



PROPOSED TARGETED AMENDMENTS TO IFRS FOUNDATION CONSTITUTION TO ACCOMMODATE AN INTERNATIONAL SUSTAINABILITY STANDARDS BOARD TO SET IFRS SUSTAINABILITY STANDARDS

Issued 29 July 2021

ICAEW welcomes the opportunity to comment on the Proposed Targeted Amendments to IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards published by the IFRS Foundation in April 2021, a copy of which is available from this [link](#).

ICAEW strongly supports plans by the IFRS Foundation to set up an International Sustainability Standards Board. ICAEW has previously commented on the need to review and amend, as required, the existing governance structure and due process procedures for the purpose of developing sustainability reporting standards. We therefore support the IFRS Foundation's proposal to update its *Constitution*, although we have identified a number of areas for further consideration, as set out in our response.

This response of 29 July 2021 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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KEY POINTS

SUPPORT FOR INTERNATIONAL SUSTAINABILITY STANDARDS BOARD

1. ICAEW strongly supports plans by the IFRS Foundation (the Foundation) to set up an International Sustainability Standards Board (ISSB).
2. We believe the Foundation's well-established and robust governance structure is fundamental to the development of high quality and proportionate standards, developed in the public interest and underpinned by robust reasoning, careful research and broad consultation. ICAEW has previously commented on the need to review and amend, as required, the existing governance structure and due process procedures for the purpose of developing sustainability reporting standards. We therefore support the Foundation's proposal to update its *Constitution*.

DUE PROCESS

3. We take this opportunity to reiterate the importance of developing a due process which will allow sustainability reporting standards to be developed in a timely and responsive way, to evolve over time, and to adapt to changes in the external environment and new sustainability reporting challenges as they arise. The Foundation already has extensive experience in developing rigorous and transparent due process which ensures the right balance between technical coherence, consensus-building and agility. This experience will be important to ensure the long-term credibility and independence of the standard-setting process for sustainability reporting.
4. We note that proposed paragraphs 55(a)-55(l) of the revised *Constitution* outline the ISSB's responsibilities in relation to its due process procedures. We support these procedures, in particular the reference in paragraph 55d(ii) to the ISSB carrying out a public consultation of its technical agenda at least every five years from the date of the most recent public agenda consultation. Building consensus on the topics that the ISSB should address and how they should be prioritised is vital to ensure that sustainability reporting standards tackle the most pressing user needs and that the standards evolve in line with broader developments in environmental, societal and governance matters.
5. We recognise that the urgency and momentum behind the development of international sustainability reporting standards mean that standard setting activity for sustainability reporting standards is likely to occur at pace, particularly with respect to the development of a standard on climate-related financial disclosures. While we support the IFRS Foundation's proactive approach, we would nevertheless recommend that normal consultation periods for exposure drafts, discussion papers, and the associated outreach are all preserved. We believe that proper comment periods are essential to allow stakeholders sufficient time to review and comment on proposals, and to ensure the overall quality of the standards.

DRAFT WORK PLAN

6. The consultation document refers to the Foundation's plan to seek public input on the ISSB's proposed work plan. In line with our comments on the importance of regular technical agenda consultations, we strongly support the proposal to issue the initial draft work plan and look forward to commenting on this in due course. As ICAEW has previously noted, we recommend that the ISSB sets out a 5-year plan, explaining what standards it expects to produce on a broader range of sustainability reporting matters. This plan should outline the matters to be covered, in what order, and the proposed timetable. We also suggest that the ISSB clarifies which projects are priority areas and which topics require further research. We believe that taking this approach would provide clarity of direction while allowing more pressing areas to move ahead without delay.
7. We also believe it will be important for the draft work plan to identify the areas/projects where the ISSB expects to either cooperate or co-develop with the IASB. The interaction between

financial and sustainability reporting is one of the key reasons why the Foundation should be seen as the natural oversight body for the ISSB, and therefore this coordination should be evident from the draft work plan and future agenda consultations.

FUNDING

8. Appendix B to the consultation paper sets out the Foundation's progress on its key requirements for success, including the need to achieve the level of separate funding required and the capacity to obtain financial support. Stable funding, adequate resources and appropriately skilled and experienced staff are prerequisites for an effectively functioning standard-setter. We agree, therefore, that the Foundation's efforts to achieve the level of separate funding required to successfully establish the ISSB are critical.
9. As we have previously commented, it will be important for the Foundation to ensure funding arrangements which do not result in any real or perceived threat to the independence of the new board.

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?

