IFRS Foundation

Meeting Summary

IFRS Advisory Council

Date **4 April to 5 April 2023**
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This document summarises a meeting of the IFRS Advisory Council, the formal strategic advisory body to the Trustees of the IFRS Foundation, the International Accounting Standards Board and the International Sustainability Standards Board. The IFRS Advisory Council consists of a wide range of representatives, comprising individuals and organisations with an interest in international financial reporting.

Introduction

1. The IFRS Advisory Council (Council) met in person on 4 and 5 April 2023. In addition to the Advisory Council members, the meeting was attended by the Chair and Vice Chair of the International Accounting Standards Board (IASB), the Chair and one of the Vice-Chairs of the International Sustainability Standards Board (ISSB) and a number of IFRS Foundation staff.

2. The agenda and papers for the meeting, as well as the meeting recording, are available at: IFRS - IFRS Advisory Council.

3. The Council Chair, Mr. Bill Coen, welcomed everyone to the meeting. He offered a particular welcome to the new members of the Council, Steven Beck, Neil Esho, Marcos Mancini, Robert Saum, Le Quang Van Tran and James Zhan, who were attending a meeting in person for the first time since their appointment.

4. Mr. Coen reported that he attended the Trustees meeting in Tokyo in early March 2023, providing an opportunity to update the Trustees in greater detail on the advice the Council has recently provided, as well as receive feedback regarding how the Council can continue to support their work. It also provided an opportunity to meet with the Nominating Committee and discuss the ongoing work to increase gender balance across all appointments, including for the Council. Mr. Coen emphasised the importance of the ongoing engagement between the Council and the Trustees.

Future format of Advisory Council meetings

5. Mr. Coen presented the key themes of agenda paper 2 and invited Council members to consider two questions:

   1) What do members view as the optimal combination of in-person and virtual formats?

   2) Should the Advisory Council continue to meet only in London or should it rotate its meetings around other locations where the Foundation has established offices?

6. The ensuing discussion among members raised the following key themes in response to the questions:

   Balance between in-person meetings and virtual meetings:

   - Council members were in broad agreement that two in-person meetings per year is appropriate, with further virtual engagement scheduled around specific topics, as required. However, it was noted that conflicting schedules sometimes prevent members from attending in person. Some members expressed a wish that, on these occasions, they have the opportunity to participate virtually. In response to this proposal it was emphasised that an eight-hour (full day) virtual session could be challenging for participants, particularly when they are in time zones that are several hours ahead of, or behind, Greenwich Mean Time (local time in London).

- In the context of this question, Council members also raised a number of more specific points, including:
    - it would assist Council members' planning if virtual sessions could be confirmed one year in advance, in the same manner that in-person meetings are confirmed;
    - it could assist Council members to change timezones of virtual sessions on a rotational basis;
    - if hybrid participation is permitted, in-person attendance at one meeting should be mandatory;
    - there could be consideration of other flexible formats that facilitate contact throughout the year eg. creating an online communication forum.

Rotating locations of the Advisory Council meetings:

There was a diverse range of views on this question. Key themes included:

- ***Being clear of the objective for the rotation:*** For example, is it to reduce the burden of travel for certain members; to enable engagement with staff in the non-London based offices; or to expand the footprint of the Advisory Council to regions that have less opportunity to attend the Advisory Council meetings?
- ***Reducing the travel burden for Advisory Council members:*** It was emphasised by a number of members that rotating meetings around the IFRS Foundation's offices would not necessarily reduce travel. It was highlighted that not all offices are located in traditional travel hubs, in the same way as the London office. Furthermore, certain locations would shorten travel for some members, it would significantly increase the travel time for other members, which could in turn impact attendance levels.
- ***Increasing engagement with non-London based staff:*** It was agreed that integrating staff into the work of the Advisory Council was important but there may be other methods of achieving this without rotating meeting locations.
- ***Expanding the international footprint of the Advisory Council:*** There was agreement that rotating meeting locations was reflective of the international dynamic of the IFRS Foundation. It could also facilitate better understanding of regional issues, and encourage interest in the work of the Advisory Council from under-represented regions. However, if this is the objective, consideration should also be given to locations where the IFRS Foundation does not have an office, for example Africa or Latin America.
- ***Considering the impact on sustainable operations:*** It was noted that the IFRS Foundation is currently developing its sustainability strategy and certain limitations will arise from that. For example, a number of IFRS Foundation staff who support and attend the Advisory Council are based in London so any decision to rotate the location of meetings may need to consider the impact on the IFRS Foundation's carbon emissions.

