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IFRS Foundation
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London E14 4HD
United Kingdom

Comments on the IFRS Foundation's "Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards"

Dear Sir or Madam,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the *Proposed Targeted Amendments to the IFRS Foundation Constitution*.

Principal authors of this comment letter were Erich Kandler, Gerhard Prachner, Andreas Rauter, Georg Schneider, Andrea Sternisko, Alfred Wagenhofer, and Cornelia Walch. These authors have diverse professional backgrounds, ensuring a balanced Austrian view on the consultation.

Best regards,

Romuald Bertl
Chairman

GENERAL COMMENTS

We generally agree with the proposals in the Exposure Draft. They are a timely and balanced response to the ever-growing demand for global sustainability standards. We support the IFRS Foundation's objective to consolidate the many different initiatives worldwide and develop global standards for a global issue. We also agree with the proposed structure incorporating a sustainability reporting standards board.

Nevertheless, we have some comments and suggestions to the issues addressed in the Exposure Draft, particularly the following:

- We strongly disagree with the proposed name “International Sustainability Standards Board” and provide a suggestion of suitable names and acronyms.
- We propose to align approvals in voting of the IASB and the new sustainability reporting standards board to a qualified majority, similar to that for the IASB.
- We propose to increase the size of the Trustee body by three members to 25 members, with the additional members being sustainability experts.
- We propose to include a formal requirement for the IASB Board and the new sustainability reporting standards board to coordinate in areas where financial and sustainability reporting overlap.

SPECIFIC COMMENTS

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?

We support the approach, set out in paragraph 2 of the Introduction, to start developing a set of reporting standards that serve participants in the world's capital markets as primary group, which is the core competency of the IFRS Foundation. We also support the aim to build on existing widely accepted frameworks and to a “building blocks approach.”

Paragraph 2 (b) of the Introduction of the Exposure Draft states “These standards should [...] connect with multi-stakeholder sustainability reporting.” We suggest clarifying the meaning of “connect” and “multi-stakeholder sustainability reporting” more concretely. Is this text a substitute for the “other users of financial information” (paragraph 2 (a) of the Introduction)? For example, does the connection with multi-stakeholder sustainability reporting include the option to take over standards developed by other multi-stakeholder sustainability reporting organizations? Or does it mean that the sustainability standards would include requirements that address non-investor-oriented goals, or that the standards serve as building blocks that allow other multi-stakeholder standards to build on?

Given that different parts of the world move at different rates towards sustainability reporting, we support a “building blocks approach” as mentioned in paragraph 2 (d) of the Introduction. However, we note that the building blocks approach of IFAC is somewhat different from the building blocks approach referred to in the ED, which may cause confusion.

We support that the new sustainability reporting board shall comprise four members irrespective of their geographical area, which allows to add a sufficient number of sustainability experts regardless of their geographical area to be represented in the Board. We suggest to add a constraint in the sense that the geographical area and professional expertise of all members should be balanced, in order to avoid a situation in which, for example, all four of these members would come from the same geographical area.

We do not see a reason to require different approval rates for exposure drafts and standards for the IASB (paragraph 35) and for the new sustainability reporting standards board (paragraph 54). We suggest aligning them to a qualified majority rule, similar to the one of the IASB. We also suggest to express this rate in terms of a percentage, e.g., over 60 percent.

Concerning the composition of the Trustees, paragraph 10 (b) of the Introduction argues that “Trustees expect that its membership and its expertise can be sufficiently adjusted where necessary in the coming years as the regular rotation of its membership takes place.” We believe that an adjustment process linked to the regular rotation will be too slow for the tasks that will arise. The Trustees should have more sustainability expertise directly from the beginning, when expanding the scope of the Foundation. We suggest increasing the size of the Trustees by three members to 25 members, with the additional members being sustainability experts.

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 do not agree with the proposed names for the institutions, by which it is apparently assumed that “IFRS” is simply a four-letter acronym, void of its original meaning of “International Financial Reporting Standards.”

The proposal leads to clumsy nomenclature particularly in case of the proposed “IFRS accounting standards” (presumably abbreviated as IFRS AS) and “IFRS sustainability standards” (presumably IFRS SS) in practice. This actually erodes the original meaning of IFRS, so that branding advantages are not retained.

We strongly disagree with the name “International Sustainability Standards Board” (ISSB), as this name suggests that the board would set sustainability standards, although its task is to set sustainability *reporting* standards. This is a clear misnomer.

Moreover, retaining IASB (with “accounting” in it) and the proposed ISSB is asymmetric, as is IFRS Interpretations Committee and Sustainability Standards Interpretations Committee; similarly, why are there IFRIC Interpretations but no name for sustainability reporting standards interpretations that may

be required in the future?

Our suggestion follows the second option discussed by the Trustees (see paragraph 18 (b) of the Introduction), which is “International Corporate Reporting Foundation (ICRF),” and we propose the following – consistent – naming of the institutions:

- ICRF ... International Corporate Reporting Foundation
- ICRF Advisory Council
- IFRS ... International Financial Reporting Standard(s)
- IFRS Board
- IFRS Interpretation Committee
- IFRS Interpretation(s)
- ISRS ... International Sustainability Reporting Standard(s)
- ISRS Board
- ISRS Interpretations Committee
- ISRS Interpretation(s)

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.

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

Paragraph 47 of the proposed IFRS Foundation Constitution states: “Each member of the ISSB shall agree contractually to act in the public interest and to have regard to the ISSB’s objectives (and conceptual framework once created) in deciding on and revising its Standards.” We suggest to adapt this paragraph to be consistent with the comparable paragraph for members of the IASB in paragraph 28: “Each full-time and part-time member of the Board shall agree contractually to act in the public interest and to have regard to the Board’s Framework (as amended from time to time) in deciding on and revising the Standards.” Alternatively, the text in parentheses, “(and conceptual framework once created)”, should be omitted to avoid a potential conflict when it comes to amending an existing framework.

We suggest the IASB and the new sustainability reporting standards board coordinate their efforts and cooperate with one another as well as with other standard setters and reporting initiatives. While we presume this will happen informally anyway, we propose to set up a formal written requirement to coordinate. For some reporting topics, such as risk reporting or intangible assets, there is no clear-cut way that would classify the matter as a financial or non-financial reporting topic. Coordination between the IASB and the new board will be vital to avoid double-reporting, divergent requirements, and so forth, in financial and non-financial statements.

We do not comment on Appendix B concerning the key requirements for success because they are not part of the IFRS Foundation Constitution. We also do not see the purpose of Appendix B.