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By email: commentletters@ifrs.org

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Dear Mr Liikanen

Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards

On behalf of the Value Reporting Foundation - which was established in June 2021 out of the merger between the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board Foundation (SASB) - I welcome the opportunity to respond to this consultation on the *Proposed Targeted Amendments to the IFRS Foundation Constitution*.

For ten years, SASB and the IIRC have been engaged as private sector, non-profit organizations in a common endeavour to develop the corporate reporting framework and sustainability disclosure standards that meet the information needs of today's capital markets. These resources: *SASB Standards*, the *International Integrated Reporting Framework* and *Integrated Thinking Principles* have been adopted in 75 countries. They are increasingly referenced in capital market regulations and corporate governance codes as investor demand for comparable and reliable sustainability disclosure increases.

With the active support of many of the world's leading institutional investors, we have shown how business, investor and public interests are aligned around the urgent need to create a globally accepted and comprehensive corporate reporting system. The IFRS Foundation's proposed International Sustainability Standards Board (ISSB) represents a natural and necessary evolution of these market-based developments, including the substantial decade-long investment by dozens of businesses and investors, whose support has generated the resources, technical expertise, intellectual property and extensive network of relationships that underpin the Value Reporting Foundation's activities today.

The case for establishing the ISSB is clear, evidenced by the overwhelmingly positive response to the IFRS Foundation's September 2020 public consultation. Since the IFRS Foundation announced its intention to proceed with establishing the ISSB, the Value Reporting Foundation has been pleased to offer its expertise as part of the IFRS Foundation's technical readiness working group charged with carrying out the early technical preparation to enable the ISSB to be successful from launch. We are strongly committed to the success of the ISSB, given that the proportion of enterprise value accounted for by sustainability factors or multiple 'capitals' is already significant - and increasing. It is vital for maintaining confidence in our capital markets that a robust and authoritative set of baseline sustainability standards relevant to enterprise value are developed and used on a global basis so that these factors can be measured, and the resulting information used by investors to inform investment and stewardship decisions. We will continue to put the resources of the Value Reporting Foundation behind this effort.

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In doing so, we recognize the vital importance of creating a governance structure that engenders global standing/confidence and legitimacy to the ISSB. I would like to take this opportunity to highlight four areas that are of particular relevance as the ISSB is being designed:

- ***Realizing the commitment to building on existing global frameworks and standards***
We strongly support the IFRS Foundation's view that the ISSB should build on existing frameworks and standards. It is also critically important to recognize that developing sustainability standards involves different skills, resources and relationships compared to financial accounting standard development. It will be vital to the ISSB's success that it factors in these practical differences and develops a high calibre Board and staff with relevant skills and experience. This includes leveraging the skills, experience and resources of the Value Reporting Foundation.
- ***Achieving genuine connectivity between financial accounting and sustainability standards***
We believe that achieving connectivity between the IASB and ISSB will be important to creating a properly aligned corporate reporting system reducing the risk of unnecessary conflict, costly duplication and reporting silos. To achieve this connectivity, we believe the essential tools already exist, in the form of the Management Commentary Practice Statement and International Integrated Reporting Framework, which could be combined to provide an umbrella connecting framework across the work of the IASB and ISSB.
- ***Meeting investor needs for industry-specific standards that include metrics***
As noted in the responses to the September IFRS consultation, there is strong investor demand for industry-specific standards that include metrics that can be compared across companies within a sector. The industry-specific SASB standards already have a broad base of global investor support, and the most rapid path for the ISSB to meet investor needs is to leverage the existing SASB standards using appropriate due process.
- ***A governance structure that includes capital market participants***
The composition of the ISSB will send an important signal to market participants. We therefore recommend a focus not just on geographic diversity, but also professional diversity, ensuring Board appointments include significant representation from the investor and preparer communities. Board appointments should include people with experience integrating sustainability factors into investment analysis and people with experience preparing sustainability disclosures. The ISSB must also include people with sustainability standard setting and framework development experience, including experience establishing standards using a rigorous due process.

