



Larry Bradley
Global Head of Audit
KPMG International Limited

KPMG International Limited
15 Canada Square
London
E14 5GL
United Kingdom

Correspondence Address
KPMG
345 Park Avenue
New York
NY 10154-0102
United States

Mr Erkki Liikanen
IFRS Foundation
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref RD/288

28 July 2021

Dear Mr Erkki Liikanen

Exposure Draft on Proposed Targeted Amendments to the IFRS Foundation Constitution

We appreciate the opportunity to comment on the IFRS Foundation's Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* (Proposed Amendments). We have consulted with, and this letter represents the views of, the KPMG global organisation.

We strongly support the IFRS Foundation's initiative to create an International Sustainability Standards Board (ISSB) under its governance structure, recognising the public interest in better informed global capital markets. We believe that the proposed amendments to the IFRS Foundation *Constitution* are appropriate to accommodate the foundation of a new board and ensure clear, effective, and independent governance.

To move this initiative forward, quickly and effectively, we believe that the IFRS Foundation should:

- Continue to focus on investors' needs, consistent with the IFRS Foundation's core mission. To avoid any misunderstanding as to its mandate, we recommend that a clear definition of sustainability/sustainability reporting, underlining the focus on enterprise value creation is developed.
- Promote global standards focused on long-term enterprise value creation. As such, we support the Foundation's proposed focus on a building block approach to achieve global consensus and public support by working closely with other global and regional initiatives.
- Maintain the integrity of the IASB's financial reporting work and recognise the benefits from its expertise, know-how and due process. Given the inter-connectivity of non-financial information with financial reporting, we would encourage the Foundation to establish a robust and formalised mechanism of cooperation and interaction from the outset between the IASB and ISSB boards and clearly define

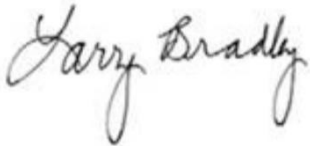
and delineate responsibilities of these boards to avoid gaps, overlap and inconsistencies.

- Strengthen the links with other organisations. In particular, we encourage the Monitoring Board to create strong links with other organisations that deal with sustainability matters and non-financial information in order to obtain relevant input and gain the required international acceptance, for example with the United Nations, the World Bank, and the International Monetary Fund. It may be appropriate to grant some of them an observer status on the Monitoring Board.
- Recognise the ongoing importance of the multilateral working group for the Foundation/ISSB to gain global acceptance for baseline global standards. The working group will play a key role in facilitating interaction with other international/regional/jurisdictional initiatives in order to achieve a successful building-blocks approach. It is important to achieve inter-operability of the ISSB's standards with other reporting initiatives that play a role in wider corporate reporting without compromising the ISSB's focus on enterprise value creation.

We have set out our detailed responses to the questions in the Exposure Draft in the appendix to this letter.

Please contact Reinhard Dotzlaw Reinhard.Dotzlaw@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely



Larry Bradley
Global Head of Audit
KPMG International Limited

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
- 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?

We support the changes proposed to amend the IFRS Foundation's *Constitution* (Appendix A to the Exposure Draft referred to as 'Proposed Amended *Constitution*' in this document) and agree that they appropriately reflect the Trustees' strategic direction. Notwithstanding the overall support, we want to highlight some aspects we consider important to successfully accommodate the formation of the ISSB.

Composition and Role of Oversight Bodies

We believe that it is critical for the IFRS Foundation to maintain its focus on capital markets, consistent with the IFRS Foundation's core mission. As such, we agree that no substantive changes should be made to the composition and expertise of the Monitoring Board or the Board of Trustees. Departing from the core mission of the Foundation could potentially dilute its efforts to provide information relevant to capital markets.

However, we encourage the Monitoring Board to create strong links with other organisations that deal with sustainability matters and non-financial information in order to obtain relevant input and gain the required international acceptance, for example with the United Nations, the World Bank, and the International Monetary Fund. Granting certain organisations an observer status on the Monitoring Board would support dialogue and ensure relevant input while recognising that each might have different objectives to the Foundation's capital markets focused mission.

