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Chair IFRS Foundation  
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29 July 2021

Dear Mr Liikanen

***Invitation to Comment: Exposure Draft ED/2021/1 Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards***

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process.

This letter solely reflects the views of the members of the UKEB. Sustainability standards are currently outside the remit of the UKEB and therefore the Board has not undertaken any formal outreach with UK stakeholders to obtain their views.

In the UK, the Department for Business, Energy and Industrial Strategy (BEIS) currently has responsibility for policy development on sustainability reporting. As per the recent G7 Finance Ministers Communique<sup>1</sup>, the UK Government is supportive of the Foundation establishing a sister board to the IASB to take forward sustainability standards.

The UKEB considers the advantages of global standards for sustainability to be the same as those for international financial reporting standards. That is, they can be used by companies to provide consistent and comparable information to all their investors and stakeholders in every jurisdiction where they have operations. Investors and other stakeholders have also been vocal in their calls for enhanced transparency and comparability of sustainability reporting by companies to assist them in holding management to account.

There is evidence in the UK that a lack of standardisation leads to inconsistent information being reported by companies on sustainability matters. Investors and stakeholders find it difficult to decipher or use this information when holding companies' management to account. In the UK, the Companies Act 2006 requires company directors to have regard to the wider stakeholder groups when promoting the success of a company for the benefit of its

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<sup>1</sup> [G7 Finance Minister and Central Bank Governors Communique](#) "We welcome the International Financial Reporting Standards Foundation's programme of work to develop this baseline standard under robust governance and public oversight, built from the TCFD framework and the work of sustainability standard-setters, involving them and a wider range of stakeholders closely to foster global best practice and accelerate convergence. We encourage further consultation on a final proposal leading to the establishment of an International Sustainability Standards Board ahead of COP26."

shareholders<sup>2</sup>. However, legislation does not stipulate the standards that should be used when reporting against those requirements. A recent review of reporting against this Companies Act 2006 duty, conducted by BEIS<sup>3</sup>, highlighted the lack of comparable information being produced by companies as no existing reporting standards help companies fully report against those requirements.

We believe that international sustainability standards, and the new International Sustainability Standards Board's (ISSB) focus on developing those standards, will lead to information that will be material to the decisions of investors and participants in the world's capital markets. It will also aid UK company directors to provide the level of sustainability reporting demanded by their stakeholders as well as providing robust reporting when fulfilling their legislative responsibility.

We also note that a key success criterion<sup>4</sup> for the ISSB is to develop a structure and culture that seeks to build 'effective synergies' with financial reporting. We believe there is a vital link between the financial reporting and sustainability reporting and fully support the retention of this key success criterion.

## Observations

We broadly support the Foundation's proposed *Constitutional* amendments to accommodate the ISSB to set sustainability standards. We have the following detailed observations where we believe further development of the Foundation's Exposure Draft (ED) is required:

1. We encourage the Foundation to define the scope, mandate and working relationships of the two boards further. This will be critical where there will be 'common ownership' of key elements to avoid any potential duplication and confusion. (See our detailed response at paragraphs A1–A3, A6–A8 and A10 in Appendix 1).
2. We recommend that the Foundation take the initial steps to ensure that an Interpretations Committee is mobilised as a priority. Considering the level of likely demand, pace of sustainability driven change and the need to enhance consistent implementation of new sustainability standards, this area would also benefit from a 'running start'. See our detailed response at paragraph A17 in Appendix 1).
3. We do not support the proposal in paragraph 54 of the *Constitution* that a simple majority is required to publish an Exposure Draft or a final Standard. In the absence of an explanation for the lower threshold, we recommend equivalence with the IASB voting framework per paragraph 35 of the *Constitution*. (See our detailed response at paragraph A9 in Appendix 1).
4. We consider that a more accurate title for the ISSB's associated standards would be "International Corporate Sustainability Reporting Standards' (ICSRS)". This would make the 'corporate' or 'reporting' nature of the new standards clear and avoid stakeholder confusion on the mandate and scope of the standards. (See our detailed response at paragraphs A13–A15 in Appendix 1).

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<sup>2</sup> Companies Act 2006, Section 172 can [be found here](#).

<sup>3</sup> [Non-financial reporting regime: stakeholder perceptions](#) BEIS October 2019.

<sup>4</sup> Refer ED Appendix B paragraphs B19 and B20.

5. We agree with the proposed consequential amendment that the Foundation's Executive Director shall engage with both the IASB and ISSB Chairs regarding operational decisions of the Foundation and its staff. (See paragraph A16 in Appendix 1).

For detailed responses to the questions in the Exposure Draft please refer to Appendix 1.

If you have any questions about this response please contact the project team at [UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk)

Yours sincerely

Pauline Wallace  
Chair  
UK Endorsement Board

Appendix 1     *Questions on ED/2021/1 Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*

## **Appendix 1: Questions on ED/2021/1 *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards***

**Proposal 1—Expand the Foundation’s remit to create a new board that will set IFRS sustainability standards**

**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?

### **Question 1(a)**

- A1 We broadly agree with the proposed amendments to section 2b of the *Constitution*, subject to the points below.
- A2 We support the equivalence of the breadth of scope for the ISSB with that of the IASB. However, we encourage the Foundation to further clarify the term ‘corporate reports’. For example, in the UK the Companies Act 2006 (section 172) provides a clear link between the strategic report and the financial statements in a company’s annual report. The conceptual frameworks of both boards will need to ensure that stakeholders are clear as to the purpose of the standards and the mandate of each board.
- A3 We note in paragraph 2a that the term ‘other financial reports’ has been retained in the IASB’s objectives. The Foundation may wish to consider removing or further clarifying this term to avoid potential confusion of scope with the ‘corporate reports’ as referred to above.
- A4 We support the proposal that the ISSB membership has four ‘at large’ seats to reflect the flexibility required to identify appropriately skilled resources as the board is established.

