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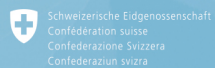
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Development of sustainability related financial reporting standards

The Reporting entity and its characteristics as a key issue

Dmitri Gourfinkel, World Bank Group

dgougrfinkel@worldbank.org

Sung-Jin Park, KIPF

sjpark2@kipf.re.kr

Prof. Dr. Andreas Bergmann, ZHAW
Durlandy Cubillos, ZHAW

andreas.bergmann@zhaw.ch
durlandy.cubillos@zhaw.ch

Development of sustainability related financial reporting standards

Agenda

1. Development at international level



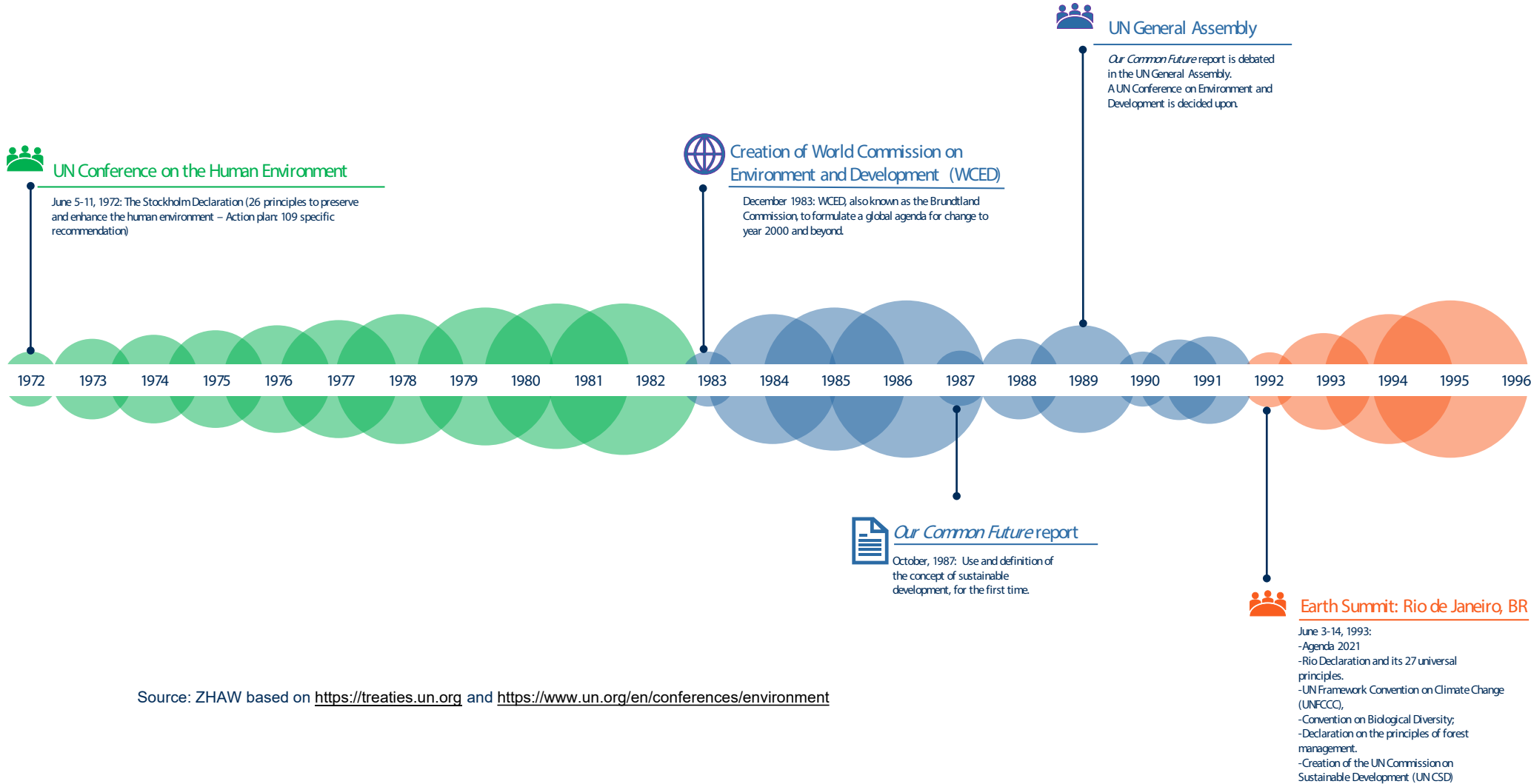
2. Reporting entity and its characteristics as a key issue



