

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

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

Dear IFRS Foundation Trustee Members:

The Investment Company Institute,¹ including ICI Global, is writing to submit our feedback on the IFRS Foundation's *Exposure Draft of Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* (Proposed Amendments).² The Proposed Amendments would (i) expand the remit of the IFRS Foundation to cover globally accepted sustainability reporting standards in addition to financial reporting standards; (ii) set out the structure and function of the new International Sustainability Standards Board (ISSB); and (iii) align other parts of the constitution with the creation of the ISSB.

ICI strongly supports the creation of a second board – the ISSB – that would sit alongside the International Accounting Standards Board (IASB) under the existing three tier governance structure of the IFRS Foundation. As stated in our response to the Trustees' September 2020 *Consultation Paper on Sustainability Reporting* (Consultation Paper), we agree there is an urgent need to improve the consistency and comparability of sustainability reporting.³ Fund managers use this information to pursue a range of investment strategies on behalf of the millions of retail investors around the world choosing funds to save for retirement, education, and other important financial goals. A strong global framework would help ensure investors have access to

¹ The [Investment Company Institute](http://www.ici.org) (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage a total assets of US\$31.1 trillion in the United States, serving more than 100 million US shareholders, and US\$9.6 trillion in assets in other jurisdictions. ICI carries out its international work through [ICI Global](http://www.ici.org), with offices in Washington, DC, London, Brussels, and Hong Kong.

² The consultation is available at <https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/ed-2021-5-proposed-constitution-amendments-to-accommodate-sustainability-board.pdf> (Exposure Draft).

³ See ICI response to IFRS Consultation Paper on Sustainability Reporting (submitted 31 December 2020), available at https://www.ici.org/system/files/attachments/20_ltr_ifrs.pdf.

sustainability information they need to understand how climate change may impact a company's enterprise value and to make informed investment decisions.

Our responses below to select questions posed in the Proposed Amendments largely build upon our feedback to last year's Consultation Paper, where we noted that the IFRS Foundation could advance globally accepted sustainability reporting standards; provided that the IFRS Foundation initiative includes the following:

1. Focus on sustainability information that is not reflected in the financial accounts, but which is nevertheless material to enterprise value creation over the short, medium, and long term;
2. Leverage existing global sustainability standards that have broad investor support, particularly the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD);
3. Develop a governance structure that appropriately represents the interests of investors.
4. Create a balanced funding model to ensure the ISSB's independence and avoid undue influence of third parties and conflicts of interest; and
5. Ensure sufficient coordination among international regulators to facilitate cohesive baseline disclosure of sustainability information that is material to enterprise value creation.

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 ...

We strongly support the Trustees' views, articulated in the Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting (Feedback Statement),⁴ that clearly prioritized linking sustainability standards with enterprise value.⁵ We are therefore somewhat concerned with the disconnect between the finely tuned investor-focus of the Trustees' April Feedback Statement and the proposed new section 2b of the Constitution, which states:

(b) through the ISSB, to 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 require high quality, transparent and comparable information in corporate reports to help investors and other participants in the world's

⁴ See IFRS Foundation Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting (April 2021), available at <https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf> (Feedback Statement).

⁵ See Feedback Statement at 27, "The Trustees decided that the strategic direction for the new board would be to set IFRS sustainability standards focused on information material to the decisions of investors and other participants in the world's capital markets because setting such standards:

- received broad endorsement by respondents to the Consultation Paper;
- would facilitate creating synergies with the IASB;
- would align with the IFRS Foundation's current mission and expertise; and
- would not necessitate fundamental restructuring of the IFRS Foundation's governance model."

capital markets in their decision-making *and connect with multi-stakeholder sustainability reporting*. (Emphasis added)

The objectives as drafted would conflate the sustainability information needs of investors with the information needs of other stakeholders in a manner that could misdirect the focus of the standard setting process. They place equal importance on connecting with multi-stakeholder reporting as they do on requiring high quality, transparent and comparable information in corporate reports to help investors in their decision-making. This approach could result in information provided to investors being non-investment relevant, non-material, and disproportionately targeting aspects that lead to confusing disclosures.

