

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Lisbon, Portugal

Meeting Date: September 12–16, 2022

Agenda Item

7

For:

- ☒ Approval
☐ Discussion
☐ Information

REPORTING SUSTAINABILITY PROGRAM INFORMATION

Project summary	This limited-scope project will develop non-authoritative guidance to add to the IPSASB's Recommended Practice Guidelines (RPG), RPG 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i> and RPG 3, <i>Reporting Service Performance Information</i> . This additional non-authoritative guidance will ensure awareness of the applicability of both RPGs to sustainability reporting and help illustrate how the respective models can be applied for reporting on the impacts of green programs.	
Board sponsor	Ian Carruthers, IPSASB Chair is the Board sponsor for this project. IPSASB Staff and the Board sponsor are liaising with the OECD in relation to their work developing a framework of green budget principles to inform the development of proposals for non-authoritative amendments to the IPSASB the RPGs.	
Meeting objectives	Topic	Agenda Item
Project management	Reporting Sustainability Program Information: Project Roadmap	7.1.1
	Instructions up to Previous Meeting	7.1.2
	Decisions up to Previous Meeting	7.1.3
Decisions required at this meeting	Actions to Address Board Instructions	7.2.1
	Development of RPG 3 Illustrative Examples	7.2.2
	Approval of ED 83, <i>Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-Authoritative Guidance</i>	7.2.3
Other supporting items	Draft ED 83, <i>Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-authoritative Guidance</i>	7.3.1

REPORTING SUSTAINABILITY PROGRAM INFORMATION PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2022	1. As a result of the Mid-Period Work Program Consultation, the IPSASB decided to add a limited-scope project to its work program.
June/July 2022	<ol style="list-style-type: none"> 1. The IPSASB received an overview of the limited scope-Reporting Sustainability Program Information project, including an update on discussions with the OECD green budget collaborative related to the work to develop a green budget framework and principles. 2. The IPSASB reviewed a first Draft of ED 83, <i>Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-authoritative Guidance</i>.
September 2022	1. Review and approval of draft ED 83, <i>Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-authoritative Guidance</i> (followed by 60-day consultation period from October 2022–December 2022).
March 2023	<ol style="list-style-type: none"> 1. Review of responses to draft ED [XX]. 2. Discussion of issues. 3. Approval of IPSASB pronouncement on the non-authoritative amendments to RPG 1 and RPG 3.

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
July 2022	1. Further develop the communication on why the IPSASB is proposing additional guidance to RPGs 1 and 3, including the work undertaken to assess the applicability of the guidance to reporting sustainability program information and consider where to locate within the ED.	1. Agenda Item 7.2.1
	2. Recommend an exposure period length.	2. Agenda Item 7.2.3
	3. Review the use of the terms 'sustainability program information' and 'green programs' in the ED to ensure consistency.	3. Agenda Item 7.2.1
	4. Review and update the Objective of the Exposure Draft under the request for comments, against the objective stated in paragraph 1, to ensure consistency.	4. Agenda Item 7.2.1
	5. Draft the Basis for Conclusions and the four Illustrative Examples (IE) proposed for RPG 3 (green bond, carbon tax, investments in infrastructure to mitigate the impacts of climate change, and green tax expenditure) and consider if any IE are needed for RPG 1, or whether cross-referencing would suffice.	5. Agenda Item 7.2.2

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
March 2022	1. As a result of feedback to the Mid-Period Work Program Consultation, the IPSASB decided to add a limited-scope project: Reporting Sustainability Program Information to the work program.	1. N/A
July 2022	1. The IPSASB decided that the project timetable should be added to the work program.	1. N/A
	2. The IPSASB decided that ED [X], <i>Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-Authoritative Guidance</i> , should be exposed for public comment and targeted for approval at the September 2022 meeting.	2. N/A
	3. The IPSASB decided that, subject to the July instructions, the Implementation Guidance proposed in RPG 1 and RPG 3 should be included in the draft ED.	3. See Agenda Item 7.2.1

Actions to Address Board Instructions

Question

1. Does the IPSASB agree with the recommendations to address the instructions provided at the July 2022 Check in Meeting?