I hope this letter, and our detailed responses to the consultation questions included in the following appendix, are valuable at this critical stage. Thank you again for the opportunity to contribute to the IFRS Foundation's work as it establishes the ISSB in the coming months, and we look forward to continuing to work with you to help bring about our shared vision for a globally accepted and comprehensive corporate reporting system.

Yours sincerely,



Janine Guillot
Chief Executive Officer, Value Reporting Foundation

APPENDIX

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?

We support in broad terms the proposed new objectives of the Foundation outlined in section 2b of the revised Constitution. We believe these objectives respond to the demands of market participants, especially the institutional investor community. In order to build the ISSB’s authority, credibility and legitimacy in the world, we support mirroring the ISSB with the IASB to establish two recognizably related standards boards from a governance perspective. We believe this strengthens an already powerful case for connectivity between the IASB and ISSB to avoid unnecessary conflict, costly duplication and reporting silos, and to help bring about a globally accepted and comprehensive corporate reporting system. The tools already exist to enable this connectivity in the form of the Management Commentary Practice Statement and International Integrated Reporting Framework.

We would emphasize at the outset our support for the IFRS Foundation’s publicly stated goal to adopt a building blocks approach, which we believe is the optimal way of achieving a baseline of comparable information for global investors while enabling regional flexibility. We also support an approach that builds on existing standards and frameworks, capitalizing on the investment of many market participants around the world who have implemented these technical resources, and contributed to their development, over the last decade.

In respect of Section 43, the Value Reporting Foundation supports the proposal to establish a 14-member ISSB. We believe 14 is the approximate size necessary to achieve the appropriate mix of representation, including both geographic diversity and diversity of professional experience. We believe it will be important from the outset to recruit a mix of full and part-time Board members in order to appoint a Board that comprises a full breadth of professional experience needed to develop high quality standards. We believe that in the long-term the majority of Board members should be full time, but in the short-term this may mean exercising pragmatism and accepting a majority of part-time Board members. We believe this can be achieved without compromising the Board’s independence, which will be an important consideration during the recruitment process.

It is important to recognize that the mix of skills needed to establish sustainability standards are broader than for financial accounting standard setting given the range of topics, quantitative and qualitative information involved, and this should be taken into account when considering the qualifications of ISSB members (Section 44). In view of the purpose and primary audience of the

proposed ISSB standards, we would recommend recruiting individuals with institutional investor experience, including for one of the ISSB leadership roles (i.e. Chair or Vice-Chair). We also believe it is essential that one of the ISSB leadership roles be someone with experience establishing or overseeing sustainability disclosure standards.

We support the consultation's focus on ensuring geographic diversity (Section 45) and would propose additional criteria for achieving professional diversity to widen the potential range of candidates so that the ISSB attracts the full breadth of market participants – e.g. institutional investors, preparers, standard setters, assurance providers, and others. Geographic and professional diversity will deliver higher quality standards, ensuring a wide range of perspectives are taken into consideration and avoiding 'group think'.

With regard to the ISSB Chair and Vice-Chair (Section 48), these appointments must command widespread support from within the institutional investor and preparer communities. We think it is also important that the appointments be credible among the existing corporate reporting framework and standard setting communities, a principle which is consistent with the IFRS Foundation's intention of building on existing frameworks and standards. We would encourage the IFRS Foundation to build these considerations into the appointment process. A high comfort level about these critical appointments will help to create additional momentum, as well as trust among key IFRS stakeholders.

We agree with the importance attached to stakeholder engagement in the consultation (Section 46). Given the primary audience and focus of the ISSB on investors and capital markets participants, we would also recommend strong engagement with institutional investor organizations in national jurisdictions, corporate governance bodies and local market-led networks and committees that have been established in different countries to advance corporate reporting best practice. This will help to ensure the work of the ISSB remains relevant to the needs of capital markets, helping to achieve its purpose while remaining focused on its core mission.

We support the wide set of ISSB responsibilities set out in Section 55 of the Constitution. In particular, we would encourage transparency over key ISSB decisions and rigorous due process, which we believe will help to build trust and stakeholder support.

