface

The Korea Institute of Public Finance (KIPF) is a research institute established to conduct in-depth studies and provide policy recommendations on public finance within the Republic of Korea. Aligned with the Ministry of Economy and Finance, KIPF operates as a collaborative entity entrusted with the critical task of evaluating and analyzing diverse fiscal policies, tax systems, and government expenditure strategies. Through rigorous research and analysis, KIPF endeavors to foster effective and sustainable fiscal management practices that contribute to the overall economic welfare of the nation.

The Government Accounting and Finance Statistics Center at KIPF is a specialized division dedicated to collecting, analyzing, and disseminating comprehensive data and statistics related to the Korean government's accounting and finance information and conducting research promoting the use of accrual accounting in the public sector. It operates under the auspices of KIPF and plays a vital role in providing accurate and reliable fiscal information to support evidence-based policymaking and managerial decision-making processes.

The PULSAR Program, launched in 2017, is a regional and country-level program for 13 beneficiary countries in Europe and Central Asia. Its objective is to support the enhancement of public sector accounting and financial reporting frameworks, in line with international standards and in accordance with good practices, to improve government accountability, transparency, and performance.

The objectives and scope of the PULSAR Program are jointly determined by the PULSAR Partners – Austria, Switzerland, and the World Bank – who also provide institutional support for its implementation and mobilize the resources needed for its activities. Beneficiary countries help shape the PULSAR Program through regional cooperation platforms and inputs to the two Communities of Practice: the Financial Reporting Community of Practice (FinCoP) and the Education Community of Practice (EduCoP).

The FinCoP aims to support government officials in managing public sector accounting reforms through gap analysis, developing reform strategies and roadmaps, and implementing improvements in areas including legislation, standard setting, regulation and enforcement, and information technology. It also seeks to improve the links between financial, management, statistical, performance, and budget reporting, and develop good practices and knowledge products to respond to the practitioners' challenges identified in strengthening public sector accounting frameworks.

A key and growing theme is sustainability reporting in the public sector. This Technical Note is aimed primarily at policymakers and standard setters for the public sector as they evaluate how to achieve disclosure of sustainability-related information. As the Technical Note shows, there is a significant delay of the public sector in the area of sustainability reporting. The International Public Sector Accounting Standards Board (IPSASB) first addressed the issue in 2020 and only started the standard setting process in 2023. Some jurisdictions have started their own initiatives, however these show rather diverse outcomes, even in jurisdictions which otherwise apply very similar accounting frameworks. While such initiatives are welcome in order to gain experience, they do not enhance transparency and comparability.

The secondary audience of this Technical Note is practitioners. Although regulation and standard setting in the area of sustainability reporting of public sector entities are in its infancy, there is clear evidence of the demand of users of general-purpose financial reports to have such information included. Demand comes both from investors in the sovereign debt market, as well as citizens and other stakeholders. Hence it is unlikely that preparers of general-purpose financial reports can wait until regulation and standard setting is finalized. They rather have to initiate first steps which are going in the same direction as the standard setting efforts. It is therefore important for them to understand the direction of travel.

Executive Summary

Sustainability reporting is something new to the public sector globally. Although the corporate sector gradually started presenting sustainability related information in the context of broader financial reporting in 1997, the public sector, and in particular the government sector, has only recently started to discuss this topic despite the strong interest of a broad range of stakeholders in sustainability related information as part of financial reporting.

In 2020, the IPSASB issued a non-binding Questions & Answers document (IPSASB, 2020) about climate related information in general purpose financial reporting (GPFR), and in 2022, the World Bank (World Bank, 2022) highlighted that sustainability related information is likely to be relevant for sovereigns. With an IPSASB consultation the same year (IPSASB, 2022), the issue gained momentum. Based on the result of consultations, IPSASB issued amendments to their Recommended Practice Guidelines (RPG) in 2023 and started a standard setting project on Climate-related Disclosures (IPSASB, 2023).

With this context, in early 2023, KIPF commissioned some international research (including this technical note) from the Institute of Public Management at ZHAW. The focus of the research was defined to include a comprehensive introduction of the background and progress on preparing and disclosing environmental, social, and governance (ESG) and sustainability related information in the public sector. A second part the research was defined to focus on the issue of the reporting entity, analyzing both the characteristics and the definition of the IPSAS Conceptual Framework (IPSAS-CF). The resulting technical note aims to support international and national standard setters and regulators in developing guidance for public sector sustainability reporting.

In August 2023, KIPF and the World Bank entered into collaboration to promote the sustainability reporting agenda. It was decided that this study and resulting technical note would represent the first of a series of joint studies as part of that collaboration. KIPF, with support from the ZHAW School of Management and Law, took the lead in development of this first note. The World Bank's PULSAR Program team, with further

support from ZHAW, will take the lead on the second technical note to be entitled "Implications of Sustainability Reporting for the Public Sector and Next Steps." As the background and progress shows, the history of sustainability reporting is closely linked to United Nations (UN) conferences about sustainable development, which have increased in frequency and impact over time. A key moment occurred in 2015 when both the UN Sustainable Development Goals (SDGs) and the Paris Agreement (the first legally binding international treaty to tackle climate change) were approved (and entered into force in 2016). These events triggered the current activities addressing sustainability reporting in the public sector.

However, the private corporate sector, starting in 1997 (when the Global Reporting Initiative (GRI) was founded), began to develop activities in response to human made natural disasters. Subsequently, starting in 2004 with the Who Cares Wins Report (The Global Compact, 2004), the corporate sector began to perceive the ESG factors as strategically relevant for investment decisions in the capital markets. Thereafter additional boards developing sustainability reporting standards, which addressed investors' needs in particular, started to operate but from 2021, when the International Financial Reporting Standards (IFRS) Foundation created the International Sustainability Standards Board (ISSB), most merged into this new structure. There are two important exceptions: the GRI, which collaborates with the ISSB but remains independent, and the European Union (EU), which replaced earlier Directives with the Corporate Sustainability Reporting Directive (CSRD), endorsing the European Sustainability Reporting Standards (ESRS) rather than IFRS Sustainability Reporting Standards, mainly because of the materiality issue. All these private sector-oriented standards offer potential references which can be used to develop future public sector standards, although IPSASB work will be based on the IFRS Sustainability Standards, as well as on standards issued by the GRI (IPSASB, 2023)

The analysis of the material supporting the Preface to the IPSAS-CF about Characteristics of Public Sector Entities showed that the IPSASB did not discuss in depth the implications of sustainability reporting when developing the characteristics. IPSASB

certainly had a broader concept of GPFR in mind, but without specifically addressing sustainability related issues. The analysis further shows that several characteristics are highly relevant to sustainability reporting, namely, the approved budget and non-exchange transactions. However, the only characteristic which might be critical is the regulatory role, since it does not reflect the situation that government is not limited to its regulatory role, but is also regulated itself, i.e., by the Paris Agreement. Three case studies (the United Kingdom (UK), New Zealand, and Switzerland) demonstrate that none of these jurisdictions considered the characteristics as defined by the IPSAS-CF when developing their sustainability reports as part of GPFR.

The analysis of the IPSAS-CF chapter on the reporting entity and its supporting material reveals that the key characteristics of reporting entities rely on the criteria that they have resource providers or service recipients who rely on GPFR to satisfy their information needs. While these key characteristics may be adequate for sustainability reporting purposes, the three jurisdictions examined result in having very different reporting entities, despite a similar conceptual basis. In particular, the UK and Switzerland use reporting entities that are clearly different from the reporting entity of their financial statements (however Switzerland uses a statistical concept based on IPSAS Recommended Practice Guidelines 1). This difference shows that some clarification of the reporting entity will be needed when developing sustainability reporting standards.

The technical note recommends to international and national standard setters and regulators that the UN SDGs for the public sector are followed. Given the wide range of stakeholders typically involved in this sector, a multi-stakeholder approach adhering to the principle of double materiality is advisable (i.e., the entity must report material effects of the environment on their situation, as well as material effects of their operation on others, "outside-in and inside-out"). However, many standard setters and jurisdictions outside the EU may use a less rigorous definition than the one used by the CSRD.

Regarding the reporting entity, the technical note shows that the IPSAS-CF was not developed for the purpose of sustainability reporting but seems in general adequate to that task. However, the country experiences show that a similar conceptual basis is still likely to result in a very different reporting entity, which significantly reduces comparability. Therefore, IPSASB and national standard setters and regulators should be careful when defining the reporting entity for sustainability reporting purposes. The New Zealand model, with the reporting entity aligned with financial reporting, but presenting information about the entity itself and the economy (called the hybrid model) should be examined further, since it appears to address the particular needs of the public sector well.

Chapter 1 Introduction

1.1 Rationale for sustainability reporting in the public sector

1. As is already the case in the private sector, the public sector is exhibiting a growing and urgent demand for sustainability information to be produced by public sector entities,[1] covering climate change and ESG topics. Lenders, investors, policymakers, citizens, academics, and other stakeholders, motivated by their increased awareness about environmental and social concerns, are becoming more interested to learn the contribution of the public sector in addressing the global climate emergency and the ongoing progress towards the UN SDGs. It is therefore in the public interest to provide such information as part of GPFR.

2. In contrast to the private sector, the public sector lacks an internationally recognized framework to prepare and disclose sustainability-related information. However, the interest in having specific sustainability reporting standards for public sector entities and the degree of support for the involvement of the IPSASB in the process was highlighted in the responses to the Consultation Paper on Advancing Public Sector Sustainability Reporting, proposed by IPSASB in May 2022 and for which the comment period closed in September 2022 (IPSASB, 2023).

3. Additionally, sustainability reporting by public sector entities is likely to be beneficial for the reporting entity. In fact, as the World Bank Report on Sovereign Climate and Nature Reporting (World Bank, 2022) showed, there is equal interest by investors into government loans and bonds, as there is from investors in private sector securities. There is at least anecdotal evidence that debtors taking sustainable action (e.g., Ecuador, protecting biodiversity using part of the savings from the emission of blue bonds) enjoy beneficial borrowing terms. Additionally, governments are likely to have relevant stakeholders other than investors, such as citizens, taxpayers, or service recipients, who often have a great interest in

1) The term public sector is used as defined by the System of National Accounts 22.15, i.e., including general government entities as well as public corporations. The issue of consolidation is addressed where appropriate.

sustainability related information. Civil society plays a significant role in sustainable development. A broader user group will therefore increase the interest compared to private sector entities. Indeed, the prominent level of interest was evidenced by the responses to the IPSASB's consultation paper, workshops held around the globe (e.g., in Korea, the PULSAR countries, and Ecuador), and ultimately also by the demand to produce this technical note.

4. Similar to investors, the broad group of users in the public sector are unlikely to have the power to request specific information on demand and therefore rely on publicly available reports, such as GPFR as defined in IPSAS-CF 1.4. The term sustainability reporting is used in this document in the sense of presenting sustainability information in GPFR.

5. In December 2022, based on the feedback received through the IPSASB's consultation paper, the urgency of prioritizing the development of sustainability reporting guidance in the public sector, and the broad support of the constituents, the IPSASB decided to undertake initial research and scoping for three possible projects: (i) General requirements for disclosure of sustainability-related financial information, (ii) Climate-related disclosures, and (iii) Natural resources - non-financial information. The IPSASB simultaneously developed financial reporting guidance for this topic. (IPSASB, 2023)

6. In March 2023, the IPSASB agreed to develop a project brief for climate-related disclosures based on the following four project prioritization criteria defined in its strategy for the period 2019-2023: (i) prevalence; (ii) consequence; (iii) urgency; and (iv) feasibility. (IPSASB, 2019). The IPSASB also argued that: (i) climate change has become widespread globally, threatening human well-being and the planet's health, (ii) delayed climate action could continue to cause adverse impacts to nature and people, (iii) immediate public sector action and a global baseline for climate-related reporting are needed, and (iv) a specific climate-related standard for the public sector could be developed from the draft climate-related standards of the International Sustainability Standards Board (ISSB) and the Global Sustainability Standards Board (GSSB). (IPSASB, 2023)

7. At the same time, the IPSASB also decided to advance in framing the scope of the two other potential initial projects identified in December 2022. The IPSASB concluded that all of the potential public sector-specific sustainability reporting projects should be outlined based on: (i) responses to the consultation paper and

the feedback received from constituents, (ii) the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Entities (IPSASB Conceptual Framework), (iii) IFRS Sustainability Standards to be issued at this time by the ISSB; and (iv) GRI standards issued by the GSSB. (IPSASB, 2023)

8. Responses to the consultation paper and feedback from constituents highlighted the importance of leveraging international guidance including GRI and the IFRS Sustainability Standard when drafting public sector-specific sustainability reporting standards. It also emphasized the need to have a multi-stakeholder approach and to link the new standards to ongoing developments on sustainability in the statistical domain, such as the UN System of Environmental Economic Accounting, the UN SDGs, and the Nationally Determined Contribution of the Paris Agreement. (IPSASB, 2023)

9. The IPSAS Conceptual Framework is meant to provide guidance in outlining the objectives, users, and information needs to be covered by the new public sector-specific sustainability reporting standards, as it sets out the key concepts of the public sector, including the characteristics of the public sector entities and the definition of the reporting entity. It is also expected to be useful in forming a connection between sustainability information and financial information. (IPSASB, 2023)

10. The IFRS Sustainability Standards are expected to serve as a reference source when developing the new public sector-specific sustainability reporting standards, to maximize efficiencies by adapting private sector requirements regarding financial materiality in sustainability disclosures to the public sector. In considering this approach, it is also possible to increase the interoperability with the Task Force on Climate-Related Financial Disclosures (TCFD), issued by the Financial Stability Board (FSB), since IFRS Sustainability Standards contemplate the 4 pillars established by the TCFD framework, i.e., governance, strategy, risk management, and metrics and targets. (IPSASB, 2023)

11. The GRI Standards are envisaged to contribute to address a multi-stakeholder model that regards the decision-making and accountability needs of users. (IPSASB, 2023). In contemplating these standards, it would be also possible to mind both the impacts outwards and inwards in sustainability disclosures which are covered by the principle of double materiality. Therefore, GRI standards could serve as a basis for supporting reporting on the UN SDGs, since they encompass

a broad range of ESG topics. (IPSASB, 2022). However, the principle of materiality will be explored in more detail in the forthcoming joint knowledge products.

12. In May 2023, the IPSASB issued, through amendments to Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, and RPG 3, *Reporting Service Performance Information*, additional non-authoritative guidance to be applied immediately by governments and public sector entities when reporting sustainability program information. (IPSASB, 2023). Amendments to RGP 1 and RPG 3 are intended to help public sector entities to: (i) assess the sustainability program's impacts on an entity's overall finances, including the impacts on the three dimension of long-terms fiscal sustainability (service, revenue, and debt) and, (ii) identify the services performance objectives of respective programs and express them using performance indicators related to inputs, outputs, outcomes, efficiency, or effectiveness. (IPSASB, 2023)

1.2 Objective of the technical note

13. The main objective of this technical note is to identify, explore, and propose the characteristics for disclosure of sustainability-related information of public sector entities and the reporting entity. In doing so, the technical note contrasts the key concepts of the public sector highlighted in the IPSAS Conceptual Framework, since they will serve as a primary reference source in drafting the public sector-specific sustainability reporting standards, and the key concepts developed in relation to ESG topics, the UN SDGs, and private sector developments in sustainability reporting. The technical note also considers the experiences of the UK, New Zealand, and Switzerland in disclosing sustainability-related information. The note aims to contribute to the development of sustainability reporting, at the level of international standards (namely the IPSAS), as well as at the national and jurisdictional level, by standard setters and regulators. Since this process is at an early stage of development, the primary audience is regulators and pilot entities.

