

MEMO# 33536

May 13, 2021

Proposed Amendments to IFRS Foundation Constitution to Enable International Sustainability Standards Board

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TO: ICI Members

ESG Advisory Group

ESG Task Force SUBJECTS: ESG

International/Global RE: Proposed Amendments to IFRS Foundation Constitution to Enable International Sustainability Standards Board

[\[1\]](#) The proposed amendments: a) expand the remit of the IFRS Foundation to cover globally accepted sustainability reporting standards in addition to financial reporting standards, b) set out the structure and function of the new board, and c) align other parts of the constitution with the creation of the new Board. Adoption of the amendments to the constitution is conditioned on the establishment of the new Board. The Trustees' final determination on the establishment of the new Board is expected to be announced at the United Nations Climate Change Conference (COP 26). Comments on the proposed amendments are due to the IFRS Foundation by July 29, 2021.

Remit

The proposed amendments to the constitution specify that the Foundation's objectives include establishing, in the public interest, a single set of high quality, understandable, enforceable and globally accepted sustainability standards based upon clearly articulated principles. Those 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.

Structure and Function of New Board

The ISSB will consist of 14 members to be appointed by the IFRS Foundation Trustees. To ensure international balance the constitution requires: a) three members from Asia-Oceania, b) three members from Europe, c) three members from the Americas, d) one

member from Africa, and e) four at-large members appointed from any area. Board members are to be compensated for their service by the IFRS Foundation. A minority of ISSB members may be part-time members and the remaining members must be full-time members.

The main qualifications for ISSB membership are professional competence and relevant professional experience. The constitution specifies additional qualifications for members including:

- Demonstrated technical competence and knowledge of sustainability and reporting;
- Ability to analyze;
- Communication skills;
- Judicious decision-making;
- Awareness of the sustainability reporting environment;
- Ability to work in a collegial atmosphere;
- Integrity, objectivity and discipline; and
- Commitment to the IFRS Foundation's mission and public interest.

Board members may include persons with experience as auditors, preparers, users, academics, and regulators. Board members will be required to formally commit to act in the public interest and no individual may serve as both an IFRS Foundation trustee and Board member at the same time.

The Trustees shall appoint one of the full-time members as Chair of the ISSB and may appoint one of the full-time members as Vice-Chair. Each member shall have one vote and in the event of a tie the Chair shall have an additional casting vote. Board members cannot vote by proxy and are not entitled to appoint alternates to attend meetings. Board meetings are to be held in public. Members are to be appointed for an initial five-year term, renewable for an additional term and not to exceed 10 years in total.

The publication of an exposure draft of a sustainability reporting standard requires approval by a simple majority of Board members. As the ISSB is being established, the Chair or Vice-Chair may seek to obtain input on the proposed work plan for the new board. Such a publication may be issued with approval of the Chair and the Vice-Chair.

The ISSB has complete responsibility for technical matters, including the preparation of exposure drafts, sustainability reporting standards and the establishment of its standard setting agenda. The Board must undertake a public consultation on its standard setting agenda at least once every five years. The ISSB may outsource detailed research or other work to national standard-setters or other organizations.

The Board must publish for public comment all exposure drafts of proposed standards and establish procedures for reviewing comments received. Exposure drafts and sustainability reporting standards must also include any Board member dissenting opinions and a basis for conclusions discussing the Board's decisions.

Additional Matters

The proposed amendments to the constitution make no substantive changes to the role of the Monitoring Board,[\[2\]](#) the composition or expertise of the IFRS Foundation Trustees, or the composition or expertise of the IFRS Advisory Council.[\[3\]](#)

The introduction to the proposed amendments indicates that the Trustees plan to begin

work with IOSCO and other organizations to explore the creation of a multi-stakeholder expert consultative committee within the Foundation's structure to inform the standard-setting process of the ISSB. Such a committee would exist within the IFRS Foundation structure and would not require reference in the constitution.

An appendix to the proposed amendments discusses parallel work streams on key requirements for successfully establishing the ISSB that were initially laid out in the Trustees' September 2020 consultation. One of the key requirements calls for the establishment of funding necessary to support the new Board. The appendix indicates that the Trustees are working towards a funding arrangement to obtain the seed capital that would, in the short term, allow the new Board to commence its standard-setting activities quickly and that the Trustees are seeking funding from a diverse range of sources to secure the Board's future independence.

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endnotes

[1] IFRS Foundation Exposure Draft, Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards, (April 30, 2021) available at <https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/ed-2021-5-proposed-constitution-amendments-to-accommodate-sustainability-board.pdf>

[2] The Monitoring Board is charged with overseeing the IFRS Foundation Trustees and providing a link to public authorities. The Monitoring Board includes the International Organization of Securities Commissions (IOSCO), the European Commission, the Financial Services Agency of Japan, the US Securities and Exchange Commission, the Financial Services Commission of Korea, and the Ministry of Finance of the People's Republic of China.

[3] The IFRS Advisory Council provides strategic advice to the IFRS Foundation Trustees and the IASB. The Advisory Council includes global representatives from issuers, investors, auditors and regulators. The Advisory Council would also provide strategic advice to the ISSB under the proposed amendments.