In the Feedback Statement, the Trustees acknowledged that there can be links between enterprise-value sustainability reporting and sustainability reporting for multiple stakeholders but created the working groups on technical readiness and the multilateral working group with the understanding that those groups could develop further understanding of those links. The Trustees plainly did not intend for the IFRS's objectives to go beyond the significant public interest in developing reporting standards that address investors' information needs on enterprise value.⁶

Investors will be the primary users of sustainability reporting. We do not agree that these amendments proportionately reflect the Trustees' strategic direction, as articulated in the Feedback Statement. The amendments to the Foundation's objectives should establish that the information needs of investors are paramount.

Question 1: Do you agree that the amendments proportionately reflect the Trustees' strategic direction, considering in particular:

(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?

ICI appreciates the urgent need to improve the consistency and comparability of sustainability reporting, but we strongly believe that urgency should not detract from robust due process. We recommend that the IFRS Foundation apply at least the minimum due process requirements to the ISSB as it applies to the IASB.⁷

⁶ See Trustees' Response on pp.27-28 of the Feedback Statement. "The Trustees understand that for the new board to focus its standard-setting efforts on ESG matters relevant for investors would be a natural extension of the IFRS Foundation's current mission. The Trustees take the view that it is in the public interest for the IFRS Foundation to seek to develop IFRS sustainability standards that bring further transparency, accountability and efficiency to financial markets around the world."

⁷ The Trustees acknowledge in the Feedback Statement that many respondents cited the IFRS' expertise in international standard-setting and its rigorous due process when expressing support for the IFRS Foundation's intent to develop a new sustainability standards board. See Feedback Statement at 8, 15, and 16. "The Trustees understand that the IASB's due process in its standard-setting was one of the main reasons many stakeholders agreed that the IFRS Foundation should potentially expand its standard-setting remit to setting sustainability standards. Therefore, the Trustees recommend that its Due Process Oversight Committee consider how the IASB's existing due process can be adapted to a new board in the light of the need for urgent action. The Trustees also invited the technical readiness working group to consider recommendations on the adaptability of the Foundation's due process to enable the new board to undertake its initial standard-setting efforts on a timely basis, but *without sacrificing due process*." (Emphasis added.)

It is of critical importance that the governance structure of the ISSB is developed in a way that allows significant representation of investors' interests. We recommend putting in place an Investor Advisory Committee that meets with the ISSB periodically and provides meaningful input on its agenda and standard-setting approach.⁸

The Proposed Amendments include a few notable areas where the due process of the IASB has been relaxed for the ISSB and without sufficient justification for these differences. We believe these relaxed standards, in aggregate, will undermine both the credibility of the ISSB and the overall objective of developing high-quality sustainability standards.

- Section 43: Part-time ISSB members. The Proposed Amendments indicate that a “minority” of the ISSB members may be “part-time” members (potentially six of fourteen). In contrast, up to three of the fourteen IASB members may be part-time. The justification for having potentially double the number of part-time ISSB members as part-time IASB members is “to allow flexibility when establishing the new board to attract appropriate talent while ensuring independence in the new board’s technical deliberations.” It is unclear how the IFRS Foundation intends to ensure the independence of part-time ISSB board members, and in our view it is critical that ISSB members remain free from political pressures and other conflicts. Part time employees who are concurrently employed by other organizations could give rise to independence concerns or face potential conflicts with other work, thus detracting from the efficiency and effectiveness of the ISSB. Although it may be necessary to utilize part-time members during the ISSB’s initial operations, we encourage that its members be full-time employees of the Foundation to the maximum extent possible, and at least be on par with requirements for IASB members.
- Section 45: Geographical representation of ISSB members. The Proposed Amendments indicate that the ISSB would comprise of:
 - a) three members from the Asia-Oceania region;
 - b) three members from Europe;
 - c) three members from the Americas;
 - d) one member from Africa; and
 - e) four members appointed from any area.

