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CANADA

RESPONSE TO CONSULTATION, ADVANCING PUBLIC SECTOR SUSTAINABILITY REPORTING

KEY POINTS

Introduction

1. HM Treasury (HMT) welcomes the opportunity to comment on the proposals set out in the International Public Sector Accounting Standards Board's (IPSASB) consultation paper, 'Advancing Public Sector Sustainability Reporting'.
2. Public sector sustainability reporting is a valuable vehicle to provide users with relevant, consistent and understandable information to hold governments to account. HMT has responded to each of the consultation's Preliminary Views (PVs) and Specific Matters for Comment (PMCs) in this letter.

Summary

3. HMT supports the IPSASB's case for the development of public sector sustainability guidance anchored around established frameworks, including the UN Sustainable Development Goals (SDGs), the Task force for Climate-related Financial Disclosure (TCFD) and the International Sustainability Standard Board (ISSB) frameworks.
4. The framework would have to address the principal differences between the public and private sectors to avoid unnecessary and irrelevant disclosures. Furthermore, IPSASB will likely have to interpret and adapt private sector concepts and characteristics for the public sector context (e.g., profit motive, funding arrangements, governance structures, authority for strategy and decision making, etc.).
5. HMT supports IPSASB's proposal to develop guidance that considers reporting on broader sustainability information, recognising the extensive stakeholder base and wider role of governments. On a conceptual level, developing sustainability standards will raise new challenges which haven't been encountered in previous work on financial reporting standards (e.g., the fungibility of certain sustainability information).

Chapter 1: Public Sector Sustainability Reporting Guidance Drivers

PV1. 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.

6. HMT recognise the potential value in developing global public sector specific sustainability reporting guidance.
7. This view is based on the perceived challenges in applying private sector guidance, as well as in addressing a government's wider stewardship responsibilities and external influence. The public sector is usually accountable to a broader array of stakeholders compared to the private sector. Furthermore, governments exerts significant influence over the wider economy, through fiscal policy, legislation and regulation.
8. HMT supports the broad case made for public sector sustainability reporting guidance. However, the relevance to capital markets of individual entity-focused reporting is less apparent. In the UK, for example, central government financing is usually at a sectoral level rather than an entity level, with central government bodies predominantly financed through the Exchequer. By implication, investor information is most relevant at this sectoral level, with a significant level of aggregation.
9. The World Bank's proposal¹ sights the aspiration of countries to attract investment, as well as the growing investor demand for better sustainability information as key reasons to develop a public sector sustainability reporting framework. However, before a mature level of reporting has developed, there is a need to be mindful of the risks of so-called greenwashing, and an accompanying risk that new reporting burdens deliver limited tangible benefits.
10. Jurisdictions already have different measures of what constitutes 'green' with numerous existing and upcoming taxonomies. This is a complex area which is evolving at speed. It may be more resource efficient for IPSASB's initial focus to remain on objectives where there is a greater level of international alignment and consensus (e.g., public accountability, and improved transparency).

Chapter 2: Strategic Fit for the IPSASB

PV2. 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.

11. HMT agree that IPSASB's experience, processes and relationships make it well placed to develop global public sector specific sustainability reporting guidance effectively. The development of guidance at pace will likely require new capabilities and focused resourcing. In the absence of this, there is a risk that jurisdictions need to move faster than the development of IPSASB's guidance, which could lead to suboptimal outcomes in terms of the development and adoption of such guidance.
12. This position strengthens the case for the Board to leverage existing and emerging private sector reporting frameworks (the TCFD and the ISSB).

¹ January 2022, World Bank report on [Sovereign Climate and Nature Reporting: Proposal for a Risks and Opportunities Disclosure Framework](#)

13. Conceptually, sustainability reporting raises new challenges which would need to be addressed. Unlike financial reporting, sustainable information may not be fungible (e.g., water usage metrics will be more significant to users in regions where there is water scarcity). Furthermore, successfully addressing the linkage and interaction of different sustainability risks and opportunities may also prove challenging.

Chapter 3: Public Sector Approach

SMC1. 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.

14. HMT supports IPSASB's proposal to prioritise UN SDGs and materiality.

15. HMT has a preference that the Natural Resources Project remains separate. As there is likely to be overlap, in our view, IPSASB should tackle the further reaching (and more urgent) Sustainability Reporting Project first to reduce the risk of misalignment between the two.

16. HMT support IPSASB's proposal to collaborate with existing standard setters to leverage guidance. However, doing so may inhibit the Board's ability to independently select sustainability topics on specific themes – the implications of this are explored further in PV3.

17. The development of global public sector guidance could support national harmonisation as well as international harmonisation. The authority for setting sustainability reporting requirements in the public sector can lie at different levels (e.g., national, regional and local government) and sub-sectors (e.g., education, health, etc.). These can develop with a strong focus on the bespoke needs of the administration level or sector. An external independent sustainability reporting framework for the public sector would likely promote a level of consistency both nationally and internationally.

18. IPSASB's proposal to prioritise guidance on 'complete sector versus entity' would be useful; however, to do this successfully the Board would need a good understanding of the opportunities and challenges for both of these options.

19. IPSASB would benefit from addressing the sector specific issues and challenges public sector sustainability reporting faces, as this is less likely to overlap with the work programmes of private sector standard setters.