Development at international level

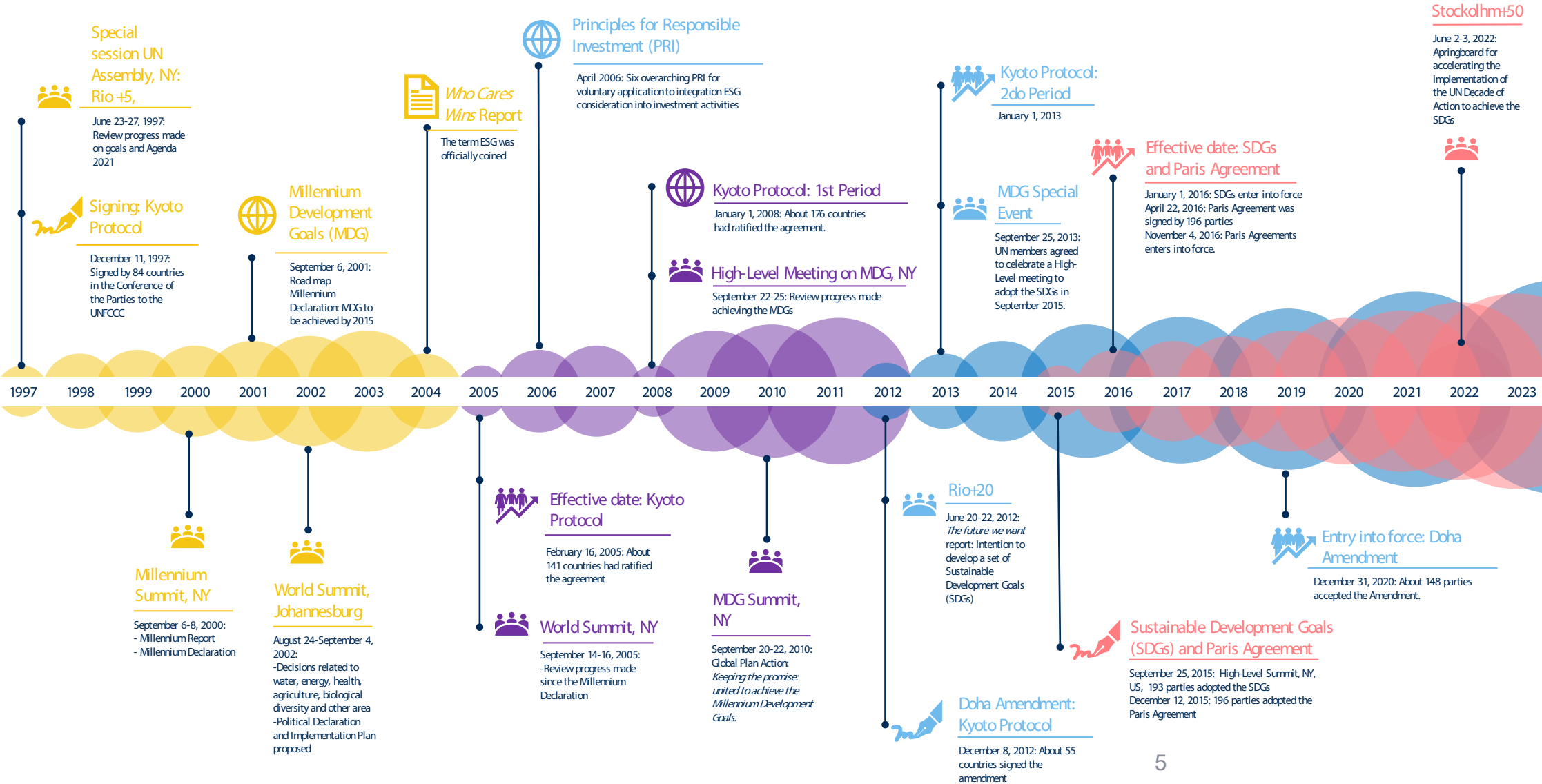


Background Sustainable Development and SDG (1972-1996)