In contrast, the IASB is comprised of:

- a) four members from the Asia-Oceania region;
- b) four members from Europe;
- c) four members from the Americas;
- d) one member from Africa; and
- e) one member appointed from any area.

⁸ This Investor Advisory Committee could operate and advise in a similar function to the IASB’s Capital Markets Advisory Committee.

Given that the Constitution also states that the Trustees are not strictly bound by these geographical requirements, the reason for additional flexibility for the ISSB is unclear and could potentially result in a significant geographical imbalance in ISSB member representation. We see no reason to have a different geographic representation for the ISSB than for the IASB and would recommend the composition be consistent.

- Section 54: Publication for public comment. The Proposed Amendments indicate that the publication for public comment of an exposure draft or the issuance of an IFRS sustainability standard would require approval by a simple majority of the ISSB. In contrast, the IASB voting procedures (Section 35) require the affirmative vote of eight members (if there are thirteen or fewer Board members) and the affirmative vote of nine members (if there are fourteen Board members). The Proposed Amendments offer no reason for the different voting thresholds. To ensure exposure drafts and IFRS sustainability standards have broad support, we recommend the ISSB voting procedures mirror those of the IASB.

Credible standard setting is closely tied to rigorous due process that ensures transparency (meetings are conducted in public and meeting agendas and meeting papers are publicly available); full and fair consultation on proposals (entailing meaningful comment periods that allow interested parties to provide feedback); and accountability (the board should explain the basis for its decisions and conduct post-implementation reviews to ensure standards are working as intended). We recommend that the Trustees, through the Due Process Oversight Committee, apply, at a minimum, the same due process requirements to the ISSB as it applies to the IASB.

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

- Appendix B—Parallel work streams on the key requirements for success: Funding. We understand from the Proposed Amendments that the Trustees are working towards short- and longer-term arrangements for funding of the new board. We would not underestimate the likely funding required to achieve the desired objectives of international sustainability standards.

In our view, it is critical that the Trustees create a balanced funding model to ensure the ISSB's independence and avoid undue influence of third parties and conflicts of interest. We have concerns about the Trustees receiving significant funding in the short or long term from service providers such as audit firms, which stand to benefit from providing various services related to issuer disclosures. We strongly believe that the IFRS sustainability standards must be developed in a manner that is independent of political pressure or commercial considerations.

- Annex: Criteria for ISSB Members. We encourage the IFRS Foundation to more clearly articulate the criteria for ISSB members to ensure significant investor representation.⁹ In our view, the objectives of the IFRS Foundation would be best served by dedicating a significant

⁹ This could be achieved by dedicating a significant number of Board seats (e.g., seven of fourteen) to individuals with investment experience.

portion of seats on the new board to investors, or individuals with deep understanding of the linkages between sustainability reporting and enterprise value.¹⁰

- Trustees and Advisory Council. There are no Constitutional amendments being proposed to alter the composition of the Trustee body or the Advisory Council.¹¹ Considering the urgent need to improve the consistency and comparability of sustainability reporting and the important role that Trustees and the Advisory Council can play in this process, we strongly encourage the Trustees to reconsider whether changes to these groups' composition is needed to ensure adequate sustainability reporting expertise.

We appreciate the opportunity to provide feedback on the IFRS Foundation's proposal. If you have any questions, please contact me at eric.pan@ici.org or +1 202 326 5824.

Sincerely,



President & CEO
Investment Company Institute

¹⁰ We note that the Proposed Amendments use the terms “user” and “investor” interchangeably, but we believe there is an important distinction. “User” could include sell-side analysts, ratings agencies, or others that use the disclosures required but do not have investment experience (e.g., asset owners like pension funds or asset managers like fund sponsors). It is important to distinguish between the two when considering Board makeup.

¹¹ See Proposed Amendments, Areas where substantive amendments are not proposed, Cover Note Section 10, paragraphs (b) and (d), pp.6-7.