

IFRS in Focus

IFRS Foundation Trustees propose amendments to the IFRS Foundation *Constitution* to accommodate an International Sustainability Standards Board

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This *IFRS in Focus* summarises the Exposure Draft (ED) *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*, published by the International Financial Reporting Standards Foundation (Foundation) in April 2021. It also summarises the Foundation Trustees' (Trustees) Feedback Statement on the *Consultation Paper on Sustainability Reporting* that was published alongside the ED.

- The IFRS Foundation Trustees have published an ED proposing amendments to the IFRS Foundation Constitution that would enable the creation of a new sustainability standards board under the governance of the Foundation. At the same time, the Trustees have published a feedback statement that summarises the responses to the Trustees' September 2020 Consultation Paper and states how the Trustees have responded to the feedback.
- The Trustees are proposing amendments that are a prerequisite for creating a new board within the governance structure of the IFRS Foundation. In particular:
 - The objective of the IFRS Foundation would be expanded to include the development, in the public interest, of a single set of high quality, understandable, enforceable and globally accepted sustainability standards based upon clearly articulated principles.
 - The Trustees propose to name the new board the 'International Sustainability Standards Board' (ISSB). The new board's standards would be known as 'IFRS sustainability standards.'
 - The ISSB would normally comprise 14 members. The members of the ISSB would be appointed by the Trustees. A minority of ISSB members could be part-time members. The main qualifications for membership of the ISSB would be professional competence and relevant professional experience. The Chair would be chosen by the Trustees from among the full-time members as would a potential Vice-Chair.
- If approved, the proposed changes would allow the Foundation to secure the resources needed to create the ISSB.
- After the comment letter deadline of 29 July 2021, the Trustees will review an analysis of the comments on the proposed constitutional amendments.

Background

In September 2020, the Trustees published a [Consultation Paper on Sustainability Reporting](#) (Consultation Paper) to assess the demand for global sustainability reporting standards in general and—assuming that there was a need for such standards—to consult on how the Foundation should respond to that demand.

Based on the feedback received to the Consultation Paper, the Trustees have proposed amendments to the IFRS Foundation Constitution that would enable the creation of a new sustainability standards board under the governance of the Foundation. They have also released a feedback statement summarising the main messages they received in response to their Consultation Paper.

[IFRS Foundation Trustees' Feedback Statement on the *Consultation Paper on Sustainability Reporting*](#)

The Trustees received 577 comment letters indicating great international demand for global sustainability standards and broad support for establishing a standard-setter for these standards under the governance of the Foundation. The key points from the feedback statement are summarised below.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Demand for a consistent global set of sustainability reporting standards and the possible role of the IFRS Foundation

The need for a global set of internationally recognised sustainability reporting standards

The responses demonstrate broad stakeholder support for globally recognised sustainability reporting standards. Respondents expressed support for the IFRS Foundation playing a role in global sustainability reporting, citing the Foundation's relationships with global governance bodies and institutions, its expertise in international standard-setting and its rigorous due process. In general, there was broad stakeholder agreement that the Foundation would contribute most effectively by creating a new board that would operate under the Foundation's governance structure.

The Trustees concluded that the responses indicate a growing and urgent demand to improve global consistency and comparability in sustainability reporting. The responses also demonstrated an urgent need for action and a broad demand for the Foundation to play a leading role in setting sustainability standards. The Trustees, therefore, decided to undertake further analysis and agreed to form a Trustee Steering Committee to oversee the next phases of work.

The potential creation of a sustainability standards board under the governance structure of the IFRS Foundation

There was broad support amongst respondents for establishing a new board that would operate under the governance structure of the Foundation. Some noted the potential value of having two boards setting international standards for both financial reporting and sustainability reporting within one organisation as a way to promote interconnectivity between financial and sustainability matters in corporate reports.

Key requirements for success

Respondents generally agreed with the key requirements for success proposed in the Consultation Paper as appropriate conditions for further developing a new board. Respondents described climate change as an urgent problem and asserted that global standardisation of climate-related financial disclosures would be an important element in the transition to a carbon neutral global economy. Respondents asserted that a condition for their support would be the IFRS Foundation building upon the work of global initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB) and other standard-setters in sustainability reporting.

The Trustees agreed with the suggestion to add a key requirement for success—an urgent need to develop global standards, most notably on climate.