7. In summarising the discussion Mr. Coen noted support for two in-person meetings per year, with the option for hybrid format where in-person attendance was not possible. He emphasised the limitation to holding full day hybrid meetings but confirmed he and the staff would consider the options. He also concluded there was overall support for meeting outside of London but with caveats. This would be given further consideration and would be brought back for discussion at a future Council meeting.

Update on the IASB's Activities

8. Mr. Andreas Barckow provided an update since the Advisory Council's October 2022 meeting, noting:

    - Final amendments issued on Non-current Liabilities with Covenants (Amendments to IAS 1), which is a maintenance and consistent application project.

- Other documents published, which do not contain IFRS accounting requirements:
  - Feedback Statement Post-implementation Review (PIR) of IFRS 9—Classification and Measurement. Mr. Barckow noted that the feedback in the PIR suggests that the requirements are working as intended. Stakeholders raised some application questions about ESG-linked instruments (see below discussion), but there is no request to fundamentally change the measurement basis.
  - Project Summary on Disclosure Initiative—Targeted Standards-level Review of Disclosures. Mr. Barckow noted that although stakeholders had mixed views, they generally requested the IASB to use general and specific objectives in developing disclosure requirements.
- Consultation documents published, including:
  - Exposure Draft International Tax Reform—Pillar Two Model Rules, with comment period ending 10 March 2023. Mr. Barckow noted that the IASB proposed to give some exceptions to companies due to the uncertainty around the calculation of deferred taxes. At the same time, the IASB proposed to require entities to provide some information to users to help them understand the likely impact of the forthcoming tax reform. The IASB plan to finalise the deliberation of this topic in April 2023 and issue the final amendment in May 2023.
  - Exposure Draft Amendments to the Classification and Measurement of Financial Instruments, with comment period ending 19 July 2023. Mr. Barckow noted that stakeholders do not require fundamental change to accounting requirements, but they want clarity about the accounting for ESG-linked instruments. This Exposure Draft proposes clarifications in response.
- Forthcoming publications, including:
  - Request for information on PIR of IFRS 9—Impairment (expected May 2023)
  - Request for information on PIR of IFRS 15 Revenue from Contracts with Customers (expected June 2023)
  - Exposure Draft proposing amendments to IAS 32 Financial Instruments with Characteristics of Equity (expected Q4 2023)
  - Amendments for International Tax Reform—Pillar Two Model Rules (expected May 2023)
  - Amendments for Supplier Finance Arrangements (expected May 2023)
  - Amendments for Lack of Exchangeability (expected August 2023)
- Mr. Barckow noted that the IASB will consider starting the PIR of IFRS 16 Leases later this year.
- Changes to work plan, namely:
  - Moved project on Business Combinations—Disclosures, Goodwill and Impairment from research to standard-setting, signifying progress towards an exposure draft. Mr. Barckow noted that the IASB will propose some new disclosures about business combinations to help users of financial statements better understand the entities' rationale for entering into the business combinations. It is also seeking ways to simplify the impairment test.
  - Made the project on Climate-related Risks in the Financial Statements active. Mr. Barckow noted that this project comes from the Agenda Consultation. The IASB is considering whether any amendments or targeted improvements can be made to the accounting literature, with consideration of the work of the ISSB.
- With regards to digital reporting, Mr. Barckow noted that the IASB has slightly increased the focus on digital financial reporting in light of feedback received on its Agenda Consultation.
- Changes to the IASB:
  - Linda Mezon-Hutter became the vice chair of IASB from the beginning of this year.

- Three additional IASB members were appointed. The IASB Board is now complete with fourteen board members.

