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Berlin, 27 July 2021

Dear Mr Liikanen,

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

On behalf of the Accounting Standard Committee of Germany (ASCG), we are writing to you to comment on the Exposure Draft on *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* issued by the IFRS Foundation on 30 April 2021. We welcome the opportunity to provide our views on the proposals.

We firmly believe that sustainability is a global topic with global challenges. And global challenges are best addressed through global initiatives and standards. This is the reason why we fully support the Foundation's initiative. The Foundation has a proven track record of being the organisation in the world that is capable of developing high-quality reporting standards. This already happens within an independent due process and the financial reporting standards are accepted in more than 140 jurisdictions around the globe.

The proposed targeted amendments to the IFRS Foundation Constitution represent a further important step in the Foundation's response to the urgent need for global sustainability reporting standards. In the European Union, EFRAG's Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) has recently signed a statement of cooperation with the Global Reporting Initiative (GRI) and is looking to have further cooperation arrangements with other international standard setters in this area, inter alia with the IFRS Foundation. We, the ASCG, support a global baseline approach as recently promulgated by G7 countries. A truly international approach is needed to achieve international consensus with a view to the G7 resolutions. Accordingly, we encourage the Trustees to continue to pay close attention on the connectivity of IFRS sustainability standards with national and regional legislative developments. In our view, compatibility between national, regional and international standards is of utmost importance. Therefore, this compatibility must be ensured by all sides, including the IFRS Foundation's approach.

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In relation to legitimacy, we believe that the Foundation offers credibility and trust that come with a robust governance structure and accompanying processes. As mentioned above, the IFRS Foundation has a proven track record with its private and independent Board developing standards that are regarded as being of high quality and decision useful.

The Exposure Draft reflects the Trustees' opinion that setting IFRS sustainability standards would not require fundamental restructuring of the IFRS Foundation's governance model. This is particularly true with regard to the Trustee's strategic direction and investor focus. However, broad acceptance of the standards is likely to require acceptance also by other stakeholder groups whose views should also be given due consideration. One particular way to ensure this is the establishment of a proper due processes and transparency in the elaboration of IFRS sustainability standards. The adherence to due processes is essential and will allow all relevant stakeholder groups to have an open and easy access to information on technical work. It gives sufficient time to comment on exposure drafts and other consultation documents and, thereby, will ensure general acceptance of the standards. It is important that this transparency is already applied in the initial phase of the content-related work, i.e. the elaboration of a climate reporting standard.

In addition, technical expertise on sustainability aspects should not only be built up immediately within the ISSB, but also within the further governance bodies (Monitoring Board, Trustees, IFRS Advisory Council). In our opinion, the regular rotation of members might not be sufficient in this respect. As an alternative or in addition to new appointments, building up expertise among existing members should also be considered. This would foster the necessary connectivity between financial and sustainability reporting.

Due to the rapid developments at both international and European level to create new standard setters in the field of sustainability reporting, it is becoming increasingly clear that significant financial resources will be required to set up these organisations in the coming months. The ASCG has taken up this challenge in a proactive manner and its Administrative Board had decided last month to create a new national funding mechanism for international and European standardsetting initiatives which is foreseen to be established by the end of this year. Our response to the questions of the Exposure Draft is laid out in the Appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Georg Lanfermann (lanfermann@drsc.de) or Sven Morich (morich@drsc.de) on our behalf.

Yours sincerely

Dr Nicolas Peter
Chair

Prof Dr Dieter Truxius
Vice Chair

Appendix – Answers to the questions in the Exposure Draft

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?

Yes, we agree. The amendments proportionately reflect the Trustees' strategic direction.

On sub-question (a), the Exposure Draft adds an objective on sustainability reporting to the IFRSF Constitution. We support the broad wording of this additional objective. The expression “[...] *to help investors and other participants in the world's capital markets in their decision-making and connect with multi-stakeholder sustainability reporting*” takes into account the high importance and the significant influence of other stakeholder groups on sustainability reporting. An explicit involvement of other stakeholder groups is eminent for a broad acceptance of IFRS sustainability standards and thus an essential factor for their success. In this regard we also support to build up on existing frameworks and the cooperation with organisations that already operate in the space of sustainability reporting. This further includes consideration of current harmonisation efforts such as the Corporate Reporting Dialogue and/or the willingness of existing organisations to move under the roof of the Foundation to become part of the organisation.

Further, we would like to emphasise the blurred boundary between financial reporting and sustainability reporting. Many reporting issues contain content-related references and overlaps. This integrative character should also be mentioned in the IFRSF constitution in order to ensure that IFRS accounting standards and IFRS sustainability standards form a consistent rulebook.

As further explained in question 2 below, we suggest reconsidering the terminology for “sustainability standards” as it lacks a focus on the reporting angle. Thus, it seems appropriate that “reporting” should be added to make this clear.

On sub-question (b): We note the Exposure Draft proposes a regional split of ISSB members that slightly deviates from the split applied to the IASB. If such a different split is intended by the Foundation, there should be a proper reasoning for this deviation.

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 prefer the alternative terms “Sustainability *Reporting* Standards Board” (SRSB) and International Sustainability *Reporting* Standards, as we do not think the Trustees foresee the Board developing sustainability standards but rather *reporting* standards: As we have understood, the purpose of the organisation would not be to come forward with proposals on how – for example – to reduce carbon emissions, enhance diversity on Boards, or foster good governance principles for sound management behaviour as the wording *sustainability standards* might indicate. We believe the Board’s objective should be to develop standards that enable companies to **report** on the issues mentioned and provide transparency.

However, we recognise the proposed terms are in line with the intention to retain the Foundation’s formal name (the IFRS Foundation). We understand the reasons given for keeping the name but deem a renaming to be the better alternative. The fact that the field of work has expanded to include another essential reporting component should also be clearly reflected in the name of the Foundation.

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 amendments in sections 60 and 61. They complement the existing regulations on the IASB analogously for the ISSB.

Question 4

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

The Exposure Draft also considers areas where substantive amendments are not proposed. Among other things, it is stated that no changes will be made to the composition of important governance bodies. The regular rotation is considered sufficient to ensure representative expertise also for sustainability reporting. We believe that this might not be the case especially in the important start-up and initial phase of the ISSB and suggest a timelier involvement or at least an examination of the presence of the broader expertise now required.