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Submitted via website

Brussels, 20 July 2021

Subject: Accountancy Europe comment letter to IFRS Foundation's Exposure Draft – Proposed Targeted Amendments to the IFRS Foundation *Constitution* to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards

Dear Mr. Liikanen,

Dear IFRS Foundation Trustees,

Dear Mr. White,

We are pleased to respond to the International Financial Reporting Standards (IFRS) Foundation's Exposure Draft – Proposed Targeted Amendments to the IFRS Foundation *Constitution* to Accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards (ED).

Accountancy Europe welcomes the ED and the IFRS Foundation's progress in addressing sustainability reporting. We support creating the International Sustainability Reporting Standards Board to set sustainability reporting standards material to enterprise value, within the structures of the IFRS Foundation.

However, we believe that some points we describe hereinafter merit further consideration by the IFRS Foundation.

The International Sustainability Standards Board

The International Sustainability Standards Board (ISSB) could mirror the International Accounting Standards Board's (IASB) work in its inception and work towards consolidating international and coordinating with jurisdictional initiatives. This would help achieve legitimacy of its sustainability reporting standards.

Accountancy Europe supports an interconnected approach to standard-setting. Therefore, we suggest adding 'collaborate and consult with the other Board to ensure interconnected standards' as a role to both the IASB and ISSB. However, it is necessary to clarify the remits and scope of works of these boards, particularly on projects that have both financial and sustainability aspects.

In addition, we suggest requiring a qualified majority from the ISSB to publish sustainability reporting standards and their respective Exposure Drafts, similarly to the IASB.

Furthermore, we suggest adopting a staged approach to move from a minority of part-time members allowed in the ISSB to only three, as is currently the case for the IASB.

We agree that geographical balance is necessary to properly reflect the ambition for global application of sustainability reporting standards and should always be prioritised. In the short-term, the 4 members to be appointed from any region could be selected from regions more advanced and committed to the agenda of the ISSB to speed up the process.

IFRS Foundation

Accountancy Europe suggests adding 'to connect and ensure a connected approach to standard setting between the ISSB and IASB' as an objective of the Foundation. Similarly, this could also be included in the Executive Director's role to enable an interconnected approach to standard setting.

Funding

We suggest the IFRS Foundation clarifies the funding mechanisms and resource needs for the ISSB. We strongly support an independent and stable funding mechanism for the ISSB, which does not interfere with IASB's resources.

Broadening ambitions

Accountancy Europe understands that an 'enterprise value' approach to materiality for sustainability reporting standards may be more practical for the ISSB. However, we suggest working towards the ambition of having global sustainability reporting standards that meet the needs of broader stakeholders and apply a double materiality lens.

Collaborating with the European sustainability reporting standard-setter

Accountancy Europe's publication [*A constructive two-way cooperation to Sustainability reporting standard-setting*](#) elaborates how the ISSB and the future sustainability standard setter in the European Financial Reporting Advisory Group (EFRAG) could collaborate in sustainability reporting standard-setting.

On one hand, there should be collaboration on a technical level to ensure development of consistent standards and maximise resource-efficiency. As soon as these bodies are set up, we suggest inviting the EFRAG Sustainability Reporting Board (SRB) in the ISSB working groups. Similarly, the ISSB should be actively involved in EFRAG's sustainability reporting Technical Expert Group.

In the meantime, the respective EFRAG project task force on EU sustainability reporting standards (PTF ESRS) could be invited in the technical readiness working group, and the Chair and the Vice-Chair of the ISSB (currently under recruitment) could join the EFRAG PTF ESRS.

On the other hand, there should be collaboration at a political level to promote consistency and progress towards global sustainability reporting standards. The EFRAG SRB should be invited in the multi-stakeholder expert consultative committee, whereas the future ISSB should participate in EFRAG's Sustainability Reporting Consultative Forum. We also suggest a 'report back' mechanism between the respective standard setter and their consultative forum/committee to ensure accountability to stakeholders.

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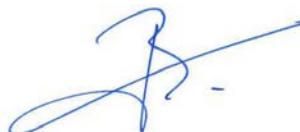
We kindly refer to Annex 1 of this letter for our detailed responses.

Please do not hesitate to contact Jona Basha (jona@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,



Myles Thompson
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

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ANNEX 1: IFRS FOUNDATION ED – QUESTIONS FOR RESPONDENTS

We are pleased to provide below our detailed responses to the questions.