Recommendation

2. Staff and the Board sponsor recommend that:
 - (a) The changes to ED 83 to communicate why IPSASB is proposing additional guidance to RPGs 1 and 3 be adopted in Basis for Consultations.
 - (b) That the term 'sustainability program information' be used through ED 83, replacing 'green programs'.
 - (c) That the changes to the objective included in the request for comments and paragraph 1 be adopted; and
 - (d) That the proposed Basis for Consultations for RPG 1 and RPG 3 be included in ED 83.

Background

3. In March 2022, the IPSASB discussed feedback on the Mid-Period Work Program Consultation and agreed to add as one of its committed projects to commence in 2022 a Limited-Scope project—*Reporting Sustainability Program Information*. This project's aim is to enhance IPSASB's current Recommended Practice Guidelines (RPGs) to ensure they are seen as relevant to reporting on sustainability, and to help entities understand the application of the principles in the respective RPGs to reporting on sustainability program information.
4. The intention in developing additional guidance to the RPGs is to ensure the reporting arising from applying the principles in the guidance is seen to be useful for sustainability reporting and that the impact of sustainability programs can be captured in a transparent manner that assists with policy and decision-making.
5. In June 2022, IPSASB staff discussed the Limited-scope project—*Reporting Sustainability Program Information* with the IPSASB CAG to receive initial input on the scoping and approach to the project. The IPSASB staff note that CAG members commented positively on the proposed project approach, highlighting that it was sensible to enhance current guidance, practical as it relates to reporting on outputs/outcomes, and useful in that it would make the information useful for other purposes (policy decisions). IPSASB staff provided the complete comments received from the CAG and noted specific IPSASB staff feedback on each comment in the [July 2022 Check in meeting papers](#).
6. The IPSASB also discussed a first draft of draft ED 83, *Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-authoritative Guidance* at the July 28, 2022 virtual check-in meeting. The following instructions related to finalizing ED 83 have been addressed in this paper:
 - (a) Further develop the communication on why the IPSASB is proposing additional guidance to RPGs 1 and 3, including the work undertaken to assess the applicability of the guidance to reporting sustainability program information and consider where to locate within the ED.

- (b) Review the use of the terms 'sustainability program information' and 'green programs' in the ED to ensure consistency.
- (c) Review and update the Objective of the Exposure Draft under the request for comments, against the objective stated in paragraph 1, to ensure consistency.
- (d) Draft the Basis for Conclusions and the four Illustrative Examples (IE) proposed for RPG 3 (green bond, carbon tax, investments in infrastructure to mitigate the impacts of climate change, and green tax expenditure) and consider if any IE are needed for RPG 1, or whether cross-referencing would suffice.

Analysis

Communication—Why IPSASB is Proposing Additional Guidance to RPGs 1 and 3

- 7. IPSASB staff considered and developed how to communicate why IPSASB is proposing additional guidance to RPG 1 and 3.
- 8. Staff and Board sponsor believe that this communication is captured best in ED 83 in the Basis for Conclusions (included in BC37-BC38 for RPG 1 and BC44-BC45 in RPG 3).

Consistency of 'Sustainability Program Information' and 'Green Programs'

- 9. Draft ED 83 reviewed by IPSASB at the July 2022 virtual check-in meeting inconsistently referred to sustainability program information and green programs. These terms were used interchangeably to refer to programs related to various sustainability initiatives and how to report against these using existing RPGs.
- 10. Staff and the Board sponsor reviewed ED 83 and recommend that 'sustainability program information' be adopted to replace 'green programs' to avoid introducing unnecessary confusion.

Review and Update of ED 83 Objective

- 11. Staff and Board sponsor have developed the revised objective to be included in in ED 83. The revised objective is consistent in the 'request for comments' section of ED 83 and in paragraph 1 of the ED. The revised objective reads as follows:
 - (a) The objective of this Exposure Draft (ED) is to provide additional guidance for RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information* to facilitate the reporting of sustainability program information. This additional guidance will enhance awareness about the applicability of, and provide help in applying the existing guidance in RPG 1 and RPG 3.