10. Yes, we broadly agree with the proposed amendments to the IFRS Foundation's *Constitution*. There are, however, several areas where we believe further consideration or clarity is needed. These are discussed below.

Interaction with stakeholders

11. Proposed paragraph 46 outlines the expectation for the ISSB, in conjunction with the Trustees, to 'establish and maintain liaison with relevant stakeholders with an interest in sustainability reporting standard-setting in order to assist in the development of sustainability reporting standards and to promote the convergence of national and regional sustainability reporting standards and IFRS sustainability reporting standards.' We believe the mechanisms for engagement and coordination with key stakeholders should be set out more explicitly in the *Constitution*.
12. Sustainability reporting is evolving rapidly, particularly at the regulatory level, for example, in the EU and in the US. At the same time there are strong international calls for a single set of global standards to be developed. Therefore, it will be essential for the Foundation to develop mechanisms to coordinate with other key stakeholders to ensure that there is agreement on a global baseline, and that this baseline is not compromised by jurisdiction-specific standard-setting.
13. We also encourage the Foundation to engage with a broad a range of stakeholders, including during these early stages. For example, we note that the current Technical Readiness Working Group comprises only representatives from existing sustainability reporting initiatives. This might be due to the nature of work being undertaken by this group, and we strongly support the involvement of these organisations. Nevertheless, it will be important to engage with other stakeholders, for example, investors as the primary end user of information required by the sustainability reporting standards.

Board approval of exposure drafts and standards

14. Proposed paragraph 54 states that the publication of an Exposure Draft, or an IFRS sustainability standard, would require approval by a simple majority of the ISSB. This differs from the equivalent section of the *Constitution* relating to the IASB, which sets out more

stringent requirements ie, approval is required by 8 members of the IASB if there are 13 members or fewer, or by 9 members of the IASB if there are 14 members. It is our understanding that the IASB also had lower thresholds for approval of Exposure Drafts initially, perhaps to encourage progress in its early years. However, we believe that overall quality and global acceptance is best safeguarded by the same super majority now required by the IASB. Stakeholders should not face re-exposure or rejection of a final standard by the ISSB due to poor quality decisions at the initial Exposure Draft stage.

Composition and criteria for the ISSB

15. Proposed paragraph 45 sets out the required international balance for members of the proposed ISSB. This differs from that of the IASB, with fewer members allocated to a particular geographical region, with flexibility for more members to be appointed from any region. Similarly, proposed paragraph 43 indicates that a minority of ISSB members may be part-time, whereas the *Constitution* specifies that 3 of the 14 members of the IASB may be part-time.
16. As discussed below, it is essential to ensure there is sufficient expertise in sustainability reporting from the start of this project, including amongst members of the ISSB. Therefore, we support the proposed flexibility in membership during these early stages if it allows the board to ensure appropriate technical expertise is available. After this initial period, it may be appropriate for the Foundation to revisit the *Constitution* and consider whether any changes are needed, reflecting on the outcome of this transitional period.
17. The criteria for ISSB members as referred to in proposed paragraph 44 and in the Annex does not make it entirely clear what attributes the Foundation is looking for in its members. For example, the criterion in the Annex refers to members having 'demonstrated technical competence and knowledge of sustainability and reporting' and goes on to state that they 'should have demonstrated a high level of knowledge and technical competence in sustainability and reporting'. It then says that they 'may also have professional backgrounds that reflect a diverse range of expertise and roles that are relevant to sustainability' and later refers to an 'awareness of the sustainability reporting environment'.
18. It is essential to ensure the involvement of sufficient sustainability reporting expertise at all levels of the Foundation, and from the start of this project. However, the *Constitution* does not make it entirely clear whether sustainability reporting expertise will be an essential part of the composition of the ISSB. For example, while it could be interpreted as requiring expertise in sustainability reporting, it could also suggest expertise in sustainability matters more generally, or both sustainability matters and reporting generally, but not necessarily sustainability reporting. Further clarity here would be helpful.

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?

19. We suggest that the name of the new board is adjusted slightly to be the International Sustainability Reporting Standards Board. In our view this would provide a better description of the planned work of the board. It would make sense for the IASB to become the IFRS Board at the same time.
20. We also suggest that the standards are referred to as International Sustainability Reporting Standards (ISRS). It is important to make an explicit reference to 'reporting' in the name as referring to sustainability standards alone might suggest they cover matters beyond reporting. However, using the acronym IFRS as part of the name is likely to cause unnecessary confusion due to the connection with financial reporting. It may also have unhelpful implications, for example, if jurisdictions refer to IFRS standards in local legislation then having two sets of standards with IFRS in the title might have the unintended

consequence of requiring changes to local law. Using the name International Sustainability Reporting Standards (ISRS) would keep the reference to reporting in the name, but without the need to include IFRS.

