

29 July 2021

IFRS Foundation  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London

Via email [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Dear Trustees,

**Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards**

CPA Australia and Chartered Accountant Australia and New Zealand (together 'the Major Australian Accounting Bodies') welcome the opportunity to respond to the Proposed Targeted Amendments to the IFRS Foundation Constitution ('Exposure Draft'). Together, we represent over 280,000 professional accountants in Australia, New Zealand and around the world.

We consider the exposure draft to be a major positive step towards the urgent need for a single set of globally accepted sustainability reporting standards that are integrated, consistent and of a comparable quality to financial reporting standards.

In the Appendix to this letter we provide responses to the specific questions raised in the exposure draft.

**Key points:**

- We recommend the approval processes for IFRS accounting standards (accounting standards) and IFRS sustainability standards (sustainability standards) be aligned to remove any misconceptions about the credibility of sustainability standards.
- The exposure draft identifies enterprise value (EV) as a critical determinant of investor decision making. However, the amendments to the *Constitution* are silent on the role to be played by EV in driving the character of IFRS Sustainability Standards. We caution against drawing too great a nexus between the capital/dimensions of sustainability and EV, as EV still relies to a large degree on the market's determination, encompassing a range of factors both within and outside of the control of the organisation.
- Significant care will need to be applied to how a conceptual framework for sustainability reporting is established enabling appropriate synergy with that which exists for financial reporting. This will be vital to issues of coherence, choice/treatment of sustainability issues and any measures taken towards establishing an overarching conceptual framework.
- It will be important, particularly in the initial formative years, for both the ISSB and the IASB to have clear, complementary strategies (and integrated where possible) and to (and be seen to) work collaboratively to enable implementation of key priority areas.

- To respond to common economic, environmental and social drivers that will emerge, it will be critical that, from the outset, there be strong lines of liaison between the two Boards. At present, the amendments to the *Constitution* do not outline the interaction between the proposed strategies of the Foundation, IASB and the ISSB. Addressing this will be important to aligning the rapidly developing area of sustainability and associated reporting with current financial reporting.

If you require further information or elaboration on the views expressed in this submission please contact at CPA Australia, Dr John Purcell at [john.purcell@cpaustralia.com.au](mailto:john.purcell@cpaustralia.com.au) or at CA ANZ Karen McWilliams at [Karen.McWilliams@charteredaccountantsanz.com](mailto:Karen.McWilliams@charteredaccountantsanz.com).

Yours sincerely

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**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?**

***Enterprise Value***

The introduction to the Exposure Draft, along with the April 2021 Trustees' Feedback Statement, makes reference to **enterprise value** (EV) as a critical determinant of investor decision making. EV is clearly of significant utility as a reflection of the market's assessment of the value of an organisation as a whole. The amendments to the *Constitution* are silent on the role to be played by EV in driving the character of IFRS sustainability standards. While this might be appropriate, as such technical matters are perhaps best addressed elsewhere, we caution against drawing too great a nexus between the capital/dimensions of sustainability and EV. Whilst less volatile than market capitalisation, EV still relies to a large degree on the market's determination, encompassing a range of factors both within and outside of the control of the organisation. Moreover, a reliance on EV as a determining factor in shaping sustainability disclosure choices infers a high degree of market efficiency in assimilating information in a timely and cost-efficient manner, which may not always be the case. Finally, with respect to EV, too great an emphasis on its centrality to investor decision-making may act as a barrier to achieving the desired outcome expressed in the final words of para. 2(b) – that of “connect[ing] with multi-stakeholder sustainability reporting.”

***Integrated strategy and review***

Currently, the amendments to the *Constitution* do not outline the interaction between the proposed strategy of the IFRS Foundation, the IASB and the ISSB. The language used in section 15 of the Exposure Draft (see extract below) does not clearly indicate consideration of an integrated strategic review which, in our opinion, is critical in future proofing the complementary work the three bodies intend on carrying out.

*15 In addition to the duties set out above, the Trustees shall:*

- (d) review annually the strategy of the IFRS Foundation and the IASB and ISSB and its effectiveness, including consideration, but not determination, of the IASB and ISSB agendas*

It will be important, particularly at this critical point in time, for the Trustees to take a step back and consider how different pieces of work, such as the current consultation on the IASB's priorities over the next five years, will complement the future work plans of the ISSB.

Further, it will be critical for the trustees to play an active overarching role to bring together the agendas of both the IASB and ISSB, which we envisage will require transparent connectivity from all three bodies.

In due course, the nature of such strategic reviews and alignment may contemplate the value and potential sources of an overarching corporate reporting framework to both guide endeavours towards reporting harmonisation and to assist in the prioritisation of sustainability issues once 'climate first' has been bedded down.

