Date: September 9, 2022

Mr. Ross Smith

Program and Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street, 4th floor

Toronto

Ontario M5V 3H2

CANADA

RE: Comments on CP *"Advancing Public Sector Sustainability Reporting"*

Dear Mr. Smith,

We welcome the opportunity to comment on the Consultation paper "*Advancing Public Sector Sustainability Reporting*". Our responses to the questions raised in the Consultation Paper are set out in Appendix 1.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Mr. Abdullah Alhomaida via email at:

a.alhomaida.kfa@mof.gov.sa

Yours sincerely,

Abdullah Al Mehthil

Head of the Public Sector Accrual Accounting Center and Secretary to the Public Sector Accounting Standards Committee

The Ministry of Finance

Riyadh, Saudi Arabia

Appendix 1 - Comments on the Consultation Paper titled "*Advancing Public Sector Sustainability Reporting*"

Preliminary view 1 — Public Sector Sustainability Reporting Guidance Drivers

The IPSASB's view is that there is a need for global public sector specific sustainability reporting guidance.

Do you agree with the IPSASB's Preliminary view?

If not, please provide your reasons?

We agree that there should be global public sector specific sustainability reporting guidance. However, the scope of sustainability reporting in the public sector context should be clearly defined, and the guidance should provide an integrated framework that underlines sustainable development goals (SDGs), related indicators, and sub-targets. The guidance should also provide for comprehensive, balanced impact-based reporting, and should be truly global in that it does not induce no or limited development in areas that are important to one country in favor of certain areas that are focal to other countries.

A key barrier to implementation is that such guidance can be perceived as incommensurate. We agree with the view expressed in the Consultation Paper that the public sector differs from the private sector and reproducing ISSB's standards would not be the best approach as the resulting guidelines would not be entirely applicable. Consideration should be given to the reporting implications from international sustainability-related agreements such as the UN's SDGs and the Paris agreement. There are monitoring, verification and reporting and systems in place for these agreements that are implemented on national levels. A public sector reporting framework should support and improve these processes. Furthermore, these agreements are based on the principle of common but differentiated responsibilities (CBDR) between developed and developing countries. Hence, a framework that distinguishes between developed and developing countries would be the best approach.

Also, reporting under the new framework would require certain capabilities and expertise that may not be readily available or sufficient in many jurisdictions, which would call for distant effective dates and/or phased implementation.

Preliminary view 2 —Strategic Fit for the IPSASB

The IPSASB's experience, processes and relationships would enable it to develop public sector specific sustainability reporting guidance effectively?

Do you agree with the IPSASB's Preliminary view?

We believe that developing and maintaining a public sector-specific sustainability reporting framework would require a full-fledged body of subject matter members, that has its own resources and staff, for the following reasons:

- The scope of SDGs would mean a considerable coverage for reporting guidance.
- Sustainability reporting is a relatively recent topic that has no long-established literature as compared to accounting standards, and the Consultation Paper references several sustainability-related international agreements, bodies and approaches where some of them overlap while having their own intended stakeholders and extensive sets of objectives, principles and provisions that are meant to be considered comprehensively. Therefore, developing coherent and balanced guidance that fits the public sector will require extensive resources.
- The role and nature of the public sector vary considerably across countries and regions along with the associated sustainability considerations. It is doubtful that one set of guidance will be equally useful to all public sectors unless considerable flexibility, such as a nationally determined, bottom-up approach, is incorporated in the guidance, especially for developing countries. Also, broader areas, than the private sector, would need to be reflected in the guidance due to the public sector's role as regulator and ultimate assurer.
- How SDGs cascade down through the various public sub-sectors/functions across jurisdictions may require huge consideration to decide relevance and formulate specific requirements.
- Given the breadth and dynamics of sustainability topics, continuous efforts would be required to research emerging issues and related best practices in numerous areas and to explore their applicability and adaptability across jurisdictions.
- Auditability is an issue with the existing sustainability literature that would need to be addressed when formulating the requirements.
- Sustainability reporting under the resulting standards would be new to public sector entities in many jurisdictions, which would require monitoring of implementation issues and supporting constituents with further guidance.

We therefore strongly recommend creating a specialized body similar to the ISSB. Such a board and it resources should ensure adequate regional representation to ensure that the resulting guidance is relevant to all regions and countries thereby increasing the likelihood of adoption. Given the diversity of sustainability issues, several specialized committees would be required to keep track of scientific, technological, social and economic developments.

This would in turn allow the IPSASB to focus its members' time and resources on the stated priorities for convergence with IFRS, international statistical bases of reporting, budget monitoring and reporting systems; differential financial reporting for less complex entities; public sector specific issues where guidance is lacking; and continuous improvement of existing standards.

Specific Matter for Comment 1—Chapter 3- Public Sector Approach

If the IPSASB were to develop global public sector specific sustainability reporting guidance, please tell us what topics you see as most pressing in your jurisdiction and why these should be prioritized by the IPSASB.