21. On balance, our preference would be for the name of the Foundation's name to change to the International Corporate Reporting Foundation. Whatever the Foundation decides we agree with the suggestion in the consultation paper for a focussed brand refresh to ensure the Foundation's expanded remit is communicated to stakeholders. If this communication exercise is performed well, we do not envisage any major problems with the proposed name changes. Indeed, they may provide a better reflection of the work of the Foundation and the two boards.

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?

22. Yes, we agree with the proposal that the *Constitution* is amended to stipulate that the Executive Director of the IFRS Foundation be appointed by the Trustees, in consultation with the IASB and ISSB. Also, that the Chairs of each board will be responsible for establishing the senior technical team in consultation with the Trustees and be responsible for the supervision of their respective teams and staff.

Question 4

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

Composition of the Advisory Council, Monitoring Board and Trustees

23. We note that no changes are proposed to the membership of the Advisory Council, Monitoring Board or Trustees. Paragraph 10 of the consultation notes that membership and expertise of the Advisory Council and Trustees can be adjusted as part of the regular rotation process. Paragraph 22 of the *Constitution* states that the Monitoring Board shall reconsider its composition from time to time, relative to its objectives. We believe that membership of the Advisory Council, Trustees and Monitoring Board should include sufficient expertise in sustainability reporting from the start.
24. Appendix B outlines the Foundation's intention to engage its Human Capital Committee to consider how best to provide training and cross-functional engagement to achieve appropriate technical expertise. While we agree that this is important for the development of expertise over time, it should not be a substitute for ensuring appropriate sustainability reporting expertise is available in these early stages. It is essential that there are individuals involved who can ensure that the correct objectives, processes and resources are put in place. This requires individuals who understand what users need from sustainability reporting, what good sustainability reporting is, and the challenges facing this evolving area of reporting.
25. This is a period of transition for the Foundation and a degree of flexibility and experimentation is required. It may be that the Foundation revisits the *Constitution* at a later date, in say 2-3 years, to make more targeted amendments relating to the membership and expertise requirements, reflecting on its experience during this early transitional period. Taking this more flexible approach should not, however, prevent the Foundation from ensuring that it has sufficient sustainability reporting expertise in the meantime.
26. We also note that proposed paragraph 57 (formerly paragraph 43) has been updated to refer to the Advisory Council being comprised of organisations and individuals with an interest in international 'corporate reporting' (previously it referred to 'financial reporting'). Corporate reporting isn't a term used widely elsewhere in the *Constitution* and we wonder if it might be clearer to refer directly to both 'financial reporting' and 'sustainability reporting'.

Interconnection between ISSB and IASB

27. ICAEW has previously highlighted how setting up an ISSB alongside the IASB has the crucial advantage of providing a natural link between sustainability reporting standards and financial reporting standards, providing a coherent whole. We continue to believe this linkage is of fundamental importance, particularly when a common criticism of the current corporate reporting landscape, in the broadest sense, is the seeming disconnect between ESG reporting, annual reports and the financial statements, including in terms of the underpinning institutional architecture. Ensuring the appropriate mechanisms are in place to facilitate interconnection and collaboration between the two bodies is important to achieve this goal of an integrated reporting system. For example, there will need to be appropriate processes in place to allow day-to-day cooperation and sharing of proposals and work.
28. However, despite the importance of this interconnection, there appears to be little reference in the *Constitution* to how the two boards will work together, in particular, when addressing projects which are mutually relevant. For example, under the new structure, where does the Management Commentary Practice Statement sit? In many ways, this project would be a better fit for the proposed ISSB, although still connected to the work of the IASB. Similarly, how will the two boards work together in relation to the Conceptual Framework, which will have common elements that are fundamental to both the IASB and ISSB? The need for further clarity within the *Constitution* on how the two bodies will interact needs further consideration.

Interpretations Committee

29. We note the decision not to create a separate interpretation committee until the new board's standards are sufficiently mature. While we understand the rationale provided, an alternative viewpoint is that when an interpretations committee is needed, it may be unhelpful to have to wait for a further update to the *Constitution*. Updating the *Constitution* now to include a separate interpretations committee for sustainability reporting, even if there are no immediate plans to establish such a committee, might save crucial time at the point when its work is most needed.