We believe that the existing knowledge and skillset expected of the Trustees provides the appropriate base for the Foundation's expanded role. In addition, their skillset will be expanded by education and experience in the transition stage and regular rotation in the longer term. However, we believe that it would be helpful for the Trustees to have access to expert external advice on emerging sustainability topics to supplement their financial reporting expertise with knowledge on enterprise-value focused sustainability reporting.

In this regard, we recognise and support the recent establishment of an Eminent Persons Group that will provide strategic advice and counsel to the Trustees on the proposed formation of the ISSB.

Links to other organisations

We recognise that the multilateral working group will play a key role in gaining global acceptance for baseline global standards and will facilitate interaction with other international/regional/jurisdictional initiatives. This will be critical to the success of the building-blocks approach.

Therefore, we suggest that the multilateral working group has broad geographic representation, recognising public policy and securities regulator interest in the area of sustainability/non-financial reporting. For example, the FRC in the UK, EFRAG in the EU, the SEC in the US, and similar organisations in other regions/jurisdictions such as Japan and China should be represented.

We also recognise that it is important to ensure appropriate linkages between the ISSB, with its focus on enterprise value creation and an investor/capital markets perspective, and other standard-setting organisations like the Global Reporting Initiative (GRI) that focus on the impact that an entity has on society as a whole for a broader stakeholder group. This will help to achieve inter-operability of the ISSB's standards with other reporting initiatives that play a role in wider corporate reporting.

Interconnectivity of IASB and ISSB

Given the links between non-financial and financial information, strong connections should be made and maintained between the ISSB and the IASB. We see the work of the two boards to be complementary. We also believe that to provide decision-useful information to investors and other capital markets participants, non-financial information that is financially material should complement, be coherent with and connected to financial reporting.

As such, strong links between the two boards are important – both in respect of the development of the content of the standards, as well as the process (e.g. due process and standard-setting experience) – both of which are core areas of expertise of the IASB and from which the ISSB can benefit, in particular in the initial stages.

We recommend that paragraph 15 of the *Constitution* be amended to require explicitly that the Trustees review and promote interconnectivity between the IASB and ISSB. For example, this could be part of the annual strategic review under paragraph 15(d) of the *Constitution*.

We believe that a strong and formal mechanism of cooperation between the two boards should be established from the outset. For example, it would be beneficial if the *Constitution* specifies that the chair or vice-chair of each board becomes a member or observer on the other board.

Interconnectivity must also be embedded in the boards' due processes and operating practices. Although these matters will not necessarily be documented in the *Constitution*, we believe that they will be crucial to successful interconnectivity. Appropriate due process steps and operating procedures might include, for example :

- joint board discussions about the agenda consultations and work plans of each board;
- on a project-by-project basis, appointing selected members of one board to act as observers on projects of the other board;
- requiring selected members of one board to review ballot drafts of due process documents from the other board; and
- promoting staff rotations between the two boards.

At the same time, it is crucial that both boards have clearly defined responsibilities that are delineated to avoid gaps, overlap and inconsistencies. For example, it may be unclear who is responsible for information included in management commentary – i.e. management commentary currently falls within the remit of the IASB, but given a potential overlap the ISSB could be responsible for certain aspects of management commentary that is presented outside the financial statements.

Extended objectives of the Foundation

To eliminate ambiguity and manage expectations, we recommend the Foundation defines the term 'sustainability'. Specifically, we believe this should refer to the 'sustainability of a corporation' to emphasise the focus on enterprise value creation including business models, intangibles, intellectual resources, and human capital.

Limiting the scope of work of the ISSB to "ESG matters", as suggested in paragraph B22 of the Proposed Amendments, would potentially restrict the mandate of the ISSB. Using the broader term 'sustainability' would allow the ISSB, in the longer term, to broaden its scope to other aspects of non-financial information, including enterprise value-relevant information on intangibles such as customer base, corporate brand and reputation.

We also suggest using the term 'sustainability reporting standards' instead of just 'sustainability standards', as it will help underscore the focus of the ISSB, consistent with our answer to Question 2 below.

We would also suggest replacing 'corporate reports' in paragraph 2(b) of the Proposed Amended *Constitution* with 'corporate reporting', given that sustainability information may also be provided outside the annual report.

