

Chairman's Report IFRS Advisory Council April 2021

1. The Advisory Council met on 13 April 2021 by videoconference. In addition to the Advisory Council members, the meeting was attended by the Chair of the Trustees of the IFRS® Foundation, Mr Erkki Liikanen, as well as several International Accounting Standard Board® (Board) members and IFRS Foundation staff.
 2. The agenda and papers for the meeting and the meeting recording are available at: <https://www.ifrs.org/news-and-events/calendar/2021/april/ifrs-advisory-council/>
 3. The Advisory Council Chair, Mr. Bill Coen, welcomed one new member to the Council.
 4. Mr. Liikanen expressed an appreciation for Mr. Coen's engagement with the IFRS Advisory Council and noted the higher frequency of recent Advisory Council meetings held to address issues of fundamental importance to the IFRS Foundation and its Trustees. Mr. Liikanen highlighted the following developments since the Council had last met (Agenda Paper 2A and 2B):
 - Trustees' continued discussion of the feedback on the Trustees' September 2020 Consultation Paper on Sustainability Reporting confirming:
 - the urgent need for establishing global sustainability standards; and
 - strong support for the IFRS Foundation to play a role in setting sustainability standards.
 - Trustees' continued work on the establishment of an international sustainability standards board (SSB) within the existing governance structure of the IFRS Foundation;
 - IOSCO's public statement of support from 24 February 2021 which is critical for the establishment of a sustainability board;
 - the launching of a working group by the IFRS Foundation which will focus on the technical preparation for an international sustainability standards board; and
 - report from Mr. Coen on his assessment of the IFRS Advisory Council's role, composition and effectiveness.
- Mr. Liikanen emphasised in his update:
- the current focus on climate reporting and the plan to broaden this focus to include wider environmental, social and governance matters (ESG);
 - the need to consider a prototype as a basis for developing a climate standard;
 - materiality as a dynamic concept; and
 - the current focus on enterprise value.
5. Ms. Sue Lloyd, Vice Chair of the Board, provided an update of the Board's activities since the last meeting (Agenda Paper 3). She noted the consultations and other publications that had been published since the Council's last (February 2021) meeting:

- Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* published in March 2021 with a comment period until 21 October 2021;
- Request for Information *Third Agenda Consultation* published in March 2021 with a comment period until 27 September 2021; and
- IFRS Taxonomy Update- Amendments to IAS 1, IAS 8 and IFRS Practice Statement 2.

Ms. Lloyd also noted that, in response to covid-19, the Board:

- extended the comment period for Exposure Draft *Regulatory Assets and Regulatory Liabilities* to 30 July 2021;
- extended the application period for the amendment to IFRS 16 *Leases* providing relief on rent concessions until 30 June 2022; and
- decided on longer comment periods for Third Agenda Consultation and Targeted Standards Level Review projects.

Ms. Lloyd also the noted the following upcoming publications:

- Exposure Draft on *Management Commentary* expected to be published by the end of May 2021; and
- Request for Information on Post-implementation Review of IFRS 9 *Financial Instruments - Classification and Measurement* expected to be published in the second half of 2021.

6. Following the Trustees' and the Board's updates, discussion among AC members covered:
 - the definition of materiality and the complementarity between the focus of the *Management Commentary* project and the focus of sustainability reporting on economic decision-making;
 - aspects of consistency between EFRAG's approach and the Trustee's proposed building blocks approach; and
 - updates on the Board's deliberations on the Primary Financial Statements and Goodwill and Impairment projects.
7. Agenda Paper 4 reported how the IFRS Foundation has incorporated past Advisory Council feedback into its strategic activities related to relevance, process, and talent management, over the past six months. The update emphasised that:
 - Strategic advice can take time to implement and the timeframe becomes even longer for the effect of this advice to manifest itself.
 - The feedback report was restructured to include Advisory Council advice to the Trustees and the Board that has not yet been implemented along with next steps as recommended by Advisory Council members in the November 2020 meeting.
 - Strategic activities move at a different pace due to the need to prioritise some projects over others.

Discussion amongst Advisory Council members included:

- how the AC advice has been affected by the virtual format of the Advisory Council meetings;
- the need to consider digital format for sustainability reporting; and
- the plans for strategic areas that are progressing at a slower pace.

8. Mr. Lee White, Executive Director, thanked Advisory Council members for being available and engaged in providing feedback to the Trustees in recent, more frequent meetings of the Advisory Council. Mr. White updated Council members on Trustees' developing views on the strategic direction of the sustainability standards board that included (Agenda Paper 1):
- investor focus for enterprise value;
 - sustainability scope, prioritizing climate;
 - build on existing frameworks; and
 - building blocks approach.

Mr. White also noted:

- IOSCO's statement from 24 February 2021 announcing IOSCO's intention to work with the IFRS Foundation in developing a new sustainability standards board; and
- IOSCO's announcement from 30 March 2021 of the establishment of a new Technical Expert Group (TEG) under its Sustainable Finance Task Force (STF).