According to KSA Vision 2030, the most prioritized (and publicized) topics are: reducing reliance on non-renewables and shifting to renewable, atomic, and other environment-friendly sources of energy, efficiency of energy consumption, tackling climate change also with drought surviving tree planting, handling water resources in the face of water scarcity and desertification. Vision 2030 has placed a strong emphasis on sustainability since its inception. The Kingdom of Saudi Arabia is now ushering in a new age as it strives to achieve Net Zero Emissions by 2060. Furthermore, Saudi Exchange, formerly known as the Saudi Stock Exchange "Tadawul", joined with the UN Sustainable Stock Exchanges Initiative to increase public knowledge of ESG promoting initiatives and sustainable investment, in coordination with market players like Investors and issuers, Saudi Exchange has since communicated with listed businesses, benchmarks, and index investors, rating agencies, and other service stock exchanges, using a variety of channels to support the expansion of ESG disclosure in the Saudi capital market, for more information click here.
Please follow the links below for an overview of the Kingdom of Saudi Arabia's targets and efforts to achieve the Global Goals of the 2030 Agenda for Sustainable Development:

1. Our Work on the Sustainable Development Goals in Saudi Arabia: https://saudiarabia.un.org/en/sdgs
2. Unified National Platform (GOV.SA): https://www.my.gov.sa/wps/portal/.
3. A Sustainable Saudi Vision: https://www.vision2030.gov.sa/v2030/a-sustainable-saudi-vision/

Preliminary view 3 — Chapter 3- Public Sector Approach

If the IPSASB were to develop global public sector specific sustainability reporting guidance it proposes applying the framework in figure 5.

In developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes.

Do you agree with the IPSASB's Preliminary view?

We agree with proposed framework, However, considering the simplicity of the concept of Figure 5 may not be that helpful in understanding the IPSASB objective; hence, providing more detailed implementation plans is recommended. As indicated in our response to PV 2, we recommend a dedicated full-fledged standard setter for public sector sustainability reporting. We would agree such a board should work in collaboration with other international bodies. Work should also be conducted in collaboration with the statisticians and national accountants who have already proposed a conceptual framework to structure the work on SDGs.

Preliminary view 4— Chapter 4- Public Sector Approach

If the IPSASB were to develop global public sector specific sustainability reporting guidance. It would address general requirements for sustainability – related information and climate-related disclosures as its first topics. Subsequent priority topics would be determined in the light of response to this consultation paper as part of the development of its 2023-2028 Strategy.

Do you agree with the IPSASB's Preliminary view?

If not please provide your reasons, explaining which topics the IPSASB should prioritize 2instead, and why.

The Consultation Paper refers to the UN's 17 SDGs but clearly focuses on climate change as the intended first priority. We agree that climate change is a crucial global issue, but other issues may be more pressing, at least in some regions, such as hunger, disease and poverty. We believe all SDGs are equally important and sustainability can only be achieved through holistic and balanced approaches. Any consideration of SDGs/sustainability areas must not come at the expense of other SDGs/sustainability areas.

As indicated in our responses to PV1 and PV2, there is a need for a defined scope of sustainability reporting in the public sector context as well as a differential approach that defines sets of appropriate requirements for developing and developed economies and reflects the public sector's role as regulator and ultimate assurer. This will in turn enhance applicability and encourage adoption. The IPSASB's proposed accelerated approach shooting for 2023, on the other hand, might risk ending up in IFRS S1 and S2-converged standards that do not cater to differential reporting needs and user needs beyond capital market investors.

Most of the global goals and indicators, such as the SDGs are formulated at a highly aggregated level and are often measured with national and transnational targets. These high-level goals and indicators are less sensitive to specific contextual priorities and can be ambiguous or insignificant for measuring and monitoring the achievement of success at the local level.

The challenge of high-level goals can be compounded by top-down approaches in the implementation of plans and programs where the initiation process is largely centrally coordinated. This challenge was observed in the initiation process of Local Agenda 21, which was largely technocratic, with most of the responsibility to design and implement the programs falling into a specific department within local authorities. This led to a lack of genuine participation from community members throughout the implementation efforts. A bottom-up approach can ensure a more nuanced investigation of the diverse priorities within different regions and can better reflect on local contextual variations in defining goals, targets, and their indicators.

We are concerned that the ISSB's Draft S1 and S2 are still in debate and our constituents have identified several issues withing those drafts.

S1 assumes sustainability risks and opportunities can be normalized and compared globally. This approach might be inappropriate for sustainability considerations due to their subjectivity and lack of standardization. Again, if such a globalized approach is to be attempted, we believe that the disclosures should introduce proportionate approaches and clear distinction with embedded flexibility between developed and developing countries.