Draft Basis for Conclusions

- 12. Staff and Board sponsor have developed and recommend the following BCs, which have been included in ED 83 for RPG 1 and RPG 3 respectively:

BCs related to RPG1

- (a) BC37 which sets out why the IPSASB has added the Reporting Sustainability Program Information project on the work program.
- (b) BC38 which emphasizes the objective of the additional information being added to RPG 1 and 3, and specifically the relevance of RPG 1.

- (c) BC39 that sets out the reasoning behind why IPSASB proposes to add IG1-IG3.
- (d) BC40 which highlights that IPSAS should be applied to capture the underlying financial impact of sustainability transactions in general purpose financial statements, and RPG 1 provides guidance on disclosures in general purposes financial reports related to the financial impact on an entity's long term financial projections.

BCs related to RPG 3

- (e) BC44 which sets out why the IPSASB has added the Reporting Sustainability Program Information project on the work program.
- (f) BC45 which emphasizes the objective of the additional information being added to RPG 1 and 3, and specifically the relevance of RPG 3.
- (g) BC46-BC47 which set out the reasoning behind why IPSASB proposes to add IG1-IG2 and IE4-IE7.
- (h) BC48 which highlights that IPSAS should be applied to capture the underlying financial impact of sustainability transactions in general purpose financial statements, and RPG 3 provides guidance on disclosures in general purposes financial reports related to the overall impact of the program against its objectives.

See Agenda Item 7.3.1 for the drafting proposed for the BCs.

Decision Required

13. Does the IPSASB agree with the staff and Board sponsor recommendations in [paragraph 2](#)?

Development of RPG 3 Illustrative Examples

Questions

14. Does the IPSASB agree to include the proposed Illustrative Examples in ED 83?

Recommendations

15. Staff and the Board sponsor recommend that the proposed four sustainability program information examples be included in ED 83.

Background

16. The IPSASB decided at the July 2022 virtual check-in meeting that four illustrative examples (IEs) (Green Bond, Carbon Tax, Investments in Infrastructure to Mitigate the Impacts of Climate Change, and Tax Expenditure for Sustainable Investments) should be developed for RPG 3 to illustrate the reporting of different types of sustainability programs, for Board review and approval in September 2022.
17. The IPSASB instructed staff to consider the need for IEs for RPG 1 and provide a recommendation to IPSASB.

Analysis

Illustrative Examples for RPG 3

18. IPSASB staff have developed the following IEs to include in ED 83 as additional guidance proposed for RPG 3:
- (a) Example 1—Green Bond, included in IE4.
 - (b) Example 2—Carbon Tax, included in IE5.
 - (c) Example 3—Investments in Infrastructure to Mitigate the Impacts of Climate Change in IE6.
 - (d) Example 4—Tax Expenditures for Sustainability Investments in IE7.
19. In developing each example, staff based the examples on real programs being implemented. These examples were developed based on information provided by members, technical advisors or observers on these programs. Each example has been generalized and simplified so the fact patterns can be used to clearly illustrate how to apply the key principles in RPG3 to the fact patterns.
20. Like all illustrative examples, these are not meant to be exhaustive or to cover all aspects of the general principles, but rather to help illustrate key concepts clearly in the guidance to help with their application.
21. The underlying financial transactions themselves related to sustainability programs (the funding mechanism and how the proceeds are spent on the programs) should be captured in IPSAS general purpose financial statements. The reporting based on the various RPGs provide disclosures in general purpose financial reports in line with the objective of the relevant RPG (RPG 1—long term impact of current policy, demographic and economic assumptions on an entity's finances and RPG 3—disclosures on service performance delivery).
22. The staff and Board sponsor recommend that the proposed four IEs for RPG 3 be included in ED 83.

Need for Illustrative Examples for RPG 1

23. IPSASB staff and Board sponsor considered if detailed IEs should be included in RPG 1. After reviewing the objective and guidance included in RPG 1, it was determined that additional IEs were unlikely to be useful because sustainability programs are likely to form only part of the overall financial inflows and outflows that need to be brought together for reporting under RPG 1. Further, RPG 1 already includes detailed guidance on presenting projections of future inflows and outflows, including how to address the various dimensions of long-term fiscal sustainability and principles and methodologies to apply in developing projections, so no further top-level guidance is required. The necessary guidance at the individual sustainability program level will be provided in RPG 3.
24. Staff and Board sponsor do not recommend that IEs be developed for RPG 1.

