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September 7, 2022

Mr. Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board (IPSASB)
International Federation of Accountants

Submitted via IPSASB website

**Re.: IPSASB Consultation Paper
Advancing Public Sector Sustainability Reporting**

Dear Mr. Carruthers,

We would like to thank you for the opportunity to provide the IPSASB with our comments on the Consultation Paper “Advancing Public Sector Sustainability Reporting” (referred to hereinafter as “CP”).

Apart from the general comments in this letter we have included our responses to the Preliminary Views and Specific Matters for Comment in the appendix to this letter.

EY supports the development of sustainability reporting guidance by the IPSASB. We agree with the IPSASB that this project is a matter of urgency, especially with regards to the environmental topics. The IPSASB could indeed take ISSB’s standards as a starting point but given that these standards focus on financial materiality and on enterprise value, we see a need to have a public sector specific approach for financial materiality but also in terms of impact materiality. Impact is not defined by ISSB’s exposure drafts, but impact materiality has a clear linkage to IPSASB’s RPG 3, *Reporting Service Performance Information*.

We also encourage the IPSASB to clearly define the scope of this project. Other than for the private sector, we see two dimensions being of relevance for sustainability reporting in the public sector. On the one hand, IPSASB’s standard-setting could focus on the impacts of public sector sustainability programs. For example, the transition to renewable energy provision has significant impacts on society. Sustainability reporting could inter alia focus on that transition and in this context report on consequential impacts such as the job creation. On the other hand, the IPSASB could focus on the sustainability of public sector own operations, as the ISSB focusses on the operations of the private sector. The element of the service delivery obligation of the public sector is unique in its nature and will likely have an influence on the concept of double materiality. The

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public sector might have a similar set of KPIs compared to the private sector in many instances, particularly when reporting on an entity's own sustainability risks and opportunities, but the context may be very different.

We consider the environmental risks are the most pressing and urgent, but what hinders progress in this regard is often the social and governance aspects and effects. While private sector entities are often the largest polluters, it is government's role to provide proper leadership and support for a just transition, long-term planning of changes to infrastructure, etc to support the transition process. Next to focusing on governments reporting' about their own environmental impacts, the IPSASB should acknowledge the importance of social and governance issues and focus on those aspects as well in its standard-setting. This is especially relevant in developing economies.

Given the current state, we have concerns regarding a lack of expertise on sustainability matters within the IPSASB as well as on staff level. We understand that speed is key. We further acknowledge that this gap is intended to be compensated in the short-term by the IPSASB Sustainability Reference Group (SRG). However, we encourage the IPSASB to consider whether this is a suitable approach also for mid- to longer-term periods.

Related to the suggested approach, in our view the mandate and the profile of the Reference Group would have to be clearly defined in order to have clear allocation of responsibilities. Regarding the composition of the SRG, in the public sector there are environmental and social agencies and ministries focusing explicitly on environmental and social issues. In our view, the IPSASB should make sure that these entities will be involved in the development of sustainability reporting for the public sector. This may affect the ambitious timeline, but it will certainly contribute to the quality and the acceptance of those standards in the public sector.

The IPSASB clearly has the expertise of setting standards for the public sector, but it is also very important to have expertise in the area of sustainability. Therefore, additional technical and practical expertise could be leveraged from the private sector where sustainability reporting is more advanced than in the public sector. Private and public sector initiatives could be better interlinked following such an approach.

We would be pleased to provide you with further information if you require any clarification about our response.

Sincerely,



Thomas Müller-Marqués Berger
Partner and Global Leader of International Public Sector Accounting

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Appendix: Questions for Respondents and Perspectives Requested

Preliminary View 1 — Chapter 1

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.