14. In August 2023, KIPF and the World Bank began collaborating to promote the sustainability reporting agenda. It was decided that this study and resulting technical note would represent the first of a series of joint studies to be developed as part of that collaboration. KIPF, with support from the ZHAW School of

Management and Law, took the lead in development of this first note. The World Bank's Public Sector Accounting and Reporting (PULSAR) Program team, with further support from ZHAW, will take the lead on preparation of the second note to be entitled, "Implications of Sustainability Reporting for the Public Sector and Next Steps." The final report also reflects comments received from both the KIPF and the World Bank.

1.3 Motivation for preparation of the technical note

15. As discussed above in section 1.1, it is in the public interest for public sector entities to publish sustainability related information as part of their GPFR. In March 2023, the IPSASB agreed that the IPSASB Conceptual Framework will be one of the reference sources when drafting objectives, users, and information needs to be covered by the new public sector-specific sustainability reporting standards, since it provides the key concepts of the public sector. At the same time, it is also intended to be valuable to support the connection between sustainability information and financial information (IPSASB, 2023). Hence, there is a need to know whether the characteristics of public sector entities and the definition of reporting entity set out in the IPSASB Conceptual Framework are appropriate for sustainability -related disclosures or whether these concepts need to be reformulated.

16. It is obvious that the development of global public sector-specific sustainability reporting standards involves many challenges, especially when the IPSASB has outlined an ambitious project, in which the new standards, besides following a multi-stakeholder approach, should be aligned with the advances on sustainability reporting in the statistical domain. This technical note is expected to contribute to international dialogue as well as domestic policy debates across different jurisdictions toward the formation of a global sustainability-related financial reporting framework for public sector entities that meets the needs of different users of sustainability information, ensures better transparency and accountability, and enables improved decision-making.

17. In its efforts to identify, explore, and propose the characteristics of public sector entities, the technical note will contribute to support the identification of objectives and users of sustainability information in the public sector. Identification will be useful when developing new standards because it will allow

consideration of all users' needs in accountability and decision making. This, in turn, would add to international debate on how to adapt the private sector-sustainability standards to the specific needs and realities of the public sector in a more efficient manner.

18. In addition, proposing and reaching a global agreement on the reporting entity in the public sector responsible for preparing and disclosing sustainability information would be crucial to ensure comparability and consistency in reporting across different jurisdictions. Following the IFRS Sustainability Standards, and thus the four pillars of the TCFD framework, the defined reporting entity should be responsible for disclosing the governance, strategy, and risk management arrangements to manage and monitor the achievement of its targets or outcomes established. Simultaneously, that reporting entity should disclose progress on the UN SDGs, using the GRI standards as a reference, as these standards cover a wide range of ESG topics.

1.4 Limitations of the technical note

19. The technical note uses as its main source of information the IPSAS Conceptual Framework in conjunction with its basis conclusions to analyze the rationality and the history of the IPSASB discussions in identifying the characteristics of public sector entities and the reporting entities to the preparation and presentation of GPFR. The key concepts identified are contrasted with key concepts used in the literature for ESG reporting, the UN SDGs and private sector developments in sustainability reporting, in particular the GRI framework, the TCFD framework, the IFRS S1 and S2, the CSRD, and the first set of 12 ESRS developed by the European Financial Reporting Advisory Group (EFRAG) at the request of the European Commission and recently published.

1.5 Structure of the technical note

20. The note consists of five chapters. Chapter one is the introduction, in which the context, motivations, objective, and the limitations of the technical note are presented. Chapter two presents the background and progress in preparing and disclosing ESG- and sustainability-related information, including IPSASB progress on disclosure of sustainability-related financial information. Chapter three describes the characteristics of public sector entities for disclosure of sustainability-related information and presents the related experience of the UK, New Zealand, and Switzerland. Chapter four presents the reporting entity for disclosure of sustainability-related information and presents the experience of the previously mentioned countries on this regard. Chapter five presents the recommendations and policy implications.

Chapter

Background and progress in preparing and disclosing ESG- and sustainability-related information

2.1 ESG factors

21. The term ESG was officially coined in 2004 with the publication of the Who Cares Wins report, which followed a closed door meeting of financial institutions, at their own initiative, convened by the then UN Secretary General Kofi Annan, and under the oversight of the UN Global Compact and with the financial sponsorship of the Swiss government. Of the 55 financial institutions convocated to participate in the initiative, 18 from 9 countries participated with total assets under management of over USD 6 trillion, including some of the world's largest banks, such as Banco do Brasil, BNP Paribas, Credit Suisse Group, Deutsche Bank, Goldman Sachs, HSBC, Morgan Stanley, UBS, Credit Suisse Group, UBS, some insurance companies such as AXA Group, and some asset managers such as RCM, a member of Allianz Dresdner Asset Management. (The Global Compact, 2004)

22. The main objective of the report was developing guidelines and recommendations on how to better integrate ESG-related issues in asset management, securities brokerage services, and associated research functions. The set of recommendations set forth in the report were addressed to financial market actors, including analysts/brokers, investors/asset managers, pension trustees, governments/multilateral agencies, regulators, non-governmental organizations, consultants, accountants/educators, and companies. The financial institutions endorsing the report stated their conviction that a better consideration of ESG factors would ultimately contribute to stronger and more resilient investment markets, as well as contribute to the sustainable development of societies. (The Global Compact, 2004). Figure 1 summarizes the key recommendations in the *Who Cares Wins* report.

23. In its chapter Investment rationale, the report emphasized that inclusion of ESG criteria in financial analysis lies in the business case at the level of the company,

citing several studies in companies and industries showing that good management of ESG issues contributes to shareholder value creation, and the way a company manages them is often a good indicator of overall risk levels and general management quality, which are both strong determinants of the company's long-term success. The chapter concludes that companies with better ESG may increase shareholder value through better risk management of emerging ESG issues. (The Global Compact, 2004)

24. Although the ESG acronym was used over the entire report, a definition of each of its components was not provided. Instead, the report presents a selection of ESG issues affecting company and investment value, highlighting that ESG issues relevant to investment decisions may differ across regions and sectors. According to the report, examples of environmental issues may vary from climate change and related risks to emerging markets for environmental services and environment-friendly products. Social issues may span from workplace health and safety to increasing pressure by civil society to improve performance, transparency, and accountability. Governance issues may range from accounting and disclosure practices to management of corruption and bribery issues. (The Global Compact, 2004)

25. In April 2006, the UN Environment Programme Finance Initiative and the UN Global Compact launched the principles for responsible investment, a set of six overarching principles for voluntary application to integrate ESG considerations into investment activities of institutional investors. In partnering with institutional investors to develop the principles, the UN worked with some of the world's most influential institutions, many of them public pension funds involved in investment activities around the world. More than 20 pension funds, foundations, and special government funds, supported by a group of 70 experts worldwide, held meetings in Paris, New York, Toronto, London, and Boston over eight months to draft the principles. (UN, 2006)

Analysts / Brokers
Incorporate ESG factors into mainstream research

Companies
Lead the way by implementing ESG principles and improving reporting and disclosure

Investors / Asset managers
Reward ESG research
Integrate ESG factors in research and investment processes

Accountants
Facilitate standardisation
Educators
Facilitate 'highlevel' thinking and training on ESG issues

Better investment markets +
More sustainable societies

Pension trustees
Consider integrating mandates and selection of managers
Governments/ Multilat. agencies
Proactively consider in PF investment

Consultants
Combine ESG research with industry level research
Support demand and awareness building

Regulators / stock exchanges / governments
Implement reporting standards
Listing particulars

NGOs
Provide objective ESG information on companies to the public and the financial community

Figure 1: Summary of key recommendations of the *Who Cares Wins* report

Source: The Global Compact, 2004

26. Since the publication of *Who Cares Wins* and the launch of the principles for responsible investment, the term ESG has experienced a meteoric rise, positioning itself in one of the most notable trends in corporate governance, management, and investment. (Pollman, 2022). However, the lack of a definition of the term has not allowed a consensus to form on the nature of its usage and interpretation. Although the original notion of ESG in *Who Cares Wins* was confined to factors to be integrated into investment analysis, the term has evolved and taken on

multiple meanings. Currently, it may be interpreted as a means of risk management, as a synonym for corporate social responsibility or sustainability, or even as a preference or activity. (Pollman, 2022).

27. Although companies now implement ESG strategies, investors develop ESG products, and regulators design ESG policies (Serafeim, 2021), a growing number of critics argue that the acronym ESG engenders confusion, unrealistic expectations, and greenwashing that could inhibit corporate accountability or crowd out other solutions to pressing environmental and social issues. (Pollman, 2022). Given this backdrop, a backlash has developed against ESG recently, in what is termed anti-ESG. (Rau & Yu, 2022). The anti-ESG sentiment has been experienced in the United States (US), where, at the close of the first quarter of 2023, Republican party governors from at least 19 US states have pledged to resist ESG investing over antitrust, consumer protection, and discrimination concerns. (Morningstar, 2023)

28. A host of consequences follow from these strong critiques, ranging from fomenting backlash against ESG that jeopardizes corporate and investor initiatives to adding significant obstacles for regulators engaged in ESG-related rulemaking such as the Securities and Exchange Commission's (SEC) climate disclosure proposal. (Pollman, 2022). In February 2023, the Wall Street Journal (WSJ) reported that the SEC is considering softening its proposal after receiving pushback from investors and other groups, in an effort to protect its final rule from what is expected to be a protracted courtroom battle. (WSJ, 2023). Lawsuits are expected to be filed with the US Supreme Court alleging the expansive and costly set of proposed rules and questioning the SEC's authority to issue this type of regulation.

29. Despite the anti-ESG sentiment in the US and the challenging economic landscape in 2022 because of the war in Ukraine, worldwide ESG funds in 4Q22 were 50% higher than in 3Q22, hitting USD 2.5 trillion in assets by the end of December (Goldman Sachs, 2023). In 2Q23, the overall global ESG fund universe attracted USD 18 billion, lower than the revised USD 31 billion in the first quarter, hitting nearly USD 2.8 trillion at the end of June. (Morningstar, 2023). In addition, 2023 was a year of conquest in the domain of global ESG disclosures standard setting. To the existing sets of standards, such as the GRI, the TCFD and others, were added the IFRS S1 and S2 and the first set of 12 ESRS published on June 26 and July 31, respectively.

2.2 Sustainable development and Sustainable Development Goals

30. The first world conference on the environment was conducted in Stockholm, Sweden, in June 1972, with the participation of 113 states. Actions taken by the conference included the adoption of the Declaration of the UN Conference on the Human Environment (The Stockholm Declaration), the Action Plan, and other resolutions. Both the Stockholm Declaration and the Action Plan marked the start of a dialogue between industrialized and developing countries on the relationship between economic growth, air, water and ocean pollution, and the well-being of people around the world, and led to the creation of the UN Environment Programme (UN, 2023). The declaration set out 26 principles, and the Action Plan provided 109 specific recommendations to preserve and enhance the human environment. (UN , 1973). Figure 2 outlines the development at the early stage from 1972 to 1996.

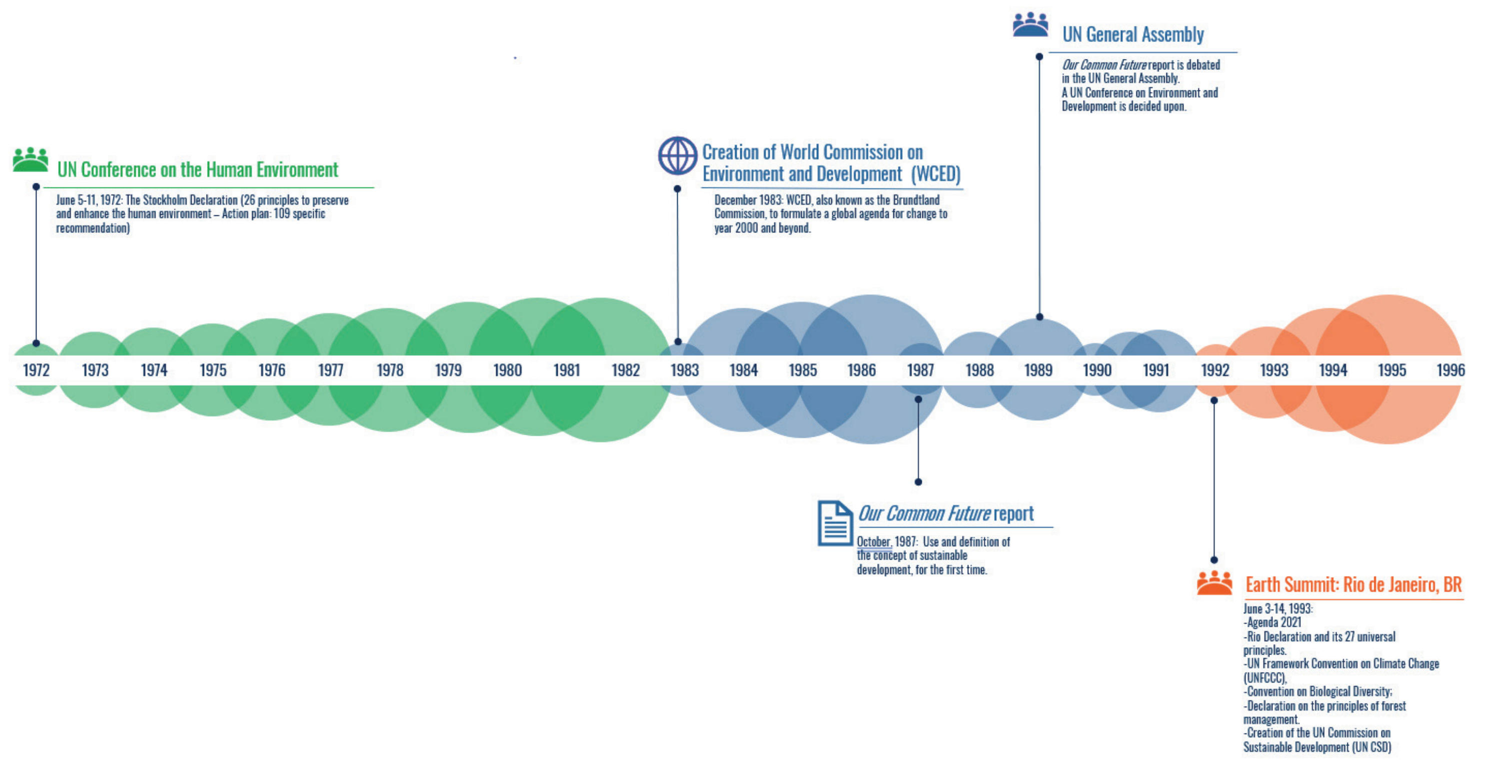

Figure 2: Background Sustainable Development and SDG (1972-1996)

Source: ZHAW based on https://treaties.un.org and https://www.un.org/en/conferences/environment

Special session UN Assembly, NY: Rio +5,
June 23-27, 1997: Review progress made on goals and Agenda 2021

Signing: Kyoto Protocol
December 11, 1997: Signed by 84 countries in the Conference of the Parties to the UNFCCC

Millennium Summit, NY
September 6-8, 2000:
- Millennium Report
- Millennium Declaration

Millennium Development Goals (MDG)
September 6, 2001: Road map Millennium Declaration: MDG to be achieved by 2015

World Summit, Johannesburg
August 24-September 4, 2002:
-Decisions related to water, energy, health, agriculture, biological diversity and other area
-Political Declaration and Implementation Plan proposed

Who Cares Wins Report
The term ESG was officially coined

Effective date: Kyoto Protocol
February 16, 2005: About 141 countries had ratified the agreement

World Summit, NY
September 14-16, 2005:
-Review progress made since the Millennium Declaration

Principles for Responsible Investment (PRI)
April 2006: Six overarching PRI for voluntary application to integration ESG consideration into investment activities

Kyoto Protocol: 1st Period
January 1, 2008: About 176 countries had ratified the agreement.

