

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

Comments on the IPSASB's Exposure Draft of Sustainability Reporting Standard 1

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) and its secretariat at the United Nations Conference on Trade and Development (UNCTAD) appreciate the opportunity to provide comments on the International Public Sector Accounting Board's (IPSASB) Exposure Draft for Sustainability Reporting Standard 1 (SRS 1) *Climate-related Disclosures*.

ISAR recognizes the importance of the work of IPSASB in developing and promoting the adoption of high-quality accounting standards by governments and other public sector entities worldwide. At its 41st session, held from 6 to 8 November 2024, members of ISAR requested the UNCTAD secretariat to “continue to follow developments on sustainability reporting requirements, including the development of sustainability reporting standards for public sector entities, and to act as a channel for the views and positions of ISAR.”

The comments in this document are intended to be constructive, and ISAR looks forward to continuing its positive engagement with IPSASB in its future work.

Background

ISAR's annual sessions in Geneva attract policymakers, regulators and standard setters, professional accountancy organizations, private sector practitioners, academics, and civil society organizations. ISAR has developed extensive materials on various financial and sustainability reporting topics. It fosters dialogue and consensus building, knowledge exchange, and peer-to-peer learning to enhance financial and sustainability reporting infrastructure and quality worldwide. While prioritizing the needs of developing countries, ISAR provides technical assistance to jurisdictions with less developed financial and sustainability reporting frameworks.

ISAR has also worked extensively on compliance and enforcement mechanisms to ensure high-quality corporate reporting. It has supported numerous jurisdictions in implementing various reporting frameworks, including the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). A key instrument in this endeavor is ISAR's Accounting Development Tool (ADT), which provides a framework for capacity building, enabling countries to assess their regulatory, institutional, and human resource capacity for high-quality corporate reporting. In 2018, the ADT was updated and expanded, especially in the sustainability reporting area. The Tool will be further augmented to support IPSASB standards and capture recent developments in sustainability reporting by companies and institutional investors. ISAR has been engaging with the IPSASB at different junctures for many years with a view to supporting the practical implementation of IPSASB standards, including by jointly organizing capacity-building workshops. On the occasion of the fortieth session of ISAR,

in October 2023, UNCTAD organized a symposium to discuss considerations for developing sustainability reporting standards for entities in the public sector.

The comments in this document have been compiled by the UNCTAD secretariat on behalf of ISAR. ISAR's views on the exposure draft of SRS 1 have been consolidated following a consultative meeting held on 29 January 2025. This meeting was well attended by ISAR's membership. The deliberations included contributions from ISAR's Regional Partnerships for the Promotion of Sustainability Reporting as well as individual experts. The discussions covered several key themes related to the exposure draft.

Critical issues for ISAR

ISAR supports the introduction of sustainability reporting standards for public sector entities, recognizing their responsibility to act on sustainability issues and informing stakeholders about their efforts. However, there is a tension between the urgent need for action and the current capacity of public sector entities to collect, analyze, and disclose the volume of information required by SRS 1. The main themes in ISAR's comments are the need for differentiated disclosure requirements, particularly for smaller public sector entities, and the need for capacity building programs to enable compliance by entities that have limited resources.

The following points emerged as critical for ISAR members during the consultation process:

Overall approach

- **Universal requirements:** SRS 1 mandates that all public sector entities disclose information related to governance, strategy, and metrics for all risks and opportunities likely to have long-term impacts. While this comprehensive approach provides valuable insights, it also imposes significant challenges for many entities with limited resources. ISAR members expressed concerns that the volume of disclosures might lead to collecting and publishing more information than users are able to interpret.
- **Differentiation for smaller entities:** While larger entities may benefit from economies of scale in the disclosure processes, smaller entities may face disproportionate burdens. Consequently, a proportional approach seems more appropriate. ISAR suggests that IPSASB consider a tiered reporting framework, where all entities disclose a core set of information, and the full set of disclosures would be made by larger entities. Another approach would be to require entities that issue bonds or borrow from capital markets to disclose the information on climate-related metrics and make it voluntary for the others.

Scope and alignment

- **Definitions:** ISAR notes that the Request for Comments section of the exposure draft includes, on page 3, a definition of the “**public sector entities**” that SRS 1 would apply to. There is not, however, a definition of public sector entity or entity

in the draft text of SRS 1 that begins on page 6. Does the IPSASB envisage SRS 1 would apply only to corporate entities or will it apply to any partnership arrangements that public bodies can be involved in without necessarily creating a separate legal entity?

