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IFRS Foundation Trustees

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**Comment letter on the [Exposure Draft](#) proposing amendments to the IFRS Foundation Constitution**

**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?*

I encourage a clearer, more robust and evidence-based articulation of the strategic direction. The strategic direction does not take account of key points in feedback on their [Consultation Paper](#) on Sustainability Reporting that the Trustees acknowledged as valid<sup>1</sup>. The strategy is muddled, and the amendments reflect that and amplify confusion in the market<sup>2</sup>. Some important points in relation to the strategy have been [raised](#) by the Advisory Council. Further, see [Adams and Abhayawansa \(2020\)](#)<sup>3</sup> for a summary of the Trustee's positioning vis-à-vis differing perspectives on harmonisation of sustainability reporting and investor perspectives.

Proposed para 2b) (and text elsewhere) indicates/creates confusion about what sustainability reporting is and what its connection is with sustainable development. The name of the board and use of the terms 'sustainability reporting' and 'sustainability standards' create further confusion - see my response to Question 2 below.

Para 44 of Appendix A requires members of the new Board to have experience in "sustainability reporting". Sustainability reporting is not defined but is clearly considered to be something quite different from what most practitioners consider it to be (see response to Question 2 below). One option is to (re)define sustainability reporting. A better option is

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<sup>1</sup> See <https://drCarolAdams.net/ifrs-foundation-trustees-key-acknowledgements-not-addressed-in-strategy/> for a discussion of these points and the strategy gaps.

<sup>2</sup> In their Feedback document the Trustees note that: "..... some respondents suggested the Trustees consider anchoring the development of IFRS sustainability standards to the UN's SDGs, while still ensuring a focus on the information needs of investors. (p 18)". A note on how to use the UN SDGs as the North Star in developing their approach to enterprise value reporting is at <https://drCarolAdams.net/sustainable-development-as-our-north-star-in-the-harmonisation-debate/>.

<sup>3</sup> Adams CA and Abhayawansa S (2021), Connecting the COVID-19 pandemic, environmental, social and governance (ESG) investing and calls for 'harmonisation' of sustainability reporting, *Critical Perspectives on Accounting*. Available at <https://doi.org/10.1016/j.cpa.2021.102309>

to call these something else, such as enterprise value reporting. In any case it must be clear what skills you are seeking.

It is of concern that para 54 states that a workplan can be published with only the approval of the Chair and Vice Chair. It is important that workplans are well considered in order to get more targeted feedback and I see no reason for them to not also require approval of the majority of Board members.

Some of these matters need to be clarified with urgency and reflected in the consultation. Other matters that have been raised by the Advisory Council and respondents to the initial consultation could be dealt with through a staged strategy.

## 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?*

No. The name **International Sustainability Standards Board** is misleading and will add to confusion.

It is misleading because the Trustees have stressed that their standards are concerned with **enterprise value** and not the impact of an organisation on sustainable development. To use the word 'sustainability' leaves the Trustees and users of the Standards open to accusations of green washing. The Trustees have not defined the terms value creation [para 16(b)], sustainability performance [para 16(b)] or sustainability reporting. The dominant understanding of "sustainability reporting" is *not* as reporting on "ESG matters that are relevant to investors" [para B 22].

It is confusing because there already exists a **Global Sustainability Standards Board (GSSB)** that develops **sustainability reporting standards** for investors and other stakeholders that are concerned with the impacts of an organisation on **sustainable development**.

A more appropriate name given the strategic direction emphasised by the Trustees would be an **International Enterprise Value Board**. This Board could deal with non-financial reporting matters most relevant to enterprise value, including, for example, a range of **risks and opportunities to enterprise value** that arise from climate change and other sustainable development issues; people/human capital; intellectual capital; culture and relationships. The latter issues have a significant impact on enterprise value but appear to be outwith current considerations.

The Trustees made a commitment from the outset to simplify, not to add to confusion.

Referring to the standards as "**IFRS Sustainability Standards**" [para 18 (a); Appendix A para 2 (e) (ii)] compounds confusion about the strategy and purpose. It implies that the new Standards will only deal with matters that are relevant to the financial statements. There

are mixed messages regarding this direction and a clearer articulation of what is within and outwith the scope of the new Board is needed. Referring to ICRF Standards [para 18 (b)] for the outputs of both Boards would be better.

