

**Chairman's Report
IFRS Advisory Council
September 2021**

1. The Advisory Council met on 13 September 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 Standards Board (IASB) 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/september/ifrs-advisory-council/>
3. The Advisory Council Chair, Mr. Bill Coen, welcomed Advisory Council members to the meeting, noting it was four months since the Council had last met. Mr Coen extended a particular welcome to Dr. Andreas Barckow who was attending his first Advisory Council meeting as Chair of the IASB.

Update on Trustees' Activities:

4. Mr. Liikanen updated the Advisory Council members on developments since the Council last met:
 - The G7 and G20 meetings took place in the months preceding the Advisory Council meeting and Mr. Liikanen attended the International Conference on Climate Change, which was part of the G20 agenda.
 - The Financial Stability Board published a report, which includes timelines, welcoming the IFRS Foundation's work on sustainability-related reporting.
 - The Trustees met recently on three occasions – once in June and twice in July. There have been two significant workstreams taking place during this time, both of which were discussed during the Advisory Council meeting (and are detailed later in this summary):
 - The consultation on proposed amendments to the IFRS Foundation *Constitution*
 - The work of the Technical Readiness Working Group (TRWG).
 - There has been good progress towards securing funding for the proposed International Sustainability Standards Board (ISSB). The hope is to broaden the IFRS Foundation's global footprint and a number of jurisdictions from the Americas, Asia and Europe have expressed interest in providing financial and other support for the ISSB in its initial years.
 - With regards to the timeline, ahead of COP 26 in early November, the IFRS Foundation will confirm its clear intention to establish the ISSB and provide greater clarity on funding and the consolidation of existing sustainability-related initiatives. It is possible that the appointment of the inaugural Chair and Vice Chair of the ISSB will be announced after COP 26.
 - Mr Liikanen noted that there is ongoing and regular engagement with the Monitoring Board, its Chair and the Monitoring Board Deputies.
5. In the Advisory Council's ensuing discussion, the following points were noted:

- maintaining the Foundation’s diverse funding base is important to preserve the independence of standard-setting activities and avoid the perception that any single contributor is able to exert undue influence;
- expressions of interest to fund the ISSB have confirmed their commitment to preserve the independence of the proposed ISSB and this factor will be further evaluated as the offers are assessed in greater detail;
- some of the letters of offer raise the expectation that some of the ISSB’s activities will be located in their jurisdiction.

Update on the Board’s Activities:

6. Dr. Andreas Barckow updated Advisory Council members on the Board’s activities since the Council last met (Agenda Paper 2). In his presentation Dr. Barckow drew particular attention to slides 5 and 6 and highlighted that:
 - Mr. Hans Hoogervorst, Ms. Françoise Flores and Mr. Martin Edelmann finished their service as Board members at the end of June 2021. Dr. Barckow and Mr. Bertrand Perrin began their terms as Board members on 1 July 2021. There are currently two Board member vacancies and interviews are being conducted to fill these positions.
 - Three consultation papers have been published:
 - Exposure Draft: *Management Commentary*
 - Exposure Draft: *Subsidiaries without Public Accountability: Disclosures*
 - Exposure Draft: *Initial application of IFRS 17 and IFRS 9 – Comparative Information*
 - Three projects have been added to the workplan:
 - Initial application of IFRS 17 and IFRS 9—Comparative Information
 - Classification of Debt with Covenants as Current or Non-current
 - Supplier Finance Arrangements
 - Other significant developments included:
 - The annual IFRS Foundation conference was held (virtually) with participation of nearly 300 delegates from over 40 jurisdictions
 - A joint IASB-FASB education meeting was convened, covering supplier finance, agenda consultation and goodwill and impairment
 - An extension to 12 January 2022 of the comment period was granted for the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*
 - There has been robust engagement in the Trustees’ sustainability work to facilitate connectivity with the IASB (the IASB is a member of the Technical Readiness Working Group – TRWG)
7. The ensuing discussion among Council members focused on the following:
 - the interface between the review of the Management Commentary Practice Statement and the work of the ISSB;
 - the timing of the post-implementation review of IFRS 9 and the consideration of disclosure requirements as part of the review;
 - the timing of the Dynamic Risk Management project;

- the work being undertaken, and the willingness, by the IASB and the FASB to maintain the converged goodwill and impairment project.

Update on work being undertaken in relation to the sustainability-related reporting project:

8. Mr. Lee White, Executive Director, provided an update to the Advisory Council on the activities that have taken place since the Council's last meeting in May 2021. In particular he noted:
 - The assessment taking place to ensure the key requirements for success will be met ahead of the announcement to establish the ISSB at COP 26 on 3 November 2021.
 - The timeline of Trustee and Monitoring Board meetings scheduled in September and October leading up to COP 26.
 - The main workstreams that are being undertaken:
 - TRWG – to provide a running start and enable the potential new board to build on the well-established work of long-standing international initiatives focused on enterprise value.
 - Multilateral Working Group (MWG) – to develop recommendations regarding the establishment of an expert 'Sustainability Consultative Committee' within the Foundation's governance structure, which will advise the proposed ISSB on sustainability matters, measurement methodologies and interdependencies.
9. Mr. White thanked Advisory Council members for their support related to the consultation on proposed changes to the *Constitution*. He noted that responses had supported the creation of the ISSB and that the intention of discussion among Council members at this meeting was to engage further around a few key areas of the responses received.
10. The discussion among members considered the following:
 - the connectivity between the definitions of materiality for both the IASB and ISSB;
 - the focus of both the IASB and the ISSB on providing decision-useful information for primary users and capital market participants;
 - that the work being undertaken by the TRWG will lead to recommendations to the new board, which will then decide on appropriate next steps and conduct a due process accordingly;
 - the importance of the new board developing industry-specific standards;
 - how synergies would be maintained between the ISSB and the IASB, even if the ISSB adopts a multi-location approach;
 - how the global baseline, which provides investors with information on enterprise value focus, will provide a core level of consistency that jurisdictions can build upon to deliver standards with a wider societal emphasis;
 - the importance of emphasising that investor decision-making is based on a number of factors, including risk, that have a wider societal interest;
 - that further work will take place with jurisdictions to understand how adoption of the sustainability-related standards can be implemented.

Update on the proposed changes to the IFRS Foundation Constitution

11. Mr. Henry Rees, Head of Governance and Trustee Activities, and Mr. Samuel Prestidge, Adviser on Governance and Strategy, presented Agenda Paper 3, which provided Council members with a high-level overview of the feedback to the consultation on the proposed changes to the IFRS Foundation *Constitution*.
12. Messrs. Rees and Prestidge invited strategic advice from Council members that would further inform the Trustees' discussions and noted that the particular areas for discussion were:
 - the objective of the IFRS Foundation and how the *Constitution* can best articulate the concept of interconnectivity between the IASB and the ISSB;
 - the naming and branding of the new Board and its Standards.

Objective of the IFRS Foundation:

13. Mr. Rees noted that the proposed amendments to the *Constitution*, as exposed in the consultation, added a *separate* objective for the ISSB's work to complement that of the IASB's work. However, a number of responses to the consultation emphasised the need to better articulate the