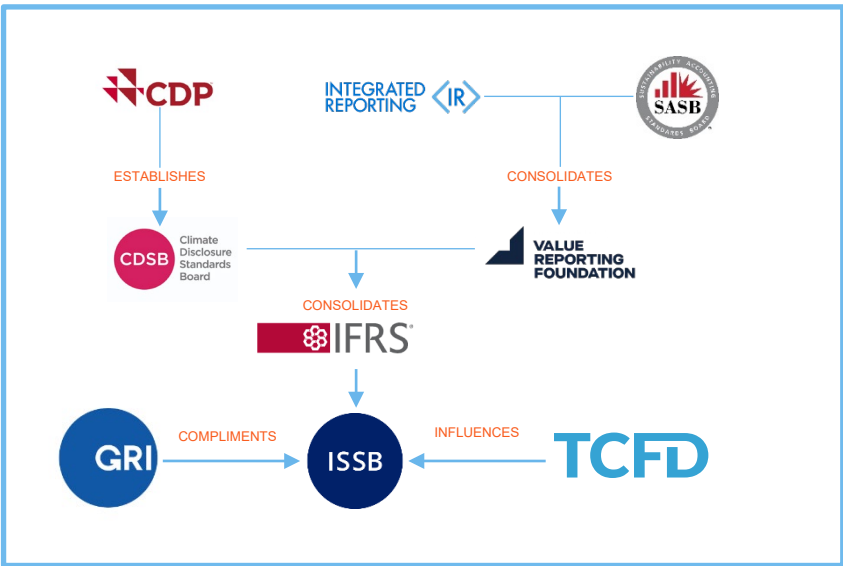
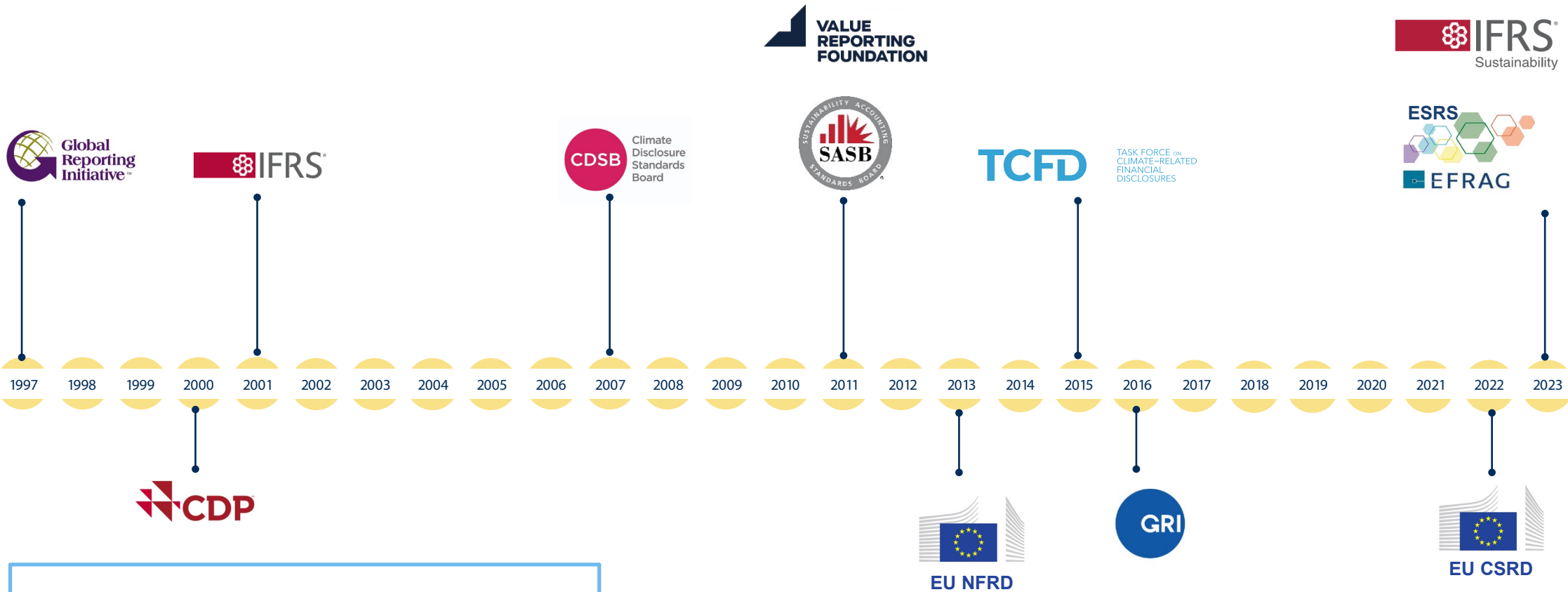
Source: ZHAW based on <https://treaties.un.org> and <https://www.un.org/en/conferences/environment>

Background Sustainable Development and SDG (1997-2023)



