

29 June 2021

Mr Erkki Liikanen, Chair
IFRS Foundation
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Canary Wharf
London E14 4HD
United Kingdom

Electronic submission only

Dear Mr Liikanen

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

Deloitte Touche Tohmatsu Limited (Deloitte) is pleased 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* (the ED). Deloitte welcomes the ED and commends the IFRS Foundation for its continued efforts to establish a sustainability standard-setter under its institutional framework and its continued efforts to achieve the key requirements for success outlined in its September 2020 Consultation Paper. The ED's proposals are a vital step in ensuring that the institutional framework is extended appropriately and with the support of all stakeholders.

We commend and continue to support the IFRS Foundation Trustees for their ongoing efforts to adapt the IFRS Foundation's institutional arrangements to support sustainability reporting standard-setting, their collaborative arrangements with IOSCO, establishing the working group to undertake technical preparation for sustainability reporting standard-setting, and their intention to establish a multi-stakeholder consultative committee. All of these actions respond both to the urgent need for global sustainability reporting standards and the IFRS Foundation's constituents who gave their support to the Trustees' September 2020 proposals.

We encourage the IFRS Foundation to amend the constitution now to anticipate the further components necessary to support sustainability reporting standard-setting – the institutions, competencies, processes, etc., but hold these in abeyance until such time as the IFRS Foundation Trustees agree that the time is right to activate them. This would increase the IFRS Foundation's flexibility to respond to what is a remarkably fluid and dynamic reporting space. In particular, we support such an approach for an Interpretations Committee and any arrangements that might be necessary to advance global cooperation and collaboration in the development of standards.

We agree with many of the IFRS Foundation's proposals, in particular the introduction of paragraph 2(b) to provide the competence to set and maintain sustainability reporting standards, and the provisions of

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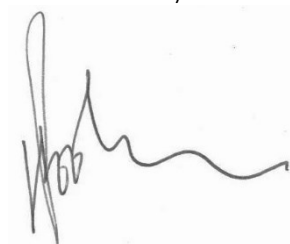
paragraphs 43-56 generally, although we have some concerns about specific matters. In particular, we note:

- We recommend that the Constitution provides the structures necessary to ensure common ownership of fundamental elements that will be common to both Boards, in particular parts of the Conceptual Framework as described in Part 2B of *Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard*, and the Management Commentary Practice Statement. Common ownership of these elements should underpin and facilitate connectivity between financial and sustainability reporting. There should be a transparent mechanism for cooperation between the two boards, including the possibility of joint development of key documents, e.g., agenda consultations, further development of the IASB Management Commentary Practice Statement, and amendments to the *Conceptual Framework for Financial Reporting*.
- We disagree with the proposal in paragraph 54 of a simple majority threshold for the publication of an Exposure Draft or final ISSB Standard. We recommend having the same voting thresholds as those for the IASB in paragraph 35.
- We do not agree with the terminology proposed for the new board and its associated standards. It is fundamental that 'reporting' be included in both the Board's name and its standards. We think this is necessary to (i) emphasise that the ISSB sets 'sustainability reporting' standards and (ii) place the ISSB's standards as of equivalent status to 'financial reporting' standards. The standard-setter should be the International Sustainability Reporting Standards Board and its standards should be International Sustainability Reporting Standards or similar.

Our detailed comments on the ED's proposals are in the Appendix.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
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Deloitte Touche Tohmatsu Limited

Appendix

Proposal 1—Expand the Foundation’s remit to create a new board that will 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
- (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?

(a) *Section 2(b): Objectives of the IFRS Foundation*

We agree with the proposed Section 2(b) and with the general principle that the ISSB is granted the broadest possible objective within the strategic scope of the IFRS Foundation.

The scope, reflecting the similarly broad scope of the IASB, establishes the equivalent stature of the ISSB within the IFRS Foundation.

However, Section 2 should include the objective of facilitating coherence and connectivity between financial reporting and sustainability reporting that would address the interdependencies between them. The need for connectivity was identified by many respondents to the 2020 Consultation and acknowledged in the Trustees’ Feedback Statement.

We refer you to our comments on Proposal 2, some of which are relevant here also.

(b) *Sections 43-56: The International Sustainability Standards Board*

We agree with the general approach to defining the role, responsibilities, membership and essential components of due process adopted in drafting proposed paragraphs 43-56.

Composition of the ISSB

We support the proposals in paragraph 43 for a 14-member ISSB. We recommend that the use of part-time members is limited in practice whilst acknowledging the need for flexibility in the first few years of the ISSB’s life. In the longer-term, we think that all ISSB members should be full time and that appointing part-time members should be exceptional. See also our comments on paragraph 50, below.

