

27th July 2021

Mr Erkki Liikanen
Chair, IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

Submitted via online comment letter.

Dear Mr Liikanen,

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

The Climate Disclosure Standards Board (CDSB) welcomes the invitation to respond to the IFRS Foundation's Exposure Draft Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards. CDSB was set up in 2007 with the mandate to produce a globally accepted approach to reporting financially material climate risks and opportunities to capital markets with the same rigour as financial information, in the absence of a globally accepted accounting approach to do so. It was the Board's intent that CDSB filled the gap in market practice until such time as a suitably authoritative global body was ready to take over the mantle. The IFRS Foundation is uniquely positioned to take over this mantle and establish an independent International Sustainability Standards Board alongside the International Accounting Standards Board (IASB) under the existing governance of the IFRS Foundation and building on the experience gained from financial reporting to further develop sustainability reporting. With that context in mind, CDSB applauds the IFRS Foundation for its ongoing efforts to establish a sustainability standard setter following the significant market support received to the Trustees proposals of September 2020.

CDSB is encouraged to see that the IFRS Foundation's path forward reflects the path CDSB has taken over the last 15 years, building on existing frameworks, standards, and initiatives; starting with climate and building out to cover other sustainability topics as dictated by market demand; and connecting to financial reporting (along with the management commentary) to provide a complete picture of enterprise value creation to providers of capital.

Ensuring and signalling that all ESG matters will be captured

We highlight the challenges CDSB has also faced in building out incrementally from climate, prioritising the aspects we identified as needed by the market with other organisations often filling the void, which has resulted in duplication of effort instead of standardisation and confusion for market participants. For this reason, we cannot stress enough that the direction the new board will take needs to be clear from the outset and will cover the full spectrum of ESG matters/themes to ensure the ISSB is globally relevant and gains maximum market acceptance. Failing to do so may result in parallel efforts to addressing perceived gaps (for example on environmental or social matters) that would undermine the ISSB's goal for global harmonisation and alignment.

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Connectivity is key

The intended aim of the ISSB to establish globally accepted sustainability reporting standards focused on enterprise value requires that links are made between sustainability reporting and financial reporting. Sustainability and financial reporting cannot be considered in silo due to their interconnectivity as sustainability matters that can influence enterprise value. Coherent, consistent, complete and connected reporting is required for information to be decision-useful. The IFRS Foundation has already shared guidance on the effects of climate-related matters on financial statements¹ and the establishment of this new board will allow further linkages to be explored between sustainability and financial reporting, relating to both Management Commentary and the Financial Statements. In this respect, we believe that it is essential for a transparent cooperation mechanism between the IASB and ISSB to be specified in the Constitution.

Leveraging existing experience and ensuring the right skillsets

In March 2021², CDSB was formerly invited by the IFRS Foundation to participate in a Technical Readiness Working Group (TRWG) to prepare insights on a climate standard for sharing with the new Board to give it a running start and move forward at the pace needed if we are to prevent dangerous climate change and stay within agreed international limits of 1.5°C. With the nearly 15 years of experience that CDSB brings to the table on climate, environmental and more recently social reporting, together with the experience of our fellow organisations in the TRWG, the ISSB is well positioned to rapidly establish a globally applicable climate standard and move rapidly to cover all ESG matters.

CDSB also notes importance of evolving the makeup of the Trustees to include individuals with new skills and experience, who understand the evolving sustainability landscape and the related reporting and standard setting impacts.

CDSB would like to thank you for the opportunity to comment on this important work and congratulate the IFRS Foundation Trustees for the pace in which they have been able to deliberate and progress on the expansion of their remit to cover sustainability standard setting for enterprise value creation and offers its support via our participation in the Technical Readiness Working Group or bilaterally to help progress this important agenda at the pace needed.

Please find attached our responses to the questions in Appendix 1 attached to this letter. If you have any further questions on our response or for support in your endeavours, please do not hesitate to contact me directly at mardi@cdsb.net or +44 (0) 779180043.

Yours sincerely,



Mardi McBrien
Managing Director, CDSB Secretariat

Appendix 1: Responses to consultation questions

¹ IFRS Foundation (2020) Effects of climate-related matters on financial statements. [PDF]. Available from: <https://www.ifrs.org/news-and-events/2020/11/educational-material-on-the-effects-of-climate-related-matters/>

² IFRS Foundation (2021) IFRS Foundation Trustees announce working group to accelerate convergence in global sustainability reporting standards focused on enterprise value. [Online]. Available at: <https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-working-group/>

Appendix 1:

CDSB response to the proposed targeted amendments to the IFRS Foundation constitution to accommodate an International Sustainability Standards Board (ISSB) to 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

CDSB agrees with the proposed amendments in Section 2b of the Constitution as set out in Appendix A to expand the Foundations objectives to encompass the development of a single set of high-quality sustainability standards that provide decision useful information to capital markets and that connect with multi-stakeholder sustainability reporting. CDSB firmly believes that the ISSB and IASB should be equal in stature and further agrees with the general principle that the ISSB is granted the broadest possible objective within the strategic scope of the Foundation reflecting the similarly broad scope of the IASB.