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

Evolution to ESG disclosure standards



Development at international level

Background

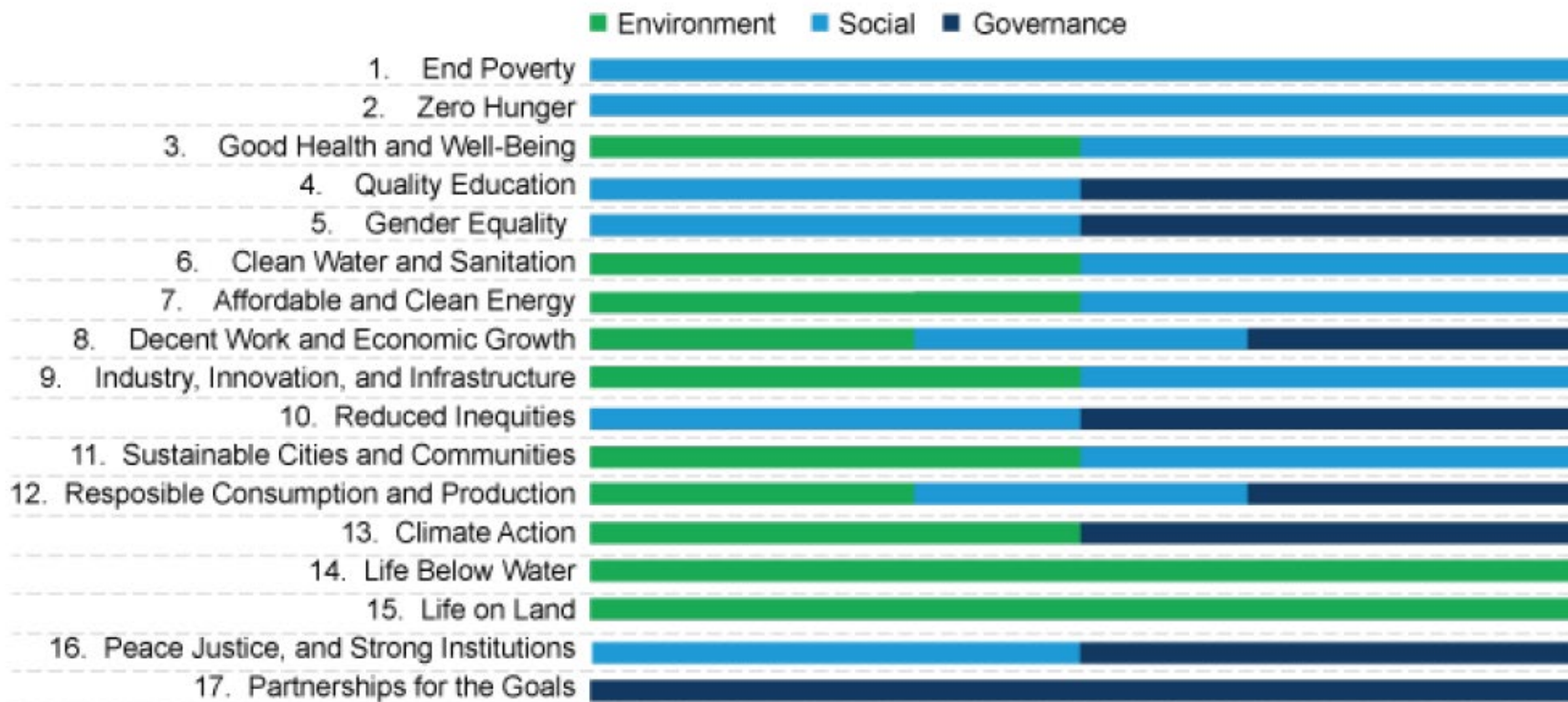


Source : : <https://sdgs.un.org/goals> [downloaded 29.05.2023]

Development at international level

Background

Public and private sector entities should adapt their policies and operational terms to address ESG (Environment, Social, and Governance) factors implied by the SDGs.



Development at international level

Background

*Task Force on Climate-related Financial Disclosures –
Financial Stability Board (FSB)*

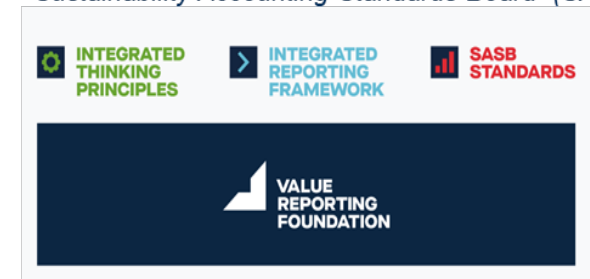


CDSB Framework - Climate Disclosure Standards Board (CDSB)



Source: <https://www.cdsb.net/> [downloaded 29.05.2023]

*Value Reporting Foundation -
(Before International Integrated Reporting Council (IIRC) y
Sustainability Accounting Standards Board (SASB))*



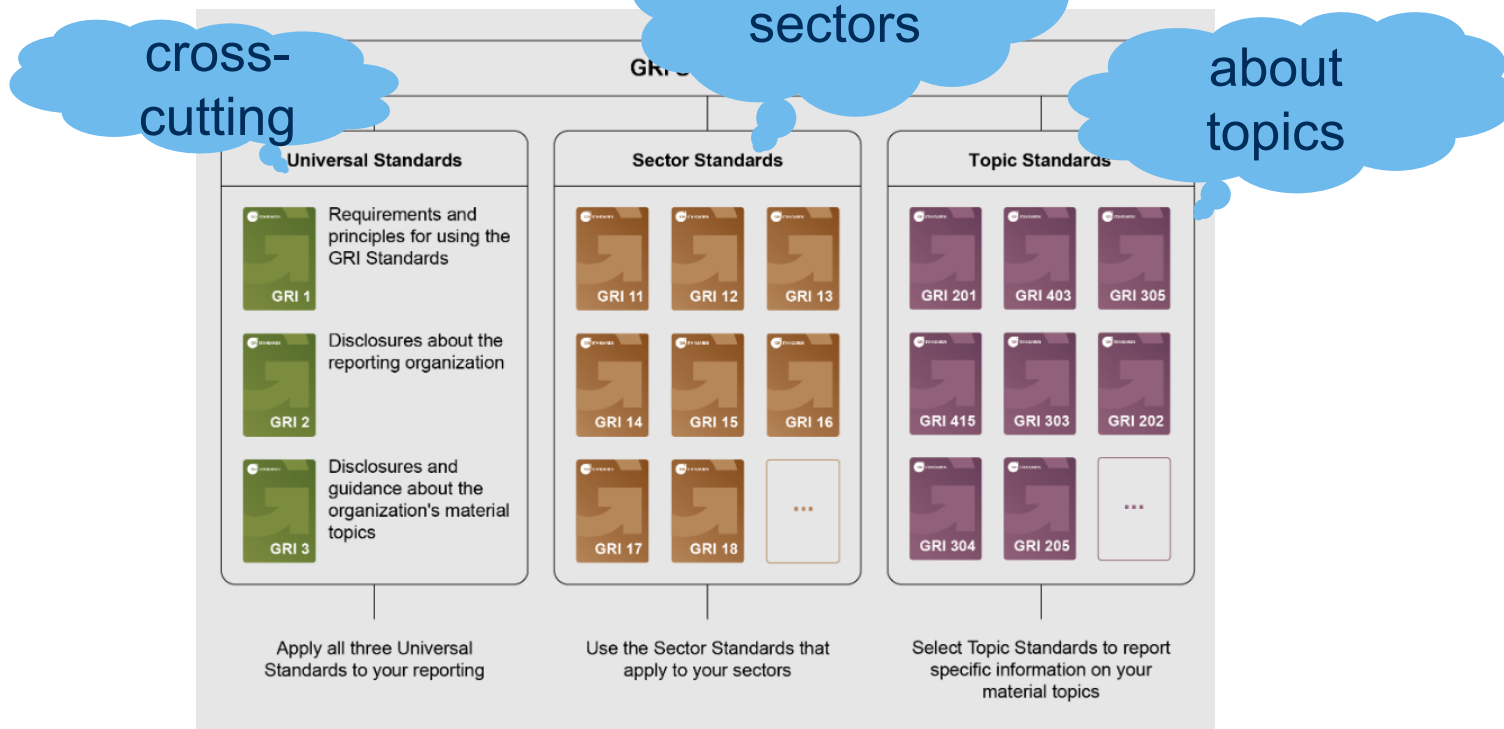
Source: <https://www.valuereportingfoundation.org/> [downloaded 29.05.2023]

