

Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board: Draft comment letter

Executive Summary

Project Type	Influencing
Project Scope	Significant
Purpose of the paper	
<p>The purpose of this paper is to:</p> <ol style="list-style-type: none"> 1. Request the Board's approval to submit a comment letter to the IFRS Foundation. 2. Obtain Board feedback on a draft comment letter for the IFRS Foundation's (Foundation) Exposure Draft (ED) <i>Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards</i>. 	
Summary of the Issue	
<p>The Foundation's ED seeks comments on the proposed targeted amendments to its <i>Constitution</i> to accommodate an International Sustainability Standards Board (ISSB) to set IFRS sustainability standards. The ED <i>Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards</i> can be accessed on the IFRS Foundation website.</p>	
Decisions for the Board	
<ol style="list-style-type: none"> 1. Does the Board agree with the Secretariat rationale to submit a comment letter to the Foundation Trustees? 2. Does the Board have any feedback on the Trustees decisions, proposed amendments or staff positions in the comment letter? 3. Does the Board approve the draft comment letter for submission to the Foundation? 	
Recommendation	
<p>We recommend approval of the draft comment letter for submission to the Foundation by its comment deadline of 29 July 2021.</p>	
Appendices	
Appendix 1	Draft Comment Letter: Exposure Draft <i>Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards</i>

Background to the consultation

1. The IFRS Foundation Trustees (Trustees) are required by the IFRS Foundation *Constitution (Constitution)* to review the strategy of the Foundation every five years. As part of this review the Trustees have accelerated the focus on sustainability reporting.
2. The ED was preceded by an initial [Consultation](#) (September 2020) to identify demand from stakeholders in the area of sustainability reporting and to understand the potential role of the Foundation in relation to that demand.
3. The Trustees issued a [Feedback Statement](#) (April 2021) on the Consultation Paper in which they identified:
 - Growing demand to improve the global consistency and comparability of sustainability reporting, as well as a recognition that there is an urgent need for action.
 - Widespread support for the IFRS Foundation to play a role in global sustainability reporting.
 - A need for the Trustees to formalize the creation of the ISSB and launch working groups to undertake preparatory work.
 - A strategic direction that: (a) has an investor focus for enterprise value (b) has a sustainability scope, prioritizing climate as the initial focus (c) builds on existing frameworks, and (d) takes a building blocks approach.
4. Based on this feedback, the Trustees decided to progress the development of an international sustainability reporting standards board within the Foundation governance structure. Two working groups¹ and an Eminent Persons Group² were established to support this work.
5. At the same time the Trustees published an ED (April 2021) which proposes the amendments necessary to create the ISSB.
6. In parallel with this activity the Trustees have also established workstreams to identify the key success criteria for the ISSB. These include identifying both seed and ongoing funding for the new operations.
7. While the Trustees have not yet determined whether to create the ISSB, they have indicated that they will make a final determination ahead of the November 2021 United Nations Climate Conference (also known as COP 26).

¹ The 'Technical Readiness Working Group' aims to provide a 'running start' in relation to standard setting and includes representatives from IASB, TCFD, Value Reporting Foundation, Climate Disclosures Standards Board (CDSB) and the World Economic Forum (WEF). IOSCO and the International Public Sector Accounting Standards Board are observers. The 'Multilateral Working Group' seeks to create a multi-stakeholder expert consultative committee to co-ordinate consistency, including complementary jurisdictional reporting standards.

² The group aims to provide 'strategic advice and counsel to the Trustees on the proposed formation of the International Sustainability Standards Board and its connectivity with jurisdictional initiatives.'

Context for UKEB comment letter

8. The UK Department for Business, Energy and Industrial Strategy (BEIS) currently has responsibility for policy development on sustainability reporting by UK companies. As per the recent G7 Finance Ministers Communique³, the UK Government is supportive of the IFRS Foundation establishing a sister board to the International Accounting Standards Board (IASB) to take forward the development of sustainability standards.
9. The UKEB's current remit is limited to financial reporting by UK companies using IFRS Standards. However, we note that a key success criterion⁴ for the proposed board is to develop a structure and culture that seeks to build 'effective synergies' with financial reporting. This may include the development of a conceptual framework to 'explore how it's standard setting could be linked to the work of the IASB, and how sustainability reporting and financial reporting would be linked'.
10. As the UKEB was appointed to consider the application of financial reporting standards in the interests of transparency and efficient allocation of capital, it is likely to have an ongoing interest in the development, quality and alignment of global sustainability standards with financial reporting standards.
11. As it appears likely that there will be a strong link between the financial reporting remit of the UKEB and the work of the ISSB we recommend that the UKEB submit their observations on the ED to the Foundation.

Question for the Board
12. Does the Board agree with the Secretariat recommendation to submit a comment letter to the Trustees of the Foundation?

Proposed Changes to the *Constitution*

13. For the ISSB to be created the Foundation's *Constitution* will require amendment. The Trustees have published proposed targeted amendments to the Constitution to determine whether the:
 - (i) proposed governance structure would provide legitimate oversight of the standard-setting by a ISSB; and
 - (ii) proposed amendments are proportionate to the Foundation's strategy in relation to the potential work of the ISSB.
14. The Trustees have outlined the strategy of the ISSB in paragraph 2 of the ED as:

³ [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."