To avoid potential confusion, CDSB would however use the term "beginning with" rather than "prioritising" climate. The term "prioritising" may be understood as placing other sustainability matters at a lower importance by some, which may not be the intended meaning here.

- b. The proposed amendments to reflect the structure and function of the new board, outlined in the proposed net sections 43-56 of the Constitution, as set out in Appendix A?

Broadly speaking, CDSB agrees with the general approach to roles, responsibilities, membership and essential components of the due process adopted in drafting the proposals presented in sections 43-56.

With respect to section 43, we believe that both Boards should have the same structure/functions thus the time commitment needed from Board members would be similar. As currently drafted, part-time board membership of up to three people is proposed out of the 14-member Board. We understand that part-time opportunities make it more attractive to secure specialist skill sets to the Board and for other employer arrangements. However, in the first 3-5 years there will be a significant amount of technical and stakeholder engagement activity that the new Board will need to undertake to ensure its successful adoption and application globally, which from our experience will take the full resources of a 14 strong full-time Board.

There are elements of both the IASB and ISSB's work that will require common ownership, such as the Management Commentary Practice Statement. There are also other areas where a close coordination between the two boards is likely to be useful, such as in considering the effects of climate-related matters on the financial statements. It is therefore essential to establish a transparent and pragmatic mechanism for cooperation between the two boards, which will help facilitate connectivity. This needs to be provided in the Constitution and clarified by the Trustees as to how this will be achieved in practice, including delineation of remits and clarifying where and how both boards would be expected to cooperate and reach mutual agreement.

CDSB supports Paragraph 44-45, emphasizing the need for a mix of appropriate skills, experience of sustainability and financial reporting, and perspectives to this Board with a balanced regional representation. The initial cohort of board members, particularly the Chair and Vice-Chair, will have a significant role to play in obtaining widespread uptake of the standards so will require support and credibility from relevant stakeholders. The skillset of Board members must include investor and preparer representation and individuals with extensive experience preparing sustainability-related frameworks and standards.

With respect to proposals in Paragraph 54, referring to our comments above that both boards should be on equal footing, we do not see why the proposed voting thresholds are less for the proposed ISSB than for the IASB and believe they should be the same.

The rigorous due process of the IFRS Foundation is critical to the success of the ISSB and we agree that paragraph 55 should be the minimum for ISSB 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?

Yes, CDSB agrees with the name of the ‘International Sustainability Standards Board’ and ‘IFRS Sustainability Standards.’ The inclusion of the word “Reporting” in the name of the Standards i.e., IFRS Sustainability Reporting Standards, could assist in reducing confusion with wider stakeholder reporting beyond enterprise value creation and would be more aligned with the naming of the ‘IFRS Financial Reporting Standards’. CDSB further acknowledges the momentum already behind the ISSB acronym with key stakeholder endorsement from G7, ISOCO, G20 Financial Stability Board and many others.

CDSB supports the direction of travel outlined in paragraph 18 of the invitation to comment but feel there are more urgent priorities than to change the Foundations name which, amongst other things, would cause further confusion and uncertainty in a space the proposed development is looking to simplify and harmonize.

However, once the sustainability standards are established CDSB would support the proposals to change the Foundations name as outlined in the Accountancy Europe paper *Interconnected standard setting for corporate reporting*³ to the ‘Corporate Reporting Foundation’ to inclusively reflect the full remit of activity.

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?

CDSB broadly agrees with the proposed amendments.

It will be important for the ISSB to be able to set its own operating model, which takes into consideration the difference in nature of the topics it will be addressing, as well as the landscape in which it will be implemented. It is critical that both boards are not competing for resources, which

³ Accountancy Europe (2019) *Interconnected standard setting for corporate reporting*. [PDF]. Available from: <https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/>

could put at risk the success of either board and that safeguards are appropriately put in place to prevent this, both now and in the future.

Question 4

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

Interpretations Committee: CDSB is a member of the IFRS ISSB Technical Readiness Working Group and has been releasing sustainability-related standards for enterprise value creation and supporting their adoption for over 15 years. Based on this experience we believe an interpretations committee is needed from the outset in order to cope with the many specific interpretation issues that will arise as companies start to use the standards. This Interpretations Committee should also be allocated with appropriate funding and staff resources. Sustainability reporting, from an enterprise value perspective, is a new area for many preparers and as such appropriate support is critical to ensuring acceptance of the standards and timely preparation of reporting in line with the standards.

Diversified funding sources: Based on experience of securing funding to draft independent global sustainability related financial standards, CDSB suggests that the Trustees work with the Monitoring Board to secure diversified funding for the ISSB's work in an independent manner that is free from national, regional, sectoral interests or approval.

Multi-stakeholder Expert Committee: Such a committee is an essential addition to governance to ensure diversified stakeholder representation and connectivity with the IASB's work. From CDSB's experience of convening such groups over the last 15 years to support the development of standards, it is a different set of stakeholders to that of the existing IFRS Foundation and IASB that are relevant to sustainability reporting standard setting. The Multi-stakeholder Expert Committee will also form an important advocacy function as the Foundation sets up the new Board.