

Response to IFRS Foundation's consultation on amending its constitution to accommodate an International Sustainability Standards Board.

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?*

Issue A in response to question 1 (a): A single set of sustainability standards should serve both Investors and multi-stakeholders sustainability reporting. **Reasons:**

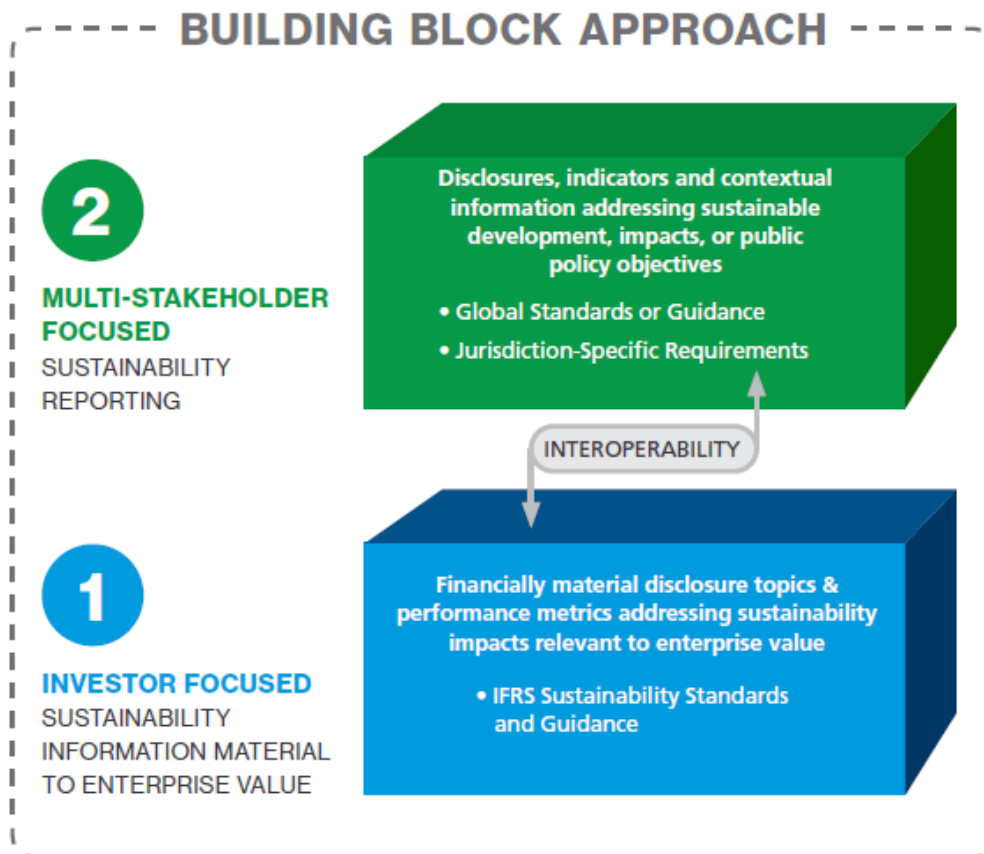
Yes, ISSB should prioritise standards on topics which are more likely to impact enterprise value commencing with those related to climate change; **however:**

- Differences in the sustainability context of companies mean different topics will be material to the enterprise value of different companies. Thus, standards are required for a wide range of topics in order to report on enterprise value for all listed companies.
- As noted on page 26 of the Trustees feedback on their consultation on sustainability reporting, Dynamic materiality as means sustainability topics can move, either gradually or very quickly, in and out of the group topics which affect enterprise value. Thus, if different standards were used depending on whether a topic is material to enterprise value, a company would need to restate its historic data when a topic move in or out of being material to enterprise value.