Section 2(b) states that the ISSB would, '*...connect with multi-stakeholder sustainability reporting*'. We believe it is critically important to establish a long-term goal to demonstrate interoperability between ISSB standards for investors and standards that address the information needs of broader stakeholders by using common metrics where possible. This creates a more efficient model for preparers, enabling preparers to capture data once and use it for multiple purposes. However, this will be a complex task. In the near term, we recommend that the ISSB focus on its core purpose of providing robust, high quality standards to support capital market decision-making, and on developing a cooperation model regarding mandatory disclosure requirements under development in key jurisdictions. We would also recommend a more explicit articulation of this point to avoid any potential market confusion, including the potential impression of 'mission creep'.

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?

With respect to the name of the new Board (Paragraph 15), we agree that ‘International Sustainability Standards Board’ accurately reflects the purpose of the newly formed Board and is comparable to the International Accounting Standards Board, therefore driving consistency.

We are less certain that describing the standards themselves as ‘IFRS Sustainability Standards’ would be well understood by the market, especially as many stakeholders use the term IFRS as shorthand for international accounting standards. We would therefore propose an alternative term, such as International Sustainability Disclosure Standards.

Paragraph 18(b) introduces the idea of renaming the Foundation the ‘International Corporate Reporting Foundation’. While this has its attractions, in representing the broader scope of the dual Board structure and providing the opportunity for a brand refresh, we believe that introducing another name into the lexicon of corporate reporting could cause confusion and undermine the very strong brand that the IFRS Foundation currently enjoys, which we believe will be fundamental to the ISSB’s success.

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?

The Value Reporting Foundation agrees with the proposed consequential amendment outlined in proposed new sections 60 and 61 of the Constitution.

Other matters

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

There are four additional matters that we wish to highlight:

The importance of committing to a comprehensive set of standards

The Value Reporting Foundation believes that sustainability standards should over time, and in line with market demand, reflect the full range of drivers of enterprise value, represented by the Integrated Reporting Framework’s capitals and the SASB Standards sustainability dimensions. In view of the fact that standards broader than the traditional environmental or social factors may be needed, for example including ‘intellectual capital’ topics such as technology assets, we would

recommend building in sufficient flexibility in the governance arrangements to ensure the IASB and ISSB have a sufficiently comprehensive scope to meet the information needs of capital markets and to maintain the IFRS Foundation's relevance.

IFRS Trustees

The IFRS Foundation has decided not to recruit additional Trustees to reflect the broader remit that the ISSB represents. Instead, it will seek to address a rebalancing of the IFRS Trustees through the natural rotation process. We do believe that the IFRS Foundation should send a stronger signal that it favours a board of Trustees that includes a broad experience set to govern and oversee the new dual Board structure, including people with an understanding of integrated reporting and experience overseeing due process related to sustainability standards. This may require expanding the size of the Trustees on a temporary basis in the near term.

Building on a substantial legacy led by the private sector over many years

We would encourage the IFRS Foundation to continue to reflect on the enormous legacy achieved by institutions and individuals in developing the range of private sector-led voluntary frameworks, standards and other market-facing resources such as thought leadership, education, training and case studies. There is a rich body of intellectual property and a global network of extremely experienced stakeholders who we believe, if engaged appropriately, would provide the ISSB with the potential to gain significant and immediate momentum, as well as market acceptance. The Foundation will need to invest in continuing to engage these organizations and individuals, and especially to ensure they participate in the ongoing standards development process.

Committees and Advisory Bodies

As previously noted, engaging market participants in the ISSB's ongoing standards development will be critical for success. We agree with the IFRS Foundation's decision not to establish an Interpretations Committee at this time, because it is difficult to identify the necessary advisory bodies or committees until the standards development process is designed. For example, we believe that industry-focused working groups or committees will be necessary to support industry-specific standards development. Therefore, we suggest that the governance arrangements be sufficiently flexible to ensure the new ISSB can establish committees and advisory bodies as it deems necessary to engage market participants in its work.