High-Level Meeting on MDG, NY
September 22-25: Review progress made achieving the MDGs

MDG Summit, NY
September 20-22, 2010: Global Plan Action: *Keeping the promise: united to achieve the Millennium Development Goals*

Rio+20
June 20-22, 2012: *The future we want* report: Intention to develop a set of Sustainable Development Goals (SDGs)

Doha Amendment: Kyoto Protocol
December 8, 2012: About 55 countries signed the amendment

Kyoto Protocol: 2do Period
January 1, 2013

MDG Special Event
September 25, 2013: UN members agreed to celebrate a High-Level meeting to adopt the SDGs in September 2015.

Sustainable Development Goals (SDGs) and Paris Agreement
September 25, 2015: High-Level Summit, NY, US, 193 parties adopted the SDGs
December 12, 2015: 196 parties adopted the Paris Agreement

Effective date: SDGs and Paris Agreement
January 1, 2016: SDGs enter into force
April 22, 2016: Paris Agreement was signed by 196 parties
November 4, 2016: Paris Agreements enters into force.

Entry into force: Doha Amendment
December 31, 2020: About 148 parties accepted the Amendment.

Stockolhm+50
June 2-3, 2022: Apringboard for accelerating the implementation of the UN Decade of Action to achieve the SDGs

1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Figure 3: Background Sustainable Development and SDG (1997-2023)

Source: ZHAW based on https://treaties.un.org and https://www.un.org/en/conferences/environment

31. Years later, in December 1983, the UN convened the creation of the World Commission on Environment and Development, also known as the Brundtland Commission, in honor of its first head, Gro Harlem Brundtland. The purpose of the Commission was to formulate a global agenda for change to 2000 and beyond. To this end, the Commission published the report entitled *Our Common Future* in October 1987. The report defined the concept of sustainable development for the first time, as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (UN, 1987). In 1989, the report was debated in the UN General Assembly, which decided to organize a UN Conference on Environment and Development, commonly referred to as the Earth Summit.

32. The Earth Summit was held in Rio de Janeiro, Brazil, in June 1992. The conference brought together more than 100 heads of state to begin resolving the problems posed by socio-economic development on the environment. The conference highlighted how different ESG factors are interdependent and evolve together, and how success in one sector requires action in other sectors to be sustained over time. Actions taken by the conference included the creation of the UN Commission on Sustainable Development and the adoption of Agenda 21, the Rio Declaration and its 27 universal principles, the UN Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity, and the Declaration on the principles of forest management. (UN, 2023).

33. Five years later, a special session of the UN General Assembly was conducted in New York, June 23-27, 1997. The special session was also known as Rio+5. The purpose of the session was to review progress made by countries, international organizations, and civil society in taking up the challenge of meeting the goals of Agenda 21 in the five years after the Earth Summit. However, the special session concluded that little progress had been made. Actions taken by the special session included the adoption of the Programme of Work of the UN Commission on Sustainable Development for 1998-2002 and the Programme for the Further Implementation of Agenda 21, an action plan for the following five years. (UN, 1997). The latter highlighted that economic development, social development, and environmental protection are interdependent and mutually reinforcing components of sustainable development. (UN, 1997). Figure 3 outlines the development from 1997 to 2023. In comparison to Figure 2, representing the initial stages of development, Figure 3 demonstrates the gain in momentum from 1997.

34. From December 1-11 of the same year, the Conference of the Parties to the UNFCCC took place in Kyoto, Japan. The conference was attended by more than 150 countries, which adopted the Kyoto Protocol, the first international treaty to control and reduce greenhouse gases. The protocol established agreed binding targets, in the form of quantified emission limitations or reduction commitments, for developed countries and the European Union. (UN, 1997). Owing to a complex ratification process, it only came into force on February 16, 2005, defining the commitment period as January 1, 2008, to December 31, 2012. However, in Doha, Qatar, on December 8, 2012, the Doha Amendment to the Kyoto Protocol was adopted for a second commitment period, beginning January 1, 2013, and ending December 31, 2020. (UNFCCC, 2023)

35. In September 2000, the Millennium Summit took place in New York. It marked the largest gathering ever of heads of state and government up to that time. (UN, 2023) Actions taken during the conference included the discussion of the Millennium Report prepared by then UN Secretary General Kofi Annan, entitled *We the peoples: the role of the United Nations in the twenty-first century* and the adoption by the 189 member states of the Millennium Declaration, from which the eight Millennium Development Goals (MDGs), envisioned to be achieved by 2015, were established. The MDGs, the predecessors of the SDGs, were officially launched on September 6, 2001, with the release of the *Road map towards the implementation of the United Nations Millennium Declaration*. (UN, 2001)

36. Two years later, in September 2002, the World Summit on Sustainable Development was hosted in Johannesburg, South Africa. The summit brought together more than one hundred heads of state and government and tens of thousands of government representatives and non-governmental organizations. It resulted in decisions related to water, energy, health, agriculture, biological diversity, and other areas of concern and the adoption of the Political Declaration and Implementation Plan proposed, which included a series of activities and measures to be undertaken to achieve development that considers respect for the environment. (UN, 2002)

37. In September 2005, the World Summit took place in New York. More than 170 heads of state and government attended the summit to review progress made since the UN Millennium Declaration adopted by all UN Member States in 2000. The summit's agenda was based on a series of proposals put forward by

Secretary-General Kofi Annan in his report entitled *In larger freedom: towards development, security and human rights for all.* (UN, 2005) As a result of the summit, the governments made strong commitments to achieving the development goals set out in the Millennium Declaration by 2015. (UN, 2005)

38. Subsequently, in September 2008, New York hosted the High-Level Meeting on the MDGs with half the time remaining before the MDG deadline of 2015. The meeting gathered worldwide leaders in order to review the progress made achieving the MDGs, identify the remaining gaps, and commit to undertaking concrete actions and finding the necessary resources and mechanisms to address them. (UN, 2023) During the meeting, it was highlighted that significant progress had taken place, but it was necessary that stakeholders stepped up their actions and took urgent action to achieve the MDGs in time. (UN, 2023)

39. Two years later, in September 2010, the Millennium Development Goals Summit was held in New York. The main objective was to boost progress against poverty, hunger, and disease. At its conclusion, the Summit adopted the Global Plan Action through the document entitled *Keeping the promise: united to achieve the Millennium Development Goals*, which called for increased efforts at all levels to attain the MDGs and included an action agenda for achieving the goals by 2015. (UN, 2010). Additionally, the Summit launched the Global Strategy on Women's and Children's Health to significantly reduce the number of maternal, new-born, and under-five child deaths. (UN, 2010).

40. Twenty years after the 1992 Earth Summit, in June 2012, Rio de Janeiro once again welcomed the UN Conference on Environment and Development, this time under the name of Rio+20. At the Conference, UN Member States decided to launch a process to develop a set of SDGs, building on the MDGs and converging with the post-2015 development agenda. This intention was expressed in the outcome document of the conference entitled *The future we want*, which also established a framework for action and follow-up within themes of poverty, education, food security, nutrition, sustainable agriculture, water, sanitation, energy, among others. (UN, 2012)

41. One year later, on September 25, 2013, the then President of the UN General Assembly, John William Ashen, organized a special event towards achieving the MDGs by 2015. At the event, UN Member States agreed to hold a high-level Summit in September 2015 with the objective of adopting a new set of goals based on the

foundations laid by the MDGs and on future challenges. The new goals would be intended to balance the three elements of sustainable development, namely: (i) providing economic transformation and the opportunity to lift people out of poverty, (ii) promoting social justice, and (iii) protecting the environment. (UN, 2013)

42. In September 2015, New York hosted the high-level summit agreed in 2013, under the name UN Summit on Sustainable Development. The Summit was attended by more than 150 worldwide leaders who came together to officially approve an ambitious new agenda for sustainable development. (UN, 2015). The event concluded with the adoption of the new plan, called Transforming Our World: The 2030 Agenda for Sustainable Development, which included a declaration, 17 SDGs, and 169 targets, which entered into force on January 1, 2016. (UN, 2015).

Figure 4: 17 SDG

Source: UN, https://sdgs.un.org/goals

43. Two months later, the parties of the UNFCCC celebrated the 2015 Paris Conference on Climate Change, also known as COP21, and signed the Paris Agreement, a legally binding international treaty which sought to tackle climate change and its negative impacts. (UN, 2015) The Agreement entered into force in November 2016 and includes commitments from all countries to reduce their emissions and work together to adapt to the impacts of climate change. Additionally, it calls on countries to strengthen their commitments over time. Every five years, each country is expected to submit an updated national climate action plan, known as Nationally Determined Contributions. (UN, 2023)

44. Seven year later, in June 2002, the commemoration of the 1972 UN Conference on the Human Environment and the celebration of 50 years of global environmental action took place in Stockholm, Sweden, under the name Stockolhm+50. The commemoration was envisaged to highlight the importance of multilateralism in addressing the Earth's triple planetary crisis – climate, nature, and pollution – and to serve as a springboard for accelerating the implementation of the UN Decade of Action to achieve the SDGs. (UN, 2022)

2.3 Progress in sustainability reporting in private sector

45. Sustainable development did not remain just a matter for international conferences and reports. Corporate entities responded to pressure by investors and the wider public to present their impact on sustainable development. To coordinate these efforts and standardize this information, various initiatives took place. The most important ones are described in this section and summarized in Figure 5.

2.3.1 Global Reporting Initiative (GRI) standards

46. The GRI was founded in 1997 following public discontent over the environmental damage caused the accident of the oil tanker Exxon Valdez. The GRI was a joint initiative by the Coalition for the Environmentally Responsible Economies (CERES) and the Tellus Institute. From its beginning, it also involved the UN Environment Programme. Its objective was to create accountability and sustainability reporting principles for companies (GRI, 2023). In doing this, the first version of what was then the GRI Guidelines (G 1) was launched in 2000. (GRI, 2023)

47. In 2001, the GRI was established as an independent, non-profit institution. Subsequently, in 2002, the GRI's Secretariat relocated to Amsterdam (The Netherlands), and the first update to the Guidelines (G 2) launched (GRI, 2023). As the demand for GRI reports and their acceptance by organizations increased, the Guidelines were expanded and improved, resulting in a second (G 3) and third (G 4) update in 2006 and 2013, respectively. In 2015, the GRI decided to establish the GSSB for setting globally accepted standards for sustainability reporting. Thus, in 2016, GRI transitioned from providing guidelines to setting the first global standards for sustainability reporting, the GRI Standards. (GRI, 2023)

48. The GRI Standards consider the ESG factors or issues since they are intended to enable an organization to publicly disclose its most significant impacts on the economy, environment, and people, including impacts on their human rights and how the organization manages these impacts. (GRI 1, Section 1.1). Therefore, the sustainability reporting using the GRI Standards are envisaged to provide transparency on how an organization contributes or aims to contribute to sustainable development. (GRI 1, Section 1.1). It enhances the global comparability and quality of reported information on the organization's impacts and its contribution to sustainable development, supporting information users in making informed assessments and decisions. (GRI 1, Section 1.1).

49. The GRI standards are divided into three groups of standards. The GRI Universal Standards (currently GRI 1 to GRI 3) apply to all organizations and include the foundation, general disclosures, and material topics. The GRI Sector Standards (currently GRI 11 to 13) are likely to be material to organizations in specific sectors. Currently, there is no sector standard for the public sector. The GRI Topic Standards (currently GRI 201 to 418) contain disclosures about a specific topic, which may or may not be material to an organization. For instance, there is GRI 305 Emissions which includes disclosures on greenhouse gas emissions. The organization needs to determine which standards are material based on their activities and should report with priority on the most material ones.

50. With respect to the principle of materiality, the GRI standards define material topics as those that represent the organization's most significant impacts on the economy, environment, and people, including impacts on their human rights. (GRI 1, Glossary). This means that their focus is on the sustainability materiality rather than financial materiality. However, despite not being financial reporting

standards like IFRS or IPSAS, they do make frequent reference to financial and value creation reporting. Their understanding is that the impact of an organization on the economy, environment, and people will eventually become financially material. Nevertheless, the GRI standards highlight that material topics considering the sustainability materiality cannot be deprioritized because the organization does not consider them financially material. (GRI 1, Box 1).

Global Reporting Initiative
IFRS
CDP
CDSB Climate Disclosure Standards Board
VALUE REPORTING FOUNDATION
SASB
EU NFRD
INTEGRATED REPORTING <IR>
TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES
GRI
IFRS Sustainability
ESRS
EFRAG
EU CSRD
ISSB
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Figure 5: Evolution to ESG disclosure standards

Source: ZHAW based on (World Bank Group, 2023)

51. In addition to the key concept of materiality, the GRI standards develop the key concepts of impact, due diligence, and stakeholders. Impact refers to the effect an organization has or could have on the economy, environment, and people, including effects on their human rights, because of the organization's activities or business relationships. They could be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible. These impacts indicate the organization's contribution, negative or positive, to sustainable development. (GRI 1, section 2.1)

52. Regarding the key concept of due diligence, the GRI standards elaborate that it refers to the process through which an organization identifies, prevents, mitigates, and accounts for how it addresses its actual and potential negative impacts on the economy, environment, and people, including impacts on their human rights. (GRI 1, section 2.3) They emphasize that if it is not feasible to address all identified impacts on the economy, environment, and people at once, the organization should prioritize the order in which to address potential negative impacts based on their severity and likelihood. However, in the case of potential negative human rights impacts, the severity of the impact takes precedence over its likelihood. (GRI 1, section 2.3)

53. The key concept of stakeholders refers to individuals or groups that have interests that are affected or could be affected by an organization' activities. (GRI 1, section 2.4). The GRI standards identify as common categories of stakeholders for organizations the business partners, civil society organizations, consumers, customers, employees and other workers, governments, local communities, non-governmental organizations, shareholders and other investors, suppliers, trade unions, and vulnerable groups, highlighting that engaging with stakeholders helps the organization identify and manage its negative and positive impacts. (GRI 1, section 2.4).

54. The reporting entity, as defined by the GRI standards, is the organization (GRI 1, section 1.1). The term organization is not further defined by the GRI standards, leaving the concept open to any kind of organization which wants to report about its impact on sustainable development (GRI, 2021). However, to comply with the GRI standards, the organization must publish a GRI content index which includes, among other information, the statement of use. This is an opt in approach, which allows entities to submit themselves to the GRI standards without having to comply

with specific reporting entity characteristics. This approach is different from the approach taken by financial reporting standards, such as the IFRS or IPSAS, which define the reporting entity.