Question 1

Do you agree that the amendments proportionately reflect the Trustees' strategic direction, considering in particular:

- (a) the proposed amendments to the objectives of the Foundation, outlined in the proposed new section 2b of the Constitution, as set out in Appendix A; and*
- (b) the proposed amendments to reflect the structure and function of the new board, outlined in the proposed new sections 43–56 of the Constitution, as set out in Appendix A?*

- (1) Accountancy Europe applauds the IFRS Foundation's progress on sustainability reporting. We have consistently called for action and supported the IFRS Foundation's engagement in the topic, as also noted in our comment letter¹ to Consultation Paper on Sustainability Reporting². Therefore, we welcome and support the ED's amendments to the *Constitution* in view of establishing a sustainability reporting standard-setting board to develop globally accepted sustainability reporting standards.
- (2) However, we suggest some edits to the wording of the proposed paragraph 2b of the *Constitution* to avoid confusion and to be aligned with the intended objectives of the new board:
 - changing the name of the new board to be established from 'International Sustainability Standards Board' (ISSB) to 'International Sustainability Reporting Standards Board' (ISRS Board)³ (see paragraph 16 below)
 - replacing the wording 'sustainability standards' with 'sustainability reporting standards', and clarifying that the new board will develop sustainability standards for corporate reporting, material to 'enterprise value' (see paragraphs 17 – 20 below).
- (3) In line with the above, we also suggest editing paragraph 2a of the *Constitution* to rename the International Accounting Standards Board (IASB) to the 'IFRS Board' (see paragraph 22 below).⁴

¹ Accountancy Europe (2020), *Consultation Response IFRS Foundation's consultation paper on sustainability reporting*, see: <https://www.accountancyeurope.eu/consultation-response/ifrs-foundations-consultation-paper-and-comment-letter-on-sustainability-reporting/>

² IFRS Foundation, *Consultation paper and comment letters: Sustainability Reporting*, see: <https://www.ifrs.org/projects/work-plan/sustainability-reporting/consultation-paper-and-comment-letters/#consultation>

³ The term 'ISRS Board' is used instead of the 'ISSB' in this comment letter.

⁴ The terms 'IASB' and 'IFRS Board' are used interchangeably in this comment letter.

As a result, we also support renaming the IFRS Foundation to the ‘International Corporate Reporting Foundation’⁵ in due course as noted in paragraph 21 below.

- (4) In addition, we note that the ISRS Board and IFRS Board should be linked to achieve an interconnected approach to standard setting for corporate reporting. Therefore, we suggest adding ‘connect and ensure a connected approach to standard setting between the ISRS Board and IFRS Board’ as an objective of the IFRS Foundation under item 2 of the *Constitution*.
- (5) This objective should be later operationalised in the Due Process Handbook by providing how interconnectivity would work in practice. For example, the two boards could have joint meetings on particular projects, and/or the Chairs/Vice-Chairs could be invited to one-another’s boards as observers. In addition, the Due Process Handbook should also address how decision-making would work in these cases, particularly if there is disagreement between the two boards.
- (6) Accountancy Europe notes that the proposed amendments under paragraphs 43-56 of the *Constitution* on the structure and function of the ISRS Board, mirror those of the IASB. However, we suggest some additions and amendments as elaborated in the paragraphs 7 – 15 below.
- (7) Firstly, we suggest adding ‘collaborate and consult with the other Board to ensure interconnected standards’ as a role to both the IASB and ISRS Board under paragraphs 36 and 55 respectively.
- (8) Secondly, we note that there is a mismatch in the voting system between the two boards:
 - a. under paragraph 35 of the *Constitution*, the IASB publish Exposure Drafts (ED) or standards based on a qualified majority, whereas
 - b. under paragraph 54 of the *Constitution*, the ISRS Board is expected to publish EDs or standards based on a simple majority.
- (9) We suggest the IFRS Foundation aligns the voting systems and as a result amends paragraph 54 of the *Constitution* to require a qualifying majority from the ISRS Board to publish sustainability reporting standards and the respective EDs.
- (10) However, in case allowing for a simple majority in decision-making in the ISRS Board was intended as a temporary provision to quickly respond to the urgency of some sustainability matters (e.g. climate change), we suggest the IFRS Foundation explicitly says so and provides for a timeframe for this exemption.
- (11) Thirdly, we suggest adopting a staged approach to moving from allowing a minority of part-time members in ISRS Board, to only three, as is currently the case in the IASB. Currently, paragraph 43 of the *Constitution* permits a minority of part-time members in the ISRS Board; whereas paragraph 24 of the *Constitution* only permits three part-time members in the IASB. This should only be a transitional measure and in the long-term both boards should allow a maximum of three part-time members.
- (12) We note that under the current part-time membership limits and the suggested regional composition of the ISRS Board and voting structure, it is possible for a region to form the majority of the ISRS Board members. Therefore, we suggest the IFRS Foundation to always prioritise geographical balance when appointing members at whatever capacity, including part-time members.

