



Treasury

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Mr Ian Carruthers
Chair, International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
CANADA

Dear Mr Carruthers

Consultation Paper – Advancing Public Sector Sustainability Reporting

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the IPSASB Consultation Paper on *Advancing Public Sector Sustainability Reporting*.

HoTARAC members are the senior accounting policy representatives of the Commonwealth (national) and State/Territory (regional) governments in Australia.

HoTARAC agrees that non-financial sustainability reporting is an important current topic, and needs to be considered for entities in the public sector as well as the private sector. Implementation of sustainability reporting by any or all public sector entities in Australia is a government policy decision to be taken by each government jurisdiction. Policy decisions about sustainability reporting have been taken to different extents by individual jurisdictions, and HoTARAC is making no comment on jurisdictional policy decisions.

HoTARAC's view is that the experience of its members in reporting matters allows us to make a contribution to the deliberations of the IPSASB. In compiling our response we have consulted with other relevant public sector organisations, but nevertheless the views expressed are the responsibility solely of HoTARAC. Our comments in respect of the preliminary views are attached. We have not provided comments on all matters.

If you require any further information or explanations, please in the first instance contact Peter Gibson of the Australian Government Department of Finance peter.gibson@finance.gov.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Stewart Walters'.

Stewart Walters
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee
07/09/2022

c.c Ms Nikole Gyles, Technical Director, Australian Accounting Standards Board

Preliminary View 1 – The need for global public sector specific sustainability reporting guidance

- HoTARAC **agrees** that differential guidance is necessary for the public sector, for two primary reasons.
- First, governments may have dual sustainability objectives covering both its own operations, and its broader policy and regulatory responsibilities.
- Second, government objectives are not always congruent with a capital markets focus such as the “enterprise value” objective in the proposed standards of the International Sustainability Standards Board (ISSB).
- For these reasons we think the differences in public sector focus (2 building blocks) is a workable model. We agree with the observation that public sector standards may need a different approach to those for the private sector.
- There appears to already be a wide range of reporting frameworks for different aspects of sustainability, for example biodiversity and workforce relations, and some of these frameworks are based on common international standards. HoTARAC views the main justifications for developing new guidance is to provide further comparability of information on which to base decisions; and to ensure frameworks are in place across the range of sustainability issues with no material gaps.
- In respect of the use of sustainability reporting in capital markets for government bonds, we view this as still developing. Historically there has not been a clear cause and effect relationship between country ESG¹ performance and country credit ratings (and hence interest rates on government bonds). We understand portfolio selection has mostly been on the basis of credit ratings, which in turn are currently based on the assessed financial ability to repay the borrowings.
- We also express a note of caution in the use of sustainability reporting in international financing decisions. For example, many countries may not currently have good underlying records for use in sustainability reporting, or may not be in a position to report at all. It would seem counter-productive if external financing for these countries ceased or became prohibitively expensive, simply because their sustainability reporting is still developing.
- Guidance would be beneficial to mitigate potential liability if circumstances arise where it is claimed that government has failed to disclose known or probable risks, and a third party, making investment decisions in the absence of such disclosure, suffers economic loss.
- Further, it is imperative that the information generated by sustainability reports is actually relevant for decision-making and is not merely reported for the sake of it. In our view an international organisation needs to be responsible for collecting, consolidating and disseminating the public sector information provided.

¹ *Environmental, Social and Governance*

Preliminary View 2 – IPSASB has experience, processes and relationships that would enable it to develop guidance effectively

- A qualified **yes**.
- IPSASB has the experience and the processes in the mechanics of standard-setting that would be beneficial in developing guidance.
- IPSASB has some relationships in place that would be beneficial, although our understanding from the paper and our experience is that these are principally in accounting standard-setting, and are only now developing with other stakeholders in sustainability reporting.
- There may be other organisations that also have sufficient experience, processes and relationships to effectively develop guidance instead of, or in conjunction with, IPSASB. In some cases they may even be *more* effective, if they can draw on greater resources, more numerous established stakeholder contacts and/or existing development work.
- However, if commencement is considered imperative, it is possible that IPSASB is the only organisation currently willing to make a start. We note that the World Bank supports this role for IPSASB. It will be imperative for IPSASB to demonstrate that it can not only make an early start, but can achieve timely completion as well.
- It will be important that the IPSASB ensures it has sufficient access to an appropriate mix of subject-matter expertise which will provide credibility to support IPSASB's work and the eventual outcome.
- In the longer term a review of arrangements for guidance development may be beneficial. For example, several bodies may take a joint responsibility, such as that applying to adoption of international statistical standards.

Specific Matter for Comment 1 – What are the most pressing topics?

