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Dear Mr Liikanen

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

The IDW (Institut der Wirtschaftsprüfer in Deutschland e.V.)¹ would like to thank you for the opportunity to provide the IFRS Foundation with comments on the Exposure Draft (ED) 2021/5 *‘Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards’*.

As we previously mentioned in our comment letter of 21 December 2020 on the IFRS Foundation’s Consultation Paper on Sustainability Reporting, the IDW fully supports the development of high-quality standards for sustainability reporting at an international level as well as the creation of a new standard-setting body (i.e., an International Sustainability Standards Board, ISSB²) to work alongside the IASB under governance structure of the IFRS Foundation.

In our view, the Foundation's governance structure is a significant factor contributing to the success of the current IFRS model and thus also constitutes an appropriate basis for the development of internationally accepted

¹ The IDW is a voluntary membership organisation representing the interests of the profession of public auditors in Germany and counts over 83% of this profession as members.

² We refer to our response to question 2.

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sustainability reporting standards together with the establishment of a transparent and appropriate due process for standard-setting by an independent body of experts.

Furthermore, having both the IASB and the ISSB together under the Foundation's governance will be helpful in terms of addressing the link between financial and non-financial/sustainability reporting in the medium and longer term (i.e., disclosing the linkages and taking into account the monetisation of certain externalities), which we very much welcome and support. In our view, corporate reporting in its entirety (i.e., both financial and non-financial/sustainability reporting) must be oriented towards the changing information needs of investors and other more diverse stakeholder groups.

The IDW is pleased to see the pace at which the IFRS Foundation is addressing the mandate from the feedback received on the September 2020 Consultation Paper and moving forward with the timely establishment of the ISSB.

We concur with the Trustees, that the success of any new board for developing global sustainability reporting standards would depend on the adequacy of the Foundation's governance structure and that the current governance structure set out in the Constitution needs to be amended sufficiently to accommodate such new board.

In general, we agree with most of proposed amendments to the Constitution. In particular, we agree with the proposal that the new board under the Foundations' governance structure should reflect the structure and function of the IASB where possible. In this context, we acknowledge that initially some deviations from the IASB's structure and function might be necessary to allow the new board to quickly reach a certain level of maturity in standard-setting and to develop its technical expertise under the Trustees' strategic direction. However, we believe that such deviations should be of limited duration. The goal should be a common governance structure for setting both international financial reporting standards and international sustainability reporting standards by the respective independent international standard-setting bodies under the umbrella of the Foundation.

Further, we would like to comment on the specific questions of the ED as follows:

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) We agree with the Trustees' proposal to expand the Foundation's objectives, as set out in the new section 2b of the Constitution. In our opinion, it is appropriate to grant the future 'International Sustainability Standards Board' (ISSB) the broadest possible objective within the IFRS Foundation's strategic framework for developing globally accepted sustainability reporting standards.

However, we believe that the objective of fostering coherence and connectivity between financial reporting and sustainability reporting should also be included in section 2 of the Constitution in order to adequately address the interdependencies between these reporting elements. It is important that interconnectivity is not only described as an objective, but that this is reflected in the two boards' operations, the common ownership of some products and their governance, including a mechanism for resolving differences of opinion between the two boards.

- b) In general, the IDW agrees with most the proposed amendments to the Constitution to reflect the structure and function of the new board. However, we would like to make the following comments:
- Firstly, we concur that the proposed amendments to the Constitution to create and incorporate the ISSB under the Foundation's governance structure should reflect the structure and function of the IASB where possible.
 - We also acknowledge that some deviations from the IASB's structure and function might initially be necessary to allow the new board to quickly reach a certain level of maturity in standard-setting and to develop its technical expertise within the boundaries of the Trustees' strategic direction. However, we believe that such deviations should be of limited duration. The IASB and its associated standards owe a large

part of their worldwide acceptance and appreciation to the regulations laid down in the Constitution. These regulations should be adopted for the ISSB in a timely manner, at the latest when the first set of sustainability reporting standards has been published.

