February 28, 2025

International Public Sector Accounting Standards Board
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CANADA

World Bank comments on International Public Sector Accounting Standards Board (IPSASB) Sustainability Reporting Standard Exposure Draft (SRS ED) 1: Climate-related Disclosures

The World Bank commends the IPSASB for the expedited issuance of this exposure draft. We appreciate the IPSASB's response to our call in the Sovereign Climate and Nature Reporting Proposal for a Risks and Opportunities Disclosure Framework report (issued in January 2022) to lead a global consultation on developing baseline public sector sustainability reporting standards.

We believe these standards will enable governments to prepare comprehensive, regular, standardized, and forward-looking disclosures of climate- and nature-related risks and opportunities. This information will help sovereigns attract investments by meeting investor demands for such disclosures, enhance the credibility and reliability of non-financial information, and support the formulation and measurement of climate-related policies and goals.

The implementation of these standards will also encourage countries to integrate sustainability risks and opportunities into their governance, strategy, operating models, and public finance management systems.

Our detailed responses to the questions posed and additional comments are included in the Annex.

Overall comments

We commend IPSASB for promoting an extended materiality viewpoint for public sector entities on climate risks and opportunities, as well as emphasizing the importance of the public sector in managing climate crisis and other ESG considerations. The approach in the disclosure, requiring separate disclosures for a public sector entity's own operations and its climate-related public policy programs, appears sensible. On own operations, the alignment of disclosure requirements with IFRS (S1 and S2) and with other standards mentioned throughout is useful, along with the opportunities to harmonize.

On the climate public policy programs disclosure, the approach to require disclosures only for those programs with climate as a primary objective is also useful—though this can be up to discretion so some additional clarity could be helpful. Additionally, while in agreement the disclosures should be required only for entities with primary responsibility for climate related outcomes, language could be nuanced further to include more room for strong attribution to outcomes. The approach seems to meet the needs of primary users. Strong capacity building will likely be needed, including in areas like quantifying climate, transition, and physical risks, and the World Bank could support this work. The transition provisions are helpful, though some further flexibility may be needed along the journey.

Structural Considerations

The focus of the current draft is primarily disclosure-based; this focus assumes that increased transparency leads to better decision-making. However, it does not outline:

1. Consequences for non-compliance or poor disclosure quality.
2. Enforcement mechanisms for ensuring that public entities meaningfully incorporate climate-related risks into their financial planning.
3. Third-party verification or assurance mechanisms for the accuracy of climate-related disclosures.

The document appears to position climate disclosures as adjacent to financial reporting rather than embedded within it. A well-structured approach should make climate risk disclosure an integral part of financial risk assessment, not a separate consideration.

While it discusses scenario analysis and resilience, the document does not mandate climate stress-testing for public sector financial sustainability, despite many private institutions doing such.

Applying this standard and process

The disclosure framework does not explicitly outline how it is intended to incentivize action nor how it can be best applied practically. Should these aspects be incorporated into the objectives of this document? Is the approach proposed and associated tools fit for purpose?

The document as it currently stands applies broadly to all public sector entities, from national governments to municipal agencies. However, a small local government in a developing country may not have the same capacity to conduct detailed climate risk assessments as a national treasury department.

1. It may be worth the inclusion of a typology of entities and scaled sets of policies according to capacity.
2. Offering guidance tailored to small island states, low-income countries, and countries with heavy reliance on climate-vulnerable sectors (e.g., agriculture, fisheries, tourism).
3. It will be important to strike the right balance between flexibility and rigor of the finalized approach.

Implementation guidance and support

There is a need for adequate implementation guidance and support. Successful implementation of the standards requires smart, scalable, and sustainable support. This includes global outreach initiatives to create awareness, development of practical guidance and tools with implementation roadmaps and examples, hands-on training programs to build expertise, systems to record and report sustainability information, and technical assistance, especially for emerging markets.