- Beyond the completion of general and climate-related guidance, HoTARAC provides no view on this question, because:
 - Priorities may differ between the governments that HoTARAC represents; and
 - As accounting professionals we may not be in a position to make the necessary judgements on sustainability priorities.
- However we provide the following observations:
 - Nature-based reporting developments would appear to be well advanced, through for example the draft TNFD².
 - If the United Nations has a discrete number of priorities amongst its sustainable development goals, this may inform IPSASB priorities.

² Task Force on Nature-Related Financial Disclosures

- The European Financial Reporting Advisory Group (EFRAG) has used a process where a wide range of topics were first identified, then resources dedicated in such a way that timely exposure drafts on all identified topics have been released at the same time. This reduces the need to prioritise.

Preliminary View 3 – Figure 5 framework and work with other international bodies

- **Agree**, with several qualifications.
- Figure 5 seems a reasonable basis on which to start discussions.
- However, it pre-supposes a structure based on the TCFD. This may or may not be appropriate across all sustainability topics³.
- Working in collaboration with other international bodies is beneficial and desirable, for all the usual reasons.
- Nevertheless, local considerations may differ from country to country, and the standards that are developed should accommodate this.
- While aligning with ISSB standards will promote comparability and address urgency, this needs to be balanced against the different context in the public sector, so just copying ISSB standards without considering how their underlying objective ('enterprise value') applies to the public sector may not be appropriate.
 - Even use of enterprise value in analysing government bonds may involve different considerations to investing in corporate securities.
- The ISSB may have different priorities on guidance topics when it considers private sector rather than public sector needs.
- Bearing in mind that sustainability is about more than climate-change, there could be many relevant international bodies, and it may be challenging to identify and deal with them all. Potentially some joint work with the ISSB to identify relevant international bodies would be both useful and efficient.

Preliminary View 4 – General and climate-related guidance first?

- The general guidance would provide elements of a framework, so it should be developed as a priority. However, the framework elements should be separated from specific disclosure requirements, and so if adapting the ISSB's "S1", it should be split into two.
- The priority for climate-related reporting depends on the answer to specific matter for comment 1, and also whether the resulting IPSASB guidance would include "Block 2" reporting as well as "Block 1".
- Logistically there are advantages to the preliminary view because these topics are the most advanced internationally through the ISSB. There is also global interest in climate-related reporting.

³ noting it has also been used in the beta-version of the TNFD

- In our view the general and climate-related guidance proposed by the ISSB still require further development, and this may impact IPSASB development time if it intends to closely adapt the ISSB material. HoTARAC's issues are summarised in our letter to the Australian Accounting Standards Board about the ISSB proposals. A copy is attached for your information.
- There should be an IPSASB process for identifying subsequent priority topics, as the priorities may not be the same as for the ISSB.

Preliminary View 5 – Enablers

- The enablers set out in paragraph 4.2 are **agreed** as being important – appropriate resourcing; experienced and active reference group; effective and efficient use of IPSASB member time; co-ordination with other international standard setters; dialogue with national standard setters.
- Whether considered enablers or not, HoTARAC's view is that other elements are necessary for successful and timely development:
 - Relevant expertise needs to exist at decision-making (e.g. Board) level, as well as at advisory (e.g. reference group) level. Alternatively IPSASB may develop a model where the reference group is involved in decision-making and not solely providing advice.
 - The members of the reference group may change over time depending on the topics, and it would be beneficial to examine the experience of others such as GRI or EFRAG in managing this. To speed up the reference group establishment process it may be possible, in the short term, to share reference groups or reference group members with other standard-setters.
 - Development of processes and governance, or explicit confirmation that existing IPSASB processes and governance apply.
 - There should be the explicit agreement of the Public Interest Committee.
 - Sustainability standards should be distinct from accounting standards.
 - Consultation will be required with bodies other than standard-setters and general stakeholders:
 - assurance standard-setters and providers, due to the audit challenges.
 - governments – because implementation will require government action.
 - educators and who might be involved in setting standards for education in sustainability and its reporting, to address the need for a greater number of knowledgeable practitioners.

Other Comments

- There will need to be a clear line of sight between the information reported and its uses – requiring the reporting of information that will not be used effectively is sub-optimal use of resources.
- Qualitative characteristics need to be considered carefully when developing the general guidance. In HoTARAC's view, the ISSB proposals do not adequately balance all the stated qualitative characteristics.
- Any guidance will need to have the ability to be applied effectively in practice. For example, a single comprehensive report covering all identified sustainability topics, to the level envisaged in the ISSB draft guidance (across multiple industries, geographic locations and time frames) would be very voluminous, may not be capable of preparation at the same time as the financial statements, and may be information overload for users.
- Some countries may already have sustainability reporting requirements in place. Implementation of further guidance will need to consider the time and cost of transition.
- There may be local Australian issues, such as Australian priority topics, and transaction neutrality. We will pursue these with the Australian Accounting Standards Board at the appropriate time.