

## SRS Exposure Draft 1, Climate-Related Disclosures

We welcome the opportunity to respond to SRS Exposure Draft 1, Climate-Related Disclosures. Before the specific comments, we would like to make some general considerations.

Some obligations of climate-related public policy have been decided in the past, considering international agreements, namely the Paris Agreement, and European Countries' alignment under European directives.

Examples such as the already implemented disclosure of greenhouse gas emissions according to related targets.

But the current context of war and change of external policy driven by the United States must be taken into consideration, as stated in "Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760".

*"The CSRD and the CSDDD are now being implemented in a new and difficult context. Russia's war of aggression against Ukraine has driven up energy prices for EU undertakings. Trade tensions are rising as the geopolitical landscape continues to shift."*

So, it is important also to take into consideration:

- The Mario Draghi report on 'The Future of European Competitiveness' draws attention to the burden and compliance costs created by the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).
- The Omnibus process in course aiming the reduction of administrative and reporting burden costs - Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements.

The scope on which the entire proposal stands seems to be dependent on:

- Very specific technical criteria that must be addressed by specialists;
- Policy determinations considering these technical definitions, which, for us European countries, must be addressed both by the European Commission and by international agreements, considering among other current pressures:
  - the current situation considering very important war scenarios going on in a global world impact (Ukraine/ Russia, Palestine, Syria, Somalia, Yemen, Central African Republic, Congo ....) with high environmental impact;
  - the change in Europe's defence policy approach;

- the current situation of world trade and its impact on enterprises and countries' economies, considering major world impact policy changes, such as US policy changes in climate and environment, as well as in world trade impact policy (starting with tariffs).

**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?*

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

The specific matter for comment in hand relates to the purpose of the exposure draft itself, which is to "(...) provide principles for an entity to disclose information in its general-purpose financial reports about climate-related risks and opportunities to its own operations and outcomes of its climate-related public policy programs that is useful to primary users for accountability and decision-making purposes".

The requirement to disclose information on climate-related risks and opportunities (1) of its own operations and (2) of the results of the programs with these (issues) being related, cannot be unrelated to the context of different governmental functioning of each country.

Starting with (2), as experience has been dictating, it takes a few years of data collection, analysis of difficulties, and correction of trajectories, to reliably have useful information for entities to report on the result of the programs (in general). The specificity of climate-related programmes, in particular, in some entities that have been created or are still in the process of being set up for this purpose, is still very incipient, with scattered information that lacks robustness and a pre-established political priority.

In addition, this requirement will lead to duplication of reporting for certain entities. Thus, without detracting from the importance that these entities with specific responsibilities in the climate should disclose the result of their responsibility in programs that they have attached, it seems to us that it should not be part of their individual disclosure, but of the Government in general, within the scope of the General State Account.

As regards the disclosure of own operations (1) related to its initiatives, public entities contract objectives within the framework of their budget proposal and must identify actions in which climate change is identified. In Portugal, there is still no assessment carried out by public entities as a whole of the topics that are priorities for users of

climate-related information, except for the Sustainable Development Goals (SDGs), nor a conceptual framework that helps to frame these topics. It is also known that for a proper environmental impact assessment it is not enough to analyze their operations, but also that of their supply chains, which can be quite complex and include different sectors and regions. Each link in the chain will have a series of externalities, which need to be mapped.

This work is immense and lacks a stabilized and defined conceptual framework for the State as a whole, which is not the case at the moment. Making this requirement in the current framework may result in a serious risk of non-compliance for public entities, and/or a false image of compliance and/or comparative analyses between countries.

Thus, although this disclosure is important and necessary, it should be phased and should be accompanied by more regulations, collected from technicians and agencies specifically dedicated to these topics that define for each entity (0) assessment of the starting point, of itself and its value chain, (i) climate-related objectives to be achieved (ii) what data to collect; (iii) how to collect them; (iv) the priorities of dissemination.

#### **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?*

In general, we agree with the approach and guidance proposed in the document, which provides for harmonization between private and public sector practices, promoting comparability and consistency in the disclosures of sustainability and greenhouse gas emissions. It is an approach that combines standardization with flexibility, allowing adaptations to the particular needs or regulations of each entity.

The fact that it allows flexibility to use alternative methods that are more appropriate or required by jurisdictional authorities, demonstrates sensitivity to the different realities of entities and local requirements.

The GHG Protocol is recognized and used worldwide, which facilitates the comparison and consistency of the information disclosed. However, the flexibility to adopt alternative methods if needed is important, since different jurisdictions may have specific requirements, or the industry may have more suitable measurement methods.

The use of the GHG Protocol can enable a standardized approach to emissions measurement, facilitating cross-entity comparison, especially at the global level.

However, the presumption that the GHG Protocol will always be the standard approach can be seen as limiting in specific contexts where another methodology is more appropriate or necessary.

The possibility of adopting alternative methods, if necessary, offers flexibility to meet specific regional or sectoral needs, allowing entities greater freedom to adapt their emission measurement practices to their specific realities, which can be crucial for a more effective and comprehensive disclosure system, in order not to compromise transparency.