⁵ Whilst we propose renaming the IFRS Foundation, we use the ‘IFRS Foundation’ terminology throughout our comment letter for simplicity and easy referencing purposes.

- (13) Furthermore, we note that paragraphs 26 and 45 of the *Constitution* provide different geographical balances for the two boards. We agree that geographical balance is necessary to properly reflect the ambition for global application of sustainability reporting standards.
- (14) In the beginning, the 4 members to be appointed from any regions, could be selected from regions where sustainability reporting is more advanced and from regions which have a strong commitment to sustainability reporting. This would allow to quickly develop a first set of sustainability reporting standards, needed to address urgent needs such as climate change. In any case, geographical balance should always be prioritised.
- (15) Finally, we suggest the IFRS Foundation clarifies the remits and scope of works of the IASB and the ISRS Board. Whilst the two boards should collaborate operationally, particularly on projects that have both financial and sustainability aspects (e.g. intangible assets or the Management Commentary), it is important to clearly define who does what and which is the decision-making body in these cases.

Question 2

On the potential naming of the new board and its associated standards, do you agree that 'the International Sustainability Standards Board (ISSB)' setting 'IFRS sustainability standards' accurately describes the function of the new board and its associated standards?

- (16) Accountancy Europe suggests including 'reporting' in the proposed name of the new board to clarify its role in developing sustainability reporting standards. As a result, the ISSB would be renamed to 'International Sustainability Reporting Standards Board' (ISRS Board).
- (17) We do not agree that 'IFRS sustainability standards' faithfully describes the function of the ISRS Board as it creates confusion between information that is financially material (under the scope of the IASB in developing IFRSs) and information that is material to enterprise value (under the scope of the future ISRS Board).
- (18) We appreciate the IFRS Foundation's considerations for the ISRS Board to set sustainability reporting standards material to enterprise value. However, we note that the notion of 'enterprise value' is used only in the 'Introduction' and 'Appendix B' sections of the ED, but not within the *Constitution*.
- (19) Sustainability considerations are applicable to both boards because:
- they may materially⁶ affect financial statements, and as such they should be reflected in estimates and/or judgements under the provisions of current IFRSs – this should be taken forward by the IASB⁷

⁶ IAS 1 *Presentation of Financial Statements* paragraph 8: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

⁷ For more details on how the IASB could take forward a project on sustainability in financial reporting, please refer to our response to the IASB's Request for Information: Third Agenda Consultation: <https://www.accountancyeurope.eu/consultation-response/iasbs-third-agenda-consultation-efrags-draft-comment-letter-and-own-proactive-research-agenda-consultation/>

- b. they are material to enterprise value due to applying a longer-term horizon and should be addressed by the ISRS Board.

- (20) Therefore, 'sustainability reporting standards' may describe the function of the ISRS Board and its associated standards more accurately than the current wording 'IFRS sustainability standards'. It also allows for any future expansions of remit of the ISRS Board (see paragraphs 26 – 27).
- (21) Resultantly, we suggest the IFRS Foundation reconsiders renaming itself to the 'International Corporate Reporting Foundation'. It would most adequately describe the expanded remit and role of the Foundation, put financial and sustainability reporting on an equal footing, and potentially allow for any future expansions of the ISRS Board's scope of work (see paragraphs 26 – 27).
- (22) In line with the above, we suggest the IFRS foundation to also rename the IASB as the IFRS Board. This was also considered in the past but was not taken forward as the term 'IFRS' was newer compared to the then well-known 'IASB' term. However, this is not the case anymore and 'IFRS' is well-known and reputable. Changing the name of the IASB to the IFRS Board would be in line with Accountancy Europe's proposed names for the new sustainability reporting board, i.e., ISRS Board and the International Corporate Reporting Foundation.