The current disclosure requirements in S2 have ample references to emission reductions, their scopes and metrics, but they do not consider other measures to address emissions. When addressing climate change on a global scale, holistic approaches are essential, such as the circular carbon economy approach, an approach adopted by the G20 where all means to address emissions are utilized; namely the reduction, reuse, recycling, removal and recycling of emissions to keep them from reaching the atmosphere and offer opportunities to transform these emissions into economic value, as well as offsetting measures using nature-based solutions, such as investing in environmental projects. We believe that those measures should be included and have equal weight with emission reductions. More guidance would be suggested around the relevant parameters that impact countries value. However:

- This needs to be considered in the wider sustainability context where social, economic, and environmental needs may not be aligned and could vary widely across regions (e.g., efforts to reduce emissions may strain utility and mobility services particularly where they are underdeveloped).
- GHG emissions cannot be considered equally as some entities, and the economies they are part of, have had more than their fair share of emissions that have contributed to their development while others are just beginning and need time to progress (see Article 4.1 of the Paris Agreement recognizing that peaking emissions will take longer for developing countries compared to developed ones).

- The vulnerabilities of economies, especially those of developing countries, to global climate change response measures, such as emission mitigation, should be considered by those undertaking these responses (see Article 4.15 of the Paris Agreement). The same considerations should be afforded to the entities within these vulnerabilities, developing economies.
- Calculating the aggregate amount of emissions would take considerable time. We hence believe operational flexibility should be allowed, including the options to distinguish the reporting period of an investee entity's GHG emissions from that of financial statements.
- Besides reductions and offsets, provisions addressing emissions need to be made to implement certain TCFD requirements, e.g., around board mandates, competency and appropriate skills in a flexible manner.
- Delineations need to be in place for public-private partnerships to avoid duplicate or overlapping reporting.
- Accordingly, any climate change consideration cannot be fairly made without accounting for broader local circumstances and the level of national development (see the principle of "common but differentiated responsibilities and respective capabilities, in light of different national circumstances" in Article 2.2. and other articles under the Paris Agreement).

In addition, we believe that detailing of definitions and further clarity around methodologies and boundaries are required for climate and sustainability topics (e.g., carbon neutrality, value chain, controlling assets, sustainability-related risk, and opportunities, etc.). The identification of significant climate risks & opportunities (R&O) and disclosure requirements around transition plans need to be made clearer.

Another instance where the ISSB's drafts do not incorporate differences between developed and emerging markets is that S2 stipulates that the entities should be required to use the GHG Protocol to define and measure greenhouse gas emissions. However, the international standard ISO14064 is also widely referenced by various countries in many jurisdictions. Moreover, industry-based disclosure requirements, metrics could be more diversified as some of them could hardly be applied to emerging economies.

Some of the metrics are hard to implement. Therefore, more simplicity is needed as the strong subjectivity and uncertainty involved in this process will possibly dilute the accuracy and completeness of disclosures. Besides, calculating certain aspects of greenhouse gas emissions involves a large amount of external data and estimation, which brings in the problem of data availability and accuracy.

The linkage between climate considerations and the remuneration of executive management can also hardly be identified, especially for industries and posts that are less relevant to climate, because factors deciding the remuneration vary greatly across different industries and positions. There are also reliability concerns. The large amount of predictive and forward-looking disclosures envisaged by the exposure drafts pose potential challenges to the reliability principle of the traditional financial accounting standard. Besides, the S1 and S2 exposure drafts stipulate disclosures of comparative information of the previous period. Information may not be comparable over time during a transition.

There are further concerns regarding how climate-related risks and opportunities are integrated into other aspects of the public sector governance, which may pose a challenge to developing country.

Disclosures requirements for transition plans do not explain how to ensure the integrity and credibility of the transition plan made by reporting entities, which may affect the decision-making process of the users. Disclosure requirements for transition plans may be commercially sensitive for certain reporting entities.

Quantifying the impact of climate change on public sector in various aspects is a challenging task, and to make judgement on the climate-related data as to its quality and its stake in the government decision-making are also hard work. Besides, due to the lack of a universal measurement method, scenario analysis, stress tests and other examinations of different entities in the public sector such as climate resilience are also difficult in practice. All these await specific guidance for implementation.

Preliminary view 5- Chapter 4- Key Enablers

The Key enablers identified in paragraph 4.2 are needed in order for IPSASB to take forward the development of global public sector specific sustainability reporting guidance.

Do you agree with the IPSASB's Preliminary view?

If not please provide your reasons, identifying which of the proposed Key enablers you disagree with, and why

As indicated in our response to PV 2, we recommend a dedicated full-fledged standard setter for public sector sustainability reporting. We agree that the enablers described would be essential for such a board to successfully carry out its mission. However, given the diversity of sustainability issues, several specialized committees would be required to keep track of scientific, technological, social, and economic developments.

Specific Matter for Comment 2—Chapter 4 - Key Enablers

To what extent would you be willing to contribute financial or other support to the IPSASB for the development of global public sector specific sustainability reporting guidance.

We will continue to support the IPSASB in its due processes by engaging with our constituents and providing input on drafts and implementation.