9. The ensuing discussion among Advisory Council members focused on several issues, including:

- **Climate-related Risks in the Financial Statements:**
  - Mr. Barckow noted that the IASB have not yet determined the scope of this project. It is expected that the IASB will not mirror the ISSB's work because the two Boards have different areas of focus. The IASB only intends to clarify how to reflect climate-related risks in the financial statements. It will not develop a new standard on climate-related disclosures.
  - Interaction with the impairment test of goodwill—Mr. Barckow noted that the IASB are investigating any potential improvements to impairment test, but it would not be an overall change of IAS 36 Impairment of Assets. If the IASB make changes to IAS 36, it might clarify how to reflect climate risk in the impairment test of goodwill.
  - One Council member mentioned that some banks have started to include the impact of climate risk in the expected credit losses applying IFRS 9 and related valuation models.
- **Carbon credits:** Mr. Barckow noted that the accounting treatment for carbon credits would be addressed in three IASB projects, including *Provisions—Targeted Improvements*, *Intangible Assets* and a possible project on *Pollutant Pricing Mechanisms*.
- **Connectivity between the IASB and the ISSB:** One Advisory Council member commented that the IASB and ISSB could work together on some projects, such as climate-related risk, Management Commentary and provisions. Mr. Barckow confirmed that:
  - The IASB staff are working with the ISSB staff in the Climate-related Risks in the Financial Statements project.
  - The ISSB will consult with stakeholders about what are the priorities for work with IASB as part of the ISSB's agenda consultation.
- **PIR of IFRS 9—Classification and Measurement: whether ESG-linked instruments** should be addressed in a separate project—Mr. Barckow responded that IFRS 9 does not have any specific requirements for ESG-linked instruments. The IASB only intends to set the general principle and clarify how to apply the principle to certain circumstances through application guidance and illustrative examples. Therefore, it is better to address the issue about ESG-linked instruments together with other application issues.
- **Business Combinations under Common Control (BCUCC):** The current situation of this project—Mr. Barckow noted that the IASB will discuss the direction of this project in the April 2023 IASB meeting.
- **Management Commentary:** Clarification about the direction of the project—Mr. Barckow noted that the IASB have not decided the direction of Management Commentary project due to the overlap among Integrated Reporting, Management Commentary and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and the ISSB's upcoming consultation on its agenda priorities which may inform the IASB's direction.
- **Dynamic Risk Management (DRM):** Concerns about the proxy hedge, which is alleged to be a simplified version of interest risk profile instead of the real hedging—Mr. Barckow explained that the objective of IASB as a standard setter is to provide transparent information to capital markets. The DRM project only intends to depict what is happening in the entity instead of intervening in the risk management practices of banks.

- **Primary Financial Statements (PFS):** The timeline of the PFS project — Mr. Barckow confirmed that the PFS project will not be finalised this year but deliberations are coming to a close. The IASB are planning an education programme about the PFS project for autumn 2023.

- **Going concern:** Whether the IASB would revisit the going concern concept in IAS 1 in collaboration with International Auditing and Assurance Standards Board (IAASB) — Mr. Barckow noted that the IASB have regular exchanges with staff in IAASB. The IASB gave due consideration to a going concern project as part of its Agenda Consultation, but eventually decided against it in light of other priorities. Mr. Barckow also noted that going concern disclosures would not necessarily have helped to predict the recent bank failures because they were caused by sudden bank runs.

- **Recent market developments – US bank failures:**
  - A discussion noting that in the US, some stakeholders have indicated banks could change the classification of financial assets from the available-for-sale category to the held-to-maturity category. Such a change in classification might obscure fair value losses. However, Mr. Barckow noted that IFRS Accounting Standards differ from US GAAP. In applying IFRS 9, a change in classification from fair value measurement basis to the amortised cost basis can only happen if there is a substantial change of business model for managing those assets. The IASB nonetheless will keep monitoring the situation in the market.
  - Whether the IASB should require disclosures of unrealised fair value gains or losses for financial instruments measured at amortised cost and of the interaction among disclosures for credit risk, interest risk and liquidity risk. Although the IASB do not have an active project at this stage, it is monitoring the current situation. Mr. Barckow also confirmed that the risk can be different around the world and that this is why the IASB should keep the accounting standards as principles-based.
  - Whether the IASB could improve the framework for scenario testing. Mr. Barckow confirmed that scenario testing features in IFRS 7 but acknowledged that it is difficult in practice especially when there are several factors interacting with each other.

Update on the ISSB's Activities

10. Ms. Sue Lloyd, Vice-Chair of the ISSB, presented agenda paper 4, outlining the main developments in the projects on the ISSB's work plan since she last met with the Council in February 2023 and the steps to support adoption and application of the first two IFRS Sustainability Disclosure Standards that the ISSB expects to issue towards the end of Q2 2023: General Sustainability-related Disclosures (IFRS S1) and Climate-related Disclosures (IFRS S2).

11. Mr. Emmanuel Faber, Chair of the ISSB, said the ISSB is finalising the Request for Information on its agenda priorities, which will seek feedback on a possible project on integration in reporting, including whether the project should utilise IASB's Exposure Draft Management Commentary and/or the Integrated Reporting Framework.

12. The ensuing discussion among Council members focused on several topics, including:
    - **Capacity building:** The work the ISSB is doing in building capacity in jurisdictions to adopt IFRS S1 and IFRS S2 was appreciated. Council members offered support to the ISSB in educating stakeholders and encouraged engagement with non-traditional partners, in addition to accounting bodies and partners identified in the initial partnership framework announced in November 2022. Council members suggested developing an adoption guide and tailoring education initiatives to companies with different size or operating in jurisdictions where capital markets, legal and enforcement systems are less developed or have little experience with sustainability reporting.

