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July 29, 2021

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

Re: IFRS Foundation Exposure Draft Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards

Dear Mr. Liikanen-

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs. This letter represents the observations of the CAQ but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

Overview

The CAQ appreciates the opportunity to share our views on the [Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards](#) (Proposed Amendments).

We are pleased to see the views reached by the Trustees on the establishment of an international sustainability standards board that are described in the Introduction of the Proposed Amendments. As expressed, in the [CAQ response to the IFRS consultation on sustainability reporting](#), we support the Trustee's views as outlined in paragraph 2 a-d in the Proposed Amendments.

- a) We believe that sustainability reporting standards designed through the lens of investors being the primary users of this information (i.e., materiality focused on enterprise value) will attract the broadest range of global support and promote the international use of consistent and comparable standards needed by global capital markets.
- b) Additionally, we support the path of the Foundation to first focus on climate-related matters, but to not lose sight of other ESG factors as these also are of great importance to investors and the financial stability of companies.



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- c) We believe that it is appropriate to build a global set of sustainability reporting standards based on well-known sustainability frameworks and standard-setters (e.g., Task Force on Climate-related Financial Disclosures and work by the alliance of leading standard setters in sustainability and integrated reporting). This will enable the Foundation to provide these standards at a speed that will meet market needs and assist companies in the adoption of these standards as companies will be familiar with the concepts and underlying disclosure needs.
- d) Lastly, we concur with the Foundation's support for a building blocks approach that would provide investors with a global baseline but also allow regions or jurisdictions to build upon these standards to address regional or jurisdictional objectives.

We have organized our views based on certain of the questions posed in the Proposed Amendments.

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?

In general, we agree the Proposed Amendments proportionately reflect the Trustee's strategic direction. We suggest that the Foundation consider the following minor edits to Appendix A Section 2b: (1) we suggest using the term "sustainability *reporting* standards" instead of just "sustainability standards" and (2) we suggest using "corporate *reporting*" instead of "corporate reports" as some of this reporting likely will not be included in a set of financial statements. Additionally, we suggest the Foundation reconsider the requirement for four floating members as outlined in paragraph 45(e). We feel that geographical balance is important to maintain, as indicated in paragraph 26e, and the floating member requirement may lead to an unbalanced perspective. Further, we suggest the Trustees consider changing the requirements outlined in paragraph 54 to require a sixty percent majority, instead of just a simple majority, to approve the publication of an Exposure Draft or an IFRS sustainability standard. This would provide consistency between the processes for approval of accounting standards, as outlined in paragraph 35, and sustainability reporting 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?

We recommend the Foundation change the name of the new board from the "International Sustainability Standards Board" to "International Sustainability **Reporting** Standards Board". This name change would be consistent with our comment above suggesting use of the term "sustainability reporting standards" instead of just "sustainability standards" and could protect the IFRS brand that refers to accounting and financial reporting standards. We further recommend that the Foundation define sustainability reporting either within the Constitution or in the conceptual framework of the new board. Not defining what is meant by sustainability reporting may hinder the ability of the Foundation to objectively determine who meets the



criteria for membership. Further, as previously stated in the [CAQ's response to the IFRS Foundation Consultation on Sustainability Reporting](#), we believe a common set of definitions is a necessary foundation on which standard setting would build. In determining how to define sustainability, the new board could look to how other standard setters have defined this term, such as SASB. We see this as being especially important as some may associate the term "sustainability" solely with climate change and may not appreciate that it encompasses other environmental, social and governance factors.

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 amendments as outlined in new sections 60 and 61 of the Constitution. We believe this is necessary to give the new board and IASB equal status and to maintain the Foundation's credible reputation.

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

Paragraph 10b of the exposure draft states, "*The Trustees do not propose that the requirements in relation to the size or specific expertise of the Trustee body should be amended.*" However, paragraph 6 in Appendix A highlights edits to the Constitution that indicate Trustees as a group will now be required to have an understanding of sustainability reporting. We believe this proposed edit represents a change in the mix of expertise required. This evolution in required skillset is appropriate and we suggest a change to the language in paragraph 10b of the exposure draft to acknowledge this modification. Further, as the IFRS Foundation moves into a transition period establishing the new board, as new appointments arise it will be important that there is careful consideration of appointing new Trustees who have an understanding of sustainability reporting as existing Trustee terms expire. Lastly, while we do not recommend any immediate changes to the structure of the Trustees, we suggest periodically revisiting constitutional changes to ensure the parameters over global expertise continue to be appropriate for each of the standards boards the Trustees will be overseeing.

We appreciate the opportunity to comment on the Consultation Paper. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter. Please address questions to Dennis McGowan (dmcgowan@thecaq.org) or Carolyn Hall (chall@thecaq.org).

Sincerely,



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Vice President, Professional Practice
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