Question 3

Do you agree with this proposed consequential amendment, outlined in proposed new sections 60 and 61 of the Constitution, as set out in Appendix A?

- (23) Accountancy Europe agrees with the amendments in paragraphs 60 and 61 of the *Constitution* concerning the appointment of the Executive Director of the IFRS Foundation and the staff of the boards.
- (24) We understand that under the amendments in paragraph 60 of the *Constitution* the Executive Director will report only to the Trustees, rather than to the Trustees and the Chair(s) of the board(s). Instead, we note that the Executive Director is expected to engage with both boards. We invite the IFRS Foundation to provide the rationale for changing from the current the reporting lines to this new proposal.
- (25) We suggest expanding how the Executive Director is expected to engage with the two boards to also include 'enabling connectivity between the two boards' in the responsibility of the role.

Question 4

Are there any other matters you would like to raise in relation to the proposed targeted amendments to the Constitution?

- (26) Accountancy Europe supports global sustainability reporting that address the needs of broader stakeholders and uses a double materiality⁸ lens perspective. Therefore, we suggest collaborating with different initiatives and players towards this ambition.
- (27) We understand the underlying reason for the IFRS Foundation to pursue an 'enterprise value' approach to materiality. However, ideally, in the future, there should also be a set of global

⁸ Please refer to paragraph 25 of the *Proposal for a Directive of the European Parliament and the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>.

sustainability reporting standards that address wider impacts. These issues are interconnected and overlap: in the long-term, the impacts of a company's operations to people and the environment become dependencies and impact its ability to create value. Therefore, the ISRS Board should clarify such areas of overlap and identify any gaps left from addressing only the 'enterprise value' lens of the double materiality.

- (28) We suggest that 'consolidating international and coordinating with jurisdictional initiatives' be an objective of the ISRS Board. We recall that in its inception the IASB played such a moderating role to existing financial reporting standards before starting to develop standards of its own. By this, the ISRS Board could mirror the success of the IASB and achieve legitimacy of its sustainability reporting standards.
- (29) On another note, we suggest the IFRS Foundation clarifies the funding mechanisms and resource needs for the ISRS Board. We strongly support an independent and stable funding mechanism for the ISRS Board, which does not interfere with the IASB's resources.
- (30) We note that the ED does not propose any changes to the role and expertise in the Monitoring Board and the IFRS Foundation. We suggest this be a temporary measure and suggest a faster rotation/transition of the members of the Monitoring Board and the IFRS Foundation. Engaging in sustainability reporting standards will require a different set of expertise and a broadened membership in these bodies.
- (31) Accountancy Europe appreciates the IFRS Foundation Trustee's strategic direction,⁹ particularly the collaborative spirit that aims to enable a 'building blocks' approach.¹⁰ Whilst achieving globally accepted sustainability standards material to enterprise value creation is realistic and faster, the 'building blocks' approach provides flexibility for jurisdictions to also address the wider sustainability impacts.
- (32) Therefore, we encourage the IFRS Foundation, the future ISRS Board, the technical readiness working group and the multi-stakeholder consultative working group to collaborate closely with the future sustainability reporting board (SRB) in the European Union (EU) within the European Financial Reporting Advisory Group (EFRAG). This would improve resource efficiencies, develop timely but high-quality standards that collectively address the double materiality perspective, and at the same time minimise inconsistencies, duplications and costs. Please refer to paragraphs 36 - 46 which summarise our Views publication *A constructive two-way cooperation to Sustainability reporting standard-setting*.¹¹
- (33) To this end, it is important to formalise the technical readiness working group and the multi-stakeholder consultative working group as part of the *Constitution*.

⁹ IFRS News, *IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation*, see: <https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-strategic-direction-based-on-feedback-to-sustainability-reporting-consultation/>

¹⁰ As per the IFRS Foundation Consultation Paper on Sustainability Reporting Feedback Statement, a 'building blocks' approach aims to provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts. See: <https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf>

¹¹ Accountancy Europe (2021), *A constructive two-way cooperation to Sustainability reporting standard-setting*, see: <https://www.accountancyeurope.eu/publications/a-constructive-two-way-cooperation-to-sustainability-reporting-standard-setting/>

- (34) On the one hand, the technical readiness working group could engage in broader preparatory work than on the climate prototype standard,¹² particularly to consult on different aspects of sustainability factors (e.g. biodiversity, social, human rights).
- (35) On the other hand, the multi-stakeholder consultative working group would play a broader role than an advisory forum by contributing to a constructive cooperation between the IFRS Foundation/ISRS Board and other international standard setters, including the EFRAG SRB. Therefore, we suggest rethinking the rationale in paragraph 10c of this ED.

