



Tel: +44 20 7893 3300
Fax: +44 20 7487 3686
@: abuchanan@bdoifra.com
www.bdointernational.com

BDO IFR Advisory Limited
Contact:
55 Baker Street
London W1U 7EU
United Kingdom

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

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Dear Sir

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

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the ED.

We welcome and support the IFRS Foundation Trustees' ongoing work to put the necessary constitutional and other arrangements in place for a new International Sustainability Standards Board. There is an urgent need for globally accepted sustainability reporting standards.

In relation to changes to the IFRS Foundation Constitution that are to be made now, as an overall comment, we believe that these should include changes that allow for not only the amended structure that will be required in the short term to accommodate the new board, but also to anticipate future changes such as the need for an Interpretations Committee. Any elements that were not needed immediately could then subsequently be put in place without the associated need for the Trustees to consult again on additional changes to the constitution.

For the proposals set out in the proposed amendments, we agree with section 2(b) and with much of what has been included in sections 43-56. However, there are some aspects which we believe need further consideration, including:

- As a general comment, the operation of the IASB and ISSB should be aligned as much as possible. This is necessary to ensure that the status of the two sets of standards is set at the same level, and to avoid any perception that financial reporting standards and sustainability reporting standards are viewed by the Trustees as having different levels of importance. In particular, the voting threshold for an Exposure Draft or

¹ Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BV, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and/or the member firms of the BDO network. BDO is the brand name for the BDO network and for each of the BDO member firms. BDO IFR Advisory Limited is a UK company limited by guarantee, registered in England under No 7295966. Registered office: 31 Chertsey Street, Guildford GU1 4HD, United Kingdom © 2021 BDO IFR Advisory Limited. All rights reserved.

Standard should be aligned and, other than in the relative short term, the membership of the two Boards should be subject to the same requirements for geographical allocation. From a wider perspective, we note that the constitution as proposed would not make any reference to diversity (other than geographic representation). We believe that the IFRS Foundation needs to include additional aspects of diversity and inclusiveness in its constitution.

- We disagree with the proposal that no allowance should be made at this point for an Interpretations Committee. As noted above, we believe that the amendments being made now to the constitution need to anticipate future requirements, and in relation to an Interpretations Committee we anticipate that this may be needed at a relatively early stage of the ISSB's existence.
- We do not agree with the proposed terminology for the new sustainability standards, and consider that they should be termed 'International Sustainability Reporting Standards' (or similar). Using the term 'IFRS' as the prefix, as proposed in the ED, might also convey the impression that sustainability standards are a subset of financial reporting standards, instead of being a separate set of standards with equal importance.

We also consider that the constitution needs to include provision for projects where both the IASB and ISSB will have a legitimate interest, such as management commentary. These might be structured as joint projects to ensure that both boards have appropriate input. We also suggest that a number of members of the IASB should join ISSB meetings as observers, and vice versa, which would assist in addressing the interconnectivity that exists between financial reporting and sustainability reporting.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS

Appendix

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 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?***

Objectives of the Foundation - proposed new section 2(b)

We agree with the proposed new section 2(b), in particular that it replicates the broad remit of the IASB. This reflects the need for the two Boards need to be given equivalent status.

However, we believe that section 2 should also address the need for interconnectivity between financial and sustainability reporting, and the respective standard setters. This need for interconnectivity, and the related advantages that arise from having the two standard setters within the same overall organisation, contributed to the support given by many stakeholders to the IFRS Foundation in their responses to the consultation document that was published at the end of September 2020.

The International Sustainability Standards Board - sections 43-56

In general, we agree with the proposals set out in sections 43-56. However, there are some aspects which we believe should be reconsidered.

In addition, we believe that, whatever decisions are taken about the composition, voting arrangements and due process of the ISSB, these need to be replicated in the IASB (unless there are good reasons for not doing so, which should be explained) in order that it is made clear by the IFRS Foundation that it considers both Boards to have equivalent status and importance. For example, if it is ultimately decided that the ISSB should have four 'at large' members in more than the relative short term then, unless there are good reasons for a constitutional difference, this should be replicated in the requirements for the IASB.

We also note that the constitution as proposed would not make any reference to diversity (other than geographic representation). We believe that the IFRS Foundation needs to include additional aspects of diversity and inclusiveness in its constitution, to cover the composition of all of its membership structures including the ISSB and the IASB.

Membership of the ISSB (section 43)

We agree with the proposal for the board to be comprised of 14 members. Although we agree with the proposal to permit part time members in order to allow some flexibility, we believe that this should be limited to the early stages of the ISSB's life with the ultimate aim of full time membership only.

Linked to the need to minimise part time membership of the ISSB, while we note the requirements set out in section 50, we consider that it may be challenging for part time members to be able fully to demonstrate a sufficient level of independence.