2.3.2 Task Force on Climate-Related Financial Disclosures recommendations

55. In April 2015, the G20 finance ministers and central bank governors asked the FSB to review how the financial sector could address climate-related issues. In doing this, the FSB identified the need for better information to support informed investment, lending, and insurance underwriting decisions and improve understanding and analysis of climate-related risks. (TCFD, 2023). In this context, the FSB announced in December of the same year the establishment of the TCFD with Michael R. Bloomberg as chair. This industry-led disclosure task force on climate-related financial risks was tasked with developing voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors, and other stakeholders. (FSB, 2015)

56. In June 2017, after issuing the draft recommendations for climate-related financial disclosures and inviting public feedback during a 60-day consultation period, the TCFD released its final recommendations. At that time, one hundred CEOs worldwide signed a statement of support to the voluntary recommendations issued by the TCFD. They also encouraged other business leaders to join them in the united effort to improve disclosure across sectors and regions. (TCFD, 2023). Subsequently, in May 2018, the TCFD and the Climate Disclosure Standards Board (CDSB) announced the launch of the TCFD Knowledge Hub, a platform with relevant insights, tools, and resources to help organizations implement the TCFD recommendations. (TFCD, 2018)

57. The TCFD has a strong focus on climate-related risk, climate-related opportunities, and financial impacts. Climate-related risks are classified into two major categories: (i) risks related to the transition to a lower-carbon economy, which include policy and legal risks, technology risks, market risk, and reputation risk, and (ii) risks related to the physical impacts of climate change, which include acute risks and chronic risks. Climate-related opportunities are classified considering several areas: resource efficiency, products and services, markets, and resilience. Regarding financial impacts, the major categories include revenues, expenditures, assets and liabilities, and capital and financing,

considering whether they affect the income statement, the cash flow statement, or the balance sheet. (TFCD, 2017)

58. The TCFD recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. Governance requires disclosures on an organization's governance around climate related risks and opportunities. Strategy requires disclosures on the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material. Risk management requires disclosures on how the organization identifies, assesses, and manages climate-related risks. Metrics and targets require disclosures on the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. (TFCD, 2017)

59. In addition, the TCFD developed guidance for all sectors and two supplemental guidance for the financial sector and non-financial groups. The guidance for all sectors supports all organizations in developing climate-related financial disclosures consistent with its recommendations and recommended disclosures. The supplemental guidance for the financial sector provides additional recommendations for the four major industries of the financial sector, based on activities performed, as follows: banks (lending), insurance companies (underwriting), asset managers (asset management), and asset owners (investing), including public and private sector pension plans, endowments, and foundations. For its part, the supplemental guidance for non-financial groups provides additional recommendations for the four key industries associated to the non-financial sector: energy, transportation, materials and buildings, and agriculture, food, and forest products. (TFCD, 2017)

60. Regarding the principle of materiality, the TCFD recommendations establish that organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their annual financial filings. (TCFD, 2021) Therefore, their focus is on financial materiality. However, the TCFD has encouraged all organizations to disclose all direct greenhouse gas emissions and the indirect greenhouse gas emissions from consumption of purchased electricity, heat, or steam independent of an assessment of materiality. Additionally, the Task Force has cautioned

organizations against prematurely concluding that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of certain climate-related risks. (TCFD, 2021)

61. As in the GRI standards, the reporting entity for TCFD recommendations is the organization, but no definition of the term is provided. Instead of giving a definition, the Task Force recommends all financial and non-financial organizations with public debt or equity implement its recommendations. Additionally, it encourages all organizations to implement the recommendations considering climate-related risks and opportunities are relevant for organizations across all sectors. The Task Force also believes that asset managers and asset owners, including public and private sector pension plans, endowments, and foundations, should implement its recommendations. (TCFD, 2021)

2.3.3 International Financial Reporting Standards (IFRS) Sustainability Standards

62. On November 3, 2021, at COP26 in Glasgow, Scotland, the Trustees of the IFRS Foundation announced the formation of the ISSB, the consolidation of the CDSB, an initiative of Carbon Disclosure Project, and the Value Reporting Foundation (VRF), which at that time housed the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards, by June 2022, and the publication of prototype climate and general disclosure requirements developed by the Technical Readiness Working Group, a group formed by the IFRS Foundation Trustees to undertake preparatory work for the ISSB. (IFRS Foundation, 2021). This consolidation process, as well as the relationship between the different standard setters, is summarized in Figure 6.

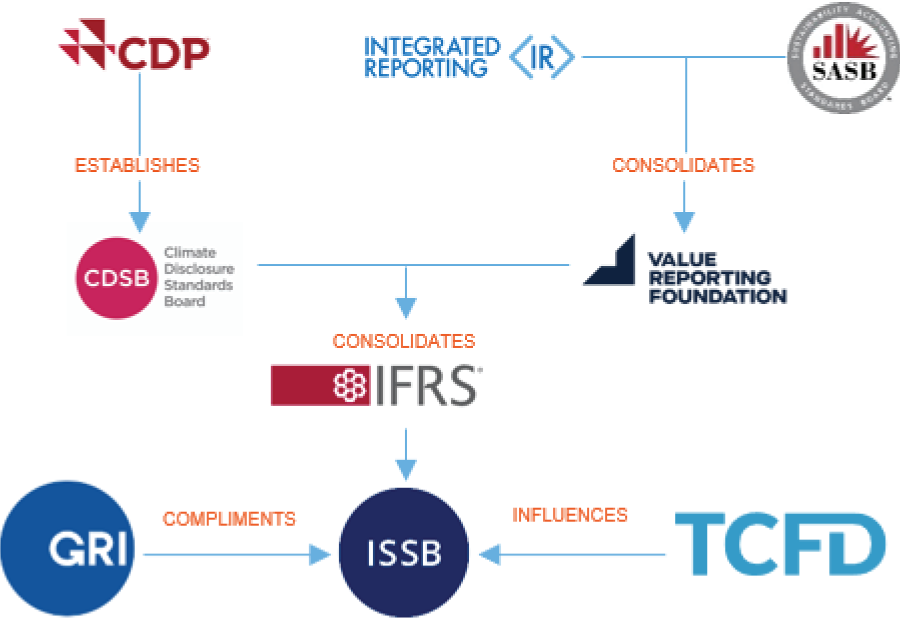

Figure 6: Consolidation of Private Sector Sustainability Reporting Standards

Source: ZHAW based on (Kirkland & Ellis, 2022)

63. The Trustees emphasized that the new ISSB would be charged with issuing a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors information needs, following strong market demand for its establishment. Additionally, the prototypes to be released were a result of six months of joint work by representatives of the CDSB, the International Accounting Standards Board, the TCFD, the VRF, and the World Economic Forum, supported by the International Organization of Securities Commissions and its Technical Expert Group of securities regulators. (IFRS Foundation, 2021)

64. On March 31, 2022, the ISSB published two exposure drafts for consultation by July 29, 2022: Proposed IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and proposed IFRS S2 Climate-related Disclosures. The proposed IFRS S1 would require companies to disclose information about all their significant sustainability-related risks and opportunities. The proposed IFRS S2 focused on climate-related risks and opportunities. It incorporated the recommendations of the TCFD and included metrics tailored to industry classifications derived from the industry based SASB Standards. (IFRS Foundation, 2022)

65. On June 26, 2023, ISSB published IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, with an effective date of January 1, 2024. Both standards were tailored considering the structure of the TCFD recommendations: governance, strategy, risk management, and metrics and targets. While IFRS S1 requires an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of GPFR in making decisions relating to providing resources (IFRS S1, para. 1), IFRS S2 requires that an entity disclose information about its climate-related risks and opportunities, which is useful to those users for the same purpose. (IFRS S2, para. 1).

66. Regarding the principle of materiality, IFRS S1 sets forth that in the context of sustainability-related financial disclosures, information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions that primary users of GPFR make on the basis of those reports (reports include financial statements and sustainability-related financial disclosures and information about a specific reporting entity). (IFRS S1, para. 18). Therefore, its focus is on financial materiality.

67. For its part, the reporting entity is defined by IFRS S1 as the same reporting entity as the related financial statements (IFRS S1, para. 20). This definition implies that if a parent and its subsidiaries prepare consolidated financial statements in accordance with IFRS accounting standards as a single reporting entity, the sustainability-related financial disclosures should enable users of GPFR to understand the effects of the sustainability-related risks and opportunities on the cash flows, access to finance, and cost of capital over the short, medium, and long term for the parent and its subsidiaries. (IFRS S1, para. B38)

2.3.4 The European Union Corporate Sustainability Reporting Directive

68. The EU started to regulate the disclosure of non-financial and diversity information relating to ESG areas in 2014 when it issued the Non-Financial Reporting Directive (NFRD, Directive 2013/34/EU). This Directive only applied to large public-interest corporations. While some public sector corporations were included in this scope, government entities were not subject to the Directive. In December 2022, the EU issued the CSRD (Directive 2022/2464/EU) which updates and replaces the NFRD. The new Directive will not only apply to more entities, but will also include additional reporting requirements.

69. The CSRD focusses on the reporting of sustainability related information. The reporting standards which will guide the implementation of the CSRD are developed by EFRAG, which is nominally a non-profit association established under Belgian law but mainly provides advice to the European Commission on the endorsement of IFRS. However, in the case of sustainability reporting, EFRAG set up its own standard setting board in 2022, the EFRAG Sustainability Reporting Board, which provides technical advice to the European Commission on draft ESRS and amendments to these standards. Based on the work of the preliminary task force, EFRAG published in March 2023 a suite of 12 Draft ESRS with a consultation period until August 2022. On July 31, 2023, the EU issued the Commission Delegated Regulation adopting the 12 ESRS, which were published in the Official Journal December 22, 2023 (EC, 2023).

70. One of the key principles developed by the NFRD, which was confirmed and further emphasized in the CSRD, is double materiality (Article 19a (1) and Article 29a (1) of Directive 2013/34/EU, which became Article 19a (1) and Article 29a (1) of Directive 2022/2464/EU, regulating individual and consolidated reports, respectively). The principle of double materiality requires the "undertaking" (see definition of this term in a later paragraph) to report how sustainability matters affect the entity and the impacts of the activities of the entity on people and the environment. Double materiality marks a relevant difference to the TCFD and to IFRS S1, which both focus more narrowly on financial materiality. Therefore, the key principle of the ESRS is, not surprisingly, double materiality (ESRS 1, para. 2, paras. 40-45).

71. The reporting entities are defined as public-interest entities, as defined in the amended Article 2 of Directive 2013/34/EU about annual financial statements, consolidated financial statements, and related reports of certain types of undertakings. This may include a larger number of public sector corporations, as compared to the NFRD, but still does not include government entities. The criteria considered to require an entity to report are primarily based on size or capital market listing. ESRS will include sector-agnostic and sector specific guidance (ESRS 1 para. 12), however, given the scope of the CSRD, they do not contain any sector specific guidance for the public sector or even governments.

72. ESRS also explain, in the Appendix to ESRS 1, the relationship between the two terms undertaking and entity. The term undertaking refers to the entire

value-chain, whereas the entity is upstream or downstream in the value-chain, depending on its role. Both CSRD and the ESRS are trying to capture the entire undertaking, rather than just a fragment. For example, if an entity has financed any environmentally damaging activity, it should report it, even if the damage was not caused by the financing activity, but rather by the operational activity, it nevertheless should also be reported by the financing entity.

73. Further to this theme, the reporting requirements are with the entity, as defined in Article 2 of Directive 2013/34/EU, but the information to be reported is not limited to activities of the reporting entity, but includes the undertaking, which is covering a larger part of the value chain. The principle of double materiality applies to the undertaking, rather than to the reporting entity in the narrower sense. Hence it further broadens the principle of double materiality, making it more difficult to achieve than a narrower version of double materiality.

2.4 IPSASB progress on disclosure of sustainability -related financial information in the public sector accounting

74. After publishing a first staff paper in 2020 (IPSASB, 2020), in May 2022, IPSASB initiated high profile activities on sustainability-related financial information in public sector accounting, with the publication of the Consultation Paper on Advancing Public Sector Sustainability Reporting (IPSASB, 2022). It is important to note, however, that the subject matter was not completely foreign to IPSASB before. Nevertheless, the decisions taken by IPSASB in 2022 and 2023 are setting the pace for the development of future standard-setting in this area.

2.4.1 Background

75. The Public Sector Committee of the International Federation of Accountants (IFAC), which was renamed IPSASB in 2004, started the standard setting program in 2001 with the publication of the first seventeen standards (IPSAS 1 to IPSAS 17). All of them were based on the respective International Accounting Standards. Until 2009 the standard setting activities exclusively focused on accounting standards based on the private sector standards. However, around 2010 it became increasingly clear that General Purpose Financial Statements (GPFS) prepared based on traditional accounting standards were not adequately addressing all

information needs of users and in some areas a broader concept of General Purpose Financial Reports (GPFR), was needed.

76. In 2013, IPSASB issued the Introduction to Recommended Practice Guidelines (RPG), as well as the first two such guidelines, RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 2 *Financial Statement Discussion and Analysis;* with RPG 3 *Reporting Service Performance Information* to follow suit in 2015. According to the Introduction, they "provide guidance on good practice in preparing (…) GPFR that are not (…) GPFS" (IPSASB, 2022, p. 1758). RPG 1 is the only RPG which made even in its original version direct reference to sustainability, but as the title mentions, the focus was on sustainability of the entity's finances, i.e., fiscal sustainability (IPSAS RPG 1.4). Environmental sustainability is explicitly mentioned, but not directly addressed. However, financial impacts of environmental factors should be considered (IPSAS RPG 1.4).

77. Around the same time, IPSASB further developed the concept of GPFRs as part of the IPSAS-CF, which was issued in 2014. Chapter 2 in particular develops the Objectives and Users of GPFR. The IPSAS-CF identifies Service Providers and Resource Providers as the primary users of GPFR and identifies their information needs, which go beyond the information provided by GPFS. The IPSAS-CF mentions the term sustainability in several locations, but mainly in the sense of "sustainability of the entity's finances" (IPSAS-CF Preface 11) or "sustainability of service delivery of the entity" (IPSAS-CF 2.11, 2.27, 2.31, 8.6, 8.14). Only in the basis for conclusions (BC) does the IPSASB slightly invite the use of the term sustainability to include the "sustainability of activities" (IPSAS-CF BC2.16) but to exclude "sustainability reporting" (IPSAS-CF BC2.17, BC2.18). The latter was requested in the consultation process by some of the respondents, but IPSASB decided not to include it at that stage.

78. In 2020, IPSASB issued a non-binding Questions & Answers document, identifying how to apply the existing IPSASB literature to provide information on climate change (IPSASB, 2020). While IPSASB clearly had no specific guidance on climate change, the document identified various standards and, especially, the RPGs providing some general guidance which could also be applied to information about climate change. This idea was a bridge-builder between the existing standards and RPGs and the increasingly relevant issues in the field of sustainability reporting.

79. In summary, between 2010 and 2015 IPSASB introduced the concept of GPFRs which included but went beyond traditional GPFS, in different parts of their literature. IPSASB also included the notion of sustainability but limited the use of the term to financial sustainability and sustainability of service delivery. Environmental sustainability or sustainability reports were scoped out, unless they had effects on financial sustainability or service delivery. As the BC of the IPSAS-CF shows, there were requests in both directions, opening further or keeping the focus of traditional GPFS. The result could be characterized as a cautious attempt to recognize and address user needs which are not satisfied by traditional GPFS, without fully embracing sustainability in a broader sense. In that sense IPSASB chose the middle path.