Referencing IFAC's 'Building Block' diagram¹ on the next page:

1. Initially the ISSB will only be able to cover some of the 'Block 1' issues which are material to enterprise value and firms will therefore need to draw on the SASB/GRI standards for their other Investor Focused reporting.
2. In time ISSB coverage, and hence Block 1, will expand to cover issues which are material to the enterprise value for a wide range of companies. At this point what will a company do if ISSB's standards cover an issue which, given materiality, should be included in its Sustainability Report rather than its report to investors? I would expect most will use the ISSB standard. Thus in-time the number of issues covered by Block 2 will shrink. This should make "Interoperability" a priority for the ISSB's collaboration with other standard setting initiatives, be they multi-stakeholder focused or jurisdiction-specific. Such collaboration should seek to minimise data/information collection requirements for companies.
3. Thinking through the practicalities of this transition reinforces the benefit of harmonising the Block 1 (ISSB) and the Block 2 (GRI/SASB and others) as far as is practical.

¹ IFAC's Building Block Approach: www.ifac.org/knowledge-gateway/contributing-global-economy/publications/enhancing-corporate-reporting-sustainability-building-blocks?utm_source=IFAC+Main+List&utm_campaign=0b2ba7fd75-KD-Letter-Sustainability-Building-Blocks&utm_medium=email&utm_term=0_cc08d67019-0b2ba7fd75-80290401



Interoperability between Multi-Stakeholder Focused Sustainability Reporting and Investor-Focused Sustainability Information Material to Enterprise Value allows companies to collect specific information on a given sustainability matter once, and to use that same information to serve reporting requirements under either Block 1 or Block 2.

Finally, a paramount reason for harmonising these standards is ‘**the iceberg nature of a company’s information system**’. The information which is externally reported is like the part of the iceberg which appears above sea level. The great majority of a company’s information is internal just as the nine-tenths of an iceberg is hidden underwater. But the strength of the visible iceberg depends on the strength of the part under the water. In particular, the strength of the connections between visible and underwater parts.

So it is with a company’s information. The strength of the external reporting depends on how well it is integrated with the company’s internal systems. Harmonised external reporting standards help achieve this.

Given the points on above I recommend section 2(b) on page 16 be revised per the following track changes:

The objectives of the IFRS Foundation are:

(b) through the ISSB, develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted sustainability standards based upon clearly articulated principles. These standards should be used for two purposes:

- a. To 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.
- b. To facilitate connect-with multi-stakeholder sustainability reporting.

In addition to the above proposal on the constitution it would be very helpful for the ISSB's **conceptual framework**² elaborates on the issues raised above, at an early date. Specifically:

- It identifies the topics for which ISSB is likely to eventually set standards given the wide range of topics that impact the enterprise value of companies in different business sectors.
- Notes the implications of variations in the sustainability context of a company over time leading to topics moving between coverage in its reports for investors and coverage in its sustainability reports for other stakeholders.
- Covers how ISSB aims to harmonise with standard setters for multi-stakeholder sustainability reporting so companies can both:
 - a. use ISSB standards in their Sustainability Reports for multiple stakeholders; and
 - b. use standards for other standard setters for topics which are material to enterprise value but not covered by ISSB standards.

Issue B in response to question 1 (a): While the IFRS Proposal notes the need for a version of the standards for SMEs it does not currently envisage an approach for both enabling and incentivising the reporting journey from being a small enterprise to being a large MNC. I recommend the following sub-paragraph 3 be added to Page 16 section 2(b) to cover this:

2. Where practical, the ISSB's standards should combine with regulatory standards in different jurisdictions and standards for multi-stakeholder reporting to provide a staircase of reporting levels appropriate for a small enterprise growing to become a large corporation. The objective is for each step up this staircase to be both rewarding and of practical size.

Response to question 1 (b): Amend Section 46 on stakeholder liaison for ISSB as follows:

The ISSB will, in consultation with the Trustees, be expected to establish and maintain liaison with relevant stakeholders with an interest in sustainability reporting standard-setting in order to assist in the development of sustainability standards and to promote the convergence of national and regional sustainability reporting standards and IFRS sustainability standards. The ISSB will, in consultation with the Trustees, establish and maintain liaison with organisations with expertise in one or more of the following:

- Summarise climate change science.
- Survey and summarising environmental and social challenges facing humanity.
- Setting standards for multi-stakeholder sustainability reporting.