Engaging and strengthening standards setters at the jurisdictional level is crucial, as they decide on adoption. We hope IPSASB will leverage lessons from implementing IPSASs and experiences from other standard setters, particularly the IFRS Foundation, which is instrumental in capacity building for adopting International Sustainability Reporting Disclosure Standards issued by the International Sustainability Standards Board. We look forward to continued collaboration in supporting countries to implement these standards.

Adoption timeline

The standards should offer flexibility in terms of proportionality and adoption timelines. Countries are at different stages of implementing IPSAS—some have not started, others are using cash basis, while others are transitioning to accrual-based IPSAS. The implementation phase depends on each jurisdiction's economic status, reporting maturity, and capacity. Therefore, it is crucial for IPSASB to consider these factors and provide flexibility in adopting the standards' requirements. The standards should allow for proportional adoption based on the size of the public sector entity and offer principles to guide national standard setters on adoption timelines and transitional provisions.

Connectivity between financial and sustainability information

Clear guidance on the connectivity between financial and sustainability information is essential. Some countries already prepare annual reports that include financial data and performance objectives, often linked to their strategy and encompassing social and environmental performance information. It is important for IPSASB to provide principles on how public sector entities can integrate financial and sustainability information. These principles should help entities enhance their current reporting practices rather than reversing gains made in preparing annual reports. We believe that integrating these principles will foster an integrated mindset in operations and reporting.

SRS scope

We advocate preparing separate standards, one applicable for reporting on own operations, and the other on public policy programs. Like IPSAS standard on revenue from exchange transaction and revenue from non-exchange transactions, the issuance of separate standards will make it easier to implement (remove complexity) and provide required flexibility. Dealing with two objectives and different disclosure requirements for own operations and public policy programs in one standard makes it cumbersome and complex.

Convergence with IFRS S1 and S2, and ESRS

IPSAS SRS1 is developed based on IFRS S1 and S2, ensuring alignment with the corporate sector, which follows IFRS. While the European Sustainability Reporting Standards (ESRS) are recommended as regional-specific guidance by IPSAS SRS1, further convergence could be considered. ESRS are mandated for EU-based large companies and listed SMEs, and they also impact those in the value chain and certain third-country companies with significant EU turnover. It's important for SRS to explore further convergence with ESRS.

Materiality approach

IPSASB could consider providing more comprehensive materiality approach beyond the financial materiality proposed in IFRS. A double materiality approach could be an alternative to the default approach, and it is particularly relevant for the public sector, given the role of the governments and their impact on climate change. IPSAS emphasizes materiality concerning public sector service delivery and policy objectives, considering the impact of climate-related issues on public welfare and resource allocation. ESRS implements a double materiality concept, requiring disclosures on how sustainability matters influence the entity's financial performance and their broader impact on society and the environment. Therefore, it is recommended to consider adopting a similar double materiality approach for sustainability reporting in public sector to ensure that the government also report on impact materiality, which requires disclosure of sustainability-related matters that relate to governments' actual or potential, positive or negative, impacts on people or the environment over the short, medium, or long terms.

Consolidation approach

IPSASB should consider that State-owned Enterprises (SOEs), which follow IFRS by default, will also need to be consolidated in the whole of government accounts. Consequently, many governments, following their country prevailing legislative and regulatory framework, will need to issue guidance for both public and corporate sectors on sustainability reporting standards. IPSASB should consider the challenges governments face in developing guidance for both sectors and consolidation.

Differential approach

Many countries, including several EU member states with advanced economies, face challenges with full IPSAS implementation. They often question the value versus costs and resources invested. Many countries prefer a differential approach, similar to the IFRS for SMEs Accounting Standard concept, allowing them to confirm compliance with minimum reporting requirements before moving to full compliance. IPSASB may consider a similar approach for countries with less developed capacity, while those desiring full compliance can still invest and comply with full SRS.

Link to cash/accrual based IPSAS

Provide clarity that the standard is applicable irrespective of adopting IPSAS Cash or Accrual based standards. Such clarification would address questions being raised on whether the standard is cash based, or accrual based.