2.4.2 Consultation Paper 2022

80. With the adoption of the UN SDGs in 2015, a broader concept of sustainability was adopted at an international level. The more recent reports of the UN Intergovernmental Panel on Climate Change, which was endorsed as an organization by the UN General Assembly in 1988 (UN, 1988), demonstrated the urgency of action in climate change. The Paris Climate Agreement, which was adopted by the UN Framework Convention on Climate Change (UNFCCC) in 2015 and entered into force in 2016, required signatory states to agree in a legally binding way to limit the temperature increase to 1.5°C above pre-industrial levels (UNFCCC, 2015). Article 2.1 (c) also requires them to agree to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

81. Mindful of these developments, in 2022 the World Bank published the report on Sovereign Climate and Nature Reporting (World Bank, 2022). The report concludes that it is important for sovereigns to prepare and present sustainability reports. It argues that sovereign sustainability reporting needs its own framework and invites IPSASB to develop such a framework. The main rationale for sovereign sustainability reporting is that sovereigns need to maintain or improve their access to capital markets and that these markets require sustainability related information.

82. Based on these reports, IPSASB started to develop a consultation paper, which was published in May 2022 with comments due in September of the same year (IPSASB,

2022). IPSASB also held five regional workshops in July and August 2022 to collect additional feedback. The consultation paper presented five preliminary views of IPSASB and two specific matters for comment and asked for comments on these seven matters. The preliminary views expressed in the Consultation Paper suggested that there is "need for global public sector specific sustainability reporting guidance" and that IPSASB should develop such guidance. IPSASB also proposed a framework and priorities in developing such guidance. It proposed to address general sustainability-related information and climate-related disclosures first, consistent with the TCFD recommendations and like the ISSB. This would lead to disclosures focusing on governance, strategy, and risk management.

83. In addition to the discussion at regional workshops, IPSASB received 70 written responses (IPSASB, 2022). The respondents strongly supported the need for public sector sustainability reporting guidance. A majority of respondents also supported the idea that IPSASB should develop such guidance and the proposed framework, however, there were also a significant number of disagreeing views. Respondents suggested that the framework should take a multi-stakeholder approach, like the GRI standards but different from the IFRS sustainability reporting standards, which are focused on financial investors. In terms of priorities, the views were also mixed, but climate achieved - although by a small margin - the highest number of supporting comments.

84. Based on the supportive result of the consultation, IPSASB confirmed in December 2022 its role in advancing public sector sustainability reporting and created a task force (IPSASB, 2022). It also defined its initial research topics which are General Requirements for Disclosure of Sustainability-related Financial Information, Climate-Related Disclosures, and Natural Resources – Non-Financial Disclosures. The last is supposed to run in parallel with the development of financial reporting guidance proposed in the consultation paper about natural resources.

2.4.3 Updating Recommended Practice Guidelines

85. As a result of the mid-term work program consultation, IPSASB decided in March 2022 to add a limited scope project to the work plan, without waiting for the results of the broader consultation outlined in the previous section. This limited-scope project was an initial step towards addressing stakeholder requests for sustainability reporting guidance.

86. In November 2022, IPSASB published Exposure Draft 83 proposing the addition of non-authoritative guidance to RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 2 *Reporting Service Performance Information*. The additional guidance was intended to facilitate the reporting sustainability program information. It should be highlighted that the proposed information relates to programs that affect the entity's sustainability and does not necessarily cover the entity as a whole. Apart from implementation guidance and, in the case of RPG 3, illustrative examples, the Exposure Draft also proposed to add some text to the BC, explaining that both RPGs support the reporting of sustainability program information. As compared to the initial version of the RPGs, this opens the door for not-strictly-financial sustainability information a little further.

87. Exposure Draft 83 attracted 29 response letters, which were mostly supportive. With a few adjustments as compared to the draft, IPSASB issued the modified RPG 1 and 3. This non-authoritative guidance will facilitate the reporting of sustainability program information.

2.4.4 Development of a Climate-Related Disclosures standard

88. Based on the results from the 2022 consultation, IPSASB in March 2023 adjusted the framework for the potential initial sustainability reporting projects, which was first outlined in the 2022 consultation paper. The framework going forward should include the consultation paper and the feedback received, as well as the IPSAS-CF, the IFRS Sustainability Standards, and the GRI standards. In comparison to the consultation paper, it broadened the user base of sustainability reporting, by making stronger reference to its own IPSAS-CF as well as the GRI standards, which unlike the IFRS, are both following a multi-stakeholder approach.

89. Based on this broader framework, IPSASB approved a project brief for a project on Climate-Related Disclosures in June 2023. Although the project will follow IFRS S2, it will apply a multistakeholder approach, as defined three months earlier. It aims to issue an Exposure Draft in June 2024 and the final standard in 2025. It will seek collaboration with the ISSB, GRI, and the Association of Chartered Certified Accountants, a member body of IFAC. The project aims to develop a standard separate from financial reporting standards and is, at this stage, scoping out effects on financial reporting.

90. The project brief identifies nine key issues, the first six of them related to technical matters: (i) Building off international guidance – ISSB and GRI, (ii) Governance, (iii) Strategy, (iv) Risk and impacts management, (v) Metrics and targets/sector, and (vi) General features. The remaining three key issues are related to project management: (vii) Resources and expertise, (viii) Sustainability-related institutional arrangements, and (ix) Timeliness of guidance.

91. The technical key issues 2 to 5 relate to the four pillars of the TCFD framework - governance, strategy, risk management, and metrics and targets - which also forms the basis for the IFRS sustainability standards. Also, key issue 6 refers to the IFRS sustainability standards, namely S1. It will include metrics related to greenhouse gas emissions adapted to the public sector. Amongst the key issues related to project management, issue 8 is especially noteworthy, since it is also sustainability related and reflects the institutional situation which, despite the creation of the ISSB, remains unresolved at this stage.

92. Considering the key issues identified, IPSASB remains close to the IFRS sustainability standards, although it has broadened its framework in March 2023 to apply a multi-stakeholder approach. In that sense key issue 1 is arguably the most critical one, because it is overarching the other issues and has no precedent or experience to build on. Hence it will require own development work to be undertaken by IPSASB, which has, as correctly identified in key issue 7, limited resources and expertise in this field.

Chapter

Characteristics of public sector entities for disclosure of sustainability-related financial information

93. While developing the IPSAS-CF, the IPSASB considered six characteristics of the public sector that are outlined in the Preface to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. To assess the extent to which sustainability-related financial information disclosure practice is congruent to and can be informed by the IPSAS-CF, this section first revisits these characteristics. In a second step, it analyses early experiences from selected countries which report sustainability-related financial information regarding the characteristics of the public sector.

3.1 Public sector characteristics

94. As the Preface to the IPSAS-CF states, the "primary objective of most public sector entities is to deliver services, rather than to make profits and generate a return on equity to investors" (Preface to the IPSAS-CF, para. 2). Consequently, this affects information needs by the users of GPFR. However, there are more subtle differences between the private and the public sector. The IPSASB has considered six characteristics of the public sector when developing the IPSAS-CF. It remains to be seen whether these characteristics are also adequate and sufficient for the reporting of sustainability-related financial information.

3.1.1 Volume and financial significance of non-exchange transactions

95. In the public sector it is common that entities receive value from another party, without giving equal value in exchange (Preface to the IPSAS-CF, para. 5). The most prominent example is taxes, but also transfers often do not exchange equal values. This is possible because both taxes and transfers can be legally mandated, sometimes also in international treaties, and therefore do not require mutual agreement of the parties involved (para. 6). However, such transactions make the recipient accountable to the resource provider, which creates information needs which may be addressed by GPFR (para. 7).

96. In respect of the disclosure of sustainability-related information, it should be noted that sustainability programs often involve non-exchange transactions, generating both revenues (e.g., carbon taxes) and expenses (e.g., subsidies for alternative energy production) for the government. The level of non-exchange transactions due to sustainability programs is likely to become significant. On the other hand, if public sector entities purchase assets (e.g., photovoltaic panels) for their own buildings, this would be an exchange transaction. Other measures, such as emission or technology regulation, are neither exchange nor non-exchange transactions.

97. However, none of these non-exchange transactions based on sustainability programs are fundamentally different from other non-exchange transactions, as far as their impact on financial reporting is concerned. Carbon taxes are economically very similar to other taxes which are used to incentivize a certain behavior, such as taxes on tobacco. Also, subsidies are economically the same regardless of whether the investment subsidized is ecologically favorable or not. Therefore, this characteristic, while very important for the disclosure of sustainability-related information, is arguably sufficient and adequate for this purpose.

3.1.2 Importance of the approved budget

98. Governments and other public sector entities usually prepare and publish budgets, which are a key feature of legislative oversight. The publication of budgets and budget execution reports is therefore important for accountability and decision-making purposes. In some jurisdictions it is directly used to determine the level of taxation. Often it is the mechanism to demonstrate legal compliance in respect of public finances (Preface to the IPSAS-CF, paras. 8 and 9).

99. In respect of the disclosure of sustainability-related information, it is important to acknowledge the current trend to develop "green budgeting", i.e., to adapt public sector budgeting in order to identify and present its impact on climate or sustainability related dimensions. However, thus far, there is no generally accepted model for "green budgeting". Some governments define sustainability programs, in a similar way they also define programs in other policy areas, such as education or health. Such programs are often not limited to climate change but address different SDGs. Other governments are trying to identify the impact of each budget line item on sustainability, often focusing on greenhouse gas emissions.

100. Since the budget is an important instrument for accountability and decision-making purposes, it is also important in respect of sustainability-related information. Obviously, not all sustainability-related policy measures have a direct impact on the budget, but many do. Neither the IPSAS-CF nor IPSAS 24 – *Presentation of Budget Information in Financial Statements* prescribe how budgets are developed, but they require the presentation on a comparable basis if budget information is included in the financial statements. This obviously also applies to "green budgets", regardless of how they are designed.

3.1.3 Nature of public sector programs and the longevity of the public sector

101. Many public sector programs are long term and the respective decisions may have impacts for many years or decades. However, since future contributions and commitments are not recognized as assets and liabilities and therefore the balance sheet does not reflect the long-term financial impacts (Preface to the IPSAS-CF, paras. 10 and 11). Nations are also long term and will not cease to exist in case of a sovereign default, and subnational governments are often rescued by the national government in case of financial distress (para. 12). This has implications for interpretation of the going concern principle in the public sector (para. 13).

102. Sustainability programs by definition have a long-term perspective and therefore the disclosure of sustainability-related information also must consider such a time horizon. However, it is unlikely that the implications for the disclosure of their long-term information is very different from other long-term information which is relevant in the public sector. Any kind of longer-term information is challenging in the context of GPFS, which usually focus on one year only, but is not uncommon for GPFR. Fiscal sustainability reports generally present information for extended periods, so enlarging the concept of sustainability does not necessarily change their time horizon.

3.1.4 Nature and purpose of assets and liabilities in the public sector

103. In the public sector, the primary reason to hold assets is for their service potential, which is often specialized (Preface to the IPSAS-CF, para. 14, e.g., roads, military assets). Sometimes they are held for their historical or cultural contribution or to protect flora and fauna, with a responsibility to preserve them (para. 15). Governments also have powers over natural resources (para. 16, e.g., water, minerals).

Also, liabilities are incurred in relation to service delivery objectives or because of their role as a lender of last resort or to provide disaster relief (para. 17).

104. As already mentioned in the characteristics, assets with a preservation purpose are common in the public sector. Obviously, sustainability and climate protection are not limited to specific assets, such as flora or fauna, but also affect them. It is possible that sustainability and climate change create additional liabilities. It seems obvious that this characteristic is also relevant in the context of the disclosure of sustainability-related information.

3.1.5 Regulatory role of public sector entities

105. By law, public sector entities are often assigned a regulatory role, to protect the public interest. This includes different areas of public policy, including environmental policy (Preface to the IPSAS-CF, para. 18). Public sector entities may also regulate themselves or other public sector entities (para. 19).

106. Since environmental policy is a key area of government regulation, it clear that this characteristic is relevant for the disclosure of sustainability-related information. However, it should be noted that certainly GPFS, but also GPFR does not usually present information about other entities affected by regulation. The international treaties and national legislation, while often applicable to public sector entities, are not aiming at this sector, but at any subject undertaking activities in a jurisdiction.

107. For instance, the Paris Agreement requires the jurisdictions which ratified the Agreement to reduce greenhouse gas emissions within their jurisdiction as a whole, and not just by government or other public sector entities. Similarly, the SDGs apply to nations and not only to government entities. Indeed, the Agreement does not define specific obligations by sectors or entities. Governments which become a party to the Agreement have specific reporting obligations for their entire jurisdiction, i.e., not limited to the government or other public sector entities. This reporting obligation is fundamentally different from a reporting obligation at entity level, for instance in the field of financial reporting.

108. Therefore, the description of this characteristic provided in the Preface to the IPSAS-CF does not address all the potential concerns related to the regulatory role in terms of sustainability reporting in public sector and could be further

complemented. The clarification should capture that public sector reporting entities may have reporting obligations covering their entire jurisdiction, rather than entity specific activities only. Obviously, the entity's own activities are part of the overall activities in the entire jurisdiction but may only represent a small part of them.

3.1.6 Relationship to statistical reporting

109. Financial information about the public sector is not only presented in GPFS of public sector entities, but also in financial statistics, e.g., about the general government sector. Both financial statements and statistical reports are used for accountability and decision making, however at different levels (Preface to the IPSAS-CF, para. 20). The overarching framework for statistical reporting is the system of national accounts (para. 21). Both types of frameworks have many things in common, in particular the use of the accrual basis of reporting (para. 22). However, they have different objectives, entity level reporting in the case of financial statements, analysis of the impact of economic sectors on the entire economy in the case of financial statistics (para. 23).

110. In respect of the disclosure of sustainability-related information, statistical guidance is highly relevant, although not necessarily the system of national accounts. The UN and other international organizations have developed statistical guidance for the SDGs and in respect of climate change. While these reports are published separately from GPFS and GPFR, it is important that the disclosure of sustainability-related information is consistent between the different reports published by a public sector entity.

3.1.7 Conclusion from the analysis of the characteristics included in the Preface to the IPSAS-CF

111. In summary, all 6 characteristics are relevant for the disclosure of sustainability-related information, although they were not specifically developed for this purpose. The volume and financial significance of non-exchange transactions and the importance of the approved budget have the most significant financial implications. But also, the other characteristics are relevant in the context of sustainability-related information.

112. The only characteristic which is applicable to sustainability-related information, but falls short in its current description, is the regulatory role. It is important that governments, e.g., under the Paris Agreement or in respect of the SDGs, have reporting obligations which cover their entire jurisdiction, rather than only the reporting entity itself.