The Trustee's next steps would be to publish:

- a feedback statement that summarises the responses received to their 2020 Consultation; and
- for public comment the proposed changes to the Foundation's Constitution necessary to formalise the establishment of a new board (any changes to the Constitution are subject to a public consultation with a 90-day comment period).

Ensuing Advisory Council discussion considered the following themes:

- the need to consider funding of the SSB;
- the working groups of the SSB; and
- the need for speed in establishing the new board and the importance of balancing this with legitimacy and proper governance.

9. In breakout sessions, Advisory Council members considered potential necessary changes to the IFRS Constitution in view of the Trustees taking steps for the creation of a sustainability standards board. The potential changes discussed were related to:

IFRS Advisory Council:

- Members agreed that no changes were required to the Constitution.
- The Advisory Council's mandate is to provide strategic advice; therefore, a single Advisory Council should be able to cover the strategic considerations for both boards – the International Accounting Standards Board (IASB) and the SSB.
- Members suggested that expertise on sustainability could be brought into the Council through the regular rotation of its members.
- Participants highlighted a possible need to increase the frequency of Advisory Council meetings given the potential increase in the number of strategic issues on which the Council would be providing advice.

New sustainability reporting standards board – its size, composition, geographic representation and name

- **Size:**
 - There was no strong sentiment among members about the exact size of the board and members had different views on what would constitute the “right” size.
 - There could be merit in taking a staged approach and having some flexibility – for example, starting with a smaller size and increasing it on demand if necessary.
- **Composition:**
 - Members discussed the importance of having the right expertise (for example, sustainability) on the board for achieving credibility; less importance was given to geographic representation or size.
 - Some members suggested that accounting, auditing or assurance experience on the board would help build effective synergies with financial reporting.
 - There was a strong agreement that members of the newly formed board should be full time to ensure independence of the board.
 - It was emphasized that the members of the new board should commit themselves to act in the public interest in all matters.
 - Some participants queried whether NGOs should be considered as possible participants.
- **Geographic representation:**
 - There was an observation to increase the representation from Africa considering the size of the economy and other factors.
- **Name:**
 - Suggestions by members included: International Sustainability Standards Board, Resilience Standards Board and Sustainability Reporting Standards Board.
 - Some members commented that including “Reporting” in the name of the board would convey the message that the board would not be setting sustainability standards but standards on reporting such matters.
 - Concerns around the definition of sustainability were raised.
 - Members discussed that choosing a name for the new board could be an opportunity to launch a new brand.
- **General comments:**
 - Members highlighted the need of moving fast; therefore, taking the composition, size and the geographic representation of the board as a proxy would be a practical way to proceed.

Trustees – size, geographical representation and their background/experience

- There was overall agreement that the number of trustees should stay the same.
- A sustainability focus should be taken into account with new appointments.
- One member observed a need to increase representation from Africa.

Multi stakeholder expert consultative committee

- Most members agreed to not include this committee in the Constitution. Similar to the Accounting Standards Advisory Forum (ASAF), the committee will provide technical advice and it will need the flexibility to adjust its composition or role over time.
- There was a suggestion to consider including it in the Constitution if the group is permanent. Alternatively, it could be included in the Due Process Handbook as is the case for ASAF.
- Members commented that careful definition and further clarification of the parameters of the multi stakeholder expert consultative committee and its associated governance (including a re-naming of the committee to a simpler title) was needed.

Name of the IFRS Foundation

- Participants cautioned that changing the name of the Foundation may mean throwing away brand equity. Concerns about the meaning of ‘corporate’ to companies in the name International Corporate Reporting Foundation were expressed.
- Changing the name could provide an opportunity to convey the message that the IFRS Foundation is launching something new. A new name would also reflect work done on two products – international financial reporting standards and international sustainability standards.

Interpretations Committee

- Members agreed not to include it in the Constitution’s amendments now, but it could be established in the future.

10. In plenary session discussion among Advisory Council members, the following themes arose:

- The need for assurance that the new board would not compromise the work and the quality of the IASB;
- The importance of having a pragmatic approach and that acknowledging that an attempt to meet all objectives in an inordinately short amount of time is not feasible and could even be counterproductive.
- Caution that the initial standards produced by the board will be heavily scrutinised and must therefore be high quality, understandable, easy to audit, enforceable and fit for purpose, ie global standards and leading edge. Members highlighted the risk that the legitimacy of the new board could be undermined if these standards are not of the highest quality.
- Consideration of whether the Foundation’s logo, being part of the IFRS brand, should be changed.

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- The need for further clarity on the level of engagement of the future SSB with the existing standard setters.
 - An observation that the scientific community is a key stakeholder to the Board as the concept of sustainability reporting is multi-disciplinary.
 - Caution against limiting sustainability reporting to a ‘climate first’ approach and losing sight of other ESG aspects.
 - Concerns about the acceptability of the new board’s focus on ‘climate first’ to the EU Commission – EU have now a directive dealing with ESG measures.
 - The importance of having a global standard setter in sustainability reporting and the need to avoid overlap with existing standards.
11. Mr. Coen closed the meeting by thanking the Advisory Council members for their preparation and contribution to the meeting.