Specific Climate Considerations

Lack of Emphasis on Disclosing Specific Financing Mechanisms

The document could provide clearer guidance on how public sector entities should disclose financing mechanisms for climate programs.

1. Green bonds, sustainability-linked bonds, and other financial instruments funding climate action.
2. Blended finance models and public-private partnerships (PPPs) that mobilize private sector capital for climate investments.

While the document acknowledges adaptation, it is primarily focused on mitigation (i.e., GHG reductions). Climate resilience should be treated as equally important, particularly for developing countries where physical risks (hurricanes, floods, sea-level rise) significantly impact fiscal sustainability.

Emissions and Risk and Outcome Management

It may be premature to consider Scope 2 and 3 Emissions for lending operations. Consideration of Scope 2 and 3 and managing them would potentially involve risks, as these are not under the direct control of project entity, but Scope 1 (direct emissions) is more feasible. Also, the consideration of Scope 2 and 3 also involves potential double counting as these emissions could be within the bounds of another entity's Scope 1 emissions.

Case example: Renewable Energy and Nickel in Indonesia:

- Including Scope 3 emissions associated with Nickel extraction/production could show higher emissions for renewable energy projects.
- Nickel extraction in Indonesia has led to deforestation and pollution.
- It would be challenging to trace for a project involving RE, the source of Nickel used in the RE technology and hence associated emissions.

GHG Emissions Target Metrics

Setting a target for Absolute GHG emissions, including Scope 2 and 3, is unrealistic for WB. Existing GHG accounting methods are inappropriate for many financial products to estimate financed emissions. For example, following the current GHG accounting approach used to estimate net GHG, the service improvements implemented by the public transport company would lead to emission reductions at system level, but when limited within the company's boundary (or the FI's) GHG inventory (absolute emission) would be increased, due to the more frequent bus service. If the management of the transport company (or of the FI that finances the project) is strongly focused on having its decisions reflected in the GHG inventory, it would have a disincentive to implement (or finance) this intervention.

The current GHG accounting approach of the Bank's alignment with "IFI Harmonized Framework on GHG Accounting" enables quantifying the impact of systemic transformations. Rather than focusing on a specific part of the system, as corporate GHG accounting does. Whereas in corporate GHG accounting the subject is an entity with a physical boundary, in WB's/IFI's GHG accounting, the subject is an intervention. Hence, there is a clear mismatch of disclosing financed emissions using corporate standards for public banks.

There is a need for a new financed emissions standard or modification of existing Corporate Standard, that suit for WB/WBG for financed emission reporting as part of the climate-related disclosures. This would require discussion with Partnership for Carbon Accounting Financials (PCAF) PCAF and ISSB.

Editorial: the very lengthy document overall would benefit from the inclusion of an executive summary. Given the level of detail in proposed policies, it is unlikely that it will be readily or easily implemented in most countries across programs, most notably developing ones.

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Annex 1. World Bank comments on specific matters

Specific Matter for Comment 1: Public sector operations and regulatory role (paragraphs 1-4)

This Exposure Draft requires a public sector entity to provide disclosures about (i) the climate-related risks and opportunities that are expected to affect its own operations, and (ii) climate-related public policy programs and their outcomes when an entity has responsibility for those programs and their outcomes (see paragraphs 3 and AG2.7–AG2.8).

Do you agree the proposed approach meets the information needs of primary users (see paragraphs 1–4)? If not, what alternative approach would you propose and why?

The Exposure Draft includes an Alternative View on the approach to climate-related public policy programs.

<u>Our response</u>

Yes, we agree with the approach. However, as mentioned above, to address the complexity, we propose developing separate standards, one of own operations and the other for entities with mandate on public policy programs. The complexity is mainly due to inclusion of two objectives and different disclosure requirements in one standard. The proposal to prepare separate standard would align with your practice of issuing two separate IPSAS on revenue: revenue from exchange transactions and revenue from non-exchange transactions.

