

International Public Sector Accounting Standards Board
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Dear International Public Sector Accounting Standards Board,

Consultation on Sustainability Reporting Standard ED1 *Climate-related disclosures*

We welcome the opportunity to comment on Exposure Draft 1 of the Sustainability Reporting Standard (SRS ED1) on *Climate-related disclosures*.

We set out below our general comments on the proposals followed by responses to the individual questions set out in the consultation document.

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General comments

The public sector has a key role to play in addressing the climate and other sustainability issues facing society, including its unique role in public policy making which can significantly impact the economy, environment and people. It is imperative that public sector organisations report on sustainability matters, both in respect of their own activities and the impact of their public policy programs.

In that context, we fully support the IPSASB in developing sustainability reporting standards for the public sector and we congratulate the Board and staff on their achievement in developing SRS ED1 in a short time frame.

We also support the approach adopted by the IPSASB in focussing on climate first reporting, and the use of the International Sustainability Standards Board (ISSB) standards IFRS S1 (General requirements) and IFRS S2 (Climate related disclosures) as the basis for the public sector standard. There will, however, be a need for the Board to consider future standards covering wider sustainability risks and opportunities and the IPSASB should develop a program for the development of such standards, identifying priorities relevant to the public sector.

Whilst we understand the approach adopted by the IPSASB in developing a climate reporting standard incorporating aspects of IFRS S1, given the time and resource pressures it faced in developing SRS ED1, we urge the IPSASB to develop a public sector equivalent to IFRS S1 as a matter of priority as a foundation for future topic-based standards. (See our comments in SMC 8 and SMC 10). In the meantime, the IPSASB should consider whether SRS ED1 is consistent with the

guidance issued by the ISSB in January 2025 for entities taking a climate first approach to reporting (*“Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2”*).

It is important that public sector sustainability reporting incorporates disclosures over public policy programs in a proportionate, balanced and transparent manner, including consideration of those policies and actions which have both positive and negative impacts. We commend the IPSASB’s efforts to incorporate the impact of public policy programs in the standard, a complex area for which no other standards or guidance are available. However, we have significant concerns with the proposed approach to reporting of public policy programs in SRS ED1, which we believe are fundamentally flawed and would not lead to fair, balanced proportionate reporting given the focus on those programs with a primary objective relating to climate. In this regard, we share many of the concerns expressed in the alternative view in the exposure draft and urge the Board to reconsider this approach. We set out options which the Board may wish to consider in our detailed comments to SMC 3. In reconsidering the approach to public policy programs, the Board will need to balance short- and long- term needs, in particular:

- is reporting an overly positive view of public policy programs which have a positive impact, at the expense of including trade-offs and other policies and actions which have a negative impact, better than not reporting on policy programs at all?
- is it better to get started with reporting on an entity’s own operations only in the first instance, which may lead to greater adoption of the standards as it will be easier to implement? This would also give time for development of wider policy reporting standards and for entities to develop sustainability reporting capacity, expertise and systems.

To assist with the adoption and implementation of SRS ED1, the IPSASB should develop a jurisdictional adoption guide, similar to that provided by the ISSB for its standards. We provide further thoughts on what this guide might include in SMC 9.

Whilst we understand the urgent need for public sector sustainability reporting and the desire to finalise SRS ED1, further work is required in some aspects of the standard, most importantly on public policy program reporting. Taking the appropriate time to address these matters will ensure that the standard is of the highest quality, enabling it to achieve its intended outcomes and provide a basis for reporting of high quality, transparent, decision-useful information for users.

Responses to consultation questions

Specific Matter for Comment 1: Public sector operations and regulatory role (paragraphs 1-4)

This Exposure Draft requires a public sector entity to provide disclosures about (i) the climate-related risks and opportunities that are expected to affect its own operations and (ii) climate-related public policy programs and their outcomes when an entity has responsibility for those programs and their outcomes (see paragraphs 3 and AG2.7–AG2.8)

Do you agree the proposed approach meets the information needs of primary users (see paragraphs 1–4)? If not, what alternative approach would you propose and why?

We support the approach taken by the IPSASB in requiring entities to take a climate first approach to sustainability reporting with requirements for disclosures in relation to an entity’s own operations in line with those for private sector organisations adopted by IFRS S2.