Decision Required

25. Does the IPSASB agree with the staff and Board sponsor recommendations in [paragraph 2](#)?

**Approval of ED 83, Reporting Sustainability Program Information–RPGs 1 and 3:
Additional Non-Authoritative Guidance**

Questions

1. Does the IPSASB agree with the staff and Board sponsor recommendation to approve ED 83 with a 60-day exposure period?

Recommendations

2. Staff and the Board sponsor recommend that the IPSASB approves:
 - (a) ED 83, *Reporting Sustainability Program Information–RPGs 1 and 3: Additional Non-Authoritative Guidance*; and
 - (b) That it be exposed for 60 days.

Background

3. The IPSASB decided at the July 2022 virtual check-in meeting that it would review ED 83 with an aim to approve it at the September 2022 meeting.
4. The IPSASB provided instructions that needed to be addressed prior to approval, which have been addressed in Agenda Item 7.2.1 and 7.2.2.
5. The IPSASB further instructed staff to provide a recommendation on the appropriate length of the exposure period for IPSASB consideration and approval.

Analysis

Consultation Period

6. As set out in [Agenda Item 1.2.2](#) in the July 2022 agenda papers, ED 83 proposes additional non-authoritative guidance to RPGs 1 and 3. It does not propose any changes to the principles in either RPG. Therefore, the amendments while helpful in understanding the application of the RPGs to reporting sustainability program information, are consequential in nature. As the changes are only consequential in nature, and given the urgency of addressing sustainability reporting, IPSASB staff and Board sponsor recommend an exposure period of 60-days, consistent with that followed for annual improvements exposure drafts.

Decision Required

7. Does the IPSASB agree with the staff and Board sponsor recommendations in [paragraph 2](#)?

**Draft ED [XX], Reporting Sustainability Program Information—RPGs 1 and 3:
Additional Non-authoritative Guidance.**

Exposure Draft 83
October 2022
Comments due: December 9, 2022

IPSAS®

*Proposed Amendments to Recommended
Practice Guidelines*

Reporting Sustainability Program Information— RPGs 1 and 3: Additional Non-Authoritative Guidance

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by December 9, 2022.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The IPSASB proposes additional ~~non-authoritative~~ guidance for RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information* ~~be developed~~ to facilitate ~~sustainability reporting, in particular~~ the reporting of ~~sustainability~~green program information. This additional ~~non-authoritative~~ guidance will enhance awareness about the applicability of, and help in applying the existing ~~reporting models~~guidance in RPG 1 and, ~~*Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information*~~, so that the broader financial information can be used for both financial reporting and for other purposes, including budget purposes.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1

Do you agree with the proposed additional implementation guidance ~~and illustrative examples to~~for RPG 1? If not, what changes would you make?

Specific Matter for Comment 2

Do you agree with the proposed additional implementation guidance and illustrative examples ~~for~~to RPG 3? If not, what changes would you make?

EXPOSURE DRAFT [XX], REPORTING SUSTAINABILITY PROGRAM INFORMATION—RPGS 1 and 3: ADDITIONAL NON-AUTHORITATIVE GUIDANCE

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Objective

4. The objective of this Exposure Draft (ED) is to provide additional non-authoritative guidance for RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information* to facilitate sustainability reporting, in particular the reporting of sustainability program information. This additional guidance will enhance awareness about the applicability of, and to help in applying the existing reporting models guidance in RPG 1 and RPG 3. *Reporting on the Long-Term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information* to add non-authoritative guidance to RPG 1, *Reporting on the Long-term Sustainability of an Entity's Finances* and RPG 3, *Reporting Service Performance Information* to ensure awareness of the respective reporting models and their applicability to reporting information on sustainability green programs.

