



Project:	Sustainability Reporting	Meeting:	M181
Topic:	Proposed amendments to the IFRS Foundation’s Constitution to Accommodate an International Sustainability Standards Board	Date of this paper:	7 June 2021
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		Project Priority:	Medium
		Decision-Making:	Medium
		Project Status:	Decide whether to comment on the IFRS Foundation Exposure Draft

Objective of this agenda item

- 1 The objective of this agenda item is for the Board to **decide** whether to submit a comment letter to the Trustees of the IFRS Foundation on the IFRS Foundation Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*.

Attachments

- Agenda Paper 6.2 Exposure Draft [Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards](#) (April 2021) [supporting materials folder]
- Agenda Paper 6.3 IFRS Foundation Trustees’ [Feedback Statement on the Consultation Paper on Sustainability Reporting](#) (April 2021) [supporting materials folder]
- Agenda Paper 6.4 FRC, AASB and AUASB [joint submission to IFRS Foundation Consultation Paper on Sustainability Reporting](#) (December 2020) [supporting materials folder]

Background

- 2 In September 2020, the Trustees of the IFRS Foundation (the Trustees) issued *Consultation Paper on Sustainability Reporting* (the Consultation Paper). The purpose of the Consultation Paper was to identify demand from stakeholders in the area of sustainability reporting and to understand what the IFRS Foundation could do in response to that demand. The AASB made a joint submission together with the Financial Reporting Council (FRC) and the Auditing and Assurance Standards Board (AUASB) to that Consultation Paper. The joint submission commented:

- (a) that there is a pressing need for an organisation to emerge as a global leader with respect to reporting sustainability information (especially with regards to climate-related information);
- (b) that the IFRS Foundation should make decisions on how it intends to proceed as a matter of urgency; and
- (c) on the various challenges that the IFRS Foundation must manage to successfully emerge as a global leader, rather than adding to the complexity, in reporting in this area.

A copy of the joint submission is included as Agenda Paper 6.4.

- 3 The Trustees issued a Feedback Statement on the Consultation Paper in April 2021 (refer Agenda Paper 6.3). In the main, the Trustees' response addresses comments and concerns raised in the Board's joint submission.¹
- 4 In March 2021, the Trustees indicated, in response to feedback received on the Consultation Paper,² that they were continuing their work on the establishment of an international sustainability reporting standards board within the existing governance structure of the IFRS Foundation. In line with this, in advance of creation of such board, the Trustees have:
 - (a) reached views on the strategic direction of that new board (see paragraph 7 below);
 - (b) established two working groups to undertake preparatory work for the new board;³ and
 - (c) in April 2021, issued an Exposure Draft (ED) proposing amendment to the IFRS Foundation's Constitution to accommodate a new board that will have responsibility for developing international sustainability standards.

The objective of this agenda item is for the Board to decide whether to submit a comment letter on the ED. The ED is included as Agenda Paper 6.2.

- 5 Note, the Trustees have not yet determined that they will create this separate board. Besides the actions taken above, the Trustees are also undertaking parallel work having regard to its identified 'key requirements for success', including securing funding for this new board. They

1 The Trustees' proposal for a new board to set sustainability standards that focus on information that is material to investors may not be wholly consistent with the Board's submission, which acknowledged that our stakeholders were pragmatic that this might be only the initial focus of the new body. However, staff note that Trustee comments elsewhere suggest that the type of information that might be relevant to investors could be quite broad; potentially extending also to information about the entity's effect on the environment.

2 The Trustees indicated that encouraging comments from the International Organization of Securities Commissions (IOSCO) in their 24 February 2021 [media release](#) also contributed to their decision making in this regard.

3 The **Technical readiness working group** was established to enable the new board, once created, to have a 'running start' to its standard-setting objectives. Its membership comprises the IASB, TCFD, Value Reporting Foundation (International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) merger), Climate Disclosure Standards Board (CDSB) and World Economic Forum (WEF). It is intended the working group engages closely also with the Global Reporting Initiative (GRI) and CDP (formerly the Carbon Disclosure Project). IOSCO and International Public Sector Accounting Standards Board are observers to the working group. The second working group is the **Multilateral working group**. The Trustee's Feedback Statement on the Consultation Paper states that "Within a multilateral working group, the Trustees will begin work with IOSCO and relevant organisations to explore the creation of a multi-stakeholder expert consultative committee. ... The multi-stakeholder expert consultative committee would provide a forum for stakeholders to advise the new board on relevant sustainability topics, while also supporting mechanisms to facilitate, coordinate and promote consistency on any wider sustainability reporting requirements, including complementary jurisdiction-specific reporting standards."

have signalled this determination might be made before the upcoming United Nations Climate Change Conference (COP26) in November 2021.