Competence and composition of the ISSB

To ensure that the ISSB hits the ground running, we support flexibility in appointing the ISSB members initially, including the possibility of part-time members. This may also include leveraging the knowledge and experience of existing sustainability standard

setters who are committed to the objectives of the IFRS Foundation and the ISSB. As a transitional measure, it may be acceptable to allow a majority of part-time members if considered necessary to attract appropriate talent. However, in the longer term a majority of full-time members should be required.

We also acknowledge that increasing the number of at-large members compared to the IASB allows more flexibility to move quickly. However, we are also conscious of the importance of an appropriate regional representation and would therefore suggest – to the extent possible – to consider geographical diversity when allocating at-large seats to avoid undue influence of particular regional imperatives.

We believe that the way paragraph 44 of the Proposed Amended *Constitution* is currently drafted – to require ISSB members to have ‘a broad base of skills, experience and perspectives [...] that reflect a diverse range of expertise and roles that are relevant to sustainability’ – is sufficient to achieve this purpose. However, we suggest using the phrase ‘enterprise-value focused sustainability reporting’. We think that ISSB members should have expertise in sustainability reporting, to underline the focus on the enterprise value creation needs of capital markets participants including investors.

Further, we do not agree with the voting arrangements proposed in paragraph 54 of the Proposed Amended *Constitution*. This would require only a simple majority of board members to approve a publication of an Exposure Draft or an IFRS Sustainability Standard. We propose that the *Constitution* require the same degree of support (super majority) from the members of the ISSB as is currently required by the IASB. This would enhance credibility of the standards and help emphasise that the standards of the IASB and ISSB were subject to the same rigorous due process.

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 agree with the proposed name of the new board – ISSB. However, we suggest a different naming convention for the standards developed by the ISSB. Instead of the proposed ‘IFRS sustainability standards’ we suggest that these standards are called “International Sustainability Reporting Standards (ISRS)”. We believe that this name, with its inclusion of the phrase “reporting standards”, better reflects the intended scope of the standards.

Also, given that the public generally understands IFRS to be an acronym for International Financial Reporting Standards, including “IFRS” in the title of the standards issued by the ISSB would potentially be confusing. We believe that the term ISRS would reduce this confusion.

Finally, our suggested naming convention would help to eliminate the potential transition implications when laws and regulations, or contracts, require entities to issue financial statements in compliance with IFRS Standards.

Question 3

Do you agree with the proposed consequential amendment, outlined in proposed new sections 60 and 61 of the *Constitution*, as set out in Appendix A?

Yes. We support the proposal to give the ISSB the same status as the IASB in the Foundation and recognise that equal status is consistent with the Foundation's ambition for the ISSB. We believe that the work of the IASB and ISSB should be viewed as compatible and complementary, and as noted in our response to question 1, a strong and formal mechanism of cooperation between the two boards should be established.

Question 4

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

We would like to raise the following additional matters.

- Establishing technical working groups: The field of sustainability reporting is evolving very rapidly in comparison to the rather mature area of financial reporting. It is crucial that the ISSB sets up technical working groups to understand best issues and practice in a timely manner and is able to act accordingly.
- Sustainability Interpretations Committee: Although we agree it may not be necessary to establish an Interpretations Committee concurrently with the formation of the ISSB, we suggest the IFRS Foundation and the ISSB consider how best to address the many interpretive and application questions that may arise in this rapidly evolving field. The IFRS Foundation and the IASB have developed various approaches to promote consistent application of IFRS Standards, including the use of transition resource groups. We recommend that the IFRS Foundation and the ISSB critically assess the relevance of each of those approaches to sustainability reporting standards. A key consideration will be to ensure that the chosen approaches are grounded in clear and transparent due process. It would damage the global acceptance of the ISSB's standards if the members and staff of the ISSB were to issue ad hoc guidance of uncertain provenance.
- Assurance: Given our expectation that stakeholders will want global sustainability standards that are capable of being assured, we recommend that the ISSB work closely with the IAASB and consider their input (for example as an observer) in the technical working group.

- Paragraph 44 of the Proposed Amended *Constitution* refers to ‘auditor’. We suggest replacing “auditor” with ‘assurance provider’, as assurance may not always be provided by the auditor but potentially by another practitioner.