1. Summary of Proposed Non-Authoritative Additional Guidance

Summary of Additional Guidance

<u>Proposed Additions to Section of RPG- 1</u>	<u>Summary of Additional Guidance</u>
<u>Basis for Conclusions</u>	<p>Explains the IPSASB decisions to:</p> <ul style="list-style-type: none"> • Undertake the Reporting Sustainability Program Information project; • Communicate the applicability of RPG 1 to sustainability reporting; and • Provide additional non-authoritative guidance.
<u>Implementation Guidance</u>	<p>Guidance added to illustrate the applicability of the RPG 1 principles when reporting the impact of sustainability programs on an entity's overall finances.</p>
<u>Proposed Additions to Section of RPG- 3</u>	<u>Summary of Additional Guidance</u>
<u>Basis for Conclusions</u>	<p>Explains the IPSASB decisions to:</p> <ul style="list-style-type: none"> • Undertake the Reporting Sustainability Program Information project; • Communicate the applicability of RPG 3 to sustainability reporting; and • Provide additional non-authoritative guidance.
<u>Implementation Guidance</u>	<p>Guidance added to illustrate the applicability of the RPG 3 principles when reporting service performance information related to sustainability programs.</p>

<u>Illustrative Examples</u>	<u>Examples added to illustrate how the RPG 3 principles apply for reporting specific sustainability program information.</u>
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Non-authoritative Amendments to RPG 1

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 1.

Additional Guidance proposed for RPG 1 as a result of the Reporting Sustainability Program Information Project

BC37. The IPSASB decided in March 2022 to address an urgent stakeholder concern by adding the limited scope project, *Reporting Sustainability Program Information*. The project responds to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPGs) to reporting sustainability program information in general purpose financial reports.

BC38. To clearly communicate their applicability, the IPSASB decided to add guidance to RPGs 1 and 3 to demonstrate how the guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 1 are relevant for an entity to report the financial impacts of sustainability programs and that they should be included when developing its overall financial projections.

BC39. The IPSASB has proposed adding IG1.–IG3. to communicate:

- (a) That RPG 1 applies to reporting sustainability program information and its financial impact on the long-term sustainability of an entity's finances;
- (b) How program impacts on the dimensions of long-term sustainability should be assessed; and
- (c) Which principles are applicable for reporting on sustainability program information.

BC40. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability related transactions in general purposes financial statements. RPG 1 provides guidance on disclosures in general purpose financial reports on the overall financial impact on an entity's long term financial projections of government programs, including sustainability-related ones. The impacts of individual sustainability programs should be reported in accordance with the additional RPG 3 Implementation Guidance and Implementation Examples.

Implementation Guidance

The guidance accompanies, but is not part of, RPG 1.

IG1 – ~~Can an entity~~Does ~~apply~~ RPG 1 ~~apply to~~ for reporting information on the impact of green sustainability programs on ~~the sustainability of~~ an entity's overall finances?

Yes, RPG 1 provides principles to apply in reporting on an entity's overall long-term fiscal sustainability, which is the ability of an entity to meet service delivery and financial commitments, including those relating to sustainability~~green~~ programs, both now and in the future. ~~RPG 1~~ RPG 1 can be used to address the financial impacts of non-financial factors (including environmental ones) provided the cash flow impacts of these are included when developing projections.

IG2 – How should green sustainability program impacts on the dimensions of long-term sustainability be addressed?

RPG 1, paragraph 27 discusses three inter-related dimensions of long-term fiscal sustainability:

- Service;
- Revenue; and
- Debt.

~~Green Sustainability~~ programs can impact ~~on~~ all of these dimensions in terms of future inflows and outflows. These impacts should therefore be modelled and included in the overall projections on the basis of assumptions regarding current policies, and about future demographic and economic conditions. Depending on the purpose of the report, and their significance, the impacts of ~~green such~~ programs can either be presented separately or as part of the overall totals.

IG3 – Which principles ~~and/or methodologies~~ should be applied in reporting on the impacts of sustainability~~green~~ programs?

The guidance in RPG 1 ~~on-related to~~ policy, demographic and economic assumptions, as well as on other principles and methodology can be applied to reporting on the projected future inflows and outflows associated with sustainability~~green~~ programs. Sensitivity analysis can be used to help users understand the impacts of significant changes in assumptions on the projections.

