

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

5th July 2021

Dear Trustees of the IFRS Foundation,

Invitation to comment – Exposure Draft on the Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards

The International Swaps and Derivatives Association (“ISDA”)¹ welcomes the opportunity to provide input on the above referenced Exposure Draft (‘ED’) issued by the IFRS Foundation (“the Foundation”) on 30 April 2021.

We recognise that financial reporting alone does not provide investors and other stakeholders with a full enough picture of enterprise value and also that it is desirable to have consolidation of existing frameworks, methodologies and metrics for sustainability reporting. We consider that the ED, along with the establishment of parallel workstreams, are key steps towards ensuring the Foundation can play an instrumental role in developing globally accepted sustainability reporting standards, leveraging off its existing structures, due process and significant experience as a global standard-setter. We fully support the Foundation in this regard.

We observe that a significant challenge for the Foundation will be obtaining sufficient technical resources and securing sufficient funding for the new ISSB, particularly as the IASB and IFRIC are already busy with ongoing accounting standard setting projects and related activities, and are resource constrained in their current activities. We encourage the Foundation to secure suitable resources and funding for the International Sustainability Standards Board (‘ISSB’), not just for board members but also for the additional technical staff needed to ensure the effectiveness of the ISSB’s activities.

¹ Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 950 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association’s website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.



We look forward to supporting the Foundation as its work progresses in this area. If it would be helpful, we would be happy to discuss in further detail the points raised above.

Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours sincerely,

Fiona Thomson
Managing Director
Goldman Sachs & Co
ISDA European Accounting WG Chair

Antonio Corbi
Director
Risk and Capital
ISDA, Inc.

Appendix attached

Appendix - Responses to specific questions**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) In the ED, the Trustees propose to expand the Foundation's objectives by adding to the constitution the development of 'high quality, understandable, enforceable and globally accepted sustainability standards based upon clearly articulated principles'. We observe that this echoes the existing objectives relating to IFRSs, which the Trustees suggest should require 'high quality, transparent and comparable information in corporate reports'. We see this approach to setting the Foundations' objectives as being consistent with the announced strategic direction, with the proposed focus of the standards helping capital markets participants in their decision-making and connecting with multi-stakeholder sustainability reporting. We support this approach.

(b) We note the Trustees propose only a few changes to the existing three tier governance structure of the Foundation, e.g. to the Monitoring Board and the composition of the Trustees. However, more significant proposed changes compared to how the IASB operates, feature new additions regarding the composition and the requirements of a new ISSB. Consequential changes are also proposed to other parts of the Constitution, including the Foundation's objective and changes to key terminology necessary to accommodate a new ISSB.

We fully support this approach as we see benefit from keeping the changes only to those which are necessary, since the Foundation's governance structure works well with respect to setting IFRSs and should be amended only for the changes necessary to establish the ISSB and for it to operate on a similar basis to the IASB.

We encourage the Foundation to establish the governance for the ISSB with as much specific detail and granularity as it can at this stage, leveraging the experience gained from how the IASB operates. This should help to ensure the smooth running of the ISSB. We observe that some of the proposals in the ED would benefit from further clarification as follows:

- Paragraph 46 describes how the ISSB will '... establish and maintain liaison with relevant stakeholders...' in order to '...promote the convergence of national and regional sustainability reporting standards and IFRS sustainability standards'. We believe this point warrants some expansion because a key measure of the success of the ISSB will be its ability to coordinate with interested stakeholders to avoid duplication of effort in publishing sustainability standards and helping them to become established for external reporting. The ISSB will need to engage in extensive coordination and collaboration with such stakeholders. The European Union supported by EFRAG is an example of a key stakeholder that is well advanced in developing

sustainability reporting standards, which the ISSB will need to work very closely with, along with other regionally focussed stakeholders, including those in the United States and elsewhere. Our members very much want to avoid the situation where EU and non-EU banks are subject to different sustainability reporting and therefore encourage the ISSB to work towards establishing a consistent global baseline for sustainability reporting. This will avoid what could otherwise be burdensome duplicative reporting. We therefore encourage the Foundation to give more emphasis and assign greater importance to collaborating with stakeholders to achieve global consistency for sustainability reporting.