Specific Matter for Comment 2: Own Operations (Appendix A1: Application Guidance – Own Operations)

The Exposure Draft primarily aligns disclosure requirements about an entity's own operations with private sector guidance (IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*), with public sector guidance, including a rebuttable presumption that entities use the GHG Protocol: A Corporate Accounting and Reporting Standard (2004), unless another established method of measuring its greenhouse gas emissions is more appropriate or required by a jurisdictional authority (see paragraph AG1.72).

Do you agree with the proposed approach and guidance? If not, what alternative approach would you propose and why?

<u>Our response</u>

Yes, we support the approach of referring to what already exists and adding unique public sector issues. We also support the alignment with IFRS S2 for own operations as it ensures there is consistency of climate-related disclosures reported in both public and private sector, information that will benefit all the users. Reference to what already exists and

Yes, in agreement with proposal as use of GHG protocol in the public sector is quite prevalent especially in the context of city-scale emissions and municipal governments. At the same time, other methods that may be more appropriate are also available to provide flexibility (see below):

1. **Global Protocol for Community-Scale GHG Emissions**: A collaborative effort made to develop a Global Protocol for Community-scale Greenhouse Gas Emissions (GPC). This protocol harmonizes the emissions measurement and reporting process for cities of all sizes and geographies. It establishes a single minimum standard for accounting and reporting community-

scale GHG emissions, which can be used across multiple platforms. This common approach helps local governments accelerate their emission-reduction activities and meet climate financing, national monitoring, and reporting requirements. It is based off the GHG protocol and was established through a multi organizational collaboration. [https://ghgprotocol.org/sites/default/files/standards/GPC_Full_MASTER_RW_v7.pdf]

2. **Municipal Governments and GHG Inventories**: Municipal governments often publish emissions for which they have jurisdiction, such as corporate processes and in-boundary transportation. However, broader life-cycle Scope 3 emissions, such as those from imported food and building materials, are typically outside municipal authority. This reflects a challenge within city GHG inventories, which using the GHG protocol can help overcome.

Overall, the GHG protocol is widely used in the public sector to ensure consistency in measuring and reporting emissions, which is crucial for developing effective climate action plans and meeting international climate commitments.

Specific Matter for Comment 3: Scope of Public Policy Programs (paragraph 3 and AG2.4–AG2.6)

This Exposure Draft requires disclosures about public policy programs with a primary objective to achieve climate-related outcomes. Do you agree with this approach and the scope of public policy programs included in required disclosures? If not, what alternative approach would you propose and why?

The Exposure Draft includes an Alternative View on the approach to climate-related public policy programs.

<u>Our response:</u>

Yes, in agreement with proposal. However, in light of the alternative view and reporting challenges envisioned, IPSASB should consider special transition reliefs for public entities especially on the Public Policy Programs (2yrs), as meeting these dual requirements from the onset may be challenging as there are several factors and considerations to be made for climate-related outcomes to be reliable;

1. **Monitoring and Compliance Mechanisms**: It is essential to have appropriate monitoring and compliance mechanisms in place to detect climate related outcomes due to policy reforms. This includes having systems to monitor, assess, and manage climate related outcomes (e.g. pollution levels or air quality), including the necessary equipment, expertise, standards, incentives, and remedial measures. The availability of reliable data is a key challenge faced by many reporting entities and may require time and effort to achieve.
2. **Assessment of Existing Public Institutions**: The ability of existing institutions and systems to identify and manage the effects of policy reforms is crucial. This involves evaluating the capacity of institutional systems to monitor environmental issues and respond to changes. The assessment typically includes not only the environmental agency but all relevant institutions and stakeholders.[89072677c457450ea295aa1faa9dc6c3.pdf]
3. **Environmental and Social Systems Assessment (ESSA)**: For new or untested program entities and systems, it may be challenging to identify all issues. Periodic review of performance against

specific actions, capacity building, implementation support, and monitoring efforts are important to ensure reliable measurement of climate-related outcomes. [0233b0a03e4f4ce692e424ed4ffd92a3.pdf]

In addition, IPSASB should clarify whether the intention is to measure policy effectiveness and the level of measuring. We believe that this will be difficult to measure, disclose and audit such information. At the same time, it's not clear whether the intention is to measure and disclose policy effectiveness at policy making level or implementation level.

