

## IFRS Developments

# One step closer to an International Sustainability Standards Board

### What you need to know

- ▶ The Trustees of the IFRS Foundation have published a proposal to amend the IFRS Foundation Constitution to accommodate a sustainability standards board.
- ▶ If the proposal is well received, the Trustees intend to announce their plans to create a new board in November 2021.
- ▶ The comment period for the Exposure Draft ends on 29 July 2021.

### Introduction

On 30 April 2021, the Trustees of the IFRS Foundation (the Trustees) published a proposal to amend the IFRS Foundation Constitution (the Constitution) to accommodate the formation and operation of an International Sustainability Standards Board (ISSB). Comments on the Exposure Draft (ED) are due by 29 July 2021.

### Responding to a demand for global sustainability standards

In the ED, the Trustees have taken another step in response to demands for the IFRS Foundation to play a role in developing global sustainability reporting standards.

On 30 September 2020, the Trustees published a Consultation Paper (CP) to assess the demand for global sustainability reporting standards and explore the IFRS Foundation's role in the development of such standards. A feedback statement summarising comments received on the CP was published alongside the ED. In February 2021, the Trustees reported that the comments received on the CP indicated an urgent need for global sustainability reporting standards and a broad demand for the Foundation to play a role in setting such standards.

On 8 March 2021, the Trustees announced their views on the strategic direction of a new sustainability standards board relating to four fundamental choices on scope and approach:

- ▶ To focus on the information needs of investors, lenders and other creditors (i.e., a capital markets approach rather than a multi-stakeholder approach and an enterprise value focus)

- ▶ To initially focus on climate-related matters, while also moving quickly to work towards meeting the information needs of investors on other environmental, social and governance (ESG) matters
- ▶ To build on the work of existing frameworks, including the prototype standard proposed by the CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) in December 2020.
- ▶ To contribute to greater comparability and consistency of global sustainability reporting by providing a baseline, allowing flexibility for coordination with jurisdictional and other frameworks that capture wider reporting requirements (building block approach)

On 22 March, the Trustees announced the formation of a technical working group to co-ordinate work on developing technical recommendations for a new sustainability standards board and to consider how to transfer technical expertise and content to the new board. The working group is chaired by the Foundation and includes a number of organisations with experience in sustainability reporting and/or standard setting:

- ▶ The Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD)
- ▶ The Value Reporting Foundation (representing the intended merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB))
- ▶ The Climate Disclosure Standards Board (CDSB)
- ▶ The World Economic Forum (WEF)
- ▶ The IASB, given the need for connectivity with financial reporting

The working group will also engage with the Global Reporting Initiative (GRI) and the CDP. The International Organization of Securities Commissions (IOSCO) will participate as an observer.

Parallel to the technical working group, the Trustees are also planning to establish a multi-stakeholder expert consultative committee to work on the new board's engagement with the relevant global stakeholders involved in sustainability reporting, similar to the IASB's Accounting Standards Advisory Forum (ASAF).

## **Proposed changes to the Constitution**

The Constitution sets out the objectives of the IFRS Foundation, as well as its governance structure and the composition of the different bodies of the Foundation.

In the ED, the Trustees propose only a few changes to the governance structure of the IFRS Foundation (the Monitoring Board and the composition of the Trustees). However, more significant proposed changes feature new additions regarding the composition and the requirements of a new sustainability standards board. Consequential changes are also proposed to other parts of the Constitution, including the Foundation's objective and changes to key terminology necessary to accommodate a new sustainability standards board.

## **Proposals to expand the objective of the Foundation**

In the ED, the Trustees propose to expand the Foundation's objectives by adding the development of "high quality, understandable, enforceable and globally accepted sustainability standards based upon clearly articulated principles". Echoing existing objectives relating to financial reporting standards, the Trustees suggest that these standards should require "high quality, transparent and comparable information in corporate reports". Consistent with the announced strategic direction, the proposed focus of the standards is helping capital markets participants in their decision-making and connect with multi-stakeholder sustainability reporting.

### **Proposed names**

The Trustees do not propose to change the name of the IFRS Foundation. The proposed name of the new standard-setting body is the “International Sustainability Standards Board (ISSB)” and the proposed name of standards issued by the ISSB is “IFRS sustainability standards”.

As a consequence, the Trustees propose that the Standards and IFRIC Interpretations issued by the IASB be referred to as “IFRS accounting standards” and that “IFRS Standards” be defined as IFRS accounting standards and IFRS sustainability standards.

### **The ISSB**

To a large extent, the proposals relating to the ISSB reflect the existing requirements applicable to the IASB. Similar to the IASB, the Trustees propose that the ISSB would normally be comprised of 14 members with a certain geographical distribution. However, while the Constitution specifies that up to three members of the IASB may be part-time, the Trustees propose that a larger number of members of the ISSB may be part-time, as long as there are more full-time members than part-time members. Furthermore, up to four members of the ISSB may be appointed from any geographical area, which creates more flexibility than is the case for the selection of members to the IASB. While the ED proposes that both boards should represent the best available combination of technical expertise and diversity of international business and market experience, the Trustees recognise that sustainability standard setting may require somewhat more diverse expertise. Therefore, the ED proposes that the ISSB will be expected to collectively demonstrate relevant expert knowledge.

In respect of the IASB, the Trustees propose that each member of the ISSB shall have one vote. In contrast, for the ISSB, a simple majority is deemed sufficient for the approval of an exposure draft or an IFRS sustainability standard.

For the time being, the Trustees do not propose the creation of a sustainability standards interpretations committee, suggesting, instead, that the application of IFRS sustainability standards is given time to mature before deciding whether to create a separate interpretations committee.

### **Parallel work streams**

The CP sought feedback on the following requirements that the Trustees consider essential for the success of a sustainability standards board:

- ▶ Achieve a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets
- ▶ Work with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting
- ▶ Ensure the adequacy of the governance structure
- ▶ Achieve appropriate level of technical expertise for the Trustees, SSB members and staff
- ▶ Achieve the level of separate funding required and the capacity to obtain financial support
- ▶ Develop a structure and culture that seeks to build effective synergies with financial reporting
- ▶ Ensure the current mission and resources of the Foundation are not compromised

The feedback statement published alongside the ED states that while the responses were generally in agreement, respondents highlighted the need "to move quickly" and "create a set of standards promptly" as well as prioritising climate related disclosures. As such, the Trustees added an additional requirement "to recognise the urgency of the need to develop global standards, most notably on climate-related matters". Parallel to the work on required changes to the Constitution to accommodate a sustainability standards board, efforts are also being undertaken to ensure that the identified key requirements for success are met. This includes, for example, establishing the technical working group and efforts to establish a multi-stakeholder expert consultative committee, as mentioned above.

## Next steps

The comment period ends on 29 July 2021. Following this deadline, the Trustees will review comments received before making a decision on the creation of a new board. If the Trustees do decide to create such a board, the current plan is to announce this at the United Nations Climate Change Conference in November 2021 (COP26), provided the key requirements for success are met.

### How we see it

Sustainability reporting has attracted increasing interest from various stakeholders in recent years. There is a growing recognition among investors that financial reporting alone does not provide them and other stakeholders with a full enough picture of enterprise value and also that it is desirable to have consolidation of existing frameworks, methodologies and metrics for sustainability reporting.

The ED and the parallel work streams represent key steps taken by the IFRS Foundation towards playing an instrumental role in developing globally accepted sustainability reporting standards, leveraging off its existing structures, due process and significant experience as a global standard-setter.

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ED None

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