The current definition of "materiality" requires disclosure of all material information affecting an entity's long-term sustainability. ISAR suggests that materiality should also determine the scope of disclosures, ensuring that entities concentrate on disclosures about material risks and opportunities rather than disclosing an exhaustive set of information that may not be relevant to all users. It would also be helpful for the Board to consider introducing a double materiality approach to sustainability reporting, encompassing impact measurement from the perspectives of a border range of stakeholders.

- **Scope 3 emissions:** ISAR acknowledges the importance of Scope 3 greenhouse gas emissions reporting but highlights implementation challenges, particularly for smaller public sector entities responsible for delivering essential services. Many public sector entities procure goods and services internationally, adding complexity to Scope 3 emissions measurement.
- **Public policy programs:** Public sector entities differ from businesses, and their sustainability reporting should reflect this reality. Reporting requirements should consider policy programs that extend beyond an individual entity's operational boundary. ISAR members raised concerns, however, about the feasibility of tracking long-term impacts of such policy programs, as some sustainability initiatives take years to yield measurable outcomes. Additionally, reporting on negative policies (such as bans or phase-outs) requires clarification about how long after the policy program was enacted disclosures should be made.

Implementation considerations

- **Implementation timeline:** Until now sustainability reporting has been largely voluntary, and public sector entities vary widely in their readiness to comply with SRS 1. IPSASB may wish to consider a phased implementation approach, ensuring sufficient time for capacity building and alignment with existing reporting frameworks. This could consider different phases for different types of public sector entities, leaving more time for smaller entities that have less capacity and resources to provide the information.
- **Capacity building and technical assistance:** Many public sector entities, particularly in developing economies, operate with constrained resources. Capacity-building initiatives will be essential to enable compliance. ISAR calls on the IPSASB to provide robust implementation guidance and to advocate for international support in assisting governments with capacity-building efforts. Whilst capacity building is primarily needed for the preparers of financial and sustainability reports, there may also be a need for awareness raising and capacity building among the service recipients who are a primary audience for the information.

- **Data availability:** Data collection remains a significant challenge, particularly in jurisdictions with underdeveloped reporting infrastructure. ISAR highlights the need for IPSASB to address issues related to data gaps, inconsistencies, and institutional capacity constraints.
- **Access to expertise and tools:** Some countries face greater challenges in obtaining the expertise and tools necessary for high-quality sustainability reporting. IPSASB should consider fostering partnerships with international organizations to promote equitable access to technical support.
- **Group accounting:** The position of the IPSASB regarding the application of SRS 1 in group financial statements, including whole of government accounts needs to be clarified as the only mention of accounting group is in paragraph 17 (a) (iv) in connection with disaggregating scope 1 and scope 2 greenhouse gas emissions. What information should a parent entity disclose about its subsidiaries' climate-related risks and opportunities within its own financial statements?
- **Cost of implementation:** Sustainability reporting requires entities to build new reporting capabilities from the ground up. National governments and individual entities may struggle to estimate the resources needed for compliance with SRS 1 because they do not have any experience or existing systems and information to build on. This situation makes it very difficult for national governments and individual entities to estimate the time and money that needs to be spent to implement, and then maintain, sustainability reporting. ISAR members would find it very helpful, therefore, if there were some examples or models that they can learn from. A program of **pilot testing** of the proposals by a wide range of public sector entities could be helpful to the IPSASB and to public sector entities, to identify practical challenges in collecting and disclosing the information and to understand the costs of implementation of SRS 1. A repository of sustainability reports by public sector entities would provide a useful reference for entities starting their sustainability reporting journey.

Next steps

The implementation of global sustainability reporting requirements, including public sector reporting standards, will remain a priority for ISAR member States in the coming years. Key areas of focus include ongoing contributions to the refinement of public sector sustainability reporting frameworks and capacity building in developing countries.

To advance these objectives, ISAR will leverage its stakeholder network to address public sector reporting and governance challenges. Additionally, ISAR will engage closely with IPSASB and other relevant standard-setting bodies to facilitate knowledge exchange and promote best practices, including through the Regional Partnerships on SDG and sustainability reporting as well as the global ISAR network.

We look forward to continued collaboration in fostering reliable, comparable, and high-quality sustainability reporting in the public sector.