- In regard to the proposed new section 43 of the Constitution, we have some concerns about the likely greater number of part-time members of the ISSB compared to the IASB. We recognise the need for greater flexibility in appointments to the new board in the early years. However, especially in the first years, the independence of the board will be crucial to achieving global acceptance. Against this background and in view of the likely very time-consuming work, we recommend limiting the use of part-time members in practice as far as possible. In the longer term, we believe that all ISSB members should be full-time, with the appointment of part-time members being the exception.
- Further, the IDW has some reservations about the Trustee's proposal to provide for a greater number of 'at-large' seats for the new board (we refer to the new section 45 of the Constitution). From our point of view, this risks over-representation of those geographical regions where sustainability related reporting is currently experiencing a momentum of its own, both in the public and in the regulatory spheres, and where, consequently the most expertise is currently available. Other regions in the world, in which opinion-forming and social and political development are not yet as advanced, may not be considered adequately and may perceive having been left out. It is essential to avoid this at all costs. A broad international balance within the new board in terms of its members' geographical and professional backgrounds has to be ensured, if the sustainability reporting standards are to be accepted worldwide.
- Beyond that, we do not agree with the proposal in the new section 54 of the Constitution, i.e., the publication of an Exposure Draft, or an IFRS sustainability standard³ shall require approval only by a simple majority of the ISSB. We see no reason why the publication of sustainability reporting standards should be subject to a lower threshold of support than an IASB publication. The pace of publishing an exposure draft or a standard must not be at the expense of its quality. In our view, a sign of

³ We refer to our response to question 2.

the quality of an exposure draft or a standard is a broad consensus on the requirements it contains.

- We support the proposal that, as the ISSB is being established, the Chair and the Vice-Chair may seek to obtain public input on the new board's proposed work plan. In our view, the public focus is needed to underline the relevance and ensure the current momentum is retained. Therefore, it is important that investors and the other various stakeholder groups worldwide can provide input into the new board's future work plan.
- In connection with the planned appointments to the ISSB, we generally agree with the 'Criteria for ISSB members' set out in the Annex to the Constitution. However, when selecting future members of the ISSB, we recommend that the Trustees consider a few candidates who – in addition to their expertise and knowledge on sustainability and reporting – also have some experience in the (technical) development of reporting standards. We believe this would be very helpful in bringing stringency and accuracy to future sustainability reporting standards and in developing a consistent and understandable language in both IFRS and international sustainability reporting standards. From our members' perspective it is important to ensure the sustainability reporting standards provide suitable criteria for an external assurance engagement.

Ensuring the consistency and understandability of both kinds of reporting standards will also be a key task of the senior technical team and the staff.

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?

The IDW has some concerns about the proposed names of the new board and the standards.

The name 'International Sustainability Standards Board (ISSB)' and especially the term 'sustainability' is very general and, in our opinion, too broad, given the specific objective of the new board. When it comes to reflecting the function of

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the new board in its name, a reference to ‘reporting’ should definitely be made. This also applies to the name of the new standards and any further related material.

Another point we would like to add is, that although we can understand (with reference to paragraph 17 ff.) the derivation of the term ‘IFRS sustainability standards’, we do not consider it to make sense. In our view, the term ‘IFRS sustainability standards’ is unfortunate and misleading. It is a contradiction in terms. ‘IFRS’ means ‘International *Financial* Reporting Standards’ and those who speak of ‘IFRS’ usually mean the IFRS/IAS and the related interpretations. In our view, the term ‘IFRS’ is firmly anchored with financial reporting standards and should not be used in the name of the future international non-financial/sustainability reporting standards.

Consequently, we suggest ‘International Sustainability Reporting Standards Board’ (ISRSB) as a possible name for the new standard-setting body. The future standards should be called ‘International Sustainability Reporting Standards’ (ISRS).