Development at international level

Background

In the private sector, there are a variety of frameworks for disclosing ESG and climate information to different users, for example:

Global Reporting Initiative (GRI)



Source: <https://www.globalreporting.org/> [downloaded 29.05.2023]

Development at international level

Background

Consolidation of standards in the private sector

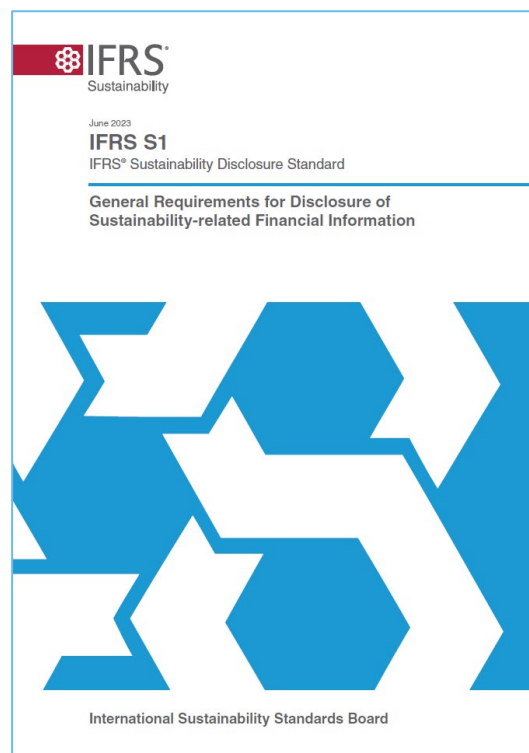
- The IFRS Foundation announces the creation of the International Sustainability Standards Board (ISSB) during the United Nations Climate Change Conference (COP26) in Glasgow (Scotland) in November 2021.
- The made the decision to consolidate the VRF and CDSB in June 2022 (achieved on 1 August 2022)
- But they will not consolidate the GRI, because of its wide use and broader stakeholder concept.



Development at international level

The ISSB's mission is to develop standards that will result in a comprehensive and high-quality global foundation of sustainability information focused on the needs of investors and financial markets.

In June 2023 it issued the first two standards S1 and S2.



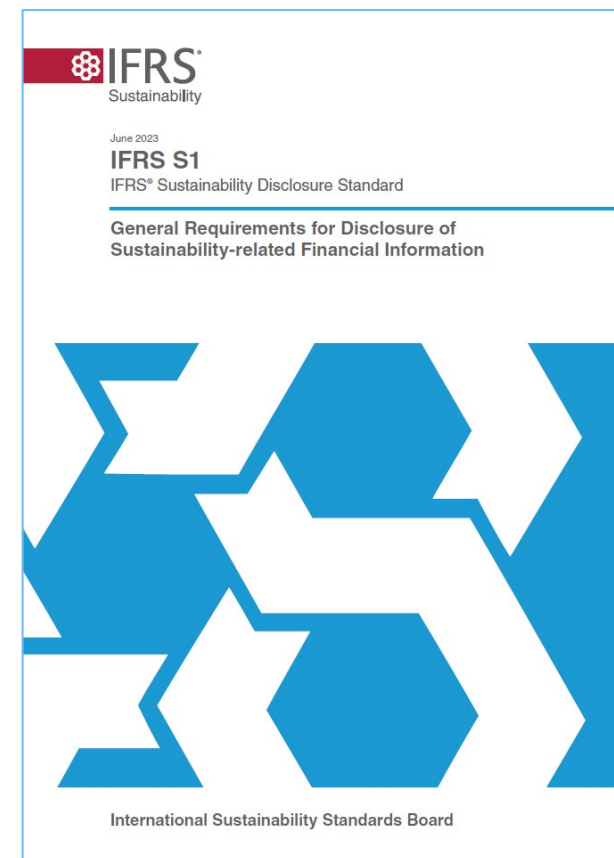
With single materiality, i.e., effects on the entity