We also support the principle of the public sector reporting on the climate impact and outcomes of public policies, as public policy can drive behaviours across all sectors. However, we have significant concerns about the proposed approach to public policy programs and their outcomes, as currently defined in SRS ED1. The proposed definition of climate-related public policy programs applies to those policies which have climate related outcomes as a **primary** objective. Any primary objective in relation to climate will be for that policy to achieve a positive outcome/impact on climate and, as such, any reporting under this standard would be biased towards positive climate impacts and would not

lead to reporting of policies which may have a secondary negative impact on overall climate objectives, or aspects of an entity's activities where it does not have responsibility for those programs and their outcomes. Also, as the board itself has identified, it will be challenging to identify which bodies are responsible for public policy programs.

See Specific Matter 3 for detailed comments on the scope of public policy programs.

Specific Matter for Comment 2: Own Operations (Appendix A1: Application Guidance – Own Operations)

The Exposure Draft primarily aligns disclosure requirements about an entity's own operations with private sector guidance (IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures), with public sector guidance, including a rebuttable presumption that entities use the GHG Protocol: A Corporate Accounting and Reporting Standard (2004), unless another established method of measuring its greenhouse gas emissions is more appropriate or required by a jurisdictional authority (see paragraph AG1.72).

Do you agree with the proposed approach and guidance? If not, what alternative approach would you propose and why?

We support the Board's decision to align with the global baseline IFRS Sustainability Disclosure Standards for reporting and, as such, to focus on financial materiality for disclosures. While there are strong arguments for the adoption of a double materiality approach for the public sector, given the potential impacts of public policy activities, for own operations the focus is, in our view, rightly on financial materiality alone.

To assist preparers in considering the materiality of disclosures, the IPSASB may wish to highlight disclosures which are subject to materiality consideration, either by linkages within the standard or in supporting guidance.

We support the rebuttable presumption to use the GHG Protocol as the initial approach to measuring and reporting GHG emissions.

Although the interconnected nature of public bodies is referred to in AG1.15 and AG1.33, these sections might be further strengthened to explain how identifying the financial impact of not addressing climate-related risks may be a necessary precursor to demonstrating to funders and service users as to whether the body remains viable in its current form, based on assumptions around funding and income built into its business planning.

Specific Matter for Comment 3: Scope of Public Policy Programs (paragraph 3 and AG2.4–AG2.6)

This Exposure Draft requires disclosures about public policy programs with a primary objective to achieve climate-related outcomes. Do you agree with this approach and the scope of public policy programs included in required disclosures? If not, what alternative approach would you propose and why?)

The Exposure Draft includes an Alternative View on the approach to climate-related public policy programs.

As noted in SMC 1, we have significant concerns about the proposed approach to public policy programs and their outcomes, as currently defined in SRS ED1. The proposed definition of climate-related public policy programs applies to those policies which have climate related outcomes as a **primary** objective. Any primary objective in relation to climate will be for that policy to achieve a positive outcome/impact on climate and, as such, any reporting under this standard would be biased towards positive climate impacts and would not lead to reporting of policies which may have a secondary negative impact on overall climate objectives, or aspects of an entity's activities where it does not have responsibility for those programs and their outcomes.

As the board itself has identified, it will be challenging to identify which bodies are responsible for public policy programs. This challenge might be alleviated by removing reference to public policy programs having a primary objective to achieve climate related outcomes.

In our view the proposed approach gives rise to a fundamental weakness and would not lead to fair, balanced sustainability reporting in the public sector, and is tantamount to driving entities to commit greenwashing by reporting only positive impacts/outcomes. In this regard, we tend to agree with the views laid out in the Alternative View in the ED.

We note that the BC 17 states that entities are not precluded from reporting material information related to other public policy programs which have an impact on climate. However, to provide decision useful, transparent information for users we believe it would be necessary to report on those public policy programs that have a material impact on climate, either positive or negative. We believe that it is this information that stakeholders would be interested in, and it would be counterintuitive that only public policy programs with a primary objective relating to climate are disclosed while public policies which have a significantly larger impact on climate change are not reported.

We understand why the IPSASB has maintained a narrow focus on public policy reporting, which might enable easier implementation than full scope policy reporting. However, we anticipate that many jurisdictions will find it difficult to adopt this proposed standard, particularly those jurisdictions which find implementation of accruals accounting difficult, and do not believe that having a narrow scope of public policies will ultimately lead to increase adoption.