3.2 Review of IPSASB's basis for conclusions and discussions

3.2.1 Review of IPSASB documents

113. Unlike the core of the IPSAS-CG, the Preface to the Conceptual Framework for GPFR by Public Sector Entities does not include a BC. Therefore, the considerations of the IPSASB must be analyzed based on the consultations and Board deliberations. The characteristics were developed in a separate Exposure Draft, which was published in 2011. The Exposure Draft was based on a staff draft published in 2010, in the context of other consultation documents about the IPSAS-CF. The IPSASB adopted the staff paper. (IPSASB, 2011)

114. Compared to the final Preface to the IPSAS-CF, the Exposure Draft contained a different introduction, eight characteristics, and a brief conclusion. The two additional characteristics were due to the division of the characteristics on public sector assets and liabilities into three separate characteristics.[2] The Exposure Draft received positive feedback. General comments cautioned about the positioning inside the IPSAS-CF, which ultimately led to the inclusion in a preface, rather than in the core text of the IPSAS-CF. (IPSASB, 2012)

115. In the Exposure Draft, sustainability was only addressed in the characteristic about longevity of public sector entities and programs, in the sense of being more relevant than a going concern, i.e., financially. Sustainability was raised by four respondents, but by all of them in the sense of fiscal or financial sustainability, like the reference made in the Exposure Draft. A broader concept of sustainability, including climate change or other environmental aspects, was neither discussed

2) Nature and purpose of assets and liabilities in the public sector was subdivided into three independent characteristics, namely the nature of property, plant and equipment, the responsibility for heritage items as well as ownership or control of rights to natural resources and intangible Items

in the Board deliberations, nor in the response letters received. In the characteristic about the regulatory role, an example about environmental regulation was included. Both the reference to fiscal sustainability and the example about environmental regulation were maintained in the final version of the characteristics.

116. Both Board papers and Board discussions noted in several instances (IPSASB, 2012) (IPSASB, 2013) that an RPG on reporting on the long-term sustainability of an entity's finances was being developed in parallel to the IPSAS-CF project and published in 2013. Therefore, IPSASB decided not to delve into further details about fiscal sustainability when drafting the characteristics. There is no evidence of Board discussions about a broader concept of sustainability, including environmental aspects such as climate change, in the minutes of the Board meetings discussing the characteristics.

3.2.2 Analysis of potential gaps in the IPSASB literature

117. Since sustainability-related reporting was not thoroughly considered when developing the characteristics of public sector entities, it should be questioned whether there are any additional relevant characteristics. There is no generally agreed conceptual framework for sustainability reporting, therefore the IPSAS-CF cannot be compared to such a specific framework. Only the GRI Standards contain some conceptual underpinning, in particular GRI 1 *Foundation 2021*. However, sector characteristics are to be dealt with in each sector standard (GRI, 2021). Since no GRI Sector Standard on the Public Sector has been developed, there were no characteristics defined yet.

118. One area of concern might be the broad use of terms like "sustainability reporting" or "sustainability reports" by IPSASB itself. Obviously, presenting sustainability information within GPFS or GPFR is falling within the scope of financial reporting and therefore within the remit of the IPSASB. But what about sustainability reports which are not part of GPFS or GPFR? The IFRS Foundation has already drawn some criticism because of their attempt to "shoehorn" sustainability disclosures into a financial reporting conceptual framework. (Adams, 2021). If there is any intention to extend the scope beyond GPFS and GPFR, it would therefore be advisable to clarify this matter in the Preface and the IPSAS-CF itself.

119. Finally, it should be noted that neither the IPSAS-CF, nor its Preface, were developed with the intention to develop authoritative reporting guidance (IPSAS-CF para. 1.2). Therefore, it is not a gap. It is intentional that very general language is used, and no specific reporting requirements are established in these documents. This is somewhat similar ESG approach, which is based on general reporting requirements without going into specifics. Based on this experience, it is recommended not to base reporting requirements directly on the IPSAS-CF and its Preface, but on authoritative standards which use more precise language.

3.3 International experience

120. The following paragraphs discuss the early experiences of three countries in disclosing sustainability-related financial information. This section analyses whether the definition of the reporting entities disclosing sustainability-related information concur with the characteristics described in the Preface to the IPSAS-CF. **Table 1** summarizes the sustainability-related financial reporting practices of the UK, New Zealand, and Switzerland.

Table 1: Comparison of practices in disclosure of sustainability-related financial information

	United Kingdom	New Zealand	Switzerland
Primary device for disclosure of sustainability-related financial information	*"Annual Report and Accounts – Chapter 6 Sustainability report"*	*"Climate Economic and Fiscal Assessment"*	*"Report on the long-term sustainability of public finances in Switzerland"*
Issuing organization(s)	His Majesty's (HM) Treasury	The Treasury and the Ministry for the Environment	Federal Department of Finance
Entity scope	Central government	Central government	General government sector (Confederation, Cantons, Municipalities, and social insurance fund)

	United Kingdom	New Zealand	Switzerland
Characteristics of the entity			
Volume and Financial Significance of Non-Exchange Transactions	Not explicitly considered, reporting based on IFRS-CF; non-exchange transactions reported	Considered for financial reporting, but not for climate-related disclosures.	No. Sustainability report is a separate GPFR, entity definition based on special scope definition in RPG 1 and not on IPSAS-CF
Importance of the Approved Budget	Not explicitly considered, reporting based on IFRS-CF; budget information presented	Considered for financial reporting, but not for climate-related disclosures.	No. Sustainability report is a separate GPFR, entity definition based on special scope definition in RPG 1 and not on IPSAS-CF
Nature of Public Sector Programs and the Longevity of the Public Sector	Not explicitly considered, reporting based on IFRS-CF; Public Sector Programs and long-run implications presented	Considered for financial reporting, but not for climate-related disclosures.	No. Sustainability report is a separate GPFR, entity definition based on special scope definition in RPG 1 and not on IPSAS-CF
Nature and Purpose of Assets and Liabilities in the Public Sector	Not explicitly considered, reporting based on IFRS-CF; Public Sector specific assets and liabilities presented	Considered for financial reporting, but not for climate-related disclosures.	No. Sustainability report is a separate GPFR, entity definition based on special scope definition in RPG 1 and not on IPSAS-CF
Regulatory Role of Public Sector Entities	Not explicitly considered, reporting based on IFRS-CF; Regulatory role reflected	Considered for financial reporting, but not for climate-related disclosures.	No. Sustainability report is a separate GPFR, entity definition based on special scope definition in RPG 1 and not on IPSAS-CF
Relationship to Statistical Reporting	Not explicitly considered, reporting based on IFRS-CF; References to Statistical Reporting exist	Considered for financial reporting, but not for climate-related disclosures.	Not explicitly. However, entity definition based on statistical criteria, as proposed by RPG 1 rather than on IPSAS-CF
Other characteristics considered	None	For financial reporting NZ distinguishes For-Profit and Public Benefit Entities (XRB A1). However, the Climate Related Disclosure Standards NZ CS 1 to CS 3 apply to all sectors without any difference.	Statistical definition of the General Government Sector (GGS)

121. None of the three countries explicitly refer to the six characteristics of public sector entities, for the purpose of sustainability-related disclosures. However, there are different reasons and different consequences. There is no evidence that the characteristics were not applied because they had been considered to be inappropriate or useless. In fact, the reporting entities of the UK implicitly reflect the characteristics. In the case of New Zealand, financial reporting fully reflects the characteristics, but climate related disclosures are sector neutral. Switzerland, in contrast, takes a statistical approach for sustainability reporting, which is explicitly permitted by IPSAS RPG 1.15, although it is not following the IPSAS-CF, since statistical sectors are a different concept.

3.3.1 United Kingdom

122. In the UK, the primary device for disclosure of sustainability-related financial information is the *Annual report and accounts*, which is published by HM Treasury.[3] Its chapter 6 includes a sustainability report, which demonstrates how sustainability is an essential characteristic within the strategic objectives, operations, and policy making of organizations, and reflects what the risks are to achieving integrated reporting and how these risks are managed. In most cases, additional context must be given to explain areas of particular interest and those which are the most material to the organization. The report also evaluates the performance on mitigating climate change, minimizing waste and promoting resource efficiency, reducing water use, procuring sustainable products and services, etc.[4]

123. The UK report is based on the Sustainability Reporting Guidance (SRG), issued by the HM Treasury. The SRG contains the statutory requirements for sustainability reporting aligned with the Greening Government Commitments (GGC), which are the actions of the UK government departments and their partners' organizations

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3) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118968/HMT_Annual_Report_and_Accounts_2021-22.pdf

4) Some of the minimum requirements regarding to non-financial information are i.) emissions as a result of combustion in boilers owned or controlled by the organization and fugitive emissions from equipment; ii.) energy consumed which is supplied by another party and purchased heat, steam and cooling; iii) emissions relating to official business travel directly paid for by an organization, etc. On the other side, some of the minimum requirements regarding to financial information are i) gross expenditure on the purchase of energy; ii) total expenditure on waste disposal, etc.

to reduce their impact on the environment. Some of the SRG requirements are consistent with domestic or international frameworks; for example, reduction in emissions requests are aligned with the Greenhouse Gas Protocol and the Guidance on calculating and estimating emissions. In 2020, the UK regulator and the Task Force on TCFD outlined a pathway to making disclosures in line with TCFD recommendations mandatory by 2025. However, the SRG also provides some sustainability reporting standards setters, as a reference for preparers, like GRI, International Organization for Standardization (ISO), UN Global Compact, Carbon Disclosure Project, CDSB, Integrated Reporting Council (IRC), and others.

124. The SRG is applicable to all central government bodies that fall within the scope of the GGC and which produce annual reports and accounts in accordance with HM Treasury's Government Financial Reporting Manual (FReM). The scope of the GGC includes a list of Departments, provided in its Annex A. The scope of the FReM includes all entities which are consolidated into the whole of government accounts, expect local governments and certain corporations, trusts, and clinical groups (FReM 1.2.1 and 1.2.2). According to the SRG, the scope of the sustainability reporting aims, in principle, to match the scope of financial reporting. However, when the scope is different (e.g., National Health Service bodies and schools fall outside the scope of GGC), then an analysis of information must be provided to allow reconciliations. Preparers outside the GGC's scope may choose to follow the guidance for their sustainability reporting either where there is alignment or where they have flexibility.

125. Neither GGC nor FReM make direct reference to the Preface of the IPSAS-CF. While GGC is primarily a government strategy document, not a reporting document, the FReM refers in paragraph 4.2.2 to the IFRS Conceptual Framework 2018 rather than to the IPSAS-CF. The IFRS Conceptual Framework does not contain any public characteristics or other deliberations specifically focusing on the public sector. Hence, it does not define the characteristics of public sector entities. Nevertheless, the selected reporting entity, central government, most likely is in line with the characteristics identified by the Preface of the IPSAS-CF.

3.3.2 New Zealand

126. In New Zealand, *The Climate economic and fiscal assessment*, published in 2023 by the Treasury and the Ministry of Environment[5], brings information on the economic and fiscal implications of climate change and the country's response to it. In particular, the report provides new analysis on potential fiscal costs of purchasing offshore mitigation to meet New Zealand's first commitment under the Paris Agreement. The report also helps decision-makers identify and manage the risks and opportunities of physical climate change and transition to a low-emissions and climate-resilient future.

127. The framework presented in the report relies on international frameworks, for example: i.) the framework for climate risk and opportunity identification developed by TCFD; ii.) the framework of the network for greening the financial system, which defines and promotes best practices to meet the goals of the Paris agreement and to enhance the role of the financial system on sustainability; iii.) the Framework of the UK's Office for Budget Responsibility, which examines and reports on the sustainability of the UK public finances; and iv.) the Framework of the Coalition of Finance Ministers for Climate Action, which leads the global climate response and secure a just transition towards low-carbon resilient development.

128. To develop the climate impacts, the report also draws on two existing New Zealand-specific wellbeing frameworks: i.) the Treasury's Living Standards Framework, which provides an understanding of the wellbeing drivers and considers the broader impacts of the policy advice in a systematic and evidenced way (New Zealand Treasury, 2023); and ii.) He Ara Waiora, a framework developed by Māori[6] thought leaders that helps the Treasury to understand waiora (a Māori perspective on wellbeing).

129. In general, the report summarizes the expected impacts from physical climate change and the transition to a low-emissions future on sectors, households, localities, regions, and the whole economy. It also identifies potential areas of fiscal pressure for revenue and expenses, related to climate-change and the

5) Available at https://www.treasury.govt.nz/sites/default/files/2023-04/cefa23.pdf.

6) Māori refers to the indigenous people of New Zealand and their language.

transition to low-emission future and explains how the New Zealand Emissions Trading Scheme affects the Crown's fiscal position and helps to fund the climate response. In this sense, the report takes a hybrid approach, including two different perspectives: a macro-level perspective when it is referring to the whole economy and a meso-level perspective when it is referring to the impacts on the Crown's fiscal position. The Crown is also the reporting entity for financial reporting.

130. For financial reporting, the standards applicable in New Zealand refer to public benefit entities, divided into public sector and not-for-profit. The Public Benefit Entities Conceptual Framework includes a preface, defining the characteristics. In the case of public sector public benefit entities, the characteristics are identical to the Preface of the IPSAS-CF, apart from some terminology adaptations (New Zealand Public Benefit Entities Conceptual Framework, Preface, para. 2-24). Climate related disclosure requirements are sector neutral and do not make any reference to the public sector characteristics. However, since the reporting entity is the same as for financial reporting, the characteristics are implicitly considered.

3.3.3 Switzerland

131. In Switzerland, the Federal Department of Finance publishes the *Report on the long-term sustainability of public finances in Switzerland* separate from its annual financial report (https://www.efd.admin.ch/dam/efd/en/finanzpolitik/langfristperspektiven/langfristperspektive-bericht-en.pdf.download.pdf/Langfristperspektive_2021_e.pdf). The 2021 version is the latest version of the report after publications in 2008, 2012, and 2018. In general, the report shows how progressive population ageing will affect the country's public finances up to 2050. To do so, it presents the implications of demographic trends and the need for economic policy action over the longer term. In addition, the latest version includes, for the first time, a qualitative assessment of climate change and its potential impact as the biggest long-term challenge for Swiss public finances.

132. Although not mentioned in the latest version, the report is implicitly prepared with some of the requirements of the IPSAS RPG 1, regarding reporting long-term fiscal sustainability. On demographic and economic development, the Swiss report includes the principles, assumptions, and methodology that underpin the projections and results. However, in the case of sustainability information, the report just provides qualitative assessment based on a comprehensive study

published by the ETH University related with the consequences of climate change for the Swiss economy. The Swiss report does not present values assigned to the impacts of climate change on public finances.

133. The report focuses on Switzerland's GGS, which includes the Confederation, social security funds, cantons, and municipalities. This complies with RPG 1.15, which offers using other reporting boundaries, explicitly mentioning the GGS as a possible alternative. The scope of the sustainability reporting differs from financial reporting. The sustainability report adopts an approach of a group of entities, however, based on the concept of a statistical sector of the economy.

3.4 Discussion and conclusions

134. As discussed in the theoretical analysis, the IPSASB did not focus on sustainability reporting when developing the Preface to the IPSAS-CF. There is some limited reference in the characteristics of the longevity and regulatory role. In the case of longevity, there is some reference to fiscal sustainability and in the regulatory role to environmental regulation. However, the wording remains very general and non-authoritative. the Preface to the IPSAS-CF provides a conceptual underpinning for GPFR, but not for sustainability reports which are outside GPFR. Therefore, the broad use of the term "sustainability reporting" by IPSASB, without referring to GPFR, is an area of concern. The experience, for instance, with ESG shows the risk of broad language, and the necessity to formulate authoritative guidance at standard level.

