Organismo Italiano
Business Reporting

Mr. Ian CARRUTHERS
Chair
***International Public Sector Sustainability Standards Board***
Toronto, Canada

**RE:** ***Italian Foundation for Business Reporting (O.I.B.R.) – Comment letter to the Consultation Paper "Advancing Public Sector Sustainability Reporting" (May, 2022)***

Dear Mr. Carruthers,

We thank you for the opportunity given to comment on the IPSASB's document entitled "Advancing Public Sector Sustainability Reporting".

The O.I.B.R. Foundation was established in June 2019, replacing the previous Italian body called N.I.B.R. (Italian Network for Business Reporting) which was founded in February 2012. It is a legally recognised Italian Foundation inspired by an inclusive approach and with an articulated governance structure able to guarantee all the interests at stake. It is a non-profit and multi-stakeholder body, with no commercial engagement, and that operates exclusively in the public interest.

The O.I.B.R. Foundation goals include the promotion of studies and researches; the definition and dissemination of guidelines and standards with a technical and practical orientation in the field of business reporting, non-financial disclosure, sustainability and integrated reporting in private, public and non-profit organizations, and the TCFD recommendations. The O.I.B.R. Foundation includes more than 70 Italian stakeholders interested in the implementation of the financial and non-financial international and national reporting standards, going from large listed companies to SMEs; Universities; professionals and managers; financial analysts and consultants. The O.I.B.R. Foundation is also an authoritative Italian voice in the international debate on corporate reporting (https://www.fondazioneoibr.it/en/ – info@fondazioneoibr.it).

The O.I.B.R. activity leverages on international support by key-players such as the Value Reporting Foundation, EFRAG, GRI, WICI, and the World Business Council for Sustainable Development (WBCSD). In 2021, the O.I.B.R. Foundation has been appointed as Full "International <IR> Council member" within the Value Reporting Foundation, being the only Italian entity represented there.

The main activities of O.I.B.R. Foundation are:

- Provide Italy with a common meeting and working platform;

- Represent a significant Italian voice in the global debate;

- Promote a new culture of reporting, transparency and governance in Italy and internationally;

- Develop and release local guidelines and standards;

- Conduct studies on topics that are felt as relevant by the Italian stakeholders;

- Organise multi-stakeholder working groups;

- Respond to, and engage with, national and international bodies such as EFRAG, ISSB, GRI, etc.

In the **Appendix 1**, the O.I.B.R. Foundation would like to provide you with general considerations regarding some choices and approaches utilized in Consultation Paper.

In the **Appendix 2**, we have enclosed our responses to the specific questions posed in the Consultation Paper.

Please note that our detailed responses on the Consultation Paper have been inserted and provided to you also in the form of survey.

While we remain at your disposal, we thank you for the opportunity to collaborate with you and the IPSASB.

Sincerely yours,

Alessandro Lai

Prof. Alessandro Lai President, O.I.B.R. Foundation
Full Professor of Accounting, University of Verona

*Appendix 1*

## *General OIBR's comment on the IPSAS Board Consultation Paper on "Advancing Public Sector Sustainability Reporting"*

The O.I.B.R. Foundation believes that the setting of an international sustainability reporting guidance for public sector organizations will represent an unrepeatable opportunity to raise public institutions' awareness (at the national, regional, and local level) on the role they play in the generation of a sustainable society. This guidance should give special attention to the public sector's value creation for people and the environment, also addressing the peculiarities of public sector entities. In this regard, impact materiality is proposed in our comments as the centrepiece of sustainability reporting for public sector organizations, complemented by the financial materiality principle. In fact, sustainability reporting will provide the opportunity for public organizations to enact positive changes if they start to perceive their role as strategic for the society's transition toward sustainable development.

We have enclosed our responses to the specific questions posed in the IPSASB's Consultation Paper. As you will notice, the provided responses are mainly addressing the definition of the materiality principle and of the value creation process for public sector organizations' sustainability reporting practices.

# *Appendix 2*

## *Detailed comments on the IPSAS Board Consultation paper*

## *“Advancing Public Sector Sustainability Reporting”*

***Preliminary view 1 - Chapter 1: The IPSASB’ 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.***

The approach is challenging but desirable. An exposure draft that can provide some key principles on sustainability reporting in the public sector is recommendable. The document will clarify the approach of the IPSASB in setting the sustainability reporting guidance for the public sector organizations and will provide the opportunity to interact with stakeholders to actively define the contents of the disclosure. To name a few aspects that deserves further consultation: the definition of the materiality principle for public sector sustainability reporting; the concept of ‘value’ linked to a public organization and its consequent reporting; the connectivity between financial and sustainability information for public sector entities; the heterogeneity in nature and activities of the organizations belonging to the public sector affecting sustainability reporting practices.