The IPSASB should reconsider its approach to policy reporting and it appears to us that there are three approaches available in taking forward how public policy is reflected in this standard:

- 1) *Maintain the current proposed narrow definition of public policy with a primary objective relating to climate* – as noted in our response to SMC1, we have significant concerns with this approach which, as noted in the alternative view, “are likely to be confusing, inconsistent and of limited value to users and preparers”.
- 2) *Widen the scope of public policy reporting in the SRS ED1 to include all policies which have a material impact on the jurisdiction’s climate outcomes, either directly or indirectly* – whilst this approach would provide greater transparency over public policy impacts (both negative and positive, as well as any trade-offs) and might best meet the needs of users, we believe that this approach would be extremely difficult to achieve in practice, in the short term in particular, for many public sector bodies. Developing such reporting would require significant investment in reporting systems, procedures and data collection/processing, as well as in skills and competencies of public sector reporting teams at a time when many governments are facing intense fiscal pressures. If adopting such an option, the IPSASB may consider additional transitional provisions which may vary depending on the nature of the entity, and including guidance in any jurisdictional adoption guide (see our comments in SMC 9).
- 3) *Remove the public policy programs requirements from the current ED, focussing it on reporting on an entity’s own operations only, and develop a separate standard for public policy reporting* – this approach would address our concerns with the current approach, although we appreciate that it would not address the need for reporting on policy programs and public sector impact on climate in the short term, which was a key driver behind the development of the public sector SRS. Furthermore, we appreciate that taking this approach may send out the wrong message about the importance of public policy in affecting the climate, and wider ESG matters, and potentially sets back full reporting by several years. However, the advantage of taking the time to deliver robust public policy reporting standards, providing users with decision useful information and transparent reporting of the public sector’s approach to, and impact on, managing climate risks would, in our view, outweigh any such delay. Finally, we believe that focussing on own operations only might lead to an increase in the adoption of the standard in the short term, given that the information for this reporting may be more readily available, and give time for the IPSASB to develop wider public policy reporting requirements.

There are pros and cons to each approach, including retaining the current proposals, and we fully appreciate that deciding on the best way forward will be difficult. Nonetheless, we urge the IPSASB to take a step-back and reconsider these proposals as a matter of priority, taking account of the need to strike a balance between:

- the urgent need for a public sector climate reporting standard which can be widely adopted,
- the ability of public sector bodies to implement the requirements effectively,
- the need for fair, balanced reporting of material climate impacts, particular arising from public policy initiatives,
- the needs of primary users for disclosures around both own operations and the impacts that the public sector can have on climate via public policy,
- the usefulness and quality of disclosures in meeting users' needs.

In striking this balance, in our view the IPSASB should adopt option 3 as we believe that it would be better to finalise a standard for own operations now, enabling public sector bodies to start reporting sustainability information. The IPSASB can then spend further time considering how best to achieve effective reporting of decision-useful information on public policy programs which might have a material impact on climate objectives.

Specific Matter for Comment 4: Public Sector-Specific Definitions (paragraph 7)

This Exposure Draft provides public sector-specific definitions and related guidance for:

- (a) Public policy programs;*
- (b) Public policy program outcomes; and*
- (c) Climate-related public policy programs*

Do you agree with the proposed public sector-specific definitions and guidance? If not, what alternative definitions would you propose and why?

We agree with the definitions of public policy program and public policy program outcomes, which reflect that the impacts of *public policy programs* may be wide-reaching and impact more widely on the economy, environment and people.

However, as set out in our response to SMC 3 we do not agree with the definition of climate-related public policy programs as “*public policy programs with a **primary objective** to achieve climate-related outcomes*”. In our view, the definition of public policy programs should refer to those programs which have a material impact on climate-related outcomes.

These definitions could be further enhanced by the IPSASB considering how it defines “climate-related outcomes” (AG2.5 includes reference to three potential example outcomes, namely reduction in GHG, percentage increase in energy efficiency and reduced exposure to climate-related risks).

Specific Matter for Comment 5: Strategy for Climate-related Public Policy Programs (paragraphs 12 and AG2.24–AG2.31)

This Exposure Draft proposes disclosure requirements about an entity's strategy for climate-related public policy programs which include information that enables primary users to understand the entity's strategy and decision-making, anticipated challenges to achieving intended outcomes and financial implications of the climate-related public policy program.

Do you agree that the disclosure requirements on strategy for climate-related public policy programs meet the information needs of primary users?

If not, what alternative approach would you propose and why?

Notwithstanding our concerns on the public policy programs requirements set out in SMC3, if the IPSASB retains the proposed public policy reporting the final standard, we broadly agree with the disclosure requirements concerning the entity's strategy for climate related public policy programs. We note that, given the restricted nature of reporting only programs with a primary climate objective, the disclosures on strategy may be restricted.