135. Considering the experience in the three selected countries, all three have chosen different approaches. While the UK accommodate sustainability related financial information in existing financial reports, New Zealand and Switzerland have chosen to publish a separate report. In case of the UK approach, financial reporting is under IFRS and therefore the IFRS Conceptual Framework applies. This framework does not include any discussion of the characteristics of public sector entities. Consequently, the characteristics defined in the Preface to the IPSAS-CF are also not considered for sustainability-related disclosures. Nevertheless, the scope of the reporting entity, which is the central government, implicitly considers the characteristics defined by IPSASB.

136. The New Zealand approach to sustainability reporting is a mixed or hybrid approach. While the report contains information on the reporting entity, which is identical to financial reporting and explicitly considers the characteristics, as defined by the Preface to the IPSAS-CF and adopted by the New Zealand Public Benefit Entities Conceptual Framework, it also presents sustainability-related information on the entire economy, which is clearly not a reporting entity with the characteristics described. This hybrid approach is also reflected in the climate-related reporting standards, which are sector neutral.

137. Switzerland is preparing the sustainability report based on IPSAS RPG 1. However, RPG 1.15 explicitly allows deviation from the reporting entity defined in the Preface and the IPSAS-CF and, in particular, encourages use of the statistical General Government Sector. As a matter of fact, Switzerland has followed this option offered by RPG 1 and presents sustainability-related information for the GGS, rather than for a reporting entity which has the characteristics set out in the Preface to the IPSAS-CF.

Chapter

Reporting entity for disclosure of sustainability related financial information

138. Like other reporting standards, such as the IFRS pronouncements, the GRI, or the CSRD, the scope and boundary of GPFR under IPSAS orientates on the concept of the so-called reporting entity. To assess the extent to which sustainability -related financial information disclosure practice is congruent to and can be informed by the concept and scope of the IPSAS reporting entity, this section first revisits the definition as included in the IPSAS-CF and discusses the underlying considerations. In a second step, it analyses experiences from selected countries which report sustainability-related financial information, regarding the reporting entity.

4.1 Key characteristics of the reporting entity

139. The reporting entity is the entity for which financial statements are prepared and presented to fulfill the objective of GPFR. As a concept it defines the scope and boundary of GPFR and of the application of IPSAS. Following the IPSAS-CF a reporting entity can be a single entity or a group of entities that (i.) raises or uses resources from, on behalf of, or for the benefit of constituents; and (ii.) on whose information service recipients or resource providers are dependent for accountability or decision-making purposes (see IPSAS-CF para. 4.3).

140. This fundamental characterization suggests that reporting entities either are involved in raising resources from constituents,[7)] such as taxes or debt,[8)] or in deploying resources for the provision of public goods and/or the delivery of public services to beneficiary constituents. In addition, there must be a user need for financial information, which stems from the existence of service recipients or a

7) The IPSAS-CF explicitly speaks of constituents, which could be both individuals and entities. But the concept is by no means tied to citizenship or nationality. For example, residents with foreign citizenship or legal entities are also subject to taxation and could therefore also be resource providers.

8) Other examples for resources that are raised from or on behalf of constituents are custom duties and fees.

resource provider and their dependence on information. Recipients of goods or services and taxpayers, for example, don't have direct access to information on government spending and resource deployment, which is why they rely on financial reporting. However, since the preparation of GPFR induces reporting costs, financial reporting requirements should only be imposed on entities for which a (potential) user of financial information exists (see: IPSAS-CF para. 4.8).[9]

141. The IPSAS-CF (para. 4.10) recognizes that identifying and determining reporting entities based on the two above-mentioned cumulative requirements of raising or using resources of or for constituents and presence of a user need for GPFR is not always simple. It might also, in certain cases, be useful or even necessary to report on the activities of individual government departments, agencies, programs, or activities separately and to designate them as reporting entities. Therefore, the IPSAS-CF highlights that there are additional considerations that can signal the existence of users and that indicate the usefulness of preparing GPFRs. For example, sometimes reporting entities are established following the prevailing organizational context and through legal or administrative means.

142. Finding the adequate scope in terms of size and hierarchical level of reporting entities within an organization thus can require professional judgment and orientate on the legislative and regulatory framework. A reporting entity can, but does not have to, possess a separate legal identity (IPSAS-CF para. 4.11). Other than jurisdictional factors, liabilities as well as the economic and social impact should be considered. According to the IPSAS-CF (para. 4.7), the greater the resources an entity raises or deploys, the liabilities it incurs, and the economic and social impact of its activities, the more likely is the existence of a user need of financial information.

143. The above-discussed considerations for determining the reporting entity under IPSAS are summarized in **Table 2** below. They do not include any specific deliberations on sustainability reporting.

9) This consideration notably links also to the pervasive constraints of financial reporting that are highlighted in the IPSAS-CF and in which cost-benefit considerations are explicitly mentioned (para. 3.35-40).

Table 2: Considerations for determining the reporting entity

	Considerations	Indications	IPSAS-CF para.
Key characteristics (cumulative requirements)	Constituents' resources and/or benefit	Raising resources from or on behalf of constituents; or Use of resources for the benefit of or on behalf of constituents.	4.3
	User need	Existence of service recipients and/or resource providers; and Dependence on information for accountability and decision-making purposes.	4.3
Additional considerations (non-mandatory, non-cumulative and mutually nonexclusive)	Jurisdictional factors	Legislative and regulatory framework; institutional and administrative arrangements; Legal identity of the entity	4.11 / BC4.7
	Responsibilities and capacities	Significance of resources and liabilities, and economic and social impact	4.7

4.2 Review of IPSASB's Basis for Conclusions and discussions

144. To provide a holistic view on the underlying rationale of the IPSAS reporting entity concept, it is important to understand how the IPSAS Board reached its conclusions. The following paragraphs reconstruct the development of the IPSAS reporting entity concept based on the BCs that accompany the IPSAS-CF and the IPSASB's documentation of its discussions.

145. Following the IPSASB's documentation of the IPSAS-CF project history and its Board discussions (IPSASB, 2014), the initial deliberations on the reporting entity concept focused on the basis for determining the boundary. It was explored whether the reporting entity should be determined based on control or accountability. It was, however, soon clarified that the key characteristic of a reporting entity should be the existence of users that rely on GPFRs for accountability or decision-making purposes. The control aspect, however, was in the first place considered to inform the determination of the boundary of a group reporting entity.

146. It is highlighted in the project history that the group reporting entity shall consider all entities over which it "*has the power to direct the strategic financing and operating policies and, as a consequence, has access to, and can increase,*

maintain or protect, benefits from those entities or is exposed to a financial burden or loss by the other entities." (p. 26). This consideration is close to the current definition of the scope of consolidated financial statements following IPSAS 35. However, as described in BC4.9 and BC4.10, the scope of reporting entities was sufficiently defined based on the user-centric guiding principles and that the inclusion of other public sector entities into a (whole) public sector reporting entity should be resolved at the standards level. Neither the project history, nor the BC show any specific reference to sustainability reporting.

147. At standard level, the entity preparing and presenting consolidated financial statements following IPSAS 35 is the *economic entity*. It consists of the controlling entity and the entities over which the controlling entity has the power to direct activities and from which it benefits from its involvement (cf. IPSAS 35.18 et seq.). While a reporting entity can also consist of more than one entity and be a group reporting entity (IPSAS-CF para. 4.2), the scope of the economic entity, which prepares consolidated financial statements is defined differently.

148. Table 3 summarizes the distinction between the reporting entity and the economic entity. The concept of the economic entity is not to be confused with the concept of a group reporting entity, which is just a reporting entity consisting of "*two or more separate entities that present GPFRs as if they are a single entity*" IPSAS-CF (para. 4.2).

Table 3: Distinction of the reporting entity and the economic entity

	Reporting entity	Economic entity
Defining criteria	Raising or using resources of or for constituents and presence of a user need (i.e., accountability and/or decision-making)	Control: Presence of power to direct activities; exposure or rights to benefits from involvement with the other entity; and ability to use the power to affect the nature or amount of the benefits (see IPSAS 35 para. 20).
Entity scope	A single entity (e.g., individual government departments, agencies, programs, or identifiable activities) or a group of entities.	Controlling entity and any controlled entities (see IPSAS 35 para. 16)
Reporting duties	GPFR	Consolidated financial statements

149. Already in the development process of the IPSAS-CF, the IPSASB recognized that defining the scope and boundary of individual reporting entities might be challenging. This is strongly emphasized by the IPSASB, and the BCs reiterate that the concept is not rigid and depends on the institutional context and that in practice the reporting entity is also determined by legislation, regulation, and/or the allocation of authorities (BC4.3). In addition, the IPSAS-CF's accompanying BCs emphasize that a user-centric approach to the definition of the reporting entity is taken whose focus lies on establishing accountability and supporting decision-making. This is manifested in BC4.1 and 4.2, which reiterate the basic notions of the IPSAS-CF but specify the contents of GPFR. This of course links to chapter 2 and 8 of the IPSAS-CF that specify the objectives and users of and the presentation in GPFR, respectively.

150. However, it becomes apparent that reporting entities are not only supposed to disclose financial but also nonfinancial information that "enhances or supplements" financial statements (BC4.2). As discussed in section 2.4 of this note, reporting on the impact of climate change on public finances and the continuity of government activities or the impact of government activities on climate, had been considered by IPSASB as possible supplement of GPFR already when the IPSAS-CF was first developed, but stepped up in priority as recently as the IPSAS updated RPG 1 and 3 in 2023.

151. Beyond the guidance provided in the IPSAS-CF for determining the reporting entity and in reference to IPSAS 18 (segment reporting), BC4.7 explicitly highlights that information needs can alternatively also be satisfied with the presentation of segment information. The practice of presenting information on a '*distinguishable activity or group of activities of an entity*' is generally used when users need separate information to evaluate an entity's performance or make decisions about the resource allocation (IPSAS 18.9). Hence segment reporting can be considered as a complement to the financial reporting of single entities, which counteracts the information loss that is inherent when aggregate information for an entity or group of entities is presented.

4.3 International experience

152. The following paragraphs consider further the early experiences of the selected countries in disclosing sustainability-related financial information. Other than providing descriptive summaries of the different approaches, the ambition is to compare the practices with the IPSAS reporting entity concept to identify whether it needs recalibration when used in the context of sustainability reporting. The comparison is also to highlight that the experiences with disclosing sustainability-related financial information are still limited in geographical scope and in substance, and that the following information only provides a temporal snapshot. Table 4 summarizes the sustainability-related financial reporting practices of United Kingdom, New Zealand, and Switzerland.

Table 4: Summary comparison of practices in disclosure of sustainability-related financial information

	United Kingdom	New Zealand	Switzerland
Primary device for disclosure of sustainability-related financial information	*"Annual Report and Accounts – Chapter 6 Sustainability report"*	*"Climate Economic and Fiscal Assessment"*	*"Report on the long-term sustainability of public finances in Switzerland"*
Issuing organization(s)	HM Treasury	The Treasury and the Ministry for the Environment	Federal Department of Finance
Rationale of report	Public sector performance on sustainability	Future economic and fiscal implications of climate change	Financial sustainability of government
Basis of the report	Sustainability Reporting Guidance issued by the HM Treasury	Existing international and domestic frameworks, such as TCFD, LSF and *"He Ara Waiora"*	Implicitly IPSAS RPG 1
Scope of the report	Performance in relation to GGC and demonstration of how sustainability is an essential feature within strategic objectives, operations, and policy development of organizations	Identification of fiscal impacts per budgetary area (government expenditure and revenue), across sectors and society. Quantification of fiscal costs through the estimation of the potential cost of purchasing offshore mitigation	Assessment of general climate change related risks and their long-term effects on public finances (non-quantified) Identification of budgetary areas (both income and expenditures) that are likely to be affected

	United Kingdom	New Zealand	Switzerland
Entity scope	Central government	Central government	General government sector (Confederation, Cantons, Municipalities, and social insurance fund)

4.3.1 United Kingdom

153. As discussed in section 3.3.1, in the UK, the primary device for disclosure of sustainability-related financial information is the *Annual report and accounts*, which is published by HM Treasury. For a more detailed description of the sustainability-related financial information, please refer to this section.

154. The UK report is based on the SRG, issued by HM Treasury. The SRG contains the statutory requirements for sustainability reporting aligned with the GGC. The SRG is applicable to all central government bodies that fall within the scope of the GGC, and which produce annual reports and accounts in accordance with HM Treasury's FReM. A more detailed description of the relevant regulation can be found in the previous chapter.

155. The UK report adopts a reporting entity approach as a group of entities. Since the GGC and FReM explicitly define the group of entities, the reporting entity is established following prevailing organizational local context and legal or administrative means. However, the scope of the sustainability reporting differs to the scope of financial reporting. Furthermore, the UK also has a reporting entity approach as a single entity for those organizations which are not included in the GGC's scope and those who want to prepare individual sustainability reports separately from the *Annual report and accounts* published by the Treasury. Both cases (group of entities or a single entity) meet the requirements of the IPSAS reporting entity.

4.3.2 New Zealand

156. As discussed in section 3.3.2, in New Zealand, *The Climate economic and fiscal assessment*, published in 2023 by the Treasury and the Ministry of Environment, brings information on the economic and fiscal implications of climate change and the country's response to it.

157. The New Zealand report, as explained in the previous chapter, summarizes the expected impacts from physical climate change and the transition to a low-emissions future on sectors, households, localities, regions, and the whole economy, but it also identifies potential areas of fiscal pressure. In this sense, the report may be seen from two perspectives: a macro-level perspective when it is referring to the whole economy and a meso-level perspective when it is referring to the impacts on the Crown´s fiscal position. It is therefore a mixed or hybrid approach.

158. Regarding the fiscal situation, New Zealand adopts an approach of the reporting entity as a group of entities: those included under the name of the Crown (meso-level perspective). According to the 2022 financial statements of the government, the core Crown entities include the ministers of the Crown, government departments, offices of parliament, the Reserve Bank of New Zealand and the New Zealand Superannuation Fund, but exclude state-owned enterprises, Crown entities, Air New Zealand Limited, Christchurch Cathedral Reinstatement Trust, Kiwi Group Holdings Limited, Venture Capital Fund, etc. This is the central government sector. Hence, the reporting entity is also established following prevailing organizational context and legal or administrative means, which fully meet the requirements of the IPSAS reporting entity.

4.3.3 Switzerland

159. In Switzerland, the Federal Department of Finance publishes the *Report on the long-term sustainability of public finances in Switzerland* separate from its annual financial report, as was discussed in section 3.3.3. The report is implicitly prepared with some of the requirements of the IPSAS Recommended Practice Guidelines (RPG) 1 regarding reporting long-term fiscal sustainability.

160. The report therefore focuses on the Switzerland's GGS, which includes the Confederation, social security funds, cantons, and municipalities. It should be noted that RPG 1.15 offers using other reporting boundaries, explicitly mentioning the GGS as a possible alternative. The scope of the sustainability reporting differs from the scope of State Financial Statements (central government) and Consolidated Financial Statements (central government consolidating controlled entities, such as state-owned enterprises). The reporting entity of both financial statements is the same, but the economic entity is different. The sustainability

report adopts an approach of a group of entities, however, based on the concept of a statistical sector.

161. The GGS is not, however, a reporting entity in accordance with the IPSAS-CF. There is no common responsibility in Switzerland for raising or using resources of or for constituents between the Confederation, cantons, and municipalities. The way resources are raised and used at the central level is independent of the way resources are raised and used in each canton and municipality. Each level of government has its own legal framework, policies, procedures, and tools to do so. Therefore, the Confederation, each canton, and each municipality are responsible for their own operations and there is no shared responsibility at the general government level for information for accountability or decision-making purposes. Hence, the GGS is not a reporting entity, as defined in the IPSAS-CF.