Development at international level

IFRS S1

General Requirements for the Disclosure of sustainability-related Financial Information

- Objective: To disclose information on sustainability-related risks and opportunities to users in order to assess the value of companies and decide to resource it.
- Scope: Information on sustainability-related risks and opportunities.
- Reporting entity: Same as the Financial Statements.
- Core content: Disclosures on governance, strategy, risk management; and metrics and targets.



Development at international level

IFRS S2

Climate-related disclosures

- Objective: To disclose information on climate-related risks and opportunities to users in order to assess the value of businesses and decide to provide resources to it.
- Scope: Information on climate-related risks and opportunities.
 - Physical risks
 - Transactional risks
 - Opportunities
- Core content: Climate-related disclosures, climate, governances, strategy, risk management; and metrics and targets.



Development at international level

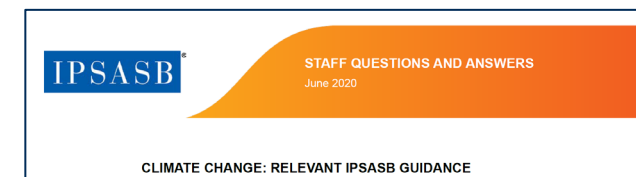
European Union: New Directive on Corporate Sustainability Reporting (CSRD)

- Applies to listed and unlisted companies if they reach a certain size
- Strong focus on **double-materiality**, hence, does not follow IFRS.
 - Introduces the concept of "undertakings", which include the entire value chain (?)
 - "Undertakings" does not translate well into other languages
- July 2023: Endorsement of the first 12 **European Sustainability Reporting Standards (ESRS)**



Development at international level

First steps of the IPSASB in June 2020: Questions and answers from the team



- To discuss the relevance of RPG 3 Reporting on performance of services with respect to climate change and the UN Sustainable Development Goals (SDGs)
- Also relevant are RPG 1 Reporting on the long-term sustainability of an entity's finances and RPG 2 Commentary on Financial Statements.
- The topic may have implications for the application of IPSAS 1 Presentation of Financial Statements, IPSAS 17 Property, Plant and Equipment, IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets, IPSAS 21 Impairment of Non-Cash Generating Assets, IPSAS 26 Impairment of Cash Generating Assets, IPSAS 29/41 Financial Instruments.

Development at international level

May 2022: Consultation by the IPSASB

- Pressure from the WB's "Sovereign Climate and Nature Reporting" report
 - Proposing that the IPSASB issue standards on sustainability and climate disclosures
 - With focus on "General Disclosure Requirements for Financial Information on Sustainability" (~S1) and "Climate-related Disclosures" (~S2)
 - Issue standards until end of 2023
- Results: Mostly favourable, but doubts about IPSASB capacity



Development at international level

The rationale for developing a sovereign climate and nature information framework



Development at international level

Benefits of preparing and presenting sovereign climate and nature information


Users	Potential benefits
Governments	<ul style="list-style-type: none">• Improved access to capital from a wide range of investors.• Internal compression of climate and nature-related risks, bringing benefits in governance and cost of capital.• Endow the country with the ability to shape the narrative on risk and opportunity management.• Increased country capacity to identify, prioritize and invest public capital in ways that enhance resilience.• Lead by example to help disseminate private sector sustainability reporting.
Investors	<ul style="list-style-type: none">• Increased ability to price climate and nature-related risks more accurately.• Increased ability to identify opportunities for investment in adaptation and resilience projects and services.• Increased information with which to collaborate with governments to foster improved risk management and opportunity utilization.
Other users	<ul style="list-style-type: none">• Better information on credit risks affecting the country, subnational entities and companies.• Better visibility on the measures taken by countries to improve their resilience and attract investor capital.

Development at international level

2023: IPSASB confirms next steps

- March 2023: Approval of the updated RPG 1 and 3
- June 2023: Decision to start standard setting work
- September 2023: Approval of project brief for the development of standard on “Climate-related disclosures” and kick-off

→ Exposure Draft expected Q3 or Q4/2024



IPSASB
International Public Sector Accounting Standards Board®

277 Wellington Street West, Toronto, ON M5V 3H2
T + 1 (647) 825-3171 F +1 (416) 977-8585
www.ipsasb.org

Meeting:	International Public Sector Accounting Standards Board	Agenda Item	For:
Meeting Location:	Zurich, Switzerland	13	<input type="checkbox"/> Approval
Meeting Date:	September 12–15, 2023		<input checked="" type="checkbox"/> Discussion
			<input type="checkbox"/> Information