In summary, while it is possible to reliably measure and track climate related outcomes from public policy programs, it requires robust monitoring systems, comprehensive assessments of existing capacities, and for new or untested programs, time to build the capacity. Providing transition reliefs will therefore help put all these in place.

Specific Matter for Comment 5: Strategy for Climate-related Public Policy Programs (paragraphs 12 and AG2.24–AG2.31)

This Exposure Draft proposes disclosure requirements about an entity's strategy for climate-related public policy programs which include information that enables primary users to understand the entity's strategy and decision-making, anticipated challenges to achieving intended outcomes and financial implications of the climate-related public policy program.

Do you agree that the disclosure requirements on strategy for climate-related public policy programs meet the information needs of primary users? If not, what alternative approach would you propose and why?

Our response

More guidance around applicability would be helpful as there could be underreporting or leakage if these guidelines are considered to not apply in cases where they would.

Furthermore, the document lacks understanding of WB's policy lending operations.

1. Policy lending cannot be linked to assets, which are the sources of emissions.
2. Public entities who lend to governments (such as the WB) are not ultimately responsible for the outcomes of policy actions; governments are.

Specific Matter for Comment 7: Conceptual foundations (paragraphs B2–B15)

This Exposure Draft includes conceptual foundations aligned with the IPSASB Conceptual Framework including the definition of materiality (see paragraphs B8–B10) and primary users of public sector general purpose financial reports (see paragraphs B.AG28–B.AG33).

Do you agree that the proposed definition of materiality based on the IPSASB Conceptual Framework meets the information needs of primary users for climate-related disclosures? If not, what alternative approach would you propose and why?

Our response:

No, based on our comments in the main section of the letter, we suggest to expand the proposed materiality approach to double materiality, similarly to the approach established by ESRS, which is particularly relevant for public sector. This is in order to ensure that sustainability reporting include requirement on disclosures of both how sustainability matters influence the entity's financial performance and their broader impact on society and the environment.

Specific Matter for Comment 9: Transition (paragraphs 30–33)

This Exposure Draft proposes to provide transitional relief only in the first year of adoption (see paragraphs 30–33) for disclosures relating to an entity's own operations and where applicable, relating to climate-related public policy programs and their outcomes.

Do you agree that the proposed transition provisions approach should be applicable to both own operations and climate-related public policy programs? If not, what alternative approach would you propose and why?

Our Response:

Yes, in support of transition reliefs, however, propose longer transition reliefs relating to public policy programs (2yrs) due to challenges highlighted under Comment (3).

Specific Matter for Comment 10: Other Comments

Do you have any other comments on the proposed Exposure Draft?

1. Where should the disclosure be presented? The IPSASB should provide clarify or principles that standard setters should consider in deciding jurisdiction requirements on where sustainability-related information should be disclosed.

Our Response:

Inclusion of Disclosures Relating to Climate Responsiveness of Government Budget Systems (PFM Systems). Government budgets play a crucial role in influencing climate action. Traditional public finance and budgetary practices have evolved recently, with governments increasingly recognizing the need for climate-responsive budgets. As the discipline of Climate Responsive PFM systems matures (through the development of tools like PEFA Climate and C-PIMA), it may be appropriate to include some basic elements of Climate Responsive PFM systems in the IPSAS SRS 1. The following elements could be part of the disclosure:

1. Is there a commonly used definition across the entity to capture 'climate-related expenditure,' and does the entity have the capacity to track climate-related expenditure using that definition? This can be done through tagging or other means.
2. Does the entity disclose consolidated fiscal risks arising from climate-related contingent liabilities?
3. Does the entity use a climate-responsive public procurement framework for its own procurement (Green Procurement)?
4. Does the entity evaluate its expenditure and tax climate-related measures?