Non-authoritative Amendments to RPG 3

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 3.

Additional Guidance proposed for RPG 3 as a result of the Reporting Sustainability Program Information Project

BC44. The IPSASB decided in March 2022 to address an urgent stakeholder concern by adding the limited scope project, *Reporting Sustainability Program Information*. The project responds to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPGs) for reporting sustainability program information in general purpose financial reports.

BC45. To clearly communicate their applicability, the IPSASB decided to add guidance to RPGs 1 and 3 to demonstrate how the guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 3 are relevant for an entity to report the impact of sustainability programs and enabling it to be transparent and accountable for the overall impact of the program against its objectives.

BC46. The IPSASB has proposed adding IG1.-IG2. to communicate:

- (a) That RPG 3 applies to reporting information related to sustainability programs; and
- (b) How RPG 3 can be applied to individual sustainability programs.

BC47. The IPSASB has proposed adding IE4.-IE7 to illustrate how the guidance in RPG3 applies to common types of sustainability programs:

- (a) 'Green' Bonds;
- (b) Carbon Taxes;
- (c) Investments in Infrastructure to Mitigate the Impacts of Climate Change; and
- (d) Tax Expenditures for Sustainability Investments.

BC48. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability related transactions in general purposes financial statements. RPG 3 provides guidance on disclosures in general purpose financial reports on the impacts of individual programs against its objectives.

Implementation Guidance

The guidance accompanies, but is not part of, RPG 3.

IG1 – ~~Can an entity apply~~ Does RPG 3 ~~apply to for~~ reporting information related to ~~green sustainability~~ programs?

Yes, RPG 3 provides principles to apply in reporting on an entity's service performance by considering its ~~service performance~~ objectives, and measuring performance against relevant indicators (inputs, outputs, outcomes ~~or efficiency~~, ~~or effectiveness~~).

The RPG 3 principles are applicable for entities that establish service performance objectives related to ~~sustainability~~~~green~~ programs, and can measure performance against relevant overall indicators set by the entity or ~~particular-specific green~~ program metrics.

IG2 – How does RPG 3 apply to an individual ~~sustainability~~~~green~~ programs?

Decision makers ~~need to be able~~~~may want~~ to evaluate the governance, strategy, and risks associated with ~~green-sustainability~~ programs as part of delivering the entity's service performance objectives. RPG 3 provides a reporting framework that supports transparency in these key areas which ~~are is are~~ important both for ensuring accountability, and providing useful information for decision-making purposes.

The illustrative examples ~~(IE4.-IE7.)~~ in RPG 3, ~~show demonstrate~~ the application of the principles ~~in the reporting model~~ to four different types of ~~green-sustainability~~ programs. They include outlines of how an entity focuses on identifying its ~~Service Program~~ Performance Objectives, and how they can be expressed using Performance Indicators related to inputs, outputs, outcomes, ~~or efficiency~~ ~~or effectiveness~~, or through a combination of one or more of these performance indicators.

Illustrative Examples

These examples accompany, but are not part of, RPG 3.

Examples Related to Reporting Sustainability Program Information

A general overview of how to apply the principles in this RPG when reporting service performance information is provided in IE1.–IE3. Specific examples of how to report service performance information related to sustainability programs are provided in IE4.–IE7.

Example 1—‘Green’ Bond

IE 4. ‘Green’ bonds may be used by entities to raise funds for investment in sustainability-related programs, for example environmental or climate change mitigation projects. Issuers of such bonds may identify specific metrics or targets to provide investors with information on the performance of the program in achieving those targets. Below is an example of a program financed by a ‘green’ bond and how to apply RPG 3 for the reporting on the program.

Green Bond Details and Objectives:

- On January 1, 20x0 a bond was issued to fund a reforestation program with the goal of planting 100 million trees by the end of the year at a cost of CU4 per tree.
- The reforestation program’s target outcome is the absorption of approximately 1 million tons of CO₂ per year for the first 20 years.
- At the end of year 20x0, forestry staff had planted 85 million trees and determined that the CO₂ absorbed by the reforestation program for year 1 was approximately 600 thousand tons of CO₂ (22 pounds x 85 million trees).
- The actual cost to plant each tree in the reforestation program was CU4.1.