- In paragraph 48 the meaning of the second sentence is not clear, which reads, ‘The appointment of the Chair and the designation as Vice-Chair would not imply that the member concerned is the Chair elect’. We suggest deleting the words ‘appointment of the Chair and the’, since the sentence only relates to the Vice-Chair and the fact that they are not the chair-elect, rather than the role of the Chair.
- Paragraph 54 discusses the votes of support from ISSB members needed for the ISSB to publish documents. It proposes that a simple majority would be required but does not describe what would happen if not all ISSB members are not present or whether a different level of supporting votes is required depending on the type of document the ISSB is publishing, e.g. whether a final standard, exposure draft or discussion paper. This is quite different to the equivalent paragraph 35 in relation to the IASB which provides much more detail for the specific votes required for each of its documents, also depending on the number of board members present. We suggest that a similar approach and equivalent detail is provided for the ISSB.

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 note that the Trustees do not propose to change the name of the Foundation. The proposed name of the new standard-setting body is the “International Sustainability Standards Board (ISSB)” and the proposed name of standards issued by the ISSB is “IFRS sustainability standards”. As a consequence, the Trustees propose that the Standards and IFRIC Interpretations issued by the IASB be referred to as “IFRS accounting standards” and that “IFRS Standards” be defined as IFRS accounting standards and IFRS sustainability standards.

We can see the merits of this approach as the concept of the IFRS accounting standards are well established and the term is fully understood by users of accounts and preparers. We see the potential benefit in retaining the terminology for IFRSs as proposed and consider that the effectiveness of the ISSB could benefit from the approach being proposed.

We acknowledge that the proposed approach gives rise to some possible awkwardness in the naming of the standards issued by the ISSB. In its expanded form, the reference to ‘international financial reporting standards sustainability standards’, is counterintuitive since the work of the ISSB will not relate to ‘financial reporting’. In practice though, we would expect the full expansion to be ‘IFRS sustainability standards’, in which case the naming approach could work. In addition, we note that the ED clearly sets out the remit and objectives of the ISSB, which may mitigate any uncertainty that the naming approach could give rise to.

However, we do have concerns regarding the knock-on effects for national legislation which references IFRS as currently understood. A change to the meaning of the acronym could require the update to large volumes of local legislation in many jurisdictions around the world. We suggest that the risk should be carefully considered by the Foundation, since the legal problems that could arise may be significant if local legislation cannot be updated in time with the result that the meaning of IFRS could be misunderstood. The extent to which the current IFRS abbreviation is embedded around the world in local jurisdictions reflects the success of the IASB in globally establishing IFRS. It could be a mistake if in trying to secure the success of the ISSB by building on the IFRS brand, the Foundation chooses a naming convention that creates new problems for IFRS precisely because of the extent to which IFRS has become integrated in local legislation around the world. We suggest that this point be given further consideration and suggest that it may be easier to avoid the potential problem by adopting a new naming convention for sustainability standards that is distinct from current IFRS.

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 that it is sensible for an Executive Director of the Foundation, appointed by the trustees to be responsible for overseeing the operational decisions and affecting the day to day management of the Foundation and staff. This will include the activities of the ISSB which will create a significant additional workload for the Foundation, requiring careful management to ensure the ISSB is able to meet expectations for the volume and quality of standards it produces. The technical staff which currently supports only the IASB will need to be significantly expanded to include additional personal with the appropriate technical skills and experience needed by the ISSB. We are encouraged that the approach follows the model already established for the IASB and for this reason we are comfortable with what is proposed.

Question 4

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

We observe that a significant challenge for the Foundation will be resourcing and funding the new ISSB, particularly as the IASB and IFRIC are already busy with ongoing accounting standard setting projects and related activities, and are resource constrained in their current activities. In addition, the IASB's IFRS agenda consultation is presently out for comment and the IASB has indicated that they expect resources to remain as they currently are for the next five years. We therefore encourage the Foundation to secure suitable resources and funding for the ISSB, not just for board members but also for the support staff needed to ensure the effectiveness of the ISSB's activities.

We note that the development and publication of new ISSBs will give rise to questions of interpretation and application, as it does with new IFRSs. Preparers and users are likely to require additional guidance and will benefit from the opportunity to discuss and resolve questions of interpretation during the period before the standards take effect. It may therefore

be advantageous to establish suitable working groups or forums such as a Transition Resource Group, to facilitate discussion and conclude on these matters. We acknowledge that this will need to be considered in the Foundation's resource planning and prioritization for the ISSB.

The initial focus of the ISSB will be to develop sustainability reporting standards that address issues associated with climate change. We support this priority, but we encourage the Foundation to orientate the ISSB to start developing other reporting standards that also address wider Economic, Social and Governance (ESG) matters too. There is urgent demand for the establishment of globally consistent reporting standards and the ISSB should be well positioned to meet this need.