The usefulness of developing adoption guidance for jurisdictions was noted.

- **Interoperability:** The importance of working with the European Union and the Global Reporting Initiative (GRI) to develop sets of disclosures that are more interoperable was noted, although interoperability should not be the way jurisdictions approach the adoption of IFRS S1 and IFRS S2. The ISSB was created to remove the fragmented landscape of sustainability reporting and set a global baseline.

  It was clarified that, starting with IFRS S1 and IFRS S2 as global baseline, jurisdictions can use a building block approach to add disclosures on top of what the ISSB has identified—as long as the global baseline is not obscured—to enhance interoperability with jurisdictional sustainability-related standards.

- **Proportionality:** The consideration of circumstances of emerging and developing economies, and companies with fewer resources in scaling some requirements of IFRS S1 and IFRS S2 was welcomed.

- **Assurability:** The ongoing engagement with audit standard-setters, including the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA), and the ISSB's decisions designed to mitigate assurability challenges of requirements of IFRS S1 and IFRS S2 was welcomed.

  Acknowledging that not all assurance providers are accounting professionals, suggestions were made to monitor the development of assurance practices for sustainability-related information and how they relate to the audit of the connected financial statements.

Facilitating market use of the IFRS Foundation's sustainability-related resources

13. Mr. Nicolai Lundy, Chief of Market Relationships, presented an overview of the planned approach for facilitating market acceptance of the ISSB's sustainability standards. The IFRS Foundation is focused on building relationships with preparers, investors, and other market participants so that they can be productively engaged in standard setting, and the Foundation can achieve adoption in some form. The three objectives include:

    - Establishing the structures, systems, and relations to ensure that market participants engage in standard setting.
    - Ensuring investor use and support the ISSB standards.
    - Ensuring corporate support for the standards.

    For 2023, some audiences are already engaged in or knowledgeable about TCFD or SASB or both, so for those audiences, the IFRS Foundation is focused on change management for audiences to take that extra step and utilise the ISSB standards. For those unfamiliar, the focus is on raising awareness, making sure that they understand what is in the standards, how it emerges from existing resources and the reason preparers might be focused on tailored investor-relevant sustainability disclosure and how the ISSB standards are useful for that activity.

    As the ISSB approaches the publication of S1 and S2, we are starting to think about how to best engage in achieving those objectives for the market.

14. IFRS Advisory Council members provided the following feedback during breakout discussions (grouped by question posed):

Do you agree with the ongoing market engagement objectives? Do you agree with the 2023 objectives? Or do you recommend changes?

- Several members expressed the challenge faced by many companies of adopting the standards. For many companies, this set of standards is something completely new and they will need to work to expand their mindset.
- Another challenge is the legacy of SASB and TCFD against ISSB Standards. The ISSB standards are complex and it's vital to communicate early how they relate SASB and TCFD frameworks to avoid confusion.
- Members recognised and appreciated the ISSB setting its immediate priorities for the next two years but feel that stakeholders would benefit from having longer term visibility on the ISSB's agenda and strategic priorities.
- Members believe that the objectives and ambitions are clear but not the story, especially around the roadmap and evolution. They recommend a clearer theme and program would help jurisdictions to adopt ISSB.
- The ISSB may face challenges engaging with stakeholders and implementing changes within a short period, they must remain relevant and keep up with the evolving landscape to remain useful to market participants.

Do you think we've accurately described the context for market engagement in 2023? Or do you recommend changes?

- Members emphasised cooperation and interoperability towards the market with the European Commission and other standards/regulators.
- The IFRS Foundation needs to clarify who the stakeholders/gatekeepers are (regulator vs legislator) as part of a long-term productive collaboration.
- The definition of materiality is the same as financial reporting, its application from many corporations around the world will be a challenge for preparers. Many views around what material information is, not only from stakeholders but from the third parties.
- To get key players on board with ISSB standards, members believe it's essential to strengthen regulatory engagement as well as market engagement.
- Engaging with central banks could be an important strategy to promote the adoption of its standards by the banking system. There is a growing importance of ESG and climate risks for financial institutions and suggestions that these factors will increasingly influence decisions. Collaboration with central banks could help ensure that sustainability reporting becomes an integral part of the banking system's risk management processes.

Do you agree with our approach to market engagement? Or do you recommend changes?

