



Brussels, 29<sup>th</sup> July 2021

**Comments on the IFRS Foundation Exposure Draft: "Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards"**

**General remarks**

The members of the EACB gladly take the opportunity to comment on the IFRS Foundation's exposure draft that amends the constitution to accommodate a new International Sustainability Standards Board (ISSB) to set IFRS sustainability standards.

The EACB welcomes the proposed amendments to the Constitution to create and incorporate a new independent ISSB under the governance structure of the IFRS Foundation and to encompass the development of globally accepted IFRS sustainability reporting standards.

We particularly appreciate the taking up of the IFRS sustainability standards, as there is an urgent need for the guidance on sustainability standards at the global level. The EACB considers extremely important the initiative undertaken by the IFRS Foundation to create an international standard setter for sustainability reporting, as this will allow to develop a uniform framework for reporting high quality, relevant and coherent sustainability-related information.

Furthermore, the EACB thinks it is important to align with the decisions at the global level, as the work of the IFRS Foundation to establish the ISSB was already endorsed by the recent agreements at G7 and G20 meetings.<sup>1</sup>

Please find below the EACB answers to the specific questions of current Consultation:

**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?

<sup>1</sup> The Financial Stability Board also welcomed the IFRS Foundation's programme of work to develop a baseline global sustainability reporting standard under robust governance and public oversight.



## 1(a) - Objectives of a new ISSB

EACB Members welcome the proposed amendments to the IFRS Foundation's Constitution to introduce in the objectives of the Foundation a new section 2(b). In particular, the EACB appreciates the fact that the Foundation's objectives through a new sustainability standards board (the ISSB) closely reflect those of the financial accounting standard-setter, IASB.

The EACB believes that the new proposed sustainability-related reporting has to be interconnected and closely integrated with the existing financial reporting standards. The EACB therefore advocates for a reporting framework that ensures alignment between financial and sustainability-related disclosures. In this way, coherence of reported information across different entities would be easier to achieve. Moreover, such a comprehensive reporting framework would be relevant, implementable and meet the requests of various stakeholders across jurisdictions for sustainability standards.

We particularly agree with the proposed amendments to the Foundation's objectives under the section 2(b) indicating that sustainability standards should **"help investors and other participants in the world's capital markets in their decision-making"**. The EACB thinks that the sustainability standards set by the ISSB should prioritise enabling disclosures that are relevant to material impact on the value of a company. We are therefore convinced that the information reported in accordance with the new IFRS sustainability standards should be primarily intended for the use of investors, as these addresses are the general focus of corporate reporting. A reporting that incorporates entities' financial and relevant sustainability-related disclosures should have the purpose of improving investors' economic decisions making process. In this regard, the EACB Members advocate for investor-focused sustainability reporting for most users.

The investor orientation in the development of IFRS sustainability standards is also being confirmed in the recent IFRS Foundation's comment on the G20 Finance Ministers and Central Bank Governors' communication:

*"We welcome the G20 Finance Ministers and Central Bank Governors' recognition of the IFRS Foundation's work to establish a new board focused on sustainability-related disclosure standards that meet the information needs of global capital markets. The necessary preparatory work is progressing with other investor-focused standard-setting organisations. This will provide the basis for development of a global baseline of investor-focused disclosure standards that jurisdictions can combine with their public policy requirements and use in their legal frameworks."*

At the same time, we recognize the importance of connecting the new proposed sustainability standards with broader **"multi-stakeholder sustainability reporting"**, as also outlined in the section 2(b). In this regard, the EACB acknowledges the importance of achieving the system of uniform internationally recognised sustainability standards, which can be further complemented by different (future) jurisdictional/national sustainability-related reporting requirements. It is crucial for our Members to ensure the interconnectedness and compatibility of a baseline global standard for sustainability with potential complementing national (EU) standards, which aim at a wider range of stakeholders' sustainability reporting. We therefore



foresee that creating proper interfaces between these two elements will be a central aspect in order to facilitate standardized and coherent reporting.

### **1(b) - Structure and function of a new ISSB**

The EACB position is that the governance structure and function of a new board should generally correspond to that of the IASB in order to achieve a balanced governance.

In line with the above, we agree with the proposed amendments outlined in sections 43 through 45 of the Constitution concerning the composition of the ISSB and the qualifications for the ISSB membership. We particularly welcome the criteria necessary for the ISSB membership laid down in section 44 and in the Annex. It is a key issue from the perspective of our members that high level experts selected as the ISSB members have relevant practical experience and professional competence, as well as knowledge of sustainability and reporting.

In relation to the new section 46 of the Constitution, the EACB welcomes the fact that the proposed amendments for the ISSB to ***"liaise with relevant stakeholders with an interest in sustainability reporting standard-setting"*** mirror the function of the financial standard setter, the IASB, under the section 27. The EACB believes that a close cooperation between the ISSB and other investor-focused standard-setting organisations is of central importance in order to ensure high quality sustainability reporting standards. The cooperation should involve the EU and other relevant stakeholders to assist in the development and consistent application of an international sustainability reporting standard, but also *"to promote the convergence of national and regional sustainability reporting standards and IFRS sustainability standards"*. It must be further ensured that high expertise and new developments regarding the sustainability-related information are fed into the ISSB's work.

#### **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?

Yes, we agree with the naming of the new board and associated standards.



**Proposal 3—Consequential amendment to the Foundation’s governance**

The Trustees propose that sections 60 and 61 of the Constitution be amended to stipulate that the Executive Director of the Foundation be appointed by the Trustees, in consultation with the chairs of the IASB and the ISSB. This proposed amendment would clarify reporting lines in an organisation with two standard-setting boards.

**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?

Yes, we agree with the proposed amendment.

**Other matters**

The Trustees encourage stakeholders to raise any other concerns about the proposed amendments to the Constitution.

**Question 4**

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

No.

**Contacts:**

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