Relationships with other institutions and initiatives

Providing a global platform

There was broad support from respondents that the Foundation should use its relationships with stakeholders to aid the adoption of global sustainability standards. Respondents specifically encouraged the Foundation to seek a global solution by engaging with international bodies such as the International Organization of Securities Commissions (IOSCO), the Financial Stability Board (FSB), the International Monetary Fund, the United Nations and the World Bank.

The Trustees confirmed that they consider relationships with such stakeholders vital to realising the adoption and consistent application of IFRS sustainability standards globally.

Build upon existing initiatives

Respondents strongly encouraged the Foundation to collaborate with initiatives on sustainability reporting, such as the TCFD, and existing sustainability and integrated reporting organisations such as the CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and SASB. According to respondents, it will be critical for the Foundation to build on the momentum and consolidate relevant initiatives to reduce confusion and avoid duplication of effort. Such an approach would also allow the Foundation to draw on the wide-ranging expertise and experiences of those initiatives. According to respondents, there is an urgent need to harmonise, accelerate and mandate sustainability reporting, and leveraging the work of existing organisations would be a cost-efficient and outcome-effective approach to achieving this goal.

Respondents referred to the 'building blocks' approach as the way forward for working with sustainability reporting initiatives. Respondents explained that this approach could facilitate the new board's ability to move with speed, gain broad acceptance for investor-focused sustainability reporting, and allow multi-stakeholder sustainability reporting initiatives to progress in parallel with the work of the new board.

Given respondents' broad support, the Trustees expect the new board to build upon the well-established work of the TCFD and the work of leading standard-setters in sustainability and integrated reporting focused on enterprise value. The Trustees recognise that

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the four pillars of the TCFD framework (Governance, Strategy, Risk Management, and Metrics and Targets) represent core elements of how organisations operate, and that further work on the level of metrics has been conducted by other leading standard-setters in sustainability and integrated reporting focused on enterprise value.

Observation

In March 2021, the Trustees issued a [statement](#) on steps towards establishing a sustainability standards board. In the statement, the Trustees said that the board would consider the [prototype climate-related financial disclosure standard](#) developed by CDP, CDSB, GRI, IIRC and SASB as a 'potential basis' for developing standards. The development of the prototype climate standard was facilitated by Deloitte, the Impact Management Project and the World Economic Forum (WEF).

Finding a global solution for consistent sustainability reporting

Most respondents expressed the need for a globally accepted set of sustainability reporting standards to achieve global consistency and comparability. They also said that building a global consensus on baseline standards, compatible with jurisdictional regulatory environments, would be a productive approach for the Foundation to take, given the differences in the approaches to, and the maturity and scope of, sustainability reporting initiatives around the world.

The Trustees welcomed respondents' endorsement of the Foundation creating an international baseline of high quality, understandable, enforceable and globally accepted sustainability standards. The Trustees regard that approach as a viable way to address the need for global convergence.

Scope

Climate priority

Respondents broadly agreed that the new board should prioritise climate change in its standard-setting, while emphasising that climate should not be the sole focus. There was strong support that the new board should set standards across environmental, societal and governance (ESG) factors generally.

The Trustees emphasised the need for the new board to develop IFRS sustainability standards relevant to investors interested in enterprise value. The Trustees' view is that the new board would prioritise work on climate-related reporting, while also working towards meeting the information needs of investors on other sustainability and ESG matters.

Target audience

There was broad support from respondents for the Trustees' proposal that investors be the target audience for IFRS sustainability standards and recommended that the new board focus its standard-setting on investors' information needs. Respondents highlighted the need for the new board to be closely aligned with the work of the European Union (EU) including its work on updating the Non-Financial Reporting Directive and the European Financial Reporting Advisory Group's (EFRAG) preparatory work on [European non-financial reporting standards](#).

Based on the feedback and encouraged by the IOSCO board, the Trustees recognised the significant public interest in developing reporting standards that address investors' information needs on enterprise value. The Trustees also recognise that more consistent disclosure from entities on sustainability topics relevant to enterprise value can increase capital allocation toward more sustainable business activities, since enterprise value creation or erosion is fundamentally interdependent with value created or eroded for society and the environment.

Auditing and external assurance

There was broad agreement among respondents that the sustainability-related information disclosed in annual reports should be capable of being audited or subject to external assurance. Respondents stated that independent assurance could enhance the reliability of information that entities disclose.

The Trustees believe the new board should benefit from the experience of the International Accounting Standards Board (IASB) in working with the auditing profession to achieve standards that are subject to third party assurance.

