# Exposure Draft: Proposed targeted amendments to the IFRS Foundation to accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards

Invitation to comment to the IFRS Foundation

Comments from ACCA
July 2021

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# GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IFRS Foundation's Exposure Draft, 'Proposed targeted amendments to the IFRS Foundation to accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards.' This has been done with the assistance of members of ACCA's Global Forum for Corporate Reporting.

We support the IFRS Foundation's stated intention for the new board to have an investor focus on enterprise value. However, the term 'sustainability standards' would seem to mispresent this aim, and risks giving confusing messages and unrealistic expectations about the new board. A reference to 'reporting' in the name of the standards would seem essential.

Further, we note the IFRS Foundation's stated intention to focus on enterprise value, but in order to understand the intended scope of the future standards, the terms 'enterprise value' and 'sustainability' need to be more clearly defined. We would encourage the IFRS Foundation to consider whether the term 'sustainability' most appropriately reflects the intended scope of the future standards. At ACCA, we understand enterprise value to encompass a wide scope of interconnected matters that inform investor decision-making – beyond financial value but equally beyond the environmental or social impacts that are generally understood to be the focus of sustainability reporting.

We welcome the proposal that the new board's members should have professional backgrounds that reflect a diverse range of expertise and roles. We would encourage the IFRS Foundation to especially consider the need for expertise outside of traditional capital markets. In addition, given the broadened remit of the IFRS Foundation, we would argue that the composition of the Trustees and Advisory Council should require more active review. The geographical representation on the Monitoring Board may also require adjustment over time, to ensure that Africa and South Asia are appropriately represented.

We support a building-block approach, where the new board sets a global baseline of principles-based standards, on top of which regions and countries may develop jurisdiction-specific disclosure requirements. In order to avoid fragmented reporting requirements that reduce the quality and comparability of information for users, it is critical that jurisdictional disclosure requirements are interoperable with the future global standards.

It will be necessary to put in place an international multilateral mechanism for assessing equivalence and maintaining consistency between jurisdictional requirements. This should be overseen by an international organisation with competence in achieving multilateral consensus, such as the OECD. The Multilateral Working Group can help to initiate this multilateral mechanism.

Finally, as additional funding is critical to both the new board and the IASB's ability to deliver their objectives, we would welcome further communication from the IFRS Foundation about its plans to secure additional separate funding for the new board.

If further information is needed, please get back to us.

## SPECIFIC COMMENTS

***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?***

We agree broadly with the amended objectives of the Foundation as proposed in section 2b of the Constitution. However, the reference to 'connect[ing] with multi-stakeholder sustainability reporting' is vague and may not be well-understood by stakeholders outside of reporting policy circles. At the same time, while section 2a, relating to the IASB, acknowledges 'other users of financial information', this is not mirrored in section 2b in relation to the new board.

We would suggest that the reference to multi-stakeholder sustainability reporting in section 2b is deleted, to be replaced with a reference to 'other users of corporate reports' as follows:

> *'These standards should require high quality, transparent and comparable information in corporate reports to help investors, other participants in the world's capital markets,* ***and other users of corporate reports*** *in their decision-making.'*

We agree with the proposed amendments concerning the structure and function of the new board, as proposed in new sections 43-56.
We have targeted comments with regards to the following sections:

- **Section 44**: Auditors, preparers, users, academics and market and/or financial regulators can bring relevant expertise to the new board, but certain mindsets are particularly important: this includes scientific understanding, and awareness of and ability to engage with the needs of a wider stakeholder group. In addition, backgrounds outside of traditional capital markets should also be represented, such as the scientific community and those involved in international sustainable development.
- **Section 54**: We consider that simple majority voting can provide the flexibility needed initially to develop the first new standards. This should, however, be reviewed with the aim of matching the IASB's approval process eventually.
- **Section 55i**: In our view, a Basis for Conclusions should always be published with a standard or exposure draft. We would therefore suggest that the qualifier 'normally' is deleted.

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***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?***

No, we do not agree with the proposed names of the new board and its associated standards, as we do not believe that they accurately represent the intended work of the board. We consider that precise nomenclature, well-understood by all stakeholders globally, is paramount to the global adoption of the future standards.

We support the IFRS Foundation's stated intention for the new board to have an investor focus on enterprise value. However, the term 'sustainability standards' would seem to mispresent this aim, and risks giving confusing messages and unrealistic expectations about the nature of the new standards that will be produced.

As the new board is focused on setting reporting standards, it seems important for the names of the board and the standards to refer specifically to 'reporting'.

Further, 'sustainability reporting' is commonly accepted to denote what the Group of Five prototype standard described as 'reporting on all sustainability matters that reflect significant positive or negative impacts on people, the environment and the economy.' This applies to reporting in accordance with the GRI Standards, and consequently is also applied to the reporting standards currently being developed by EFRAG, for mandatory adoption by companies within the European Union. By contrast, it would not seem to reflect the investor focus of the new board's reporting standards.

We would therefore encourage the IFRS Foundation to clarify the meaning of 'sustainability' in the context of its plans for the new board, and review whether this term most appropriately reflects the intended scope of the future standards.

In our view, there is a need for a global baseline of standards on a wide range of topics, extending beyond financial performance and position but equally beyond environmental or social impact. They include intangibles not recognised on the balance sheet, such as innovative processes, know-how and corporate culture: as represented by the six interconnected capitals in the International <IR> Framework.

We do not support the retention of the reference to 'IFRS' either in naming the future standards, naming the standards issued by the IASB, or in relation to the Foundation's formal name. In our view, 'International Corporate Reporting Foundation' would better fit the expanded remit of the Foundation. The roles of the Foundation, the IASB and the new board are well recognised throughout the world, so the loss of the 'IFRS' brand should not be a cause for concern.