4.4 Discussion and conclusions

162. The theoretical analysis shows a very clear focus of the definition of a reporting entity on raising resources from its constituents or providing services to beneficiary constituents, and therefore creating user needs of information for accountability or decision-making purposes. The IPSASB did discuss this in the context of GPFR, but not explicitly in the context of sustainability reporting. GPFR may include financial reports addressing sustainability, but there might also be sustainability reports outside the scope of GPFR. Hence, it is important to respect the scope of GPFR when applying the definition of the reporting entity, according to the IPSAS-CF.

163. The three selected countries, whose current practices in disclosing sustainability -related financial information are discussed above, have chosen different approaches. While the UK accommodates sustainability related financial information in existing reporting instruments, New Zealand and Switzerland have chosen to publish a separate report. Reporting practices for sustainability related financial information differ not only regarding the instrument (annual report vs. separate report), but also in terms of the underlying rationale, preparation basis, and scope of information presented.

164. While the UK reports the impact on climate, New Zealand and Switzerland discuss how public finances are affected by climate change. New Zealand provides

modelling simulations on potential fiscal costs, while Switzerland presents a qualitative assessment based on a previous study. Regarding the entity scope of sustainability related financial information disclosure, the three country cases also differ. Switzerland reports information for the GGS, i.e., local, subnational (cantonal) national government, as well as social security funds. New Zealand's and the UK's reporting is limited to the central government at national level. However, in all three cases the information is reported following the group reporting entity concept. The group reporting entity in New Zealand and the UK meets the defining criteria following the IPSAS-CF, but this is not the case of the Swiss group reporting. In Switzerland, there is no common responsibility between all entities that form the group reporting entity, i.e., the GGS, to raise or use resources from constituents or to their benefit.

165. The question is whether the presentation of sustainability related financial information on the aggregate level of the group reporting entity is sufficient for users. Considering that reporting induces costs and based on efficiency considerations, one could argue that the current group reporting entity approach to disclosing sustainability related financial information is adequate. However, following the IPSAS-CF and as discussed in section 4.1, aggregate information might not be enough, and it possibly needs to be broken down to the individual entity (department or agency) or even activity level. From an accountability perspective, information related to negative externalities of government actions, such as CO_2 emissions, require context knowledge and need to be prepared on the level of the entity that is responsible for the actions. Additional considerations like capacities and responsibilities are equally important in defining the reporting entity for the disclosure of sustainability related financial information.

166. Hence, the questions to what extent a given entity, area, activity, or program is responsible for negative externalities and/or has the capacity to avoid, mitigate, or compensate it, could serve well in defining the reporting entity for sustainability related financial information. On the other hand, from a decision-making perspective, there is a growing demand for higher quality, consistent, comparable, and granular sustainability related financial information (the World Bank, 2022). Investors also require context knowledge and disaggregated information to assess risks and opportunities on specific government areas or activities of their interests. In this sense, the question of what entity or what level of disaggregation of a government specific area, activity, or program is relevant for the investors interests

could also serve well in defining the reporting entity for sustainability related financial information.

167. Finally, based on the analyzed cases, two challenges regarding the reporting entity are observed in the disclosure of sustainability-related financial information. The first challenge relates to the difference in the scope of the group of entities in the selected countries, even when they have adopted the same approach of the reporting entity (group of entities). While the UK and New Zealand reporting focuses on the central government sector, the Swiss report refers to the GGS, which is why the Swiss report is not comparable with the other two examples. Hence, when the information is analyzed between different reporting entities for the same reporting period, limitations are presented for decision-making purposes. According to the IPSAS-CF, the usefulness of information is enhanced if it can be compared[10] with similar information about other entities for the same reporting period.

168. The second challenge regarding the reporting entity refers to the difference between the scope of the financial statements and the scope of sustainability-related financial information. For instance, the UK excludes certain entities from sustainability reporting, although they are included in the financial statements. In Switzerland, it is the opposite, since some entities are included in the sustainability report, which are not included in the financial statements. Hence, an analysis of information must be provided to allow reconciliation, increasing the efforts in the organizational areas of reporting and users.

169. Bottom line, the theoretical analysis and at least two of the three country cases demonstrate the applicability of the concept of reporting entity developed by the IPSAS-CF to GPFR presenting sustainability information. However, the country cases show that there are challenges to implement the concept in practice and that this may result in difficulties to compare the information presented and thus its usefulness. As the experience with ESG shows, such ambiguity may undermine reputation in the long run.

10) Comparability is a qualitative characteristic of information included in GPFR. The qualitative characteristics of information included in GPFR are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting (IPSAS-CF para. 3.1).

Chapter

International experience, recommendations and policy implications, and further research

5.1 International experience

170. Since sustainable development and, in particular, the measures against climate change have only recently become more binding in nature, it is not surprising that the consequential development of sustainability reporting is not as mature as financial reporting, which has decades, if not centuries, of history behind it. Large corporations are clearly more advanced than the public sector, which only jumped on this already moving train in 2020. Hence, both IPSASB, as well as this technical note concludes that the only source the public sector can learn from is the private sector and, even then, only with caution due to the private sector's still limited experience and strong investor focus.

171. The research about the reporting entity shows that the conceptual basis in the IPSAS-CF has not been developed with sustainability reporting in mind. However, it was developed with a focus on broader GPFR and therefore should be adequate for sustainability reporting also. Nevertheless, there are aspects, namely in respect of the regulatory role of the Paris Agreement that need to be examined carefully because they may affect the definition of the reporting entity for sustainability reporting purposes. This specific role governments play in the Paris Agreement also influences the stakes of relevant stakeholders.

172. The three jurisdictional cases examined also show that, despite a similar conceptual basis, the reporting entity may be defined in a hugely different ways, which makes the reports difficult, if not impossible, to compare. This fact demonstrates the need to redefine the reporting entity at a standard level. The most elaborate case is New Zealand's, which used the same reporting entity for financial reporting but addresses the demand from the various stakeholders with a hybrid approach, presenting both the information about the entity itself and the entire economy.

5.2 Recommendations and policy implications

173. The final objective of this technical note is to give recommendations for the development of sustainability reporting guidance. Given the nature of some of the recommendations, they might be of particular interest for the IPSASB, which has recently started the development of a standard on the disclosure of sustainability-related information. As the example of the regulation in the European Union or in New Zealand shows, jurisdictions may not always wait for pronouncements by international standard setters but set their own standards or impose their own regulation. Such policy implications must be considered in every jurisdiction, even if at the end the decision is taken to wait for international standards.

174. The following recommendations are ordered based on the structure of this technical note, rather than based on priorities. The numbering therefore does not imply any preference or weighting. The recommendations should be considered as a whole; readers should attribute the same relevancy to all of them.

175. Recommendation 1. **SDGs**: The SDGs are an important reference framework for sustainability-related financial information. They not only represent a comprehensive approach to sustainability, but they have also been developed by the UN, involving all the Member States represented in the General Assembly. Therefore, they are the logical reference point for future pronouncements by the IPSAS in this area. In the area of climate change, they are supplemented by the Paris Agreement, which is binding for all jurisdictions which ratified it.

176. Recommendation 2. **Broad definition of stakeholders**: The GRI, and to some extent also the CSRD, are based on a broad definition of the stakeholders, while the TCFD and IFRS focus on financial investors. Based on the IPSASB consultation results and also on the IPSAS-CF, future pronouncements by the IPSASB on sustainability-related financial information should apply a broad definition of the stakeholders.

177. Recommendation 3. **Materiality**: Because of the broad concept of stakeholders, materiality should follow the principle of double materiality. However, the concept of undertaking, as it is applied by the EU (which is further broadening the principle of double materiality), should be applied only with caution, given the special role governments play in the value chains. The principle of materiality

should be examined more closely in one of the following knowledge products to be jointly developed by KIPF and the World Bank.

178. Recommendation 4. **Revisit IPSAS-CF despite focus on GPFR**: The theoretical analysis of the IPSAS-CF and its Preface show that sustainability reporting was not the focus of IPSASB at the time when the characteristics of public sector entities and the definition of the reporting entity were developed. There is some limited mention of sustainability in the characteristics of longevity and the regulatory role, but rather in the sense of fiscal sustainability and environmental regulation. However, both were developed considering broader GPFR, which may include financial disclosure about sustainability, however, excludes sustainability reports outside the scope of GPFR. Therefore, it is recommended that the IPSAS-CF and its preface be revisited and that its relationship with sustainability reporting be clarified.

179. Recommendation 5. **Develop reporting entity requirements at the standards level**: All three country cases examined are based on IFRS or IPSAS frameworks, but different interpretations lead to relevant differences in the disclosure of sustainability related information, which reduces the comparability of the information presented. Due to their conceptual and non-authoritative nature, the IPSAS-CF and its Preface use general language, not defining specific reporting requirements. However, in the interest of comparability, it is strongly recommended to develop such specific requirements at the standards level.

180. Recommendation 6. **Some characteristics of the public sector entities should be revisited.** While the volume of non-exchange transactions and the longevity are very important in the context of sustainability-related disclosure, arguably most clarification is required in respect of the regulatory role. The regulatory role requires reporting entities, as defined in the IPSAS-CF, not only to report on the entity's sustainability, but also on the entire jurisdiction. Such reporting requirements at jurisdictional rather than entity level are defined in the Paris Agreement as well as the SDGs. Therefore, the relationship between jurisdictional and entity reporting requirement should be elaborated in the IPSAS-CF.

181. Recommendation 7. **Consider a hybrid approach to address stakeholder needs**: The IPSAS-CF defines the reporting entity in function of the cumulative requirements of raising or using resources of or for constituents and presence of a user need for GPFRs. At individual entity level, the user needs are more focused

on the sustainability about the reporting entity. However, at group entity level, a hybrid approach including information about the reporting entity as well as the entire jurisdiction may be more appropriate. Governments, unlike private sector corporations, are accountable for their own sustainability and that of their entire jurisdiction. Therefore, the IPSAS-CF should consider reporting sustainability related information at the entity level and, in the case of group entities, also at jurisdictional level.

182. Recommendation 8. **Review RPG 1**: RPG 1 should also be reviewed, since it is not necessarily in compliance with the IPSAS-CF. This is particularly the case if the information is reported about the GGS, which in some jurisdictions neither complies with the definition of a reporting entity nor coincides with jurisdiction responsible for the reporting on the Paris Agreement and the SDGs. The hybrid approach proposed in the previous recommendation might more adequately address the user needs, at least in case of reports related to the Paris Agreement and the SDGs.

183. As mentioned above, each of the recommendations may have policy implications at jurisdictional level. Whether such policy implications emerge depends on the maturity of the regulation and regulatory strategy in each jurisdiction. An advanced jurisdiction may consider the recommendations when reviewing the previously enacted regulation; less advanced jurisdictions may see some policy implications for future regulation. Since some of the recommendations were developed based on the international cases analyzed throughout the technical note, they have already been adopted by some of the sample jurisdictions but not by others. However, globally, the topic of sustainability-related disclosures in GPFR is still very much in flow and therefore the recommendations may prove to be useful at least in one case or the other.

5.3 Further research

184. Since the collaboration between the World Bank and KIPF on sustainability reporting is ongoing, it is also relevant to build a thorough list of potential issues that could be addressed in this collaboration.

185. The most challenging technical issue, also discussed widely in the private sector, is materiality. There is a clear tendency towards adopting a double materiality

approach, i.e., outside-in and inside-out, but there is less consensus about the concept of undertakings, which is proposed in the CSRD. However, there is little discussion about the implications of the principle of materiality in the public sector, let alone the concept of undertakings used by CSRD, which might be even more difficult to implement in the public sector.

186. To properly address the principle of materiality, preliminary research about the stakeholders is needed. This also has implications on the governance arrangements required for setting up sustainability reporting in the public sector, e.g., standard setting mechanisms, roles, and responsibilities.

187. Another area of research is the connectivity between financial and non-financial reporting. While there is some consensus that sustainability reporting has some space within GPFR, which also includes non-financial reporting, the relationship between the two should be clarified.

188. Finally, at jurisdictional level, it would be helpful to development a generic reform strategy and roadmap. Most jurisdictions have limited experience in implementing sustainability reporting but are increasingly confronted with requests to do so. This roadmap should also consider how smaller entities, including subnational levels of government, can address the challenges providing sustainability related information as part of their GPFR.

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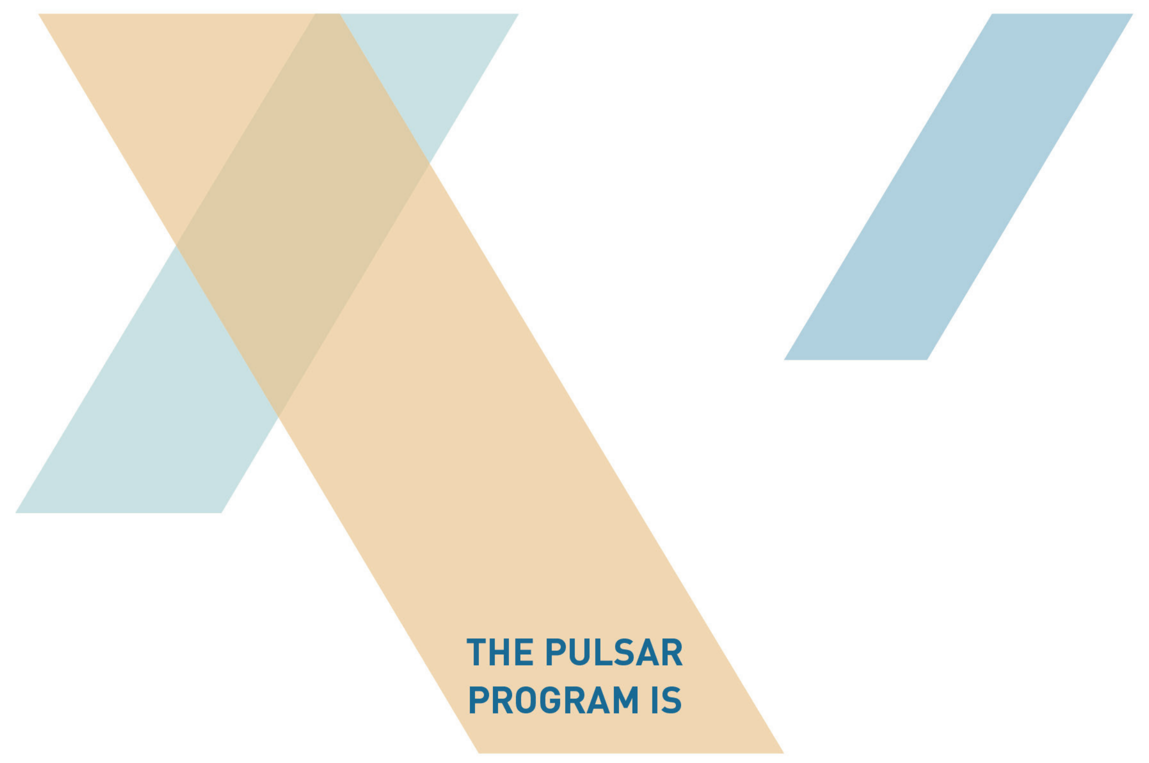

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