Proposed amendments to the IFRS Foundation Constitution

The ED proposes to amend the Constitution to expand the Foundation's remit to create a new board that would set IFRS sustainability standards.

In particular, the Trustees propose to expand the objectives of the Foundation to include the development, in the public interest, of a 'single set of high quality, understandable, enforceable and globally accepted sustainability standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in corporate reports to help investors and other participants in the world's capital markets in their decision-making and connect with multi-stakeholder sustainability reporting.'

The Constitution would also outline the structure and function of the sustainability standards board (the International Sustainability Standards Board (ISSB)) under the governance structure of the Foundation. The proposed amendments related to the proposed ISSB deliberately replicate the structure and function of the IASB where possible. This reflects the broad agreement by respondents to the Consultation Paper that the governance structure of a new board should generally reflect that of the IASB. There are a few deviations from the IASB's structure that allow for the new board to reach an appropriate level of maturity in its standard-setting and develop its technical expertise within the confines of the Trustees' strategic direction. Importantly, the fundamental components of the due process of the ISSB are the same as those for the IASB.

Observation

The Trustees decided not to propose the implementation of a Sustainability Standards Interpretations Committee. The Trustees suggest that the use of the new board's standards should sufficiently mature before proposing to create a separate interpretations committee. The Trustees suggest that this issue can be revisited when the new board is fully operational and its standards are widely in use.

Under the proposals, the ISSB would normally have 14 members, which are appointed by the Trustees. A minority of the members could be part-time members, which means that members would commit most of their time to paid employment by the Foundation. The main qualification for membership of the ISSB would be professional competence and relevant professional experience. Criteria for ISSB membership would include technical competence and knowledge of sustainability and reporting as well as awareness of the sustainability reporting environment. The ISSB would represent the best available combination of technical expertise and diversity of international business and market experience, including auditors, preparers, users, academics and market and/or financial regulators. ISSB members would need a broad base of skills, experience and perspectives. Therefore, ISSB members could also have professional backgrounds that reflect a diverse range of expertise and roles that are relevant to sustainability.

Similar to the IASB, the membership would ensure a broad international balance with a target geographical allocation proposed. Compared to the IASB, more 'at-large' seats (four) are proposed for the ISSB to provide more flexibility in attracting appropriately skilled candidates.

Two of the full-time ISSB members would be appointed as Chair and Vice-Chair, with roles similar to those of the IASB. The initial term of ISSB members (including Chair and Vice-Chair) would be a maximum of five years. A term may be renewable for a further term of three years, with the possibility for renewal up to a maximum of five years. It is proposed that a term must not exceed ten years in total.

ISSB members would have to be independent, with full-time members severing all employment relationships with current employers. Part-time members would not be expected to sever all other employment arrangements but would need to be able to demonstrate a sufficient level of independence.

ISSB meetings would be open to the public, with every ISSB member having one vote in the meeting. In the event of a tied vote on a decision that is to be made by a simple majority of members present, the Chair would have an additional casting vote. Exposure Drafts or IFRS sustainability standards would require approval of a simple majority of the ISSB. Other decisions would require a simple majority of the members present at a meeting that is attended by at least 60% of the ISSB members.

During the establishment phase of the ISSB, 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 the approval of the Chair and the Vice-Chair.

The Trustees also propose that the Constitution is amended to stipulate that the Executive Director of the Foundation is appointed by the Trustees, in consultation with the chairs of the IASB and the ISSB. These proposed amendments would clarify reporting lines in an organisation with two standard-setting boards.

Observation

The Trustees recommend retaining the Foundation's formal name ('the IFRS Foundation') as both the IASB and the ISSB would set IFRS standards (IFRS accounting standards and IFRS sustainability standards). The Trustees also discussed renaming the Foundation to become 'the International Corporate Reporting Foundation'. However, this would have meant losing the benefit of building on the established brand of the Foundation.

Next steps and comment period

If approved, the proposed changes would allow the Foundation to secure the resources needed to create the ISSB. After the comment letter deadline of **29 July 2021**, the Trustees will review an analysis of the comments on the proposed constitutional amendments. This analysis will enable the Trustees to make a final determination about the creation of a new board. Assuming that the Trustees do finally determine to create such a board, their plans to do so would be announced at the United Nations Climate Change Conference (also known as COP26), scheduled to be held in November 2021.

Further information

If you have any questions about the proposed amendments to the IFRS Foundation *Constitution* please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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