



28 July 2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

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 IFRS Foundation Trustee Members:

The Sustainability Reporting Committee (SRC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft “Proposed Targeted Amendments to the IFRS Foundation *Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*” published in April 2021.

The SAAJ is a not-for-profit organization for professionals in the areas of investment and finance. It offers education and certification programs in these areas. Its certified analysts number around 27,500.

The SRC is a standing committee of the SAAJ established in March 2021. It is composed of eight members including equity and credit analysts, portfolio managers, public accountants, and academics.

General Comments

In recent years, information not only from financial reporting but also from sustainability reporting has become an increasingly important factor in decision making on finance and investment. While IFRS Standards (proposed new IFRS accounting standards) are accepted as a single set of high quality and global financial reporting standards, we are concerned that there are no such standards for sustainability reporting. We recognize the urgent need on the part of analysts and investors for high quality, consistent, and comparable global sustainability reporting standards.

Although many sustainability reporting standards have been advocated in the global market for many years, momentum to globally integrate sustainability reporting standards has been rapidly

mounting since the Trustees of the IFRS Foundation published Consultation Paper on Sustainability Reporting. The IFRS Foundation has played an important role in creating and promoting such momentum.

Leadership of the IFRS Foundation in this area has been strongly endorsed by many stakeholders worldwide. We hope that its leadership can ensure this momentum and bring about improvements in quality, consistency, and comparability of information and communication regarding overall corporate reporting by integrating financial and sustainability reporting. This would enhance not only sustainability of the global capital market but also that of the international community, the world economy, and global environment.

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?

Comments

- (a) On behalf of the users of corporate reporting, we fully agree that the IFRS Foundation should expand its objectives to include sustainability reporting in addition to financial reporting. We hope that the leadership of the IFRS Foundation will sustain momentum to bring about improvements in quality, consistency, and comparability of information and communication regarding overall corporate reporting by integrating financial and sustainability reporting. This would enhance not only sustainability of the global capital market but also that of the international community, the world economy, and global environment.
- (b) We agree that the International Sustainability Standards Board (ISSB) should comprise 14 members in the same way as the International Accounting Standards Board (IASB) does. Though in our comment letter on the Consultation Paper on Sustainability Reporting published in September 2020 we proposed that most ISSB members be part-time in view of financial constraints, we agree that the majority of ISSB members be full-time on the premise that such financial constraints are not serious.

However, we are concerned that in the proposed new section 45 the composition of ISSB members shall be four from 'at large' seats while three from each of Asia-Oceania, Europe, and

the Americas, and moreover that the condition “subject to maintaining overall geographical balance” stipulated in the proposed new section 26 (e) for IASB is deleted in the proposed new section 45 (e) for ISSB. As ISSB members represent the public interest and will work for the development of globally accepted sustainability reporting standards, it is important they represent diverse backgrounds, including geographical region and industry. In particular, it may be an obstacle for the IFRS Foundation in promoting global endorsement of sustainability reporting standards if overall geographical balance is not ensured. We believe that, instead of allocating nearly 30% of the composition of 14 members to ‘at large’ seats, stipulating that “one member be appointed from any area, subject to maintaining overall geographical balance” as in IASB would increase transparency in determining ISSB member composition, ensure its diversity, and thereby contribute to facilitating endorsement of sustainability reporting standards.

Both regional and ‘at large’ seats should represent ‘global public interest’ rather than regional interest. From this viewpoint, if the IFRS Foundation dares to increase the number of ‘at large’ seats for the ISSB, we think it necessary to add “subject to ensuring that these representatives serve the global public interest which is independent from regional seats” as a requirement to the proposed new section 45 (e) in addition to “subject to maintaining overall geographical balance” in order to emphasize the difference from regional seats.

We are also concerned that a simple majority of voting requirements in the proposed new section 54 may dilute the legitimacy of the ISSB's decisions. This section stipulates that the publication of an Exposure Draft, or an IFRS sustainability standard shall require approval by a simple majority of the ISSB. This requirement is less strict than that of the IASB. The legitimacy of IFRS Standards has been enhanced by compliance with the strict due process of the IASB as well as the stringent voting requirements that the publication of an Exposure Draft, or an IFRS Standard shall require approval by eight members, if there are 13 members or fewer, or by nine members if there are 14 members. Though relaxing voting requirements may speed up decision making and the development of standards, it may pose the risk of hasty decision making. We are concerned that this would compromise not only the legitimacy and credibility of ISSB and IFRS sustainability standards but also the legitimacy, credibility, and reputation of the IFRS Foundation itself.

On the other hand, we recognize the urgent need on the part of analysts and investors for high quality, consistent, and comparable global sustainability reporting standards.

Also, unlike IFRS Standards, which are already enforced in nearly 140 countries and jurisdictions, IFRS sustainability standards inevitably compete with national/regional standards and existing leading sustainability reporting standards. Therefore, for their global dissemination we understand that a building block approach should be adopted for IFRS sustainability standards,

something not done for IFRS Standards.

In particular, we recognize that Europe, the largest jurisdiction of compulsory IFRS Standards, is ahead in the development of sustainability reporting standards (Corporate Sustainability Reporting Directive [CSRD]). In order to catch up with the development of sustainability reporting standards in Europe, we agree that it is necessary for the IFRS Foundation to develop sustainability reporting standards swiftly in the initial stage of development.