About the Exposure Draft (Agenda Paper 6.2)

- 6 The Trustees reported that feedback on its Consultation Paper indicated there was broad support for creating a new sustainability board under the governance structure of the IFRS Foundation. However, to enable such body to be created, the IFRS Foundation's Constitution must be amended.⁴ The Trustees are seeking feedback on its proposed amendments to its Constitution to determine whether the:
- (a) proposed governance structure would provide legitimate oversight of the standard-setting activities of the new board; and
 - (b) proposed amendments are proportionate to the IFRS Foundation's strategy in relation to the potential work of the new board.

The ED does not propose any substantive amendments be made with regards to the role of the Monitoring Board or the composition and expertise of the Trustees.

- 7 The strategy in relation to the potential work of the new board is described in paragraph 2 of the ED, as follows:
- (a) Investor focus for enterprise value – the new board would focus on information that is material to the decisions of investors and other participants in the world's capital markets;
 - (b) Sustainability scope, prioritising climate – due to the urgent need for better information about climate-related matters, the new board 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;
 - (c) Build upon existing frameworks – the new board 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; and
 - (d) Building blocks approach – by working with standard-setters from key jurisdictions, standards issued by the new board would provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts.

- 8 Specifically, the ED is seeking comments on the proposed:
- (a) amendments to the IFRS Foundation's Constitution to create a board that will set IFRS sustainability standards under the Foundation's governance structure, including amendments to establish the structure and function of that new board. The ED proposes that the structure and function of that new board mirror those of the IASB where possible (allowance is made for the new board to reach an appropriate level of maturity in its standard-setting and to develop its technical expertise), and include that the board:

⁴ Further amendments to the IFRS Foundation's Constitution might be proposed in the future, as part of work on the IFRS Foundation's five-yearly review of its Constitution.

- comprises 14 members (possibility of some part-time members), including 3 from Asia-Oceania and 4 'at-large' members;
 - develops principle-based sustainability standards, to "help investors and other participants in the world's capital markets in their decision-making and connect with multi-stakeholder sustainability reporting";⁵
 - exposes for public comment its standard-setting project proposals and conduct other due process activities; and
 - develops standards that consider the needs of a range of sizes and types of entities in diverse economic settings. Staff note that the Trustees are recommending the new board develop a standard comparable to *IFRS for SMEs*⁶; and
- (b) naming of the IFRS Foundation, the new board, and its associated standards. The ED proposes that:
- the Foundation's formal name be retained (i.e. IFRS Foundation). Staff note that the Trustees considered and rejected renaming it as the 'International Corporate Reporting Foundation'; and
 - the new board be called the 'International Sustainability Standards Board' (ISSB) and that it develops 'IFRS sustainability standards'. Consequently, under the proposals, in the future 'IFRS Standards' will encapsulate both Standards and IFRIC Interpretations issued by the IASB ('IFRS accounting standards') and Standards issued by the ISSB ('IFRS sustainability standards').

Whether the Board should comment to the Trustees on the ED

9 Staff note the following:

- (a) the AASB has previously submitted comment letters in 2011 and 2015 to the Trustees in response to its public consultation documents on matters relating to the IFRS Foundation's strategy, structure and effectiveness.⁷ More recently, as noted in paragraph 2 above, the AASB made a submission on the IFRS Foundation's *Consultation Paper on Sustainability Reporting*; and
- (b) one of the Board's strategic objectives for the period 2017-2021 is to "influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting". As corporate reporting (including sustainability reporting) is integrally linked to financial reporting, making a submission to a consultation in this area would appear in keeping with delivering on this Board objective. Staff think the following also provide support to making a submission:
- the new sustainability board's proposed focus on information useful to investors;

5 Text of the proposed amendment to the constitution. Paragraph 16 of the ED describes the standards of the new board as helping investors and other participants in the world's capital markets to understand, compare and contrast a company's sustainability performance with that of other companies, and to determine how a company's performance relates to its value creation.