***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.***

Yes, we agree. The IPSASB’s consolidated technical expertise and relationships it has developed over time make it suitable for the tasks at hand. Sustainability as a complex problem requires a multidisciplinary and multisectoral approach, therefore it goes without saying that the standards for reporting on sustainability practices must be the result of a moderation process of a multiplicity of actors. For instance, for the part of public healthcare organizations, the cooperation with the World Health Organization is encouraged, as this institution provides guidance for the achievement of the SDGs considering the interrelationships between Goal 3 (Ensure healthy lives and promote well-being for all at all ages) of the SDGs and the other Sustainable Development Goals (for example, gender equality and education, environment, sustainable production and consumption patterns, etc.).

***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.***

In the last three years, the COVID-19 pandemic and the energetic crisis have brought major attention on two topics that are strongly interrelated: climate change and public health. These topics, along with a country's financial sustainability, deserve special attention and should be prioritised in public sector strategizing and performance management. At the current state of the art, there is still considerable difficulty in setting intersectoral public policies that provide sustainability benefits. When focusing on reporting practices, a scarce compliance with international sustainability sector specific standards have been found, with public organizations preferring to report their own story of sustainability. At the same time, when sustainability reporting is adopted, a managerialist approach to reporting activities is followed with the risk that the sustainability benefits are provided to the same extent at the organizational level, but not to the ecosystem in which public sector organizations operate. This is the occasion to increase public sector organizations' awareness of the role they play in the generation of a sustainable society and on the value of impact reporting. Scholars have shown that sustainability reporting can enact organizational change towards sustainability in public sector organizations, providing major transparency and helping these entities in promoting and assessing the effectiveness of the adopted sustainability practices. In this regard, an international guidance that provides guidelines on sustainability reporting is desirable. This guidance should give special attention to the public sector's value creation for people and the environment and to the peculiarities of public sector organizations' reporting practices.

***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.***

Although the pillars of the framework for sustainability reporting in the public sector have been clearly identified, the practical conditions for its adoption are not sufficiently explained. For instance, it is said that to set the General sustainability disclosure requirements, IPSASB will focus first on the International Financial Reporting Standards Foundation's work. IFRS's approach to sustainability reporting focuses on the notion of financial materiality which is emerging in the exposure drafts (ED) called General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2). The IFRS states in the IFRS S1 "sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity" (p.33). This definition suggests that the financial information given by an entity on sustainability risks and opportunity must benefit those who are recipients of the GPFS such creditors, investors, etc., leaving aside other categories of subjects who are directly or indirectly influenced by the sustainability performance of the organization. This is even more evident when the IFRS clarifies the scope of the IFRS S1, which is to "respond to calls from primary users (investors, lenders and other creditors) of general purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to help them assess an entity's enterprise value" (p. 5). This vision is again taken up by IFRS S2 which concerns information on climate-related opportunities and risks.

Another aspect that is to be clarified for public sector sustainability reporting is the one of "value", as for the IFRS the aim of the disclosure is to provide users of the report with information aimed at assessing the value of the enterprise. In the public sector, what is intended for "value" of the entity should be clarified. In fact, a public sector organization's value is not only linked to its ability to efficiently spend the resources in front of the received public funds but is also expressed in its ability to generate positive impacts inside and outside the organization, addressing multiple stakeholders' needs. Therefore, the assessment of a public sector organization' value is not only linked to its capacity to be financially sustainable over time in the face of current and emerging social needs (financial materiality), but to generate public value *for and with* its stakeholders (impact materiality). This is especially true if one considers that those who finance public sector organizations (the citizens) are also the ones that are affected by their policies and practices, being the responsibilities of a public sector entity larger than the ones of a private sector entity. Further, the progressive engagement of citizens, private and non-profit organizations in value co-creation, coherently with a public governance approach, can influence the accountability of the public sector organizations, providing space for dialogic accountability mechanisms aimed at disclosing the co-produced value for sustainability. These mechanisms are deemed to influence the public sector's reporting practices and should be considered when setting the international guidance on sustainability reporting. When considering reporting frameworks developed at the international level, the relevance of the relational component in value creation of public sector organizations and its related reporting practices has also been underlined. This is the case of the integrated reporting framework of the IIRC (2013) when considering its application to public sector organizations. In this regard, it is suggested that emphasizing the connections between capitals (financial, manufactured, human, intellectual, natural, and social and relationship capitals) in long-lasting value creation, can provide public sector organizations with more inter-connected view of sustainability; consequently, the extent to which social capital and relationship capital can connect with the other capitals to promote sustainability should be considered. This position has been previously supported by the O.I.B.R. in the Comment letter to the ED ISSB 1 and 2, although related to the private sector, when it is argued that the value of an organization should be assessed considering the value the entity creates in the short, medium, and long run, using tangible and intangibles in an integrated manner in its business model. These concepts can find application also in public sector sustainable value creation and its related reporting practices that could not ignore the involvement of stakeholders and should respond to these latter's legitimate needs.