Furthermore, we agree that (with reference to the discussion in paragraph 18 of the ED) at this stage the Foundation’s name should not (yet) be changed. It also took several years for the ‘IASC Foundation’ to become the ‘IFRS Foundation’. Nevertheless, once the new governance structure has been implemented and the Foundation is overseeing two equivalent independent standard-setting boards, renaming should be considered to reflect the Foundation’s new form and content of the governance structure. In this context, we propose the idea of creating a ‘Corporate Reporting Foundation’ as envisaged in Accountancy Europe’s 2020 Cogito paper ‘Interconnected Standard-setting for Corporate Reporting’ be considered.

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 proposed consequential amendment, outlined in the revised section 60 of the Constitution, i.e., that an Executive Director of the Foundation will be appointed by the Trustees and after consultation with the Chairs of the IASB and the ISSB. However, we question why the Executive Director should only ‘engage with the Chairs of the IASB and the ISSB’ and not ‘report to the

Chair of each board on both matters related to the standard-setting activities primarily of that board and also informatively on the standard-setting activities of the other board'. The latter would allow both Chairs to independently decide as to the necessity of a more intensive project-specific exchange with the other board. A formal mechanism for the regular exchange between the Chairs of both the IASB and the ISSB should also be established.

The IDW also agrees with the proposed amendment to section 61 of the Constitution, i.e., that the Chairs of the IASB *and* the ISSB shall be responsible for establishing the senior technical team, in consultation with the Trustees, and will be responsible for the supervision of this team and their staff.

We would like to add that, in our view, it is appropriate not to establish two senior technical teams that would separately serve their respective assigned standard-setting body. Rather, both the existing senior technical team and the staff should be supplemented by an appropriate number of new members with technical competence and expertise of sustainability and reporting.⁴ Then, procedurally, care should be taken to ensure that each new project of the IASB and the ISSB involves a mix of both, new staff (with expertise in sustainability in reporting) and existing staff (with expertise in setting international financial reporting standards). A lively exchange of ideas and close cooperation can ensure the entire senior technical team and staff expertise is widened and developed further. In our view, this is an important pre-requisite for the development of high-quality reporting standards, i.e., both international financial reporting standards as well as international sustainability reporting standards.

Question 4

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

Composition and expertise of the Trustees

Although not specifically addressed in the ED, we would like to add the following comment as we consider it important to the successful launch of the Foundation's new governance structure.

Regarding the composition and expertise of the Trustees, we are not convinced that the regular rotation of membership alone will allow the membership and

⁴ The number of new staff technical competence and knowledge of sustainability and reporting should be determined taking into account the additional financial resources that will be available in the future due to the establishment of the ISSB.

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expertise to be sufficiently adapted where necessary in the coming years (we refer to paragraph 10(b) of the ED). In our view, there is also a need for the Trustees make-up to evolve. A shift in mindset will not be sufficient. In the context of establishing a new standard-setting body for developing globally accepted sustainability reporting standards under the Foundation's new governance structure, we believe a change in individual members is required to bring in those with sustainability reporting expertise and experience.

International sustainability reporting standards Interpretations Committee

We agree that the appointment of members to an interpretations committee for the international sustainability reporting standards as well as the commencement of work by such a committee should not take place until the first sustainability reporting standards have been published. However, we do not dispute that a separate interpretation committee for the international sustainability reporting standards will be needed sooner or later. In order to be able to react promptly and not to have to initiate a new consultation process on the necessary amendment of the Constitution, we propose an international sustainability reporting standards Interpretations Committee be provided for within this revision of the Constitution, using the sections 38-42 as a template. The new sections could then come into effect if the Trustees decide that it is opportune to form such a committee.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours sincerely

Klaus-Peter Naumann
Chief Executive Officer

Bernd Stibi
Technical Director Reporting