Therefore, we would like to propose the following voting requirements for ISSB on the premise that the above-mentioned requirements for the ‘at large’ seats are met.

- (1) In principle, the publication of an Exposure Draft, or an IFRS sustainability standard shall require approval by eight members of the ISSB, if there are 13 members or fewer, or by nine members if there are 14 members.
- (2) As for a sustainability standard identified as having particularly urgent need of development, the publication of an Exposure Draft, or an IFRS sustainability standard shall require approval by a simple majority of the ISSB.
- (3) Specific requirements shall be set for the identification of particularly urgent need and strict due process required when (2) aforementioned applies.
- (4) When (2) aforementioned applies, it shall be subject to oversight and review by the Due Process Oversight Committee of the Trustees.

Our proposed ISSB voting requirements are, in principle, intended to be based on the strict voting requirements of IFRS accounting standards, but to allow the ISSB to flexibly respond to the environment it is facing, subject to compliance with strict due process. With these voting requirements, the speed and transparency of standard development in the ISSB would be ensured in the initial stage (catch-up stage with regional sustainability reporting standards which precede global standards). After catching up with regional sustainability standards, the voting requirements would be as strict as IFRS accounting standards, and legitimacy, credibility, and transparency ensured.

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?

Comments

We believe it is reasonable for the IFRS Foundation to maintain its current name ‘IFRS Foundation’

when it expands its role to developing international sustainability reporting standards. Basically, the reasons why the IFRS Foundation has gained widespread support for developing unified international sustainability reporting standards are that i) it has established its reputation and credibility among participants of global capital markets through the development and dissemination of IFRS Standards and ii) its experience in developing financial reporting standards is expected to be utilized in developing sustainability reporting standards as well. The IFRS Foundation should take full advantage of its brand power and reputation to develop high quality sustainability reporting standards that are acceptable to global capital markets.

On the other hand, we propose that the new board be named ‘International Sustainability Reporting Standards Board’ instead of ‘International Sustainability Standards Board’ and abbreviated to ‘ISRSB’. Similarly, we also propose that ‘IFRS sustainability standards’ be changed to ‘IFRS sustainability reporting standards’.

This is because, firstly, we are concerned that the function of the standards may not be accurately expressed if the standards developed by the new board are simply termed ‘sustainability standards.’ ‘Sustainability standards’ may have various meanings such as ‘sustainability management standards’, ‘sustainability finance standards’, ‘sustainability investment standards’, and ‘sustainability performance standards’. In this regard, ‘reporting’ should be included for accuracy.

Secondly, we think that the abbreviation ISSB may be confusing because its pronunciation is similar to IASB and IAASB. ISRSB would not cause such confusion with IASB or IAASB. If the five letters of the abbreviation are too long, SRSB by omitting ‘I’ would be fine. The abbreviation of the standards is IFRS-SRS accordingly. If this is too long, ISRS (but which may be confused with IFRS) or simply SRS would be fine.

Question 3
Do you agree with this proposed consequential amendment, outlined in proposed new sections 60 and 61 of the <i>Constitution</i> , as set out in Appendix A?

Comments

We agree to this proposal.

We understand that the proposed new sections 60 and 61 add the Chair of ISSB to the appointment process and responsibilities of the Executive Director of the IFRS Foundation as well as to the relations between the Chair of the IASB and the Executive Director and between the Chair of the IASB and the teams and staff, which are stipulated in the current sections 46 and 47.

On the other hand, the new section 61 proposes to amend the current responsibility of the Executive Director to report to the Chair of the IASB to the new responsibility to engage with the chairs of the IASB and the ISSB. We are not in a position to assess whether this is a confirmation of the status quo or a substantive amendment to such responsibility. However, we believe that this is a positive amendment as it makes relations between the IFRS Foundation and IASB/ISSB more interactive.

Also, the current section 46 stipulates that the Executive Director shall report to the Trustees on all matters except for those relating to IASB standard setting activities. However, the proposed new section 60 deletes this exception and merely stipulates that the Executive Director shall report to the Trustees. We understand that this extends the scope of reporting responsibility. If our understanding is correct, it would allow the Trustees to monitor the activities of the IASB and ISSB from a broader perspective. We believe that this is also a positive amendment as it could enhance the governance of the IASB and ISSB by the Trustees.

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

Comments

The proposed amendment adopts a structure in which both the IASB and ISSB exist in parallel under the Trustees. Each board independently develops its own standards, IFRS accounting standards or IFRS sustainability standards. There is no mechanism or official framework for direct discussion between IASB and ISSB. In corporate reporting, financial reporting and sustainability reporting, which comply with accounting standards and sustainability reporting standards respectively, are expected to be integrated. The development of overarching standards for these two standards may be premature at this time. However, there should be discussion between the IASB and ISSB regarding the integrated disclosure of financial and sustainability reporting, and a framework for such discussion should be defined in the *Constitution*.

There seem to be a lot of unofficial discussions between the IASB and the ISSB as well as between the ISSB and leading sustainability standard-setting bodies who are partners in the development of IFRS sustainability standards. Nevertheless, we believe that the *Constitution* should at least stipulate discussion between the two boards.

Sincerely yours,



George Iguchi
Chair
Sustainability Reporting Committee