We highlight the importance of the strategy to be monitored on an ongoing basis to ensure that it continues to align with the rapidly developing area of sustainability and associated reporting.

We note that this consultation is the culmination of many months, if not years, of activity in this space and marks a crucial step on the path towards the harmonisation of sustainability reporting frameworks. We consider it critical that the development of an ISSB does not add to the existing complex and fragmented reporting landscape nor risks undermining or detracting from the acknowledged further purposes served by established sustainability frameworks and standards. The IFRS Foundation should seek to build on the existing momentum for harmonisation and consolidate existing initiatives to reduce confusion and avoid duplication of effort.

**Do you agree that the amendments proportionately reflect the Trustees' strategic direction, considering in particular:**

- 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?**

Although we have no specific comments to the proposed new sections 43-56 of the *Constitution*, we encourage the future ISSB and the IASB to collaborate to ensure that existing and future work projects are complementary and that the Boards are of equal status. Clearly, there is a role for the Trustees in these regards. It will be important, particularly in the initial formative years, for both the ISSB and the IASB to be, and be seen to be, working in unison, with equal footing, to prioritise key focus areas and for the IFRS Foundation not to be inadvertently seen as prioritising between financial and sustainability. Equally important will be measures to ensure that the ISSB is appropriately resourced from the outset. We have included further observations, particularly in relation to approval of IFRS accounting standards and sustainability standards, below.

## 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?**

We consider that the proposed paragraph 2(b), based to a large extent on the wording of the preceding paragraph dealing with the IASB, gives effect to the views formed by the Trustees as presented in the exposure draft introduction (para 2(a) – (d)).

The Major Australian Accounting Bodies make the following observations which centre on what may be inferred with respect to the interactions, or absence thereof, between both the IASB and the ISSB, and IFRS accounting standards and IFRS sustainability standards.

- Naming and description of future ISSB standards should be such as to avoid any risk of confusion with the GRI's (Global Reporting Initiative) Sustainability Reporting Standards. A suggestion could be to consider standards issued by the ISSB to be titled 'International Sustainability Reporting Standards (ISuRS). The need for such clarity is justified in terms of what has come to be termed *dynamic materiality* which offers the basis for identifying and managing the thresholds between financial reporting, investor orientated sustainability disclosures and sustainability information relevant to a diversity of interests such as contribution to sustainable development.
- At an 'institutional' level, the amendments appear silent on how the two Boards will collaborate on matters of common interest and what mechanisms might be applied to ensure, where appropriate, consistency in both thematic priorities and shared endeavours towards improved corporate reporting. Whilst both Boards appear, through the various consequential amendments, to sit in comparable positions in relation to Trustees, we believe greater articulation of the relationship between the two is warranted.
- Elaborating further on this need for greater coherence, paragraph 2(a) deals with 'information in financial statements and other financial reports' whereas the 'information' addressed in paragraph 2(b) is presented in 'corporate reports'. We note in the Introduction of the Exposure Draft that climate is to be prioritised in the initial sustainability scope. Developments around disclosure of climate-related impacts and corporate responses are wide ranging and gathering pace. The IASB's own work in relation to climate-related matters is most recently contained in its education materials [Effect of climate-related matters on financial statements](#), which is complemented by resources such as CDSB's [Accounting for Climate](#). Also noteworthy is the IASB/IFRS March 2021 [Third Agenda Consultation](#) in which "climate-related risks" is listed (page 31 Table 5) as a potential project. This is elaborated on in paragraph B9 (page 32) as an activity discrete from the possible ISSB; noting that the project could prioritise aspects of both IAS 1 (*Presentation of Financial Statements*) and IAS 36 (*Impairment of Assets*).

Driven to a substantial degree by the growing embedding of the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations within corporate disclosures, investor expectations and decisions made in capital markets in relation to climate-related matters transcend each of financial, narrative and sustainability disclosures. Expectations around climate-related matters being reflected in financial statements and other financial reporting is further heightened through initiatives such as the IIGCC's [Investor Expectations for Paris-aligned Accounts](#).

The Major Australian Accounting Bodies see it as being critical that, from the outset, there are both strong lines of liaison between the two Boards and the capacity to refer and respond to common economic, environmental and social drivers that will emerge.