6 Reference: IFRS Foundation Trustee's Feedback Statement on the Consultation Paper on Sustainability Reporting, p.32.

7 Previous submissions are available at the following links: [2015 submission](#); [2011 submission](#).

- the IFRS Foundation’s ‘key requirements for success’ for the new board to develop a structure and culture that seek to build effective synergies with financial reporting; and
 - the Trustees’ comments in its Feedback Statement on the Consultation Paper on how a (sustainability) conceptual framework might connect sustainability reporting to financial reporting, also provide support to making a submission.
- 10 Having regard to the above, staff recommend the Board make a submission to the Trustees on the ED. While the implications of the proposed board and its standards to Australia and the AASB might not be fully understood at this time or might change, it is clear that there is a connection between the work that will be produced by this board and financial reporting. It could be minor, for example, whether referencing sustainability standards as ‘IFRS sustainability standards’ creates confusion for accounting standard stakeholders; or more substantial, for example, where sustainability information is reflected in recognised amounts in an entity’s financial report. Therefore, staff think it is important that the Board continues to keep close to the IFRS Foundation’s efforts in this regard.

Possibility of a joint submission with the FRC and/or the AUASB

- 11 In addition, in view of its joint submission to the Consultation Paper and having regard to the timing of the Board meeting and the comment period close on the ED (29 July 2021), staff have liaised with the FRC and the AUASB as to whether they would be interested in making a joint submission with the Board on the ED, subject to the Board’s decision whether to make a submission. At the time of writing this agenda paper, both the FRC and AUASB have signalled that they would be interested in making a submission jointly with the AASB.

Questions for Board members

- Q1 Do Board members agree with the staff recommendation to submit a comment letter to the Trustees of the IFRS Foundation jointly with the FRC and AUASB in response to the IFRS Foundation Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*?
- Q2 Do Board members have any comments they want to make about the Trustee’s decisions or the proposed amendments to the IFRS Foundation’s Constitution?

Next steps (relevant only if the Board decides to make a submission)

- 12 As noted above, the ED comment period closes 29 July 2021. Having regard to the focus of the ED and noting resourcing and time constraints preclude broader outreach, staff recommend limited targeted outreach be conducted, and limited to the stakeholders who provided feedback to help inform the Board submission to the Trustees on the Consultation Paper.⁸ Given the time constraints, staff intend to begin outreach activities⁹ before the Board meeting, in anticipation that the Board will decide to make a submission. Staff will provide a verbal update to the Board at the Board meeting of any significant feedback received by that time.

8 These stakeholders comprised: Investors (4), Preparers (6 corporate entities across different industries) – many of the companies had attendees from both their finance team and sustainability team present; Academics (4); Professional bodies (3); Professional services firms (3); Regulator (2); Public sector (1).

9 The planned outreach is an update to the stakeholder of the IFRS Foundation’s decisions and invitation to provide any further comment or concerns about the structure, function, governance, naming and strategy of the proposed new board.

13 Also due to time constraints, staff recommend the Board form a subcommittee¹⁰ to develop and approve a submission to the Trustees out-of-session, and adopt the following timeline/ process to prepare the submission:

Timing	Milestone
This meeting	Preliminary Board discussion of the IFRS Foundation decisions and proposals, and Board decision whether to make a submission
By 2 July 2021	Staff completes targeted outreach and circulates an outreach summary and staff recommendations to a Board subcommittee
W/b 5 July 2021	Board subcommittee virtual meeting to form the response
W/b 12 July 2021	Draft comment letter circulated to subcommittee for approval
W/b 19 July 2021	Draft comment letter circulated to full Board for fatal-flaw review
W/b 26 July 2021	Review and approval of comment letter by subcommittee Comment letter signed by all parties and submitted by Thursday 29 July 2021.

Questions for Board members

- Q3 Do Board members agree with the staff recommendation to:
- (a) perform only limited outreach; and
 - (b) form a subcommittee. If so, which members would like to be part of this subcommittee?
- Q4 Do Board members have any comment or concerns about the proposed timeline/process?

10 The Board subcommittee finalising the Consultation Paper comprised Keith Kendall, Alison White, James Grant and Stephen Taylor.