- Yes, we agree with the IPSASB's Preliminary View.
- We confirm that there is a need for sustainability reporting guidance for the public sector globally. At the moment, at the global level, we only see few standard-setters that could develop appropriate guidance for sustainability reporting for the public sector as a whole. Given that the GRI provides more disclosure on external impact reporting and already has many years of experience and the relevant expertise needed, IPSASB could benefit from a collaboration with GRI.
- There is also a sense of urgency to take action in that area and to align private and public sector initiatives. In addition to its position as a regulator, the public sector also has a responsibility to play in terms of mobility and transportation, energy provision, and ownership of offices, buildings, or infrastructure, as much as private sector companies will be required to report on sustainability.
- Sustainability reporting is just one component of public sector sustainability management, along with sustainability budgeting and sustainability-focused audit. We consider incorporating sustainability aspects into budgeting being even more crucial than reporting. We are aware that the IPSASB cooperates with the OECD in relation to OECD's work developing a framework of green budget principles with the aim of developing proposals for non-authoritative amendments to IPSASB's. In that context, we encourage the IPSASB to explore further possibilities to extend its scope to budgeting issues if there is no international standard-setter systematically handling sustainability budgeting issues. With the IPSASB being in charge for sustainability budgeting and sustainability reporting, consistent approaches for public sector sustainability management could be developed.

Preliminary View 2 — Chapter 2

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

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

- We agree with the IPSASB's Preliminary View to some extent.

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- We are aware of IPSASB's intention to establish a Sustainability Reference Group, and we confirm that IPSASB has standard setting experience, processes, and relevant relationships. However, we have some concerns whether the IPSASB has the capabilities to develop guidelines for sustainability reporting. This issue may raise concerns about the quality of standards. The Sustainability Reference Group might probably be a short-term solution, and the IPSASB needs to think about a long-term perspective for sustainability reporting in the public sector. In our view, while we are supportive of the IPSASB playing a leading role in the development of public sector sustainability reporting standards, it must be conditional on the IPSASB taking the necessary steps and obtaining the necessary resources to capacitate itself at a technical level to ensure it maintains its reputation of producing high quality standards that are relevant to the stakeholders they are aimed at serving.
- Additional technical and practical expertise from the private sector could also contribute to IPSASB's project and could support an interlinking of the developments in the public and in the private sector.
- We recommend that in case the IPSASB decides to develop guidance on that topic, relevant experts (especially in terms of environmental and social issues) need to be taken on board, both from a board's but also from a staff's perspective.

Specific Matter for Comment 1 — Chapter 3

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.

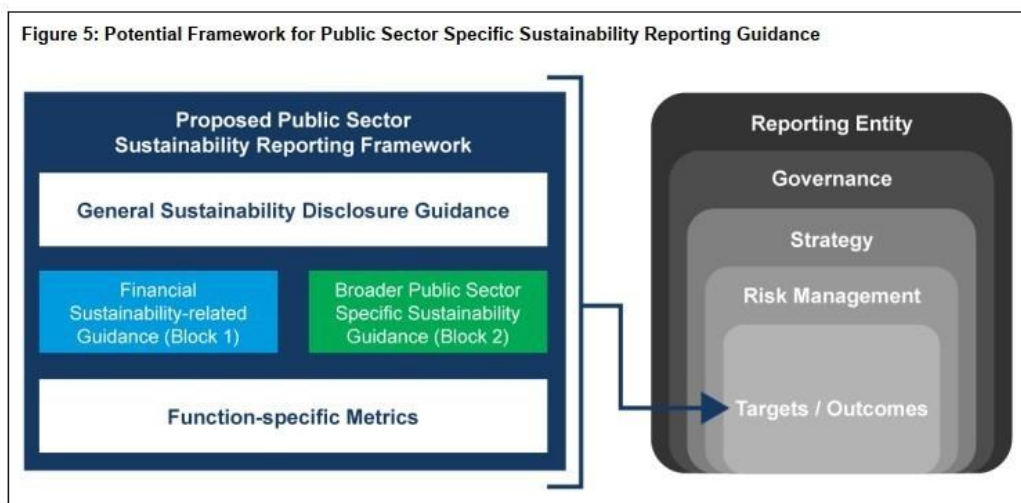
Most pressing issues:

- In Europe, the Corporate Social Responsibility Directive (CSRD) will likely be of relevance to large state-owned enterprises and there may be an impact by the CSRD on sustainability reporting of other public sector entities.
- The European Green Deal aims at achieving climate neutrality by 2050. Therefore, the public sector has a role to play in this context as it is involved in several high-emission issues such as mobility, transportation, energy and housing. Given the objectives of the Green Deal, the IPSASB should primarily prioritize environmental issues in the standard setting agenda. However, governance and social issues need to be addressed as well due to their supporting role for the environmental aspects.
- In developing economies governance and social issues are even more important.
- In addition, the IPSASB could play a role in embedding the SDGs in public financial management, e.g. in the area of budgeting or reporting as outlined earlier.

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Preliminary View 3 — Chapter 3

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?

If not, please provide your reasons, explaining what alternatives you would propose, and why.

We agree with the PV of the IPSASB to work in collaboration with other international bodies - where appropriate through the application of its current processes - taking into consideration the following aspects:

- Against the background of the presumable investor-focus of the ISSB's standards, they might only be partly suitable for the public sector.
- With regard to reporting a government entity's own impacts on the environment, there is already ample guidance available even within the ISSB [Draft] IFRS S2 Climate-related Disclosures, which also contains sector-specific guidance for infrastructure, water services, energy generation, etc. We are of the view that the IPSASB should not duplicate this guidance while missing the bigger issues from a public sector perspective, e.g. the trade-offs between maintaining essential service delivery and preventing/reversing

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climate change or governments' policies and programmes to mitigate the effects of the transition.

- Considering the relevance of the SDGs – also in terms of budgeting – we do see a need to align the IPSASB's approach with SDG-based budgeting on SDG metrics and corresponding reporting. As the OECD Paris Collaborative on Green Budgeting also addresses the SDGs, the existing cooperation between the OECD and the IPSASB could be used for ensuring consistent approaches in terms of sustainability budgeting and sustainability reporting. We consider an alignment of sustainability budgeting and sustainability reporting being essential for the acceptance of such approaches in practice.
- Also, the GRI sustainability reporting framework is widely used in the public sector. Thus, the IPSASB should work closely hand-in-hand with GRI and leverage on their expertise.

Preliminary View 4 — Chapter 3

If the IPSASB were to develop global public sector specific sustainability reporting guidance, it would address general sustainability-related information and climate-related disclosures as its first topics. Subsequent priority topics would be determined in the light of responses to this Consultation Paper as part of the development of its 2024-2028 Strategy.

Do you agree with the IPSASB's Preliminary View?

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

- We agree with the PV of the IPSASB to address general sustainability-related information and climate-related disclosures as its first topics. Given the two dimensions of sustainability reporting in the public sector, the sustainability impact by the public services should be taken into consideration as well.
- Subsequent priority topics can be addressed at a later stage.

Preliminary View 5 — Chapter 4

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

The key enablers include:

- *Appropriate resourcing;*
- *Experienced and active Sustainability Reference Group to advise the IPSASB;*
- *Effective and efficient use of IPSASB Member time;*
- *Coordination with other international sustainability standard setters; and*
- *Dialogue with national standard setters.*

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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.

We agree with the IPSASB's Preliminary View on the key enablers with the below points to be taking into consideration:

- As said above, we consider capabilities in the area of sustainability as key for developing appropriate standards for sustainability reporting in the public sector.
- A Sustainability Reference Group to advise the IPSASB may not be appropriate in the medium- to long-run. Sustainability expertise will be needed at the Board level itself. Therefore, the IPSASB's Reference Group might only be a suitable approach for a transitional period.
- We also see the dialogue with entities such as environmental and social agencies or ministries as key for the success of this project.

Specific Matter for Comment 2 — Chapter 4

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?

- EY would be willing to contribute with its technical expertise and would participate in future consultations related to sustainability reporting (budgeting).