We recommend that the Constitution provides the structures necessary to ensure common ownership of fundamental elements that will be common to both Boards, in particular parts of the Conceptual Framework as described in Part 2B of *Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard*, and the Management Commentary Practice Statement. Common ownership of these elements should underpin and facilitate connectivity between financial and sustainability reporting. There should be a transparent mechanism for cooperation between the two boards, including the possibility of joint development of key documents, e.g., agenda consultations, further development of the IASB Management Commentary Practice Statement, and amendments to the *Conceptual Framework for Financial Reporting* that might draw on the proposals included in the

December 2020 document *Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard*, referred to above.

Further the Trustees should clarify how this connectivity will be achieved in practice, how the delineation between the IASB's and the ISSB's remits and areas of competence will work, as well as identifying those areas in which the two are expected to collaborate, cooperate and reach consensus. How this is best achieved will evolve over time, but immediate actions might include ensuring that there is sustainability reporting expertise on the IASB and financial reporting expertise on the ISSB, possibly by having an ISSB Member appointed as an Observer on the IASB, and vice versa, so that reporting implications of matters that might be of interest to both boards can be identified quickly and given proper joint consideration.

We note that such a mechanism will need particularly careful oversight by the Trustees' Due Process Oversight Committee. Although we would not favour prescriptive measures being embedded in the Constitution, we do recommend that the Trustees consider whether any additional due process activities should be instituted in this area, including drawing on the expertise available in the various working and expert groups established by the Trustees as part of their work on sustainability reporting standards.

Skills and geographical distribution

We note and support the description of the broad sustainability-related skill set in paragraph 44 and the collective expectation that the ISSB will "demonstrate expert knowledge, relevant industry expertise in sustainability reporting and share practical, relevant and up to date experience of sustainability reporting."

We support the geographical allocations proposed in paragraph 45, including the greater number of 'at large' seats, as a transitional measure only. We are concerned with the removal of the caveat about overall balance. Whilst we recognise the possible difficulty faced by the IFRS Foundation in attracting 'appropriately skilled candidates,' we would expect the Trustees to seek to achieve an overall balance in membership in any event. We think that as global capacity in sustainability reporting grows and the pool of eligible ISSB candidates grows, the need for a larger number of 'at large' seats will diminish and paragraph 45 can be aligned with paragraph 26.

Independence

We have some concerns about the operational aspects of paragraph 50. We recognise that many national standard-setters rely heavily on part-time members, who (when deliberating on standards) are expected to act *in the public interest and with objectivity*. These arrangements are appropriate in the national context in which they arise. However, for a global standard setter the bar is appropriately higher. We note that the IASB has had part-time members drawn from academia and semi-retired professionals. Such appointments might mitigate the independence concerns, but not remove them entirely.

In our view and given the expected demand for sustainability reporting standard-setting in the coming 10-15 years, we think that a full-time board with members from diverse backgrounds will be necessary. That in itself will help to achieve the objectivity and independence expected of a global standard setter. If part-time members are appointed initially, as with the IASB historically, such appointments should be exceptional.

Voting procedures

We disagree with the proposal in paragraph 54 of a simple majority threshold for the publication of an Exposure Draft or final ISSB Standard. We recommend having the same voting thresholds as those for the

IASB in paragraph 35: approval by eight members of the ISSB, if there are 13 members or fewer, or by nine members if there are 14 members. The Trustees have advanced no reason why ISSB Standards should be subject to a lower threshold of support than IFRS Accounting Standards. In addition, a lower threshold is optically contrary to the idea that the ISSB has equal stature with the IASB within the IFRS Foundation organisation.

Due Process

We agree with the fundamental elements of ISSB due process stated in paragraph 55, which we see as the minimum expectation for an ISSB Standard. Whilst we acknowledge that speed is of the essence, especially in respect of progress on a climate disclosures standard, we urge the Due Process Oversight Committee to endeavour to ensure that as many of the enhanced features of the existing due process as possible are utilised in development of that standard. The IFRS Foundation's due process is critical to the credibility of IFRS Standards. The rigor of the IFRS Foundation's due process was (and is) a critical component of the governance and oversight structure that was the basis of the broad support of the Trustees' September 2020 Consultation.

We agree that it will be essential for the ISSB to 'form working groups or other types of specialist advisory groups to give advice on major projects' (paragraph 55(g)), and especially encourage the formation of a multi-stakeholder consultative group, as outlined in Section 7.1 of the *IOSCO Report on Sustainability-related Issuer Disclosures* (28 June 2021), which amongst other objectives we see as a critical way of bringing together key global multilateral organisations (including, for example, the World Bank, IMF, OECD and relevant UN Agencies) with deep expertise in sustainability matters. The organisations have well-established networks of non-governmental organisations, as well as access to scientific resources and other developments, all of which may be useful to the ISSB.

IFRS Advisory Council (paragraphs 55(h) and 58)

We agree that the Constitution does not need amendment beyond what is proposed in the ED.

We agree with the IFRS Foundation that the Advisory Council's membership can be adjusted as members come to the end of their terms under the existing Constitution. The size of the Advisory Council is flexible ('30 or more members'), allowing the Trustees to appoint members from relevant organisations not currently represented.