Geographic distribution (section 45)

We note that the proposals would result in a greater number of 'at large' seats than exists at the IASB. We believe that this additional flexibility may be helpful, as it may enable a higher quality Board composition. However, if this additional flexibility is to be made available to the ISSB, consideration should be given to aligning the equivalent requirements for the IASB. As noted above, we believe that it is important that, as far as possible, the constitutional requirements for the ISSB and IASB are fully aligned in order to demonstrate that the IFRS Foundation considers the two Boards to have equivalent status and importance.

Similarly, while we acknowledge the need for flexibility, we believe that the 'four members appointed from any area' should be subject to the same limitation of 'subject to maintaining overall geographical balance' as the IASB (section 26).

Chair and Vice Chair (section 48)

We agree with the proposed appointment of a Chair and Vice-Chair, although it is not clear to us why there is accommodation for only one member of the ISSB to be designated as Vice-Chair when two might be designated at the IASB (section 29).

Approval of an Exposure Draft or IFRS sustainability standard (section 54)

We do not agree with the proposal to require a simple majority for the approval of these documents. Instead, the ISSB should have the same voting thresholds as the IASB (section 35). It is of critical importance that the ISSB should have, and be seen to have, equal status and due process to that of the IASB and a lower voting threshold is inconsistent with this.

Due process (section 55)

We agree with the requirements set out in section 55. However, for the purposes of subparagraph (g) to 'normally form working groups or other types of specialist advisory groups to give advice on major projects', we encourage an approach that brings together relevant stakeholders at an early stage. This may assist in promoting global consistency of approach, with standards issued by the ISSB forming a global 'baseline', and avoid the potential for geographic fragmentation. We acknowledge the work being carried out, as set out in Appendix B sections B10-B12, but suggest that this is put on a more formalised basis as soon as possible.

We note that work is ongoing, in particular in relation to a climate standard, in order to give the ISSB a ‘running start’ when it is established in November 2021. We agree with this approach, in the context of the urgent need for that standard and the timing and scope of international developments in sustainability standard setting and regulatory requirements. However, it remains important that as many features of the due process as possible are followed.

IFRS Advisory Council

We agree that the membership of the Advisory Council does not need to be revisited at this point, and that it can be rebalanced as appropriate in future. However it may, particularly in the early stage of the ISSB’s life, for the Advisory Council to meet more frequently than twice a year.

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 proposals.

The use of the term ‘IFRS sustainability standards’ appears internally inconsistent. ‘IFRS’ is an abbreviation for International Financial Reporting Standards meaning that it is proposed that the sustainability standards are called ‘International Financial Reporting Standards sustainability standards’.

There is an associated risk that, if the term ‘IFRS sustainability standards’ were to be used, then sustainability standards might be perceived as being a lower level subset of IFRS. In addition, some constituents use the term ‘IFRS’ to refer to the IASB. As noted elsewhere in our comment letter, it is of critical importance that financial reporting, and sustainability, boards and standards have equal status.

We suggest that the ISSB’s standards are instead called ‘International Sustainability Reporting Standards’ (or similar).

Other matters discussed by the Trustees

We note the discussion in paragraph 18. Although we understand the Trustees’ views, we do not agree. Instead, at the point at which the ISSB is formed, we believe that it would be appropriate for the Foundation to be renamed the ‘International Corporate Reporting Foundation’. This would give a clear signal of the expansion in the Foundation’s remit, and would avoid the ISSB (which issues ISRSs) potentially being viewed as being a less important subset of the IFRS Foundation than the IASB which issues IFRSs.

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?

We agree with the proposals.

Question 4 - Are there any other matters you would like to raise in relation to the proposed targeted amendments to the Constitution?

Sustainability standards interpretations committee (paragraph 10(e))

We acknowledge the Trustees' view that the formation of an interpretations committee for sustainability standards may not be needed in the immediate term. However, we believe that the changes being made now should put in place the entire structure that it is anticipated will be required, with each element being brought into use as and when it is required. This could be achieved by largely replicating sections 38-42, which deal with the IFRS Interpretations Committee.

We also note that this approach would substantially reduce the need for the Trustees to propose further changes to the Constitution, which could arise sooner than anticipated due to the current and anticipated future pace of change.

Outdated sections of the Constitution

A number of sections or references within them appear redundant, as they relate to circumstances in prior years which no longer apply.

Section 21

The references to the initial composition of the Monitoring Board no longer appear necessary, and it is not clear why the IFRS Foundation should be involved in determining the membership of the Monitoring Board. We suggest that this section is amended to read:

‘The Monitoring Board shall be responsible for determining its composition.’

Section 30

The references to appointments made before 2 July 2009 should be deleted. The paragraph could read:

‘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 a 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 overall length of service as a member of the IASB.’