CLIMATE-RELATED DISCLOSURES

Project summary	The project objective is to develop a public sector climate-related disclosures standard, separate from the current suite of IPSAS, to meet the needs of users of public sector sustainability reports (service recipients and resource providers) and ensure better transparency, accountability and enable improved decision-making.	
Project staff lead	• Celine Chan, Senior Manager	
Task Force members	The IPSASB agreed to establish a Climate Topic Working Group. Members of the group will be confirmed after the September 2023 Board meeting and will begin meeting in October 2023.	
Meeting objectives	Topic	Agenda Item
Project management	Climate-related Disclosures: Exposure Draft Dashboard	13.1.1
	Instructions up to Previous Meeting	13.1.2
	Decisions up to Previous Meeting	13.1.3
	Climate-related Disclosures: Project Roadmap	13.1.4
Decisions required at this meeting	Climate-related Disclosures – Project Plan and Timeline	13.2.1
	Key Public Sector Sustainability Reporting Concepts and Terms	13.2.2
Other supporting items	[Draft] SRS X: Climate-related Disclosures	13.3.1

Prepared by: Celine Chan (August 2023)

Reporting entity and its characteristics as a key issue



Reporting entity and its characteristics as a key issue

IPSASB considers Conceptual Framework as one of the key inputs



Reporting entity and its characteristics as a key issue

Characteristics of the Reporting Entity and Reporting entity as the key conceptual issues for presenting sustainability-related financial information

- IPSASB-Conceptual Framework
 - **Preface: Characteristics of Public Sector Entities**
 - Chapter 1: Role and authority of the conceptual framework
 - Chapter 2: Objectives and users of general-purpose financial reporting
 - Chapter 3: Qualitative characteristics
 - **Chapter 4: Reporting Entity**
 - Chapter 5: Elements of Financial Statements
 - Chapter 6: Measurement of assets and liabilities in Financial Statements
 - Chapter 7: Presentation in General Purpose Financial Reports (GPFR)
- Entity is key because it defines the **scope** and responsibility as a **preparer**

Reporting entity and its characteristics as a key issue

Methodology

- Theoretical analysis, in particular analysis of the Basis for Conclusions (BC) and the IPSASB meeting minutes
- 3 country cases of countries which are advanced in using IPSAS (or IFRS) as the conceptual basis of their financial reporting and have a history of preparing (broader) GPFR presenting sustainability-related information