We see the Advisory Council as another key advisory mechanism at the global, but sub-institutional level. We would urge the Advisory Council to consider increasing the frequency of its meetings to accommodate the opportunities for input as the IFRS Foundation makes operational the amendments to the Constitution and the ISSB determines its priorities beyond the climate reporting standard.

Other matters related to the ISSB and its operations

We recommend that the IFRS Foundation seek to establish (or amend to encompass the ISSB) formal cooperation agreements (Memoranda of Understanding, Protocols, etc. as appropriate) between the ISSB and the IASB, and between the IFRS Foundation/ ISSB and IOSCO, key national and regional securities markets regulators, the European Commission (or EFRAG), and global organisations (e.g., the OECD, World Bank, relevant UN Agencies, and other key global multilateral organisations) that can contribute to the development, implementation and success of the ISSB and its standards.

As different countries/ jurisdictions consider or enhance their requirements for reporting on sustainability matters, there will be a need for the IFRS Foundation to put in place arrangements to encourage multi-

lateral cooperation, coordination and true dialogue in standards development at a technical level, in order to benefit from experience and ideas, as well as avoid fragmentation and divergence from the global baseline of standards that the ISSB will set. Such arrangements should be established as soon as practicable.

(c) *Annex: Criteria for ISSB Members*

We agree with the proposed Criteria for ISSB Members.

Proposal 2—Create the International Sustainability Standards Board under the Foundation’s governance structure to set IFRS sustainability 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?

We do not agree with the terminology proposed for the new board and its associated standards.

It is fundamental that ‘reporting’ be included in both the Board’s name and its standards. We think this is necessary to (i) emphasise that the ISSB sets sustainability *reporting* standards and (ii) place the ISSB’s standards as of equivalent status to financial reporting standards. The standard-setter should be the International Sustainability Reporting Standards Board and its standards should be International Sustainability Reporting Standards, or International Standards for Sustainability Reporting (given that the acronym ISRS is already a registered Trademark of a third party in some countries).

We note the discussion in paragraph 18 of the Invitation to Comment. We agree that it is too early to change the name of the organisation (it was several years before the IASC Foundation became the IFRS Foundation) and that there are more urgent priorities to which scarce resources should be devoted. However, we think that if (when) oversight of broader sustainability reporting is brought under the IFRS Foundation, the idea of creating a ‘Corporate Reporting Foundation’ as envisaged by the 2020 Accountancy Europe Cogito paper *Interconnected Standard-setting for Corporate Reporting* should be considered.

Proposal 3—Consequential amendment to the Foundation’s governance

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?

Sections 60-61: Executive Director and Staff

We agree with the proposals, although we would encourage the IFRS Foundation to explain why the Executive Director’s direct reporting responsibility to the IFRS Foundation Chair was removed.

Other matters

Question 4

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

Sustainability reporting interpretations committee (paragraph 10(e))

Whilst we understand the IFRS Foundation's conclusion that interpreting ISSB standards may be premature, we still see great value providing for a sustainability reporting interpretations committee now.

We think that the IFRS Foundation should adopt an approach similar to that adopted in 2000, when the members of the International Accounting Standards Committee approved Part C of the Constitution, which came into effect when the IASC Foundation Trustees agreed that it should (as described in the Preface to the Constitution). There is no reason why the IFRS Foundation cannot provide for an interpretive body, using paragraphs 38-42 as a template in this revision of the Constitution. The new paragraphs would come into effect whenever the Trustees decide that it is opportune to constitute the committee. This would increase the IFRS Foundation's flexibility to respond to what is a remarkably fluid and dynamic reporting space.

Composition of the Monitoring Board

The IFRS Foundation has no role in determining the composition of the Monitoring Board, whose membership may change from time to time. We recommend that paragraph 21 be deleted entirely or else replaced with the following:

"The Monitoring Board is solely responsible for determining its composition."

IASB Appointments before and after 2 July 2009

We recommend that reference to appointments prior to 2 July 2009 be deleted, as they are now redundant. We note that this suggestion is reflected in proposed paragraph 49. We suggest that the paragraph state:

"Members of the IASB shall be appointed initially for a term of five years. Terms may be renewable for a further term of three years, with the possibility of renewal up to a maximum of five years, in line with procedures developed by the Trustees for such renewals. The terms may not exceed 10 years in total length of service as a member of the IASB."

Appendix B

We note and acknowledge the contents of Appendix B and are grateful to the Trustees for documenting their progress on their Key Requirements for Success identified in the September 2020 Consultation as supplemented in March 2021.

With respect to paragraph B16, we urge the Trustees, working with the Monitoring Board, to work towards a diverse funding regime that not only secures the ISSB's future and independence, but does so in a manner which is seen to be free from any sectoral, national or regional interest or approval.