



To the Trustees of the IFRS Foundation
London, United Kingdom

Submitted electronically

Ref: B21.19

Subject: Eumedion response to the Trustees' Proposed Targeted Amendments to the IFRS
Foundation Constitution

Dear Trustees,

Eumedion appreciates the opportunity to respond to the 'Proposed Targeted Amendments to the IFRS Foundation Constitution' as issued in April 2021. Eumedion is the dedicated representative of the interests of 53 institutional investors, all committed to a long term investment horizon. Together our participants invest over € 6 trillion of capital in equity and corporate non-equity instruments. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard globally recognised financial and sustainability standards as critical elements in a global financial infrastructure, since investors are dependent on the quality of such standards for allocating their own and entrusted capital. Global standards are instrumental for responsible and engaged investors to effectively live up to their fiduciary duties.

Before reverting to the questions, we would like to compliment the IFRS Foundation and the Trustees with the impressive momentum the Trustees are fostering towards the creation of a global, investor-focused sustainability standard setter. The Trustees' feedback statement, these proposed changes to the constitution and the public appearances of representatives of the Foundation are all very well in line with the intentions expressed in our 2019 green paper¹ and our 2020 position paper² on the establishment of a global sustainability reporting standards setter. We will continue to support the Foundation on this journey where possible.

¹ bit.ly/3hHnPf4.

² <http://bit.ly/3eYRdK1>.

Please find our responses to the questions of the consultation paper below. If the Trustees would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,

Rients Abma

Executive Director

Eumedion

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THE NETHERLANDS

Question 1a

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;

Eumedion response to Question 1a:

We agree with the overall direction of the amendments to the objectives, but we do have suggestions for further improvements.

The proposed constitution reads:

“The objectives of the IFRS Foundation are:

*(a) through the IASB, to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets **and other users of financial information** make economic decisions.*

(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 capital markets in their decision-making and connect with multi-stakeholder sustainability reporting.”

Regarding the phrase 'and other users of financial information' in the existing text of the Foundations' objectives, we observe that the wording used for the IASB deviates from the wording of the ISSB. We consider the text drafted for ISSB to be more in line with the revised conceptual framework which does not mention any 'other users of financial information'.³ We therefore suggest that the text of the IASB is adjusted accordingly. We do not agree with adding the phrase 'connect with multi-stakeholder sustainability reporting'. First, it is unclear what exactly is meant by 'connect with'. We subscribe to the notion that the ISSB will need to collaborate with existing frameworks and standard setters and jurisdictions to reach its objective, but we consider this more as a 'how' to get there and not as an objective on its own. If the Trustees do deem it part of the purpose of the ISSB, the Trustees may consider to include such phrase as well in the purpose of the IASB. However, we would suggest to remove the part 'and connect with multi-stakeholder sustainability reporting'. Perhaps a future

³ SP1.5 of the conceptual framework reads: 'contribute to transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.'

conceptual framework for sustainability reporting could address the issue of connectivity with other sustainability reporting frameworks and the IFRS financial reporting framework.

Question 1b

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?

Trustees

matters. In order to ensure a broad international basis, there shall be:

- (a) six Trustees appointed from the Asia-Oceania region;
- (b) six Trustees appointed from Europe;
- (c) six Trustees appointed from the Americas;
- (d) one Trustee appointed from Africa; and
- (e) three Trustees appointed from any area, subject to maintaining overall geographical balance.

IASB

In a manner consistent with the 'Criteria for IASB Board-members' as set out in the Annex to the *Constitution* and in order to ensure a broad international basis, there shall normally be:

- (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, subject to maintaining overall geographical balance.

ISSB

In a manner consistent with the 'Criteria for ISSB members' as set out in the Annex to this Constitution and in order to ensure a broad international balance, there shall normally be:

- (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.

Eumediton response to Question 1b:

We agree with the proposed changes. We consider it as a pragmatic approach that allows for more degrees of freedom in the geographical composition of the ISSB to begin with. Over time, for example when sufficient progress has been made towards global adoption, there will be merit in revisiting the ISSB's appointments from 'any area'.

We do note that in recent years the IASB consisted of rather few Members with a clear investor profile: at one point in time only one out of thirteen Board Members. Since the purpose of the Foundation is essentially to help investors, we consider any outcome of less than 25% board members with an investor-focus in both the IASB and the ISSB to be deficient.