Collaborating at a political level

- (36) Collaboration at a political level would promote consistency and progress towards global sustainability reporting standards.
- (37) The EFRAG SRB should be invited in the multi-stakeholder expert consultative committee to advise the ISRS Board on relevant sustainability topics. The EU's contribution would be vital, particularly to coordinate and promote consistency on wider-impacts sustainability reporting standards and jurisdiction-specific requirements. These are within the scope of the future EFRAG SRB, but outside of the ISRS Board.
- (38) Similarly, the ISRS Board should participate in EFRAG's Sustainability Reporting Consultative Forum, to be set up following the proposals of the EFRAG Board President on changes in the governance and funding of EFRAG.¹³ This would catalyse regional and international cooperation and develop generally agreed sustainability reporting standards.
- (39) Even though we agree that both the ISRS Board and the EFRAG SRB should be independent from political influence, they should also be accountable to stakeholders. Therefore, we suggest adopting a 'report back' mechanism whereby the ISRS Board reports back to its multi-stakeholder expert consultative committee.¹⁴

Collaborating at a technical level

- (40) Collaboration on a technical level would ensure the development of consistent standards and maximise resource-efficiency.
- (41) As soon as it is created, we suggest inviting the EFRAG SRB in the ISRS Board working groups.
- (42) In the meantime, the representatives from the EFRAG project task force on EU sustainability reporting standards (PTF ESRS) could be invited in the technical readiness working group to

¹² CDP, Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council, Sustainability Accounting Standards Board, *Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard*, see: https://29kjob3armds2g3qi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

¹³ Jean-Paul Gauzès (2021), *Final Report on the ad personam mandate on Potential Need for Changes to the Governance and Funding of EFRAG*, see: <https://www.efrag.org/Activities/2010051124018235/Ad-personam-governance-mandate>

¹⁴ Similarly, in our Publication we suggest the EFRAG SRB reports back to its Consultative Forum.

develop the climate-related financial disclosures standard built on the prototype published by CDP, CDSB,¹⁵ GRI,¹⁶ IIRC,¹⁷ and SASB.¹⁸

- (43) A constructive two-way cooperation on a technical level at the IFRS's side would ensure robust but flexible enough sustainability standards upon which the EFRAG SRB could build further requirements to include their ambitions (expanded scope and double materiality) and legislative constraints (Taxonomy Regulation,¹⁹ Sustainable Finance Disclosure Regulation,²⁰ Corporate Sustainability Reporting Directive).²¹ It would also facilitate any future (partial) equivalences with the EU sustainability reporting standard, as provided in the Corporate Sustainability Reporting Directive.²²
- (44) Similarly, we support active engagement of the ISRS Board in the relevant working groups established by EFRAG's sustainability reporting Technical Expert Group (SR TEG). As per the proposals of the EFRAG Board President on changes in the governance and funding of EFRAG, such working groups will provide contributions to the SR TEG on a specific matter to help them in developing sustainability reporting standards.
- (45) In the meantime, the Chair and the Vice-Chair of the ISRS Board (currently under recruitment²³) could join the EFRAG PTF ESRS to develop the first set of EU sustainability reporting standard needed to comply with the CSRD.
- (46) A constructive two-way cooperation on a technical level at the EFRAG's side would ensure sustainability standards that address global considerations.

¹⁵ The Climate Disclosure Standards Board.

¹⁶ The Global Reporting Initiative.

¹⁷ The International Integrated Reporting Council.

¹⁸ The Sustainability Accounting Standards Board.

¹⁹ *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088*, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

²⁰ *Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector*, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088>

²¹ *Proposal for a Directive of the European parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*

COM/2021/189 final, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

²² *Proposal for a Directive of the European Parliament and the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>.

²³ IFRS News, *IFRS Foundation Trustees seek nominations for Chair and Vice-Chair of proposed International Sustainability Standards Board*, see: <https://www.ifrs.org/news-and-events/news/2021/06/ifrs-foundation-trustees-seek-nominations-for-chair-and-vice-chair-of-proposed-International-Sustainability-Standards-Board/>