The strategy disclosures around public policy would be much more meaningful to users if they covered all policies which would have a material impact on climate, although as we note in SMC3 we do not believe that reporting on all such policies is currently achievable by most public sector entities. This would enable a better discussion of the impacts, both positive and negative, of the entity's policy programs and any relevant trade-offs. Trade-off decisions will be a key aspect of strategy disclosures, and we are pleased to note that AG2.24 (d)(i), requires disclosure of trade-off decisions between climate related public policy programme outcomes. However, we believe that users are likely to be more interested in the trade-offs required in respect of other public policy programs, including those for which other entities are responsible.

We question the requirement that disclosures only cover financial implications of public policy programs on the entity itself, which appears to contradict the definition of climate-related public policy programme outcomes, which also includes "*the impacts on the economy, environment and/or people*". The financial impact on the entity itself may, in some situations, be relatively small compared to the external impacts where financial impacts on the economy and citizens (i.e. outside the entity) may be more significant.

Specific Matter for Comment 6: Metrics and Targets for Climate-related Public Policy Programs (paragraphs 26–27 and AG2.34–AG2.44)

This Exposure Draft proposes to require disclosures about metrics and targets, including

- a. the change in greenhouse gas emissions reasonably attributed to climate-related public policy programs and*
- b. other metrics to measure and monitor performance in relation to climate-related public policy programs.*

Do you agree these disclosures meet the information needs of primary users of the report (see paragraph 26)? If not, what alternative approach would you propose and why?

Notwithstanding our concerns around the proposed public policy programs requirements set out in SMC3, if the current proposals are adopted, we agree with the proposed disclosures on metrics and targets, and believe that they would meet the information needs of users in that context. It is likely in the early years, that many public sector bodies may face challenges in collecting relevant data for reporting these disclosures, and it is important that any such challenges are clearly set out in sustainability reports.

Many public sector entities may struggle with disclosing the anticipated challenges to achieving the intended outcomes of public policy programs, set out in AG2.26 to AG2.28, particularly where other public sector entities are responsible for implementing the public policy program.

Specific Matter for Comment 7: Conceptual foundations (paragraphs B2–B15)

This Exposure Draft includes conceptual foundations aligned with the IPSASB Conceptual Framework including the definition of materiality (see paragraphs B8–B10) and primary users of public sector general purpose financial reports (see paragraphs B.AG28–B.AG33).

Do you agree that the proposed definition of materiality based on the IPSASB Conceptual Framework meets the information needs of primary users for climate-related disclosures? If not, what alternative approach would you propose and why?

We agree that the proposed definition of materiality meets the informational needs of primary users, with the following comments.

The Conceptual Framework definition of primary users is broad (service recipients and their representatives and resource providers and their representatives), and we note that the B.AG28-B.AG52 does not limit entities from disclosing the external impact of their activities, nor does it limit this to financial impacts of its public policy programs. In this context:

- limiting the scope of disclosures in AG2.29 – AG2.31 to the financial impact of climate-related public policy programs on the entity itself may be too restrictive;
- as public policy outcomes include external impacts on the economy, individuals and the environment, assessing the materiality of public policy disclosures is likely to involve their external impacts. As such, this would appear on the face of it to involve an element of a “double” materiality approach. It is not clear if this is the IPSASB’s intention, and it would be helpful to clarify whether this is, indeed, the Board’s intention.

Specific Matter for Comment 8: General requirements (paragraphs B16–B46)

This Exposure Draft includes general requirements aligned with private sector guidance (IFRS S1) including the requirements for

(a) an entity to include its climate-related disclosures in its general-purpose financial reports (see paragraphs B22–B25) and

(b) an entity to report its climate-related disclosures at the same time as its related financial statements (see paragraphs B26–B31).

Do you agree that the disclosure requirements proposed in the general requirements are appropriate for public sector entities? If not, what alternative approach would you propose and why?

We agree with the general requirements which are aligned with private sector requirements set out in IFRS S1. However, we believe that it would have been more appropriate to develop public sector equivalents of both IFRS S1 and S2 for publication at the same time, rather than incorporate aspects of IFRS S1 in the climate reporting standard which makes the standard complex and, in places, difficult to follow. We fully understand the time and resource pressures which the IPSASB faced in developing SRS ED1, but we urge the IPSASB to develop an IFRS S1 equivalent standard as a matter of priority, with appropriate amendments to SRS ED1 to streamline the reporting requirements for preparers and remove the need to incorporate elements of IFRS S1 in future topic-based standards.