Finally, naming the standards issued by the IASB as 'IFRS accounting standards' would seem to be a backward step, reversing the progress made in 2001 to move from IAS standards to IFRS standards. In our view, the reference to financial reporting is important, as it signals that the standards address not only accounting but also reporting and communication. We would therefore recommend that standards issued by the IASB continue to be called 'International Financial Reporting Standards.'

***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?***

We agree with the amendments proposed in sections 60 and 61 in relation to the Executive Director and the management of technical staff.

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

**Funding**

The current exposure draft does not adequately address the question of how the new board will be funded. This is a key requirement of success, so greater clarity in this area – beyond what is outlined in paragraphs B16-B18 of Appendix B - would be helpful.

The competition for both financial and human resources in the non-financial reporting area is likely to intensify, so we would welcome more details from the Foundation regarding new sources of funding being considered and the actions taken to secure them. We note that funding for the IASB should not be diverted to fund the new board, as this would jeopardise the IASB's ability to deliver important projects on its 2022-2026 agenda.

**Composition of IFRS Foundation Trustees, Advisory Council and Monitoring Board**

Given the broadened remit of the IFRS Foundation, we would argue that the composition of the Trustees should require review. While professional backgrounds outlined in section 7 of the Constitution remain valid, there may be a need to explicitly acknowledge the wider breadth of expertise and perspectives among the Trustees. For example, sustainability assurance practitioners and ESG investors should be represented, alongside auditors and mainstream investors. These specialisms may not be recruited sufficiently quickly through the regular rotation of membership.

To ensure widespread acceptance and adoption of the new standards, it is imperative that the IFRS Foundation engages with a wider group of stakeholders at senior levels. We therefore consider it necessary for the composition of the Advisory Council to be actively reviewed. The criteria for membership should also be updated to refer to the new standards in addition to IFRS Standards, and non-financial reporting or sustainability reporting in addition to financial reporting.

While we agree that the current composition of the Monitoring Board does not require immediate change, we note that the geographical representation on the Board may need to be adjusted over time, along with section 7 of the Constitution. Specifically, Africa and South Asia are currently not represented on the Monitoring Board.

Ultimately, participation from outside of the audit and accountancy profession, including the scientific community, civil society and regulators, will be important to the success of the new board. Involvement can be at different levels from participation in the consultative due process, contributions on advisory panels or committees, and possibly representation on the new board itself.

**Co-construction with the EU and other national standard-setters**

In the light of the European Commission's legislative proposal for the EU Corporate Sustainability Reporting Directive and EFRAG's mandate to develop European sustainability reporting standards, it is paramount to have formal mechanisms for co-construction with EU policy-makers and standard-setters. We urge the IFRS Foundation to work proactively with the EU institutions to set this up without delay.

ACCA supports the building-blocks approach as advocated by IFAC[1]:

- **Building block 1**: *The new board sets principles-based standards* for investor-focused non-financial information: this provides a globally-consistent baseline for comparable and assurable information that is connected with the financial statements

- **Building block 2**: Regions and countries may then *develop jurisdiction-specific disclosure requirements,* including metrics relating to companies' impacts on economy, society and environment, for example in relation to sustainable development.

Ideally, international standards should precede and inform jurisdictional disclosure requirements. There is therefore an urgent need for the new board to produce a conceptual framework for non-financial reporting and set the first climate disclosure standard as early as possible. Failing this, building block 2 requirements, including those from the EU, must be consistent and interoperable with the international standards. A key difference that must be resolved with the EU is the materiality approach.

If the EU reporting requirements diverge fundamentally from the future standards, there is a risk that the reporting requirements for multinational companies become even more fragmented than they are today, adding significantly to reporting burden for preparers, and damaging the quality and relevance of information for investors and other stakeholders.

We believe it will be necessary to put in place an international multilateral mechanism for assessing equivalence and maintaining consistency between jurisdictional requirements. This should be overseen by an international organisation with competence in achieving multilateral consensus, such as the OECD.

The Multilateral Working Group, tasked with the interface between the new board's 'global baseline' standards and other international and jurisdictional initiatives, can help to initiate this multilateral mechanism.

**Rationale behind the strategic direction of the new board**

[1] https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/enhancing-corporate-reporting-sustainability-building-blocks

In order to gain acceptance among stakeholders outside of the accounting and finance professions, who may be less familiar with the work of the IFRS Foundation, we would encourage the Foundation to set out the deliberation process and rationale behind the announced strategic direction. This can be similar to a Basis for Conclusion as published by the IASB with exposure drafts for IFRS standards.

**Role of multi-stakeholder expert consultative committee**

We note the proposed creation of a multi-stakeholder expert consultative committee, which is not referenced in the Constitution. The purpose and intended composition of this committee is not currently very clear. In order for the committee to operate effectively, in a similar way to the Accounting Standards Advisory Forum, its membership should not be too large.

Further, clarity over how the role of this committee relates to and interacts with the other groups also not referenced in the Constitution – the Technical Readiness Working Group, the Eminent Persons Group and the Multilateral Working Group[2] – would be helpful.

**Interactions between the IASB and the new board**

Although this may not need to be reflected in the Constitution, close collaboration between the IASB and the new board will be crucial. As highlighted in our response to the consultation paper on sustainability reporting[3], we encourage the IFRS Foundation to consider developing a conceptual framework for corporate reporting as a whole, thus strengthening the link between financial and non-financial reporting. Further, it may be worth considering a structured cross-boards secondment program to allow technical staff from one board to be immersed in the work of the other.

[2] IFRS - IFRS Foundation Trustees establish Eminent Persons Group to guide work on sustainability-related financial disclosures

[3] https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2020/december/acca-reponse-ifrs-consultation-sustainability-reporting.html