It seems that a more explicit and clear choice between different methodologies for measuring GHG emissions could be allowed, especially in contexts where other methodologies may be more appropriate, without automatically assuming that the GHG Protocol is the norm, but with a requirement for clear justification if an alternative method is used. The GHG Protocol could be a recommendation rather than a presumption, and there should be a clear procedure in place for cases where another approach is chosen, including a detailed disclosure of the criteria used to choose the measurement method.

### **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.*

The definition of public sector entities raises several questions, namely because it is too broad and is not associated with any statistical reference (for example, in Europe the European System of National and Regional Accounts – ESA2020). In Portugal, the concept of public sector entities is duly defined by the ESA2020 and by the Budgetary Framework Law, Law 151/2015, of 11 September, in its current version, article 2, being the basis for identifying the entities that make up the State Budget, the Institutional Sector of Public Administrations and the duty to comply with reporting.

### **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?*

- a) In the ED it is defined as "Public policy programs are any type or set of interventions taken or mandated by a public sector entity exercising its sovereign powers to influence the decisions or behaviours of other entities or individuals." It is a very broad definition, there is no obligation to be a structured set of initiatives/strategies and vague (any type?). On the other hand, by establishing that it must be within the scope of its sovereign powers, will it then always have to be imposing?  
Proposal: "Public policy programs are structured interventions by public sector entities, using their authority to influence the decisions or behaviours of individuals and organizations."
- b) In the ED it is defined as "Public policy program outcomes are the impacts on the economy, environment and/or people, which occur as a result of, or are reasonably attributable to, the public policy programs." It is again quite broad and vague. It does not impose that the impacts are direct and by including that they can be reasonably attributable, it gives a lot of leeway for what you want to consider and at the same time a lot of room to be able to argue that there are things that are not being considered.
- c) In the ED it is defined as "Climate-related public policy programs are public policy programs with a primary objective to achieve climate-related outcomes." – This definition is made from the other two, but it would be necessary to define what would be "climate-related".

#### **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?*

Please see comments one and two listed above.

**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?*

The requirements proposed in paragraphs 26–27 and AG2.34–AG2.44 are adequate to meet the needs of primary users of financial reporting, as they promote transparency and accountability. However, to further strengthen the effectiveness and comparability of information, we propose the following:

- Adoption of standardized guidelines for the attribution of emissions to public policies.
- Mandatory disclosure of complementary metrics in addition to GHG emissions.
- Definition of clear criteria for the formulation and review of climate targets.
- Requirement of a transition plan to improve data collection.
- Mandatory alignment with internationally assumed climate commitments.

These improvements would ensure that the information disclosed is relevant, comparable and useful for decision-making, promoting greater efficiency in the management of climate policies in the public sector.

**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?*



On the first analysis, we agree with the proposed definition of materiality, based on the IPSASB's Conceptual Framework, as it seems to meet many of the principles required for climate disclosures.

However, we believe that some issues should be considered:

#### **A) Limited Approach to Direct Financial Impacts**

The definition of materiality in ED1 is based almost exclusively on the financial impacts that climate-related risks can have on an entity. Such an approach may be insufficient for the public sector, as many of the consequences of climate change impact public services and society more broadly and are not easily quantifiable in financial terms.

One of the solutions would be to adopt the concept of dual materiality, similar to that applied in the framework approved by EFRAG under the CSRD Directive.

#### **B) Additional Guidelines**

Many climate impacts can be difficult to measure financially, especially for public sector entities that provide essential services (health, education, infrastructure, etc...). Therefore, it is proposed that the IPSASB provide additional guidance/guidelines on how to assess materiality.

#### **C) Differentiating Between Government Entities at Different Levels**

The application of the concept of materiality can differ significantly between central, regional and local governments, as well as between different types of public sector entities. To avoid regulatory overburden, it is proposed that the IPSASB provide differentiated or segmented guidance, allowing small entities or entities with less climate impact to be exempted, totally or partially, from this reporting obligation.

### **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?*

Although we generally agree with the general requirements proposed, considering the previous comments we must stress the difficulties to public sector entities in Portugal having the necessary infrastructure, expertise, and resources to integrate climate-related disclosures into their financial reports in the next years.

The interim reports bring even more concerns, namely when we must deal with several annual public sector combinations and with increasingly shorter electoral cycles.

### **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 agree that the proposed approach to transitional arrangements should apply both to own operations and to climate-related public policy programmes.

The existence of a transition period is essential for public organisations to adapt to the new disclosure requirements.

However, considering the recent proposals for European directives, within the scope of sustainability reports, to simplify the rules, change the application criteria and postpone deadlines, we consider that:

- The transition period should be extended to more than one year, within no less than three years, giving additional time to entities to collect information and improve reporting models.
- The new deadline to be established should nevertheless be differentiated regarding own operations and climate-related public policy programmes, and an even longer transition period should be established for the latter.
- Indeed, climate policy programmes involve external factors, such as government regulations, financing mechanisms, and multi-stakeholder involvement, which may require more time for the collection and reporting of relevant data.

### **Specific Matter for Comment 10: Other Comments**

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

Other Comments were made at the beginning as general considerations.

Lisbon, 21<sup>st</sup> March 2025