### **Question 1(b)**

- A5 We broadly agree with the proposed amendments to reflect the structure and function of the ISSB as set out in paragraphs 43–56 of the *Constitution*, subject to the points below.

- A6 We are encouraged that the Trustees have invited the IASB to participate in the Technical Working Group as this will promote cohesion and the desired synergies. In addition, to formalise and develop relationships we suggest the *Constitution* stipulates that each board appoints a member as an ‘official observer’ to the other Board.
- A7 A common theme noted in the Feedback Statement<sup>5</sup> was the need for alignment and management of interdependencies between sustainability and financial reporting. To avoid potential confusion with stakeholders, we recommend that the *Constitution* further specifies the working relationship and boundaries between the two boards. Where there are areas of overlap between the two sister boards, a clear mandate, transparency of processes, an intention to co-ordinate efforts and clear communication will be critical.
- A8 If the ISSB is implemented, we suggest that the Foundation review the current approach taken with the Management Commentary (Practice Statement) project. As this project was established in ‘the face of rapid developments in the realm of sustainable reporting<sup>6</sup>’ the ISSB should have a significant role in the project.
- A9 We do not agree with the proposal in paragraph 54 that ‘The publication of an Exposure Draft, or an IFRS sustainability standard shall require approval by a simple majority of the ISSB’. It has not been made clear why the ISSB would require a lower threshold than the IASB in this regard. This appears to be misaligned with the objective of equivalence between the boards.
- A10 We note in paragraph 10(f) of the ED that ‘the potential revision of the procedures concerning the board’s due process will be considered separately’. As noted in the Feedback Statement, stakeholders value the robustness of the Foundation’s due process. We therefore encourage the Foundation to consider any due process revisions early.
- A11 We note that the recent IASB Agenda Consultation anticipated significant demands on the IASB and its resources. We also note the IFRS Foundation’s stated appetite for the ISSB to move ‘quickly’ on to the wider ESG agenda. The Foundation will need to balance the limited resources carefully to ensure the current scope and quality of IFRS are not adversely impacted.
- A12 We agree with the governance processes set out for the ISSB in paragraph 55 of the *Constitution* and suggest that early consideration is given by the ISSB to opportunities to outsource work to national standard-setters. This will support the high demand on both Board Members and Staff as the board is established.

**Proposal 2—Create the International Sustainability Standards Board under the Foundation’s governance structure to set IFRS sustainability standards**

**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?

<sup>5</sup> IFRS Foundation Trustees’ Feedback Statement on the *Consultation Paper on Sustainability Reporting*: <https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf>

<sup>6</sup> [Sustainability reporting and its relevance to the IFRS Foundation](#), 13 May 2020 - IFRS Foundation  
Trustee Teresa Ko

- A13 We agree that the proposed name ‘International Sustainability Standards Board’ accurately describes the Standard setter. However, we do not agree that ‘IFRS sustainability standards’ accurately describes the ISSB’s associated standards.
- A14 Paragraph 2b specifies that the standards are intended for ‘corporate’ reports. However, the full name ‘International Financial Reporting Standards Sustainability Standards’ may give stakeholders the impression that they are limited to financial reports. While having the benefit of retaining the IFRS brand, the proposed name for the ISSB standards may not enable stakeholders to appreciate their reporting scope and may confuse some, who are not fully aware of the IASB’s work, into thinking that the standards cover both financial reporting and sustainability matters. We suggest that the Foundation reconsider the terminology proposed for the standards and to consider ‘International Corporate Sustainability Reporting Standards’ (ICSRS) or similar, in the standards’ title.
- A15 The ED (paragraph 18(b)) discusses a potential refresh of the Foundation’s name to reflect the proposed broader scope. While not an immediate priority, we support a refresh of the name and brand to the suggested ‘International Corporate Reporting Foundation’. We consider this would help stakeholders appreciate the full scope of the Foundation’s future work and accelerate the associated cultural changes.

**Proposal 3—Consequential amendment to the Foundation’s governance**

<b>Question 3:</b>
Do you agree with this proposed consequential amendment, outlined in proposed new sections 60 and 61 of the <i>Constitution</i> , as set out in Appendix A?

- A16 We support the proposed consequential amendment that the Foundation Executive Director shall consult and engage with both the IASB and ISSB Chairs in relation to operational decisions of the Foundation and its staff.

**Other matters**

<b>Question 4:</b>
Are there any other matters you would like to raise in relation to the proposed targeted amendments to the <i>Constitution</i> ?

- A17 We note the explanation that the ISSB’s standards should be sufficiently mature and widely used before a separate Interpretations Committee is established. However, considering the level of likely demand, pace of sustainability driven change, limitations on skilled resources and the need to enhance consistent implementation, we recommend that the initial steps are taken to ensure that this committee, or a Transition Resource Committee, is mobilised as a priority.
- A18 We are aware that while stakeholders are demanding globally comparable international standards on sustainable reporting, they are also keen to ensure that these standards are able to be independently assured. We encourage the Foundation to consider the assurance implications as sustainability standards are developed and to consider working collaboratively with the International Auditing and Assurance Standards Board (IAASB).

A19 Whilst the ED refers to obtaining funding to set up and maintain the ISSB, it does not elaborate on the quantum, source, cost allocation or when this funding will be required. In the UK public bodies and those acting in the public interest are required to demonstrate that their costs are managed within the 'Managing Public Money' guidelines<sup>7</sup>. We are therefore keen to understand the Foundation's approach in this area.

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<sup>7</sup> This guidance can be found here: <https://www.gov.uk/government/publications/managing-public-money>