Specific Matter for Comment 9: Transition (paragraphs 30–33)

This Exposure Draft proposes to provide transitional relief only in the first year of adoption (see paragraphs 30–33) for disclosures relating to an entity’s own operations and where applicable, relating to climate-related public policy programs and their outcomes.

Do you agree that the proposed transition provisions approach should be applicable to both own operations and climate-related public policy programs? If not, what alternative approach would you propose and why?

We have set out our concerns relating to public policy program reporting in SMC3. However, if the IPSASB proceeds with the current proposals around disclosures for public policy programs with a primary objective around climate, then it would be appropriate that transitional reliefs apply to both

own operations and public policy programs. However, in our view, the IPSASB should consider whether it may be appropriate to have longer transition periods for disclosures around public policy programs, which may be difficult to achieve. We do, however, challenge whether a one-year transition period is appropriate for many public sector entities and suggest that the IPSASB may wish to consider longer transition periods for some or all requirements (for example, a longer transition period for public policy programs depending on the option selected – see our comments on SMC 3).

Although we agree that climate and sustainability disclosures should be reported at the same time as the related financial statements, we do not believe that this is likely to be achievable in the early years of adoption due to lack of resource, skills, data and systems. The IPSASB may wish to consider an extended transitional provision on the timing of publication, beyond the one year included in IFRS S1, and/or to reconsider where climate related information may be reported during a transition period. Without such a provision, there is a risk that challenges in developing climate reporting may lead to the unintended consequence of delays in public sector financial reporting.

We agree with IPSASB's comment in BC89 that there will be challenges for public sector entities implementing SRS ED1. We believe this is particular the case for public policy programs, whichever option the IPSASB takes in this regard, and even requiring merely disclosures on the own operations for many smaller public sector bodies will be a challenge due to limited capacity, expertise and systems to produce reliable information. Proportionality will be a key consideration affecting the adoption of SRS ED1 and it is noteworthy that the Private Sector sustainability reporting requirements around the world are restricted to the largest public interest entities only in the early years. The IPSASB may wish to consider issuing guidance, or additional content in the basis of conclusions, outlining how proportionality concerns may be addressed.

It is for individual jurisdictions to adopt and implement SRS ED1, including considerations of which entities should apply the standard and any transitional provisions. To support jurisdictions in this journey, and to drive greater consistency in adoption, we urge the IPSASB to develop a jurisdictional adoption guide, similar to that provided by the International Sustainability Standards Board for its IFRS S1 and S2 standards. Such a guide, focussed on public sector specificities for the adoption of SRS ED1, may cover aspects such as:

- entities which are required to adopt the standard (perhaps providing a steer to focus on larger or more complex entities first, as with the private sector, and considering the different types of public sector entity)
- reporting boundary
- transitional reliefs, particularly around public policy programs
- location of reporting (e.g. in general purpose financial statements or annual report as appropriate)
- effective date
- jurisdictional modifications (preferably adding to the standard rather than carving out from it)

Specific Matter for Comment 10: Other Comments

Do you have any other comments on the proposed Exposure Draft?

SRS ED1 is a complex standard, focusing mainly on the requirements set out in the ISSB's IFRS S2 (climate disclosures) standard but also incorporating relevant elements of IFRS S1 (general requirements) to enable entities to report on climate disclosures. As a result, the structure and flow of the standard are overly complex and confusing at times which, as noted in the alternative view *"introduces significant challenges for user and preparers to understand the scope of the ED, navigate it and understand the underlying disclosure requirements"*. It may be possible to assist users by publishing the final standard in an interactive, online format which may enable users and preparers to select relevant topics for display (e.g. if they only wish to focus on own operations or public policy programs aspects of the standard).

Depending on the decision how to proceed with public policy programs (see our comments in SMC 3), it may be appropriate to consider separate standards for own operations and public policy programs, particularly if the IPSASB concludes that the scope of public policy should be widened. As set out in SMC3, we believe that the IPSASB should finalise a standard for own operations now, enabling public sector bodies to start reporting sustainability information, and spend further time considering how best to achieve effective reporting of decision-useful information on public policy programs which might have a material impact on climate objectives.

As noted in our comments to SMC 8, we believe that it would have been more appropriate to develop public sector equivalents to both IFRS S1 and S2 for publication at the same time, and we urge the IPSASB to develop an IFRS S1 equivalent standard.

Further discussion

If you would find it helpful to discuss any issues in this letter, please contact Paul Winrow, Partner, Public Policy & Regulation. (paul.winrow@mazars.co.uk).

Yours faithfully,

Forvis Mazars Group SC

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