- Both paragraphs 2(a) and 2(b) make reference to respective standards being based on "clearly articulated principles". Choices made as to the extent to which a conceptual framework for IFRS sustainability standards diverges from, or mirrors, that established for financial reporting will have profound and long-term effects. Though in a very early stage of

development, the 'Group of 5's prototype climate-related disclosure standard'—in its foreshadowed adaption of the IASB Conceptual Framework (Figure 3) —sets forth a potentially strong divergence between the two streams of corporate reporting and disclosure. Elsewhere, the prototype states (page 16) “financial accounting and disclosure is often concerned with assessing the present state and past performance.” Potentially, this downplays the way numerous IFRS accounting standards, underpinned by the Conceptual Framework for Financial Reporting, would need to adjust recognition/derecognition and measurement processes for future expectations. We see it as desirable that the *Constitution*, in some manner, alludes to where and how appropriate levels of harmonisation between IFRS accounting standards and IFRS sustainability standards will be addressed. We consider there are practical benefits in such ‘signalling’, not least of which as a pointer for audit and assurance processes, which will necessarily be brought to bear.

### 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?**

We do not have comments to make in relation to this question.

### Question 4

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

#### ***Approval of IFRS accounting standards versus IFRS sustainability standards***

We note that the number of members required to approve the publication of an exposure draft or an IFRS accounting standard (accounting standard) differs to the proposed number to approve an exposure draft, or an IFRS sustainability standard (sustainability standard). A clear 8/13 or 9/14 members is required to pass an IFRS accounting standard, however, only a simple majority is required to pass an IFRS sustainability standard.

Paragraph 35 of the current IASB constitution states that:

*‘The publication of an Exposure Draft, or an IFRS accounting standard (including an IAS® Standard or an IFRIC Interpretation of the Interpretations Committee) shall require approval by **eight members** of the IASB Board, **if there are 13 members or fewer**, or by **nine members if there are 14 members**. Other decisions of the IASB Board, including the publication of a Discussion Paper, shall require a simple majority of the members of the IASB Board present at a meeting that is attended by at least 60 per cent of the members of the IASB Board, in person or by telecommunications.’*

Paragraph 54 of the ISSB *Constitution* proposes that:

*The publication of an Exposure Draft, or an IFRS sustainability standard shall **require approval by a simple majority of the ISSB**. Other decisions of the ISSB, including the publication of a Discussion Paper, shall require a simple majority of the members of the ISSB present at a meeting that is attended by at least 60 per cent of the members of*

*the ISSB, in person or by telecommunications. As the ISSB is being established, the Chair and the Vice-Chair may seek to obtain public input on the proposed work plan for the new board. Such a publication may be published with approval of the Chair and the Vice-Chair of the ISSB.*

The *Constitution* currently states that one of the objectives of the Foundation is ‘to promote and facilitate adoption of IFRS Standards, these being: Standards issued by the ISSB (referred to as ‘IFRS sustainability standards’ (Para.2(c)(ii)). The difference in approval (as noted above) may inadvertently result in a misconception that the sustainability standards issued by the ISSB have been approved through a less rigorous process vis-à-vis the approval required for an accounting standard. We recommend the Trustees’ consider alignment of the approval level required for each set of standards.

### **Structure and clear definitions**

We encourage clear communication with stakeholders outlining the governance structure of the IFRS Foundation, the IASB, the ISSB and all of the committees/groups that support the agendas of the IFRS Foundation and each Board. A graphic representation of the structures and interconnections between groups/committees could reduce confusion for stakeholders.

We also encourage clear definitions of key terminology, particularly as new staff, committees and groups navigate the direction of the ISSB. Clear definitions will align stakeholder interpretations and remove any misinterpretations of key terminology.

### **The creation of a multi-stakeholder expert consultative committee**

We note that in those paragraphs of the *Constitution* dealing with the Monitoring Board (paras. 18 – 23), only minor amendments are proposed which, as with other consequential amendments, recognise the co-existence of the ISSB with the IASB. However, consideration might, in time, be given to whether the Monitoring Board membership, as it is currently constituted, remains appropriate and covers all critical stakeholders for financial and sustainability related matters. We note though that the announced Eminent Persons Group will most likely provide this type of high-level strategic and governance guidance, certainly within the medium term.

### **Guidance and resources**

The proposed arrangements allude to a ‘building blocks approach’ drawing on existing sustainability standards and frameworks to deliver IFRS sustainability standards of sufficient certainty and rigor. Invariably, there will be a period in which preparers will need to build management and governance systems. During this time, adoption should not be unduly delayed in anticipation of absolute certainty over the application of such standards. Some form of interpretation committee or transition resource group might be necessary in the longer term. For the foreseeable future though, established IFRS structures, such as Standing Consultative Groups and Advisory Bodies, should be used for such purposes.

***Due process***

Though understandable that it may be premature for detailed articulation, we would welcome early canvassing of any proposed due process procedures which should, of course, be modelled closely on that which applies the IASB. Such formality will be relevant to jurisdictional adoption and adaptation of IFRS sustainability standards in terms of ensuring they have the confidence of corporate and market regulators.