The ISSB will publish a list of such organisations together with their scope of coverage. It will encourage other stakeholders to channel their views through these organisations.

Reasons: The wide range of topics and stakeholders will make it difficult for ISSB to liaise with all of them and give due weight to their concerns. The task can, however, be made less onerous and more inclusive by ISSB building on the work and stakeholder networks of organisations which currently systematically summarise global sustainability challenges. This can be done by formalising a relationship with these organisations and encouraging

² Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting note they see merit in providing strategic direction for the new board on:

a conceptual framework—The Trustees agree with respondents that developing a conceptual framework will be critical for the new board to conceptually underpin its standard-setting. The Trustees would welcome efforts by the new board to conceptually explore how its standard-setting could be linked to the work of the IASB and how to connect sustainability reporting and financial reporting. A framework could help to satisfy a key requirement for success—connecting the work of the IASB to that of the new board. The Trustees expects the technical readiness working group to undertake preparatory work in this area.

stakeholders to channel their views through the appropriate one of these organisations. The ISSB should decide the list; and, may change it from time to time. It might include:

- (a) The **Intergovernmental Panel on Climate Change**³ which summarizes published academic research related to climate change. It has several thousand contributing authors and a process which receives comment from many thousand reviews on its draft reports.
- (b) The **United Nations Environment Programme** given its Global Environment Outlook⁴ which provides a summary of all environmental sustainability challenges facing human civilisation. It has many authors and an extensive stakeholder consultation process.
- (c) The **United Nations Development Programme** UNDO given its Human Development Report⁵ which documents social topics impacting the sustainability. This also has many authors and involves many stakeholders.
- (d) **GRI** given its current, and long-standing, position as the provider of the most widely followed Sustainability Reporting Standards globally, provides a channel for consulting corporations which use its reporting. Also its multi-stakeholder process which includes companies, investors, the International Labour Organisation and NGOs such as Transparency International.
- (e) The **Value Reporting Foundation** which shares ISSB's focus on enterprise value and has stakeholder networks through the International Integrated Reporting Council's and SASB.

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?

Response: Yes, but the constitution should be referenced to a definition of the word 'sustainability'. (See answer to question 4.)

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?

Response: The proposal is sound but should be supported by a mechanism for detecting and resolving, at as early a stage as practical, potential disharmony between Financial Reporting and Sustainability Reporting standards. Consideration should be given to expanding the roles of the Advisory Council and the Interpretations Committee to fill this gap. Specifically:

- Members of the Advisory Council can be asked to consider, and if thought fit, highlight potential disharmony between developments in financial and sustainability standards.
 - The Interpretations Committee can facilitate resolution of any lack of harmony detected.
- (See answer to question 4.)

³ IPCC: www.ipcc.ch/about/

⁴ GEO-6: Global Environment Outlook www.unep.org/resources/global-environment-outlook-6

⁵ UNDO's Human Development Report <http://hdr.undp.org/sites/default/files/hdr2020.pdf>

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

Two points in response:

- 1) **Glossary:** The IFRS Trustees should provide a glossary covering the meaning of words, such as *'sustainability'* and *'multi-stakeholder sustainability reporting,'* which are used in the constitution. This glossary should, presumably, be consistent with the Common Ground Taxonomy currently under development.
- 2) **Page 25 & 26 sections 38 to 42 on the IFRS Interpretations Committee**
Section 10 (e) advises the Trustees are not setting up a Sustainability Standards Interpretations Committee until the standards are widely in use. A counter to this view is that when standards are new interpretations are more likely to be required. Further, as noted above, it is not clear how conflicts between Financial Reporting and Sustainability Standards will be identified and resolved. I therefore suggest, as an interim measure, the IFRS Interpretations Committee:
 1. Covers issues relating to Sustainability Standards.
 2. Has some ISSB members added to its membership.
 3. Has a procedure for setting-up Working Groups for issues with the composition each Working Group set depending on the extent to which the issue impacts Financial or Sustainability Reporting Standards. For example, an exclusively Financial Reporting issue would be handled by a Working Group with solely people with financial reporting expertise.

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