⁴ Refer ED Appendix B paragraphs B19 and B20

- (i) **Investor focus for enterprise value**—the ISSB would focus on information that is material to the decisions of investors and other participants in the world’s capital markets.
 - (ii) **Sustainability scope, prioritising climate**—due to the urgent need for better information about climate-related matters, the ISSB would initially focus on climate-related reporting while also moving quickly to work towards meeting the information needs of investors on other environmental, social and governance (ESG) matters.
 - (iii) **Build upon existing frameworks**—the ISSB would build on the well-established work of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD), as well as work by the alliance of leading standard-setters in sustainability and integrated reporting focused on enterprise value.
 - (iv) **Building blocks approach**—by working with standard-setters from key jurisdictions, standards issued by the ISSB would provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts
15. No substantive changes have been proposed to either the Monitoring Board or the composition or the expertise of the Trustees.
16. In particular, the Trustees have invited comments on the proposals to amend the *Constitution* to:
- (i) Expand the Foundation’s objectives to create a board that will set IFRS sustainability standards under the Foundation’s governance structure;
 - (ii) Set out the structure and function of the ISSB; and
 - (iii) Align other parts of the Constitution with the creation of the ISSB.
17. Specifically, the ED is seeking comments on the proposed:
- (i) objectives of the ISSB, its structure and functions;
 - (ii) the proposed name of the board and its standards in relation to their intended functions;
 - (iii) consequential amendment that the IFRS Foundation Executive Director⁵ shall consult and engage with both the IASB and ISSB Chairs; and
 - (iv) any other matters in relation to the proposed amendments to the *Constitution*.

Draft comment letter

18. The Secretariat have drafted responses to the questions in the ED, included in the draft comment letter (see Appendix 1). Due to the current remit of the UKEB Board

⁵ The current IFRS Foundation Executive Director is Mr. Lee White

and time constraints we are not proposing to conduct any stakeholder outreach on this draft comment letter.

Questions for the Board
19. Does the Board have any feedback on the Trustees decisions, proposed amendments or staff positions in the draft comment letter?
20. Does the Board approve the draft comment letter for submission to the Foundation?

Next Steps

21. If the UKEB Board agrees to submit a comment letter, the Secretariat will update the letter with any Board feedback and then submit the response to the Foundation by 29 July 2021.

Dr Andreas Barckow
IASB Chair
International Accounting Standards Board
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Canary Wharf
London
E14 4HD

29 July 2021

Dear Dr Barckow

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. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

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 Communique¹, 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 multinational companies to provide certainty and comparability 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 for the wider stakeholder groups when promoting the success of a company for the benefit of its shareholders². However, legislation does not stipulate the standards that should be used when reporting against those requirements. A recent review of reporting against that

¹ [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."

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

Companies Act 2006 duty, conducted by BEIS³, 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 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 criterion⁴ 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 further define the scope, mandate and working relationships of the two boards. 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 disagree with 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).
3. We disagree that 'IFRS sustainability standards' accurately describes the ISSBs associated standards. The current proposal does not make the 'corporate' or 'reporting' nature of the new standards clear and may lead to stakeholder confusion on the mandate and scope of the standards. (See our detailed response at paragraphs A13 - A15 in Appendix 1).
4. 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

³ [Non-financial reporting regime: stakeholder perceptions](#) BEIS October 2019

⁴ Refer ED Appendix B paragraphs B19 and B20

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*

DRAFT FOR COMMENT

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

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

Question I:

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 I(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.

Question I(b)

- A4 We broadly agree with the proposed amendments to reflect the structure and function of the ISSB as set out in sections 43-56 of the Constitution, subject to the points below.
- A5 We note in paragraph 43 that ‘a minority of ISSB members may be part time members’ due to the need for flexibility as the board is established. Due to the inherent challenges around conflicts of interest and the likely significant demand on all members we suggest that, once established, board membership should be predominantly on a full-time basis.

- 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 appoints a member as an 'official observer' to the other's board.
- A7 A common theme noted in the Feedback Statement 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'⁵ the ISSB should have a significant role in the project.
- A9 We disagree 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 and inclusively.
- 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 'at pace' onto the wider ESG agenda post the climate standard. The Foundation will need to balance the limited resources carefully to ensure the current scope and quality of the IASB 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.

⁵ [Sustainability reporting and its relevance to the IFRS Foundation](#), 13 May 2020 - IFRS Foundation Trustee Teresa Ko

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?

- A13 We agree that the proposed name ‘International Sustainability Standards Board’ accurately describes the Standard setter. However, we disagree that ‘IFRS sustainability standards’ accurately describes the ISSBs 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 ‘corporate sustainability reporting standards’ (CSRC) 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

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?

- 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

Question 4:

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

- A17 We accept that the ISSB's standards should be sufficiently mature before a separate interpretations committee is established. However, considering the level of likely demand and the pace of sustainability driven change and the need to enhance consistent implementation of any newly developed sustainability standards, we suggest that the Foundation consider taking the initial steps to ensure that this committee, or a Transition Resource Committee, could be mobilised as soon as the need arises.
- A18 We are aware that while stakeholders are demanding globally comparable international standards in 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. We are therefore keen to understand the Foundation's approach in this area.