### 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?*

The balance of skills amongst the Trustees needs to explicitly include knowledge and expertise in sustainable development for this to be an effective means of appointing an Executive Director. The appointment of the Executive Director is critical to ensuring the right culture and skills within the Foundation to serving both Boards.

### Question 4

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

The other matters I'd like to raise are:

- i. In order to develop a clear, robust, evidence-based strategy knowledge/expertise in sustainable development (beyond an enterprise value perspective) needs to be present across the Trustees, Advisory Council and IFRS Foundation leadership and staff.
- ii. The strategy needs to incorporate the currently fundamentally different approach of the EU<sup>4</sup>. It is unclear how the current direction can do so. The [Sustainable Development Goals Disclosure \(SDGD\) Recommendations](#)<sup>5</sup> provide a conceptual framework for doing this that draws on the TCFD recommendations, <IR> Framework and GRI Standards<sup>6</sup>.
- iii. The proposed changes to the Constitution do not address the need for a Conceptual Framework for corporate reporting that informs the work of both Boards. Adams (2017)<sup>7</sup> sets out how incorporating sustainable development considerations in the <IR> Framework make it a suitable starting point.
- iv. Expertise in sustainable development issues needs to be explicitly included as a skill set required on the Trustee Board. The Trustees set strategy. The Trustees are also

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<sup>4</sup> See summary of differences in all key aspects at <https://drcaroladams.net/eu-v-ifrs-fundamentally-different-approaches-to-sustainability-reporting/>

<sup>5</sup> See Adams, C A, with Druckman, P B, Picot, R C, (2020) [Sustainable Development Goal Disclosure \(SDGD\) Recommendations](#), published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. ISBN: 978-1-909883-62-8

<sup>6</sup> For an explanation as to how the SDGD Recommendations draw on these three frameworks see Adams, CA (2020) [Sustainable Development Goal Disclosure \(SDGD\) Recommendations: Feedback on the consultation responses](#), published by ACCA, IIRC and WBA. ISBN-978-1-898291-33-6.

<sup>7</sup> Adams, C A (2017) *The Sustainable Development Goals, integrated thinking and the integrated report*, IIRC and ICAS. ISBN 978-1-909883-41-3. Available at [https://www.icas.com/\\_data/assets/pdf\\_file/0010/336475/SDGs-and-the-integrated-report\\_full17.pdf](https://www.icas.com/_data/assets/pdf_file/0010/336475/SDGs-and-the-integrated-report_full17.pdf)

dominant in appointing the Executive Director [see para 20]. It is not enough to leave the existence of this skill set on the Board to chance [see para 10 b)]. Addressing sustainable development is a transformational change and requires proactive analysis and input by people with appropriate knowledge/experience.

- v. The Advisory Council were not appointed for skills with respect to sustainability, enterprise value beyond that represented in financial statements or expertise in sustainable development. They have nevertheless provided important input relevant to building a coherent strategy. But broader skills need to be present from the outset [see para 10 c)] and safeguards are needed in the constitution to ensure a balance of skills relevant to both boards.
- vi. Recommendations iii) and iv) above are informed by my engagements with accounting, finance and investment professionals on various committees that are concerned with sustainability matters including sustainability reporting. I believe they would have come up with different proposals. There are benefits of greater diversity of skills inclusive of sustainability. It is not surprising that Trustees and Advisory Council members appointed to advise on a narrower set of matters believe that sustainability skills are not specifically needed.
- vii. Changing the name of the Foundation to the International Corporate Reporting Foundation [para 18] would be preferable. It would signify that financial and enterprise value reporting [referred to in the document as 'sustainability reporting'] were considered on the same footing. It is a more appropriate branding for the strategy.
- viii. The proposed Constitution [at Appendix A, para 2 (b)] states that the Standards should "connect with multi-stakeholder sustainability reporting". This indicates two separate forms of "sustainability reporting" (one for investors and one for other stakeholders) and confusion about how they "connect". As a body serving the private sector, the IFRS Foundation does not have the credibility or expertise to develop a "multi-stakeholder" approach and should rely on the established and credible approach of the **Global Sustainability Standards Board** to identify relevant sustainable development topics which may come to impact on enterprise value.
- ix. Appendix B para B5 and B6 note that responses to the Consultation Paper indicate a "broad level of support" from a subset of stakeholders responding ("public authorities, global regulators and market stakeholders... and preparers"). Many of these respondents, along with respondents from other stakeholder groups, whilst welcoming the prospect of mandatory standards and assurance, also challenged the Trustees to go further.

*Lord Hales*