Performance Indicators:

- Inputs: The cost to plant each tree.
- Outputs: The number of trees planted.
- Outcome: Total CO₂ absorbed.
- Efficiency:
 - The cost per tree planted was CU4.1 (CU348.5 million/85 million trees), higher than the expected cost of CU4. The total number of trees planted fell short by 15 million trees (100 million less 85 million). The cost per ton of CO₂ was CU 603 CO₂t (CU348.5 million/578,328 CO₂ tons), while the planned cost per ton of CO₂ was CU 400 CO₂t (CU 400 million/1 million CO₂ tons). The higher cost of CO₂t shows a lower absorption of CO₂, which could be attributed to the lower number of trees planted by the program, and the lower survival rate of planted trees.
- Effectiveness:
 - Input: 87% (the actual cost to plant a tree over the target cost to plant a tree – CU348.5 million/CU400 million) because it cost more (CU4.1) than planned (CU4) to plant each tree.
 - Output: 85% (the actual number of trees planted over the target number of trees to be planted – 85 million/100 million) because fewer trees were planted than planned.
 - Outcome: 58% (the absorption of CO₂ at end of year 1 over the target absorption of CO₂ for year 1 – 578,328 tons of CO₂/997,900 tons of CO₂) because less carbon was absorbed than planned.

Example 2 – Carbon Tax

IE5. Carbon taxes may be used by entities to generate revenue to fund investment in sustainability programs, including those to fund investment in climate change mitigation. Carbon tax programs often have specific metrics or targets. This information can be used by the entity to report on the performance against the program objectives. Below is an example of a program financed by a carbon tax and how to apply RPG 3 for reporting on the program.

Carbon Tax Details and Objectives:

- On January 1, 20x1 Jurisdiction B implements a carbon tax to generate revenue to fund the installation of 10,000 electrical vehicle (EV) charging stations over the next 15 years along their highways.
- The objective of Jurisdiction B's program is to incentivize the development of the zero-emission vehicles (ZEV) market so that ZEVs make up 100% of the 460,000 new light-duty vehicles sold per year, within 15 years.
- The targets for year 1 of the program, which starts on 20x2, are 600 EV stations (expected to cost CU28,500 to install) and ZEV to comprise 26% of new light-duty sales in Jurisdiction B.
- At the end of 20x2, Jurisdiction B invested CU13.11 million on installing 460 EV charging stations and 18% (85,000/460,000) of all new light-duty vehicle sales were ZEV.

Performance indicators:

- Input: the cost to install each EV charging station.
- Output: The number of EV charging stations installed.
- Outcome: ZEV market share of the new light-duty vehicles market.
- Efficiency:
 - Cost per EV charging station was CU28,500 (CU13.11 million/460 EV charging stations), achieving the target cost established in 20x1. However, the program only resulted in 460 EV charging station installations falling short by 140 (the plan was to complete 600 EV charging stations). The cost incurred by Jurisdiction B to incentivize the purchase of ZEV new light duty vehicles in 20x2 was CU154 per ZEV (CU13.11 million/85,000 ZEV new light duty). The program's planned cost was CU143 per additional ZEV new light duty vehicle sold, however, this expectation was based on capturing 26% of the market, instead of 18% captured in 20x2 (85,000/460,000).
- Effectiveness:
 - Input: 100% (the actual cost to install an EV charging station over the target cost to install an EV charging station – CU 28,500/CU 28,500) because the cost planned was achieved.
 - Output: 77% (the actual number of EV charging stations installed over the target number of EV stations to be installed – 460/600) because fewer EV charging stations were built than planned.
 - Outcome: 71% (Actual of ZEV new light-duty vehicles sold over the target (26% of 460 thousand light-duty vehicles) – 85,000/119,600) because the market share achieved of 18% was lower than the 26% targeted.