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 Trustees have discussed two options:

- (a) Retain the Foundation's formal name (the 'IFRS Foundation')—a plausible option because both boards, under the Trustees' proposals, would set IFRS standards (the IASB sets IFRS accounting standards, while the ISSB would set IFRS sustainability standards). Were this option to be followed, retention of the Foundation's name would be accompanied by a focused 'brand refresh', to ensure the Foundation's expanded remit is communicated to its stakeholders.
- (b) Rename the Foundation to become 'the International Corporate Reporting Foundation'—thereby creating a sense of renewal, but at the cost of losing the benefit of building on the established brand of the Foundation."

Eumedion response to Question 2:

We are not that adamant on this topic. However, we are in favour of the suggestion to continue to reserve the IFRS designation for existing and future financial reporting standards. We do find the acronym of IFRS Sustainability Standards (IFRSSS) to be quite long and difficult to (vocally) refer to in practice. We are in favour of shorter, and more aligned acronyms. We do consider the change in strategy as sufficiently substantial to justify name changes, where necessary. The suggestions we would like to share with you, knowing that there may be even better alternatives, are:

The International Financial Reporting Standards Board (IFRB) setting International Financial Reporting Standards (IFRS), and the International Sustainability Reporting Standards Board (ISRB) setting International Sustainability Reporting Standards (ISRS).

The Foundation could then take the name International Corporate Reporting Foundation (ICRF), as suggested in the consultation document.

One reason for suggesting to change the name of the ISSB to 'ISRS' is that stakeholders expect the ISSB to set sustainability reporting standards only, and not to expand into setting norms or standards for sustainability.

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?

Executive Director and staff

4660 An Executive Director of the IFRS Foundation, appointed by the Trustees ~~and after consultation with the chairs of the IASB and the ISSB and the Chair of the Board~~, shall be responsible for overseeing operational decisions affecting the day-to-day management of the IFRS Foundation and staff. ~~The Executive Director shall report to the Trustees and engage with the chairs of the IASB and the ISSB. The Executive Director shall report to the Chair of the Board on matters relating to the Board's standard-setting activities and to the Trustees on all other matters.~~

Eumedion response to Question 3:

We agree.

Question 4

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

Eumedion response to question 4:

The very nature of financial reporting allows for standards that to a very high degree are generic in nature, i.e. not sector-specific. We are convinced that this is in contrast with sustainability reporting, where it will be of vital importance to complement generic standards with sector-specific standards. Sector-specific KPIs will not allow for comparability across sectors, but can result in highly relevant disclosures that allow for comparability within sectors. Highly relevant disclosure requirements for companies in certain sectors may not see the daylight if the ISSB were to stick to only setting standards for all companies. The relevance of sector-specific standards is evidenced by the excellent work of the Sustainability Accounting Standards Board that distinguishes between different sets of standards for 77 sectors. The EU Corporate Sustainability Reporting Directive proposal also aims to set sector-specific standards by October 2023.⁴ We are not aware of any language in the proposed constitution that would disallow setting sector-specific standards. Still, given the historic disengagement of the Foundation with sector-specific standards, we suggest the Foundation clarifies its ambitions towards setting sector-specific standards, whether it is through incorporating it in the constitution, or in a different manner.

The consultation document makes frequent reference to 'reporting/recommendations/sustainability standards with a focus on enterprise value (creation)'. Although we concur with the subsequent explanations of what is meant by 'focus on enterprise value (creation)', we find that the term itself is not very clear and may have a narrower connotation than intended by the Trustees. This unfortunately also seems to seeps into public perception and discussions on materiality.⁵ We would like to suggest the term 'investor materiality' as an alternative that may better communicate the Foundation's stance. As explained in our position paper, many institutional investors would not be able to live up to their fiduciary duty if they were to ignore sustainability factors. Herein the impact a reporting entity has on society obviously needs to be considered.

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN>, page 35

⁵ Financial Times – Moral Money published an article on 14 July 2021 that, mistakenly, states '[...] since the IFRS approach appears designed to get a common minimum base that focuses on one-way materiality (what the environment is doing to companies, not the other way round); groups such as the Global Reporting Initiative and European Commission want double materiality systems that capture companies' carbon footprints. [...]