PV3. 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.

Overview

20. HMT support IPSASB's proposal to collaborate with other international organisations and standard setters – specifically the TCFD and the ISSB.

21. The TCFD recommendations have been adopted widely in the private sector across jurisdictions. Other standard setters have successfully adapted and applied the framework's structure and principles. HMT is therefore developing TCFD-aligned disclosure requirements for the UK central government sector.
22. By aligning with emerging private sector sustainability reporting frameworks (e.g., the ISSB), IPSASB's prioritisation for topics would need to interlink with their respective work programmes. The prioritisation of sustainability topics may not align with priorities for the public sector. The ISSB's work plan will be driven by market participants, while public sector reporting may favour a prioritisation of sustainability topics related to their stewardship responsibilities (e.g., biodiversity, natural capital accounting).
23. Where IPSASB independently develops guidance on sustainability topics first, there is a risk of misalignment with future work from other standard setters. This risk may be mitigated through well considered general principles, combined with close collaboration and communication with these standard setters. Where IPSASB chooses to wait until another standard setter addresses the topics first, public sector jurisdictions may face the choice of filling the space with their own approach or risk a significant transparency lag with the private sector while IPSASB undertakes its due process.

Financial Sustainability-related Information – Block 1

24. IPSASB's well-established process for reviewing and modifying IASB guidance would likely enable effective collaboration with the ISSB. This demonstrates a consistent approach and direction for the Board. HMT is supportive of IPSASB adopting a similar overall approach to the ISSB. The ISSB's regular updates and communication (including the July 2022 Agenda Prioritise Project²) would enable IPSASB to develop and maintain a work programme that supports coherence with ISSB.
25. There are, however, certain obstacles to adapting the ISSB's standards which should not be underestimated. The UK Financial Reporting Advisory Board (FRAB) and FRAB Sustainability Subcommittee (FRAB-SSC) considered these in their June 2022 paper³.
26. The ISSB's focus on enterprise value, defined as market capitalisation less debt⁴, cannot be easily interpreted in a public sector context. The majority of users of public sector accounts are not assessing an entity from an investor perspective. Future cash flows are far less relevant, as the public sector is more focused on achieving policy goals and delivering public services.
27. The requirement for an entity to disclose information on significant sustainability-related risks from an investor viewpoint would overlook certain significant sustainability-related risks that governments face which don't directly impact enterprise value (e.g., stewardship over biodiversity). Applying financial risk analysis,

²In July 2022, ISSB consulted on the agenda prioritise (AP1) publishing the [Introduction and Overview](#) and [Items to be Considered](#)

³ In June 2022, the published paper [FRAB 147 \(20\) Sustainability Reporting Update](#) was discussed and agreed.

⁴ Enterprise value defined in Appendix A of the ISSB's exposure draft [IFRS-S2 Climate-related disclosures](#)

in many cases, lacks relevance to the broader array of stakeholders to which government is accountable.

28. IPSASB must consider the relevance of the ISSB's disclosure requirements in the public sector context. It will be crucial to avoid burdensome and lengthy disclosures of limited relevance in the public sector. IPSASB may need to be bold in the judgements it makes in this regard. Allowing preparers to apply different disclosures depending on the circumstances of the entity (e.g., funding arrangements, governance, etc.) may be an effective way to achieve this.
29. The structure of public sector decision making may often not align with the structures of private sector organisations. The ISSB's exposure drafts align closely with the TCFD framework's structure, but with an increased focus on compliance – as opposed to the principles-based journey ('comply or explain') of the initial TCFD guidance. Given the global heterogeneity of public sector bodies, IPSASB may want to anchor its approach at a more principles based level.

Broader sustainability-related Information – Block 2

30. HMT are supportive of IPSASB collaborating with and drawing on guidance from voluntary standard setters (e.g., Global Reporting Initiative (GRI)). However, the project must recognise that jurisdictions may have existing embedded reporting processes and methodologies - outside of annual reports and financial statements - for measuring, collecting and reporting sustainability information.
31. To avoid inefficient dual reporting processes, where possible IPSASB should apply well-established frameworks (e.g., GHG protocol) and allow for increased flexibility during implementation (e.g., comply or explain with a focus on the direction of travel).

PV4. 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.

32. HMT agrees with IPSASB's proposal to address the general sustainability-related information and climate-related disclosures first – aligning with the ISSB's work programme. For nuanced public sector issues, raised in SMC1, IPSASB would be able to develop solutions in parallel to the ISSB development work.

Chapter 4: Key Enablers

PV5. 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. 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.

33. HMT agrees with IPSASB's view on key enablers.
34. Aligned with our response in PV1, HMT would draw caution in applying excessive focus to investors in government bonds when establishing a Sustainability Reference Group, but it will be important to ensure input from producers and standard setters

of aggregated data sets that may meet the needs of such investors (e.g., the statistical community) to support alignment and consistency.

35. Given the pace of developments, ensuring an ongoing dialogue with national standard setters, who may be developing their regimes in parallel, will be essential.

SMC2. 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?

36. Where appropriate, HMT would provide direct engagement to support the development of the framework, including drawing on the expertise and interest of the wider UK administration as appropriate.