Starting from the above premises, the O.I.B.R. Foundation believes that the European Financial Reporting Advisory Group (EFRAG)'s concept of *double materiality* should be supported for public sector organizations. In the EFRAG General Principles (ESRS 1) Exposure Draft, "double materiality is a concept which provides criteria for the determination of whether a sustainability matter has to be included in the undertaking's sustainability report. Double materiality is the union (in mathematical terms, i.e., union of two sets, not intersection) of impact materiality and financial materiality. A sustainability matter meets therefore the criteria of double materiality if it is material from either the impact perspective or the financial perspective or both perspectives" (p. 12).

The exposure draft ESRS 1 states that impact materiality and financial materiality assessments are intertwined and the interdependencies between the two dimensions should be considered in the assessment and reporting activities of an entity. Furthermore, the document clarifies what must be intended for both impact materiality and financial materiality:

a) Impact materiality: "a sustainability matter is material from an impact perspective *if it is connected to actual or potential significant impacts by the undertaking on people or the environment over the short-, medium- or long-term*. This includes impacts directly caused or contributed to by the undertaking in its own operations, products or services and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain, and not limited to contractual relationships" (p.13).
b) Financial materiality: "a sustainability matter is material from a financial perspective *if it triggers or may trigger significant financial effects on undertakings*, i.e., it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long-term, but it is not captured or not yet fully captured by financial reporting at the reporting date. For financial materiality, it is also stated that it is different from the concept of materiality used in the process of determining which information should be included in the undertaking's financial statements" (p. 13).

The implementation of the double materiality principle is highly recommended for public sector organizations. In fact, a public sector organization should disclose from one side, whether its activities can impact on people and the environment in the generation (or non-generation, in case of negative externalities) of public value, and from the other, whether environmental and social issues can affect its financial sustainability. With reference to financial materiality, not only sustainability matters with a measurable impact on the public organization value should be taken into account, but also it is necessary to consider all the matters that can produce a financial impact in the future. With reference to impact materiality, disregarding sustainability matters that can impact stakeholders can negatively affect the public organization's value and produce effects of delegitimization when their expectations and needs are not met. Consequently, impact materiality plays a vital role in public sector's value creation and reporting.

In the O.I.B.R. Foundation's view, the EFRAG' framework on double-materiality should be prioritised in defining standards for sustainability reporting in the public sector. This also would match the proposed IPSASB's view of the two building blocks that compose sustainability reporting, as identified in the IPSASB's document *Advancing sustainability Reporting in Public Sector* (May 2022). Nevertheless, IPSASB does not specify whether the two building blocks could interact and be interdependent in the light of the materiality principle. This is an aspect that deserves IPSASB's further deepening especially considering the double role that the public sector organizations can play for the society's sustainable development; in facts, public institutions can be producers of (positive/negative) impact on people and the environment, and at the same time, can act as regulators for their and other subjects' behaviour. In this regard, connections between financial materiality and sustainability materiality must be addressed, considering the complexity of the nature and activities of public sector organizations, especially when the perspective of sustainable development is espoused.

***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 port 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 prioritized instead, and why.***

Yes, we partially agree. The prioritisation of exposure drafts on general sustainability-related information and climate related disclosures are not questioned. Nevertheless, it is the approach in setting such guidelines that must be clarified; in particular, whether and to what extent financial materiality and/or impact materiality is/are addressed must be defined, as well as the reporting boundaries considering the role public sector organizations play in the transition towards a sustainable society.

***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 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.***

The cooperation with international and national standard setters is fundamental to define sector-agnostic and sector-specific guidelines to sustainability reporting in the public sector. It is commendable that IPSASB makes its expertise available in favour of such a project. In this sense, the collaboration with the financial and sustainability accounting and reporting standard setters at international level can be carried out especially regarding the definition of general disclosure requirements. Collaborations with national standard setters can instead be useful for developing customised standards that consider the peculiarities of the various public administrations (healthcare organizations, higher education institutions, local governments, etc.) that make up the public sector.

***Specific Matter for Comment 2 - Chapter 4: To what extent you be willing to contribute financial or other support to the IPSASB for the development of global public sector specific sustainability reporting guidance?***

The O.I.B.R. Foundation can provide technical expertise participating in The Sustainability Reference Group. The Foundation has in this regard constituted several working groups that are devoted to developing specific reflections, insights, and guidelines on sustainability reporting. For instance, the Working Group of Sustainability Reporting in Public Sector Organizations is available for cooperation with IPSASB with reference to the definition of the global sustainability reporting guidance for the public sector.