- There are two main stakeholder groups: preparers and users. However, in the sustainability reporting area, there are other dimensions that need to be considered. The ISSB may need to broaden its stakeholder classification while balancing potential risks of losing focus in its approach. The ISSB should enhance its focus and engagement with other relevant groups, ESG data providers, and traditional investment services and analyse associations such as CFA.
- Members believe strengthening the messaging on S1 and the upcoming Agenda Consultation can help counterbalance potential concerns about the ISSB pursuing a climate-first approach while not progressing at pace on social-related matters, which could become a matter of priority for certain emerging jurisdictions.
- Some reservations were expressed around the messaging that appears to prioritise jurisdictions and preparers that have adopted TCFD and/or SASB Standards. Members wanted to highlight that not all preparers are as familiar, so messaging is key.

- Members feel people that support GRI are hostile to these standards as they do not believe the Standards go far enough and rest in the middle ground. They believe a key to success is focusing on comparability or focusing on GRI.
- It may be beneficial to explore different platforms to reach a wider audience and make the information more accessible and digestible. Highlighting the importance of S1 and S2 could be a valuable way to emphasise the significance of the standards.

A look at the IFRS Foundation's sources of earned revenue

15. Mirjam Buyteweg, Chief of Legal, Compliance and Commercial Operations, and Nicolai Lundy, Chief of Market Relationships presented agenda paper 6. In their presentation they summarised how earned revenue contributes to the Foundation's financial position, the purpose of earned revenue, the current earned revenue programmes for accounting-related and sustainability-related materials and the plans and ideas for further developing earned revenue programmes in the future.

16. In concluding the presentation, two key questions were posed to the Council for their advice:

    a. Should earned revenue programmes be the same for IFRS Accounting as they are for IFRS Sustainability and vice versa? Or can/ should there be differences in the earned revenue programmes associated with the separate Standards?

    b. The IFRS Foundation's current earned revenue programmes are varied and aligned with our mission (licensing, publications and digital subscriptions, membership, education [FSA Credential], and conferences). The Constitution does not identify explicit earned revenue limitations, except compliance with due process principles in the Due Process Handbook. Should we consider expanding our current suite of earned revenue programmes? If yes, what limitations should exist on new earned revenue programmes, besides due process and (technical) resource constraints?

17. In the ensuing discussion, the following key themes arose:

- **High-level objectives:**
    - **Increased revenue** – The IFRS Foundation has an expanded programme of work and must ensure it has sufficient revenue to cover the associated operating costs.
    - **Diversifying revenue** – To maintain independence of the IFRS Foundation by ensuring it does not become dependent on a single funding source, but also to create a link with the market and promote understanding of what programmes are of value to the stakeholders.

- **Principles for earned revenue activities:** It was highlighted that a clear set of principles should underpin any strategic decisions to pursue earned revenue activities:
    - revenue collected is sufficient to support operations;
    - fair principles for collection are applied;
    - compliance and administration costs are low;
    - predictability both from the contributors and customers, but also from the IFRS Foundation;
    - coherence regarding the balance between contributions and customer revenue eg. avoiding strategies that lead to competition with the services provided by contributors.

- **Appropriate timing for expansion of earned revenue activities:** It was questioned whether now was the appropriate time to explore this, particularly in relation to sustainability-related materials. It was suggested the focus should be on establishing a user base and ensuring IFRS Sustainability-related Disclosures become the default language, before addressing the question of monetisation. It was acknowledged that timing is important and advice is welcome from the Council on how to balance this - not creating barriers to adoption, whilst also ensuring the approach is articulated early enough to avoid shocks further down the line. However, it was also explained that preparers and earned revenue clients are typically different audiences, particularly in relation to licencing, for example institutional investment, issue ratings and corporate reporting software firms. Therefore, timing is influenced by how these firms are commercialising intellectual property arising from the two Boards.

