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Comment letter on constitution amendments ED

Question 1 (a)

We endorse the decision to align, so far as possible, the structure and operating process of the IASB and the ISSB. We also endorse the decision to retain the IFRS brand, and we agree with the distinction that is made between *IFRS accounting standards*, issued by the IASB, and *IFRS sustainability standards,* issued by the ISSB.

This is conceptually consistent. It implies that the International *Accounting* Standards Board issues *accounting* standards, while the International *Sustainability* Standards Board issues *sustainability* standards. This is nicely unambiguous. IFRS is evolving to become more than financial accounting alone. Reporting to providers of finance (i.e., financial reporting) will no longer be restricted to information provided in the financial statements and notes (accounting) but will also include other (sustainability) information that is relevant to the determination of enterprise value.

The proposed constitutional amendments get this right.

Question 1 (b)

We strongly support the approach taken to constituting the ISSB, not least in aligning its structure with that of the IASB, while also allowing somewhat more flexibility over both part-time membership and geographic representation. This flexibility is potentially extremely important in ensuring quality and breadth of relevant experience in the initial board membership. In turn, this matters because of the need to ensure requisite experience and understanding spanning both financial accounting and sustainability reporting (see below). It is essential to prioritise securing the expertise that can address *investors'* demand for *sustainability*-related standards. This requires selecting board members that make neither of the (all-too-common) cognitive mistakes of:

- 'understanding' the sustainable to be distinct from the economic, and therefore a distraction from investors' needs
- 'understanding' the ISSB to be 'taking over' all aspects of sustainability reporting, and therefore distracting from a broader social need that well-functioning capital markets.

Question 2

We endorse the universal use of the IFRS brand, which reinforces the complementary nature of accounting and sustainability information, both of which are designed to provide financially material information, that is relevant to investors in the determination of enterprise value.

Question 3

We agree with the proposals regarding the Executive Director and staff.

Question 4

We believe it is important to clarify some confusion and misunderstanding about sustainability standards companies will use to provide information to investors. Most important is the misconception that the ISSB is a mechanism for distorting capital flows away from long-term, risk-adjusted returns, and that its focus is somehow disconnected from enterprise value and from capital market efficiency.

This misconception is illustrated by the comment letter submitted on July 1, 2021, by SEC Commissioner Hester Peirce. We respond with the following quotes from her letter (where italics are ours), and we add our reply in each case:

> "Accounting and sustainability standards are fundamentally different from one another. Equating the two, as the Foundation's current effort does, *risks misleading investors*."
>
> Our reply: Peirce should review the many letters submitted by investors who strongly support the formation of the ISSB. They know that high-quality, investor-relevant information on a company's sustainability performance is essential for them to make investment decisions for the long-term economic benefits of their beneficiaries. We find it rather insulting for Peirce to suggest that these sophisticated investors risk being misled.
>
> "These concerns appear relevant to sustainability standards, *which are designed for the particular objective of influencing capital flow*s."

Our reply: Use of the term “influencing” suggests that there is somehow a political objective to these standards. A more accurate statement is that the ISSB’s objective is one of “informing capital flows”, consistent with financial statements and with the mission of the IFRS Foundation. This concerns efficient capital allocation on capital markets, entirely consistent with the mission of the SEC.

“Although sustainability standards at times may touch on economics, *they are not fundamentally about economic decision-making*.”

Our reply: This is profoundly incorrect. Economics is the study of efficient resource allocation. Sustainability is concerned with whether individuals can enjoy the same or better *economic* wellbeing in the future than in the present. Capital markets ‘price’ that future economic wellbeing. To illustrate, if the corporate sector does not transition successfully to net zero, in line with Paris targets, then the adverse consequences will be *economic*. This is why investors are calling for far more effective climate-related financial disclosure. We note that investors alone are not responsible for future economic wellbeing. Public policy plays an essential role.

“Sustainability standard setting is inherently more subjective, less precise, less focused, more open-ended activity than financial accounting standard-setting.”

Our reply: We invite comparison between the objectivity and precision with which carbon emissions can be measured, and the subjectivity and imprecision of Level 3 Fair Value, with respect to which companies are required to speculate what market prices would be if those markets existed. The fact of the matter is that financial reporting and sustainability reporting both comprise a spectrum of issues on which the standard-setter is required to exercise judgement, and where lines are drawn between items that are (relatively objectively) standardisable and those that are not. Financial accounting standard-setters are (rightly) more cautious with “inherently more subjective, less precise, less focused, more open-ended” issues such as accounting for brands, intellectual property other intangible assets, and human capital, and so too the ISSB would be more cautious on comparably challenging issues. The presumption that ‘financial’ corresponds to objective and ‘sustainable’ to subjective is simply not correct.

Professor Richard Barker

Professor Robert G. Eccles