- United Kingdom



- New Zealand

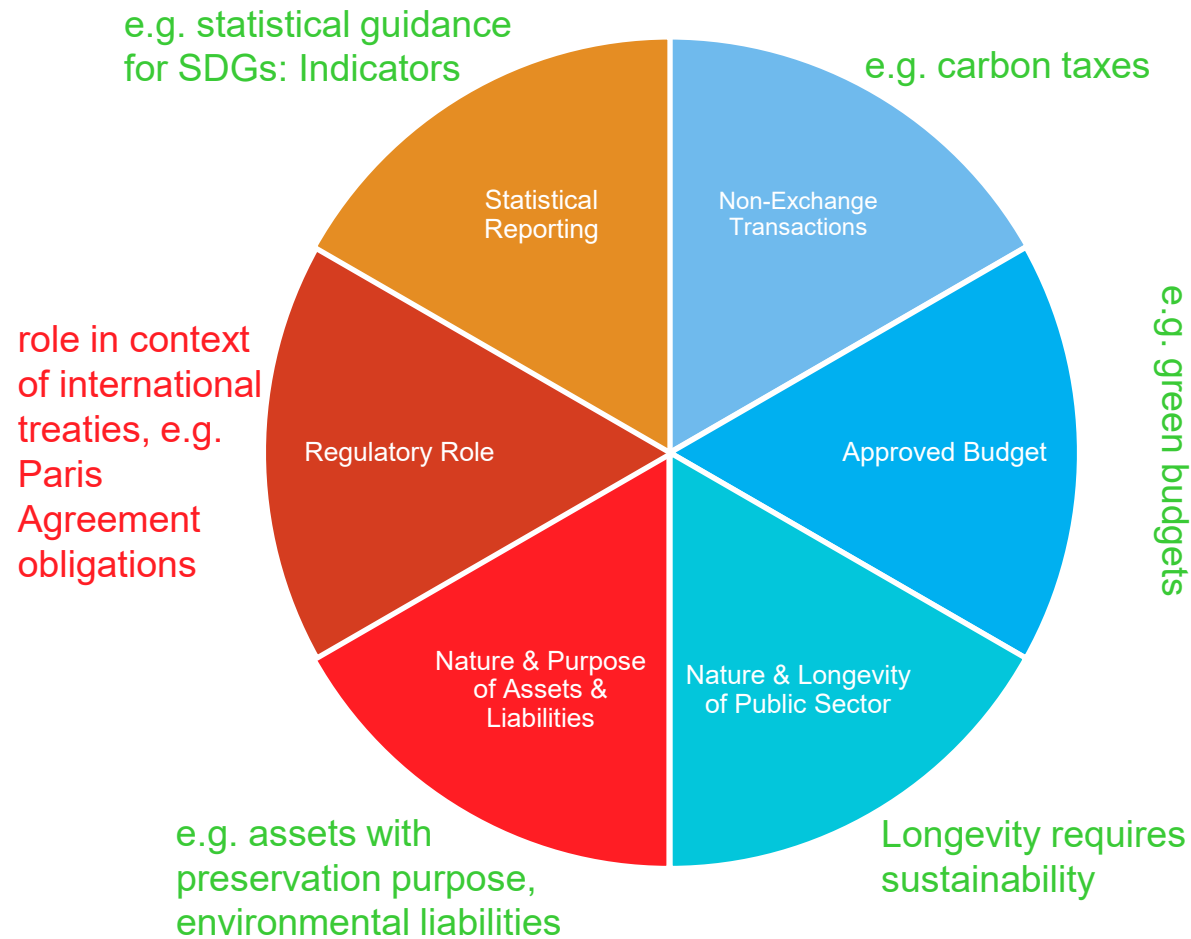


- Switzerland



Reporting entity and its characteristics as a key issue

Characteristics of public sector entities



1. Are all relevant in the context of sustainability-related financial information.

Most relevant

- *Approved Budget*
- *Non-exchange Transactions*

... while

- *Regulatory Role*

falls short in its current description.

2. IPSASB did not consider sustainability reporting when developing them

Reporting entity and its characteristics as a key issue

Characteristics of public sector entities: International experience

- None of the three jurisdictions explicitly considers IPSASB-CF characteristics for sustainability reporting



- Consider characteristics **not at all** in national regulation



- Considers the **characteristics for financial reporting**, but not for sustainability-reporting



- Does not consider characteristics in national regulation, but sustainability reports are based on statistical sector → dominant role of **statistical reporting for sustainability reporting purposes**

Bottom line: Quite different, despite very similar conceptual basis!

Reporting entity and its characteristics as a key issue

Reporting Entity

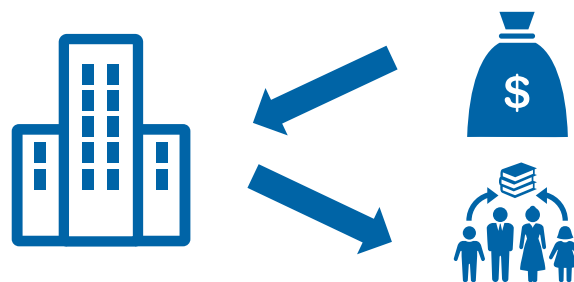
- Considerations for determining the reporting entity:
 - Key characteristics: Cumulative requirements
 - Constituents provide resources or constituents receive benefits; and
 - User need: Recipients of information depend on this source
 - Additional considerations:
 - Jurisdictional factors, e.g., legislation/regulation
 - Responsibilities and capacities



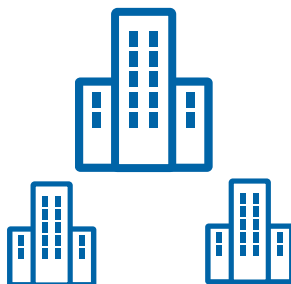
Reporting entity and its characteristics as a key issue

Reporting Entity

- Distinction between reporting entity and economic entity
 - Reporting entity: Single entity or group of entities, complying with key characteristics



- Economic entity: Group of controlling entity and controlled entities



Reporting entity and its characteristics as a key issue

Reporting Entity: International experience

- Reporting Entity for sustainability reporting purposes



- Group of entities, but different from financial reporting



- Group of entities, same as for financial reporting
- Hybrid approach: Entity plus entire Economy



- Statistical sector, rather than reporting entity
- With reference to IPSAS RPG1

Recommendations

To both national and international authorities and standard setters

- R1: Use SDG as a reference point
- R2: Apply a broad definition of stakeholders (similar to GRI or CSRD)
- R3: As a consequence of the broad definition of stakeholders, use double-materiality. However, be cautious about inclusion of up- and downstream activities in the value chain because of public sector characteristics.



Recommendations

- R4: Sustainability reporting was not the focus when developing the IPSAS-CF and its Preface, resulting in a narrower use of the term sustainability. Therefore, revisit the IPSAS-CF and its Preface
- R5: Despite having a similar conceptual basis, the three country cases show relevant differences in the way sustainability-related information is presented. This shows the need for clarification at standards level



Recommendations

- R6: Given the legal obligations governments entered in the name of the entire country, elaborate at the relationship between jurisdictional reporting and entity reporting
- R7: Consider presenting information about both, the jurisdiction and the entity
- R8: Review RPG1, in respect of the use of yet another concept of reporting entity (General Government Sector)



Next steps PULSAR and KIPF collaboration

- This paper is a first of a series of joint knowledge products on this topic
- Expected completion date of the first paper is December 31, 2023
- The proposed title of the second knowledge product is “Sustainability Reporting: Implications for public sector and the next steps”
- Expected completion date of the second paper is June 30, 2024
- Key findings will be presented in the next in person event



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