Example 3 – Investments in Infrastructure to Mitigate the Impacts of Climate Change

IE6. Investments in infrastructure can be used by entities to help restore the natural environment and mitigate the impact of climate change. Such investments often identify specific metrics or targets the investments are intended to achieve, including those related to service delivery. This information can be used by the entity to report on the performance of the program in achieving the program aims. Below is an example of an investment in infrastructure financed by environmental penalties collected to mitigate the impacts of climate change and how to apply RPG 3 when reporting on the program.

Investment in Infrastructure Details and Objectives:

- Community C utilizes funds collected from environmental penalties to provide funding for projects helping restore the environment, through 'green infrastructure' projects, such as installing rain gardens to reduce the risk of flooding and help communities adapt to climate change.
- In 20x1, community C made CU250,000 available for the installation of rain gardens in residential homes and small businesses, with an average cost of CU5,000 each.
- A water management consultant report states that the program to install rain gardens is estimated to reduce instances of flooding by 60% (30 fewer floodings of properties based).
- In 20x0 there were 50 instances of flooding, after issuing funding of CU150,000 in 20x1 there were 17 fewer instances of flooding (57% reduction).

Performance indicators:

- Input: Funding collected from environmental penalties.
- Output: The number of rain gardens funded by community C.
- Outcome: Reduction of flooding instances
- Efficiency:
 - Community C estimated that the investment of CU250,000 in rain gardens installations will reduce the instances of flooding in residential homes and small businesses by 60% or by 30 fewer instances of flooding. However, there were only 17 fewer flooding instances than the estimated 30, which can be attributed to the lower number of rain gardens funded by the program (50 rain gardens were estimated to be funded, but only 30 were funded and completed in 20x1).
- Effectiveness:
 - Input: 60% (the actual funding provided for rain gardens over the target funding available – CU150,000/CU250,000) because less funding was issued than was available.
 - Output: 60% (the actual number of rain gardens funded over the target number of rain gardens planned – 30/50) because fewer gardens were funded than planned.
 - Outcome: 57% (the actual reduction of flooding instances over the target reduction of flooding instances – 17/30) because fewer flooding instances were reduced than planned.

Example 4 – Tax Expenditures for Sustainability Investments

IE7. Tax Expenditures (tax credits provided through the taxation system) can be used to incentivize private investment to improve energy efficiency and reduce energy consumption. Such programs encourage investments and often identify specific metrics or targets the investments are intended to achieve. This information can be used by the entity to report on the performance of the program in achieving the program aims. Below is an example of a tax expenditure program to encourage energy efficiency improvements through conservation that sets out how to apply RPG 3 when reporting on the program.

Tax Expenditure Details and Objectives:

- In 20x6, Country A introduced a tax credit to incentivize energy-efficient renovations of CU525 million (approximately 80,000 renovations) to decrease energy consumption, specifically natural gas, by 17% in 20x7.
- In 20x7, an income tax credit of CU300 million was given by Country A on housing energy efficiency expenditures.
- The tax credit for energy transition triggered around 60,000 additional eligible renovations for the tax credit and accounted for a reduction of 7% of the natural gas consumption in residential properties in 20x7 (20x7 total natural gas consumption was 1,342,958,820 MMcf¹).

¹ One million cubic feet of natural gas.

Performance Indicators:

- Input: the total cost of the tax credits given
- Output: The number of eligible energy-efficient renovations completed.
- Outcome: Reduction in energy consumption.
- Efficiency:
 - The program objective of Country A was to reduce natural gas consumption by 15% at an estimated cost of CU2.606 per MMcf (CU525 million/201,443,823 MMcf). However, the actual cost was CU3.19 per MMcf, which can be attributed to a lower number of energy-efficient renovations (60,000 renovations, instead of the expected 80,000).
- Effectiveness:
 - Input: 57% (the actual tax credit issued for eligible energy-efficient renovations over the target announced – CU300 million/CU525 million) because the tax expenditure issued was less than the target.
 - Output: 75% (the actual number of eligible energy-efficient renovations over the target – 60,000/80,000) because there were fewer energy-efficient renovations than planned.
 - Outcome: 47% (the actual natural gas consumption reduction over the target – 7%/15%) because the reduction in natural gas consumption achieved was lower than planned.

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