- **Embedding new revenue activities in management of the organisation:** It was highlighted that exploring additional revenue generating activities should be considered in the context of what additional management and staff structures could be required to support implementation.
- **Importance of a holistic approach:** It was emphasised that the earned revenue strategy should consider the Accounting and Sustainability-related products as a package. The focus on the new products arising from ISSB should not come at the detriment of everything the IASB has achieved over the past 20 years. It was confirmed that staff across the organisation are working closely together to ensure best practice is shared and the work advances the mission of the IFRS Foundation as a whole.
- **Maintaining independence:** With respect to the illustrative examples outlined on slide 28, caution was advised with regard to exploring consultancy as a source of revenue. It was emphasised this could tie the hands of the Interpretations Committee, if the IFRS Foundation has already provided advice on a how a Standard should be applied. It was similarly noted that delivering training could pose a similar risk to neutrality. It was confirmed that the examples referred to in the slide deck were used to generate conversation, and are not necessarily realistic options for the IFRS Foundation, but the risks were noted. Members also advised that a transition from passive to non-passive revenue-generating activities should carefully consider how it could jeopardise independence and cause conflicts of interest.
- **Preserving brand:** It was emphasised that revenue-generating activities retain alignment with the IFRS Foundation's mission and are not perceived as excessively progressive or aggressive by stakeholders. This could be detrimental to the brand. It was confirmed that advancing the IFRS Foundation's mission is the core consideration for staff in all activities.
- **Ensuring equitable geographical spread:** It was noted that not all jurisdictions who have adopted IFRS Accounting Standards provide voluntary annual contributions and this should be broadened. The Council were advised that the IFRS Foundation is utilising the opportunity arising from the ISSB's creation to initiate engagement with jurisdictions that have not historically contributed or consistently contributed. A new Trustees' Funding Committee has been established to support this and it will also explore opportunities to secure funding from non-traditional contributors.
- **Exploring donor funding:** It was advised that there is considerable climate-related government and donor funding available for investment in appropriate programmes. The IFRS Foundation's capacity-building objectives, led by ISSB Vice-Chair Jingdong Hua, are significantly aligned with the objectives of these donor programmes and the IFRS Foundation could therefore be highly successful in securing funding from these sources. However, some members highlighted these funding programmes may be subject to fulfilling criteria that compromise the IFRS Foundation's independence. Partnering with multilateral organisations to apply for funding and deliver these programmes could overcome these challenges, particularly with respect to supporting adoption in jurisdictions.
- **Subscription and licensing price structures:** Members made a number of suggestions including:
    - offering free premium subscription services to universities to achieve longer-term revenue gains - students trained with these materials are more likely to demand their use when they have paid jobs;
    - separating subscriptions into Accounting-only, Sustainability-only and Full subscription packages;
    - sustainability-related disclosure materials could be offered free to early adopters, with a clear indication that a fee-based structure will be implemented in the future.

- **Transitioning IIRC and SASB products into IFRS Foundation market structure:** The general principle underpinning this was explained. Users of these products support the idea of improved disclosure and improved availability of information and this is clearly aligned with the objective of the ISSB, and the IFRS Foundation overall. Therefore, it is important to demonstrate what users valued in IIRC/ SASB products, what this means in the context of the IFRS Foundation's work today and the commonality between the two. Consequently, it is anticipated that this transition can be effectively managed.

Update on the Trustees' Activities

18. Mr. Erkki Liikanen, Chair of the IFRS Foundation Trustees, attended by video conference to update the members on a number of matters. In his opening remarks he noted the high attendance of members and thanked everyone who had travelled to London to provide their views and advice.

19. Mr. Liikanen noted the following in his update:

    a. The Trustees have met twice in person since the last in-person meeting of the Council on 11 and 12 October 2022. The Trustees met in Seoul from 25 to 27 October 2022 and in Tokyo from 1 to 3 March 2023. The agendas of both Trustee meetings were comprehensive and facilitated constructive oversight of both the IASB and the ISSB. There was also positive and comprehensive engagement with key stakeholders at the meetings (both formally and informally). The highlights of the meetings included:

        i. Mr. Coen, Advisory Council Chair, attended the Tokyo meeting to provide in-person advice and views of the Council. Mr. Liikanen reiterated the importance of the engagement between the Council and Trustees and thanked Mr. Coen for his involvement with the meeting and ongoing excellent leadership of the Council.

        ii. The new Chair of the Monitoring Board (Takashi Nagaoka from the Japanese Financial Services Authority) was welcomed by the Trustees in a joint meeting of the IFRS Foundation Trustees and the Monitoring Board in Tokyo. There was also an opportunity to update the Monitoring Board on progress with both the IASB and ISSB, as well as respond to their questions and advice.

        iii. A new Trustees' Committee was established, focusing on the medium-term funding of the IFRS Foundation. The Committee is led by Isabel Saint Malo from Panama, who joined the Trustee body in January 2023. The Committee is coordinating all Trustees in their engagement across the globe to strengthen funding, particularly from the corporate community. Some valuable contributions have already been secured but it is important that funding responsibilities are shared globally. The Council were invited to share their knowledge with respect to appropriate networks in their home countries.

    b. Important progress has been made on IASB, ISSB and Trustee appointments. Mr. Liikanen expressed appreciation for the work of the Nominating Committee, chaired by Michel Madelain, for their extensive support and dedication to the appointment process:

        i. Since the Council meeting in October, both Boards have reached their full complement of members. Jenny Bofinger-Schuster joined the ISSB in December 2022, Hagit Keren joined the IASB in March 2023 and Florian Esterer joined the IASB in April 2023.

        ii. Linda Mezon-Hutter was congratulated for her appointment as IASB Vice-Chair.

        iii. From 1 January 2023 the Trustees welcomed five new members. Their breadth of skills and experience will be very beneficial the Trustees over the next phase their work.

c. Mr. Liikanen engaged with global business leaders at the World Economic Forum in January 2023. He noted the important opportunity to advocate the valued work of both the IASB and the ISSB.

d. The announcement by IOSCO on 17 February 2023 welcoming the ISSB's progress towards finalising its first two standards. Mr. Liikanen emphasised the importance of the IFRS Foundation's effective and constructive engagement with IOSCO.

Management commentary and integrated reporting

20. Ms Linda Mezon-Hutter, Vice-Chair of the IASB, and Ms Sue Lloyd, Vice-Chair of the ISSB, presented the first part of Agenda Paper 8, outlining the approach taken by the two boards to ensure connectivity in the following areas:

- **Connectivity in process** - collaboration at board and staff level, for example, IASB staff assisting in the drafting of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.
- **Connectivity in product** - compatible concepts, consistent language, and no conflicts between standards produced by the two boards.
- **Connectivity in reports** - holistic, comprehensive and coherent general purpose financial reports.

21. The ensuing discussion among Council members focused on several topics, including:

- **Shared objectives of the two boards:** One member emphasised the importance of shared objectives for successful collaboration between the two boards.
- **Sharing of staff:** A few members emphasised the benefits of sharing staff and forming cross-disciplinary teams to develop standards. One member questioned whether the use of IASB staff to assist with the work of the ISSB could create difficulties in achieving the IASB's own objectives. Ms Lloyd and Ms Mezon-Hutter replied that staff allocation is monitored carefully to ensure that the objectives of both boards are met. Ms Lloyd also noted that the ISSB's reliance on IASB staff is likely to be temporary given the general nature of IFRS S1, which draws heavily from concepts embedded in IFRS Accounting Standards. The ISSB's future work on specialised topics will rely more on subject-matter experts.
- **Role of the Integrated Reporting and Connectivity Council (IRCC):** One member asked about the role of the IIRC and the connection between this body and the IFRS Advisory Council. Ms Lloyd explained that the role of the IFRS Advisory Council is to provide strategic advice to the IFRS Foundation on a variety of issues and the role of the IRCC is to provide advice on specific issues relating to connectivity in reporting.
- **Connectivity between IFRS Standards:** One member asked whether the IFRS Sustainability Disclosure Standards will contain an explicit link to IFRS Accounting Standards. Ms Lloyd replied that the IFRS Sustainability Standards are being designed to be compatible with different accounting standards, although compatibility with IFRS Accounting Standards remains an important objective of the ISSB in developing its standards. Ms Mezon-Hutter added that three IASB members are reviewing IFRS S1 to ensure compatibility.
- **Connection with other standards:** A few members asked about the interaction between the IFRS Sustainability Disclosure Standards being developed and existing SASB Standards and GRI Standards. Ms Lloyd responded that the ISSB has a separate workstream focussing on the maintenance of SASB Standards. She further noted that the IFRS Sustainability Disclosure Standards will permit companies, in the absence of specific requirements issued by the ISSB, to refer to standards such as the GRI Standards and provide disclosures required by the GRI

Standards or other standards as long as these disclosures do not obscure material information required by the IFRS Sustainability Disclosure Standards.

- **Shared concepts:** A few members cautioned that the use of common terminology could create ambiguity if concepts such as 'materiality' are interpreted differently in a sustainability context from how it has come to be understood in an accounting context.
- **Connected information:** Some members mentioned growing interest in the connection between sustainability-related matters disclosed by a company and the impact of those matters on the company's financial statements, although questions remain about when these matters should be reflected in the financial statements. One member mentioned the importance of coherence in a company's reporting to avoid accusations of 'greenwashing'. Another member mentioned the potential benefits to users of presenting sustainability information next to financial statement information if they relate to the same topic. Ms Lloyd responded that the IFRS Sustainability Standards does not prescribe the location of information in a company's reports, but does require companies to consider the interaction between sustainability disclosures and information used in the preparation of the financial statements.
- **Audience of general purpose financial reports:** One member said that stakeholders other than investors have an increasing influence on a company's activities and questioned whether it is still appropriate to say that general purpose financial reporting is primarily focused on investor needs. Ms Lloyd replied that an investor-focus is important for identifying those matters that are material for the entity as a whole, whereas other stakeholders may have a different view on which matters they view as material to their concerns.

22. Ms Yulia Feygina, Ms Laura Girella and Mr Jonathan Labrey, IASB and ISSB staff members, presented the second part of Agenda Paper 8 that invited a discussion of the role management commentary and integrated report could play in promoting connectivity in general purpose financial reports. The presentation covered the staff's analysis of similarities and differences between—the IASB's *Management Commentary* Exposure Draft (issued May 2021) and the *Integrated Reporting Framework*, published by the International Integrated Reporting Council in December 2013 (revised in January 2021).

23. Council members were invited to discuss the following questions:

- What role could management commentary and integrated reporting play in facilitating connectivity?
- Do you think that the IFRS Foundation should work together with local regulators and other stakeholders in this area? If yes, what steps would you envisage? If no, why not?
- How would you approach further alignment between the Management Commentary Exposure Draft and the Integrated Reporting Framework?
- What priority would you assign to the further alignment of the Management Commentary Exposure Draft and the Integrated Reporting Framework relative to other work of the IASB and ISSB?

24. The Council members met in small groups and the chairs of each small group reviewed the discussions and conclusions in a plenary session. A number of important themes emerged including:

- **The role that a management commentary and an integrated report can play in providing useful information to investors:**
  - Improving quality of corporate reporting (as has been demonstrated by some companies that have adopted the Integrated Reporting Framework) by reducing duplication, disconnected information and inconsistencies.
  - Bridging historical information in financial statements and forward-looking information to help investors make informed decisions.

- Improving transparency and providing management's perspective on sustainability matters and other issues that have an impact on the entity's prospects.
- Contribute to standardising the overall structure of general purpose financial reports including financial statements and sustainability-related financial disclosures.

- **Similarities and differences between the** *Management Commentary* Exposure Draft and the *Integrated Reporting Framework*

  - Members agreed that the staff's analysis of the similarities and differences show substantial alignment on key aspects and that the complementary nature of the Management Commentary Exposure Draft and the Integrated Reporting Framework should support timely progress in consolidating the documents.
  - Some members said that the staff's conclusions should be communicated to external stakeholders as this could provide necessary context for providing feedback on the best approach to further alignment.

- **Approach, timing and prioritisation of further work:**

  - Most members agreed that, over the long term, the two documents should be consolidated, although there were different views on how best to proceed in the short term.
  - Some members recommended taking a staged approach and first agreeing on a global baseline for reporting, which can then be built on later.
  - Some members recommended using the Management Commentary Exposure Draft as a basis and adding aspects from the Integrated Reporting Framework which are currently missing such as governance. It was noted that the IASB has already consulted stakeholders on the proposals in the Management Commentary Exposure Draft and this feedback can be used to finalise the document.
  - Other members recommended including some of the underlying principles in an overarching conceptual framework and developing more lower-level guidance on specific topics.
  - Some members emphasised the need for a timely progression of the IASB's project in addressing current shortcomings in management commentary and cautioned against delaying the finalisation of the project for too long.
  - Some members said that the ISSB's participation in the IASB's project should not be done at the expense of deprioritising standard-setting on specific sustainability-related topics.

- **Facilitating adoption:**

  - Members expressed differing views on whether the document resulting from the Management Commentary project, or any joint project that the boards might undertake in due course building on both the Management Commentary Exposure Draft and the Integrated Reporting Framework, should be mandatory or voluntary.
  - Some members said that if preparers and investors express enthusiasm for that document as a means for achieving globally consistent reporting requirements, this could encourage adoption by regulators.

- **Engagement with regulators:**

  - Members said that the IFRS Foundation has an important role to play in improving the quality of management commentaries or their equivalent and should engage with local regulators to achieve this goal.
  - Some members said that outreach to jurisdictions should be done in parallel to finalising the content of requirements.
  - Some members recommended that as a first step, the IFRS Foundation should have a clear understanding of the current requirements in different jurisdictions and how these requirements compare to the content of the Management Commentary Exposure Draft and the Integrated Reporting Framework.
  - Members said that tailored approaches will be needed for different types of regulators across jurisdictions, taking into account legal considerations and capacity constraints. Enforceability and assurability could be an important consideration for many regulators.

- Some members recommended that the IFRS Foundation should engage with IOSCO and ask IOSCO to assist with engagement with securities regulators.

Meeting close

25. Mr. Coen thanked the Council members for their engaged participation in the meeting, noting the broad range of topics that were discussed, and the importance of the advice that the Council has provided on these issues. Mr. Coen all thanked the staff for their support for the meeting.

26. In concluding the meeting, Mr. Coen confirmed a virtual meeting of the Council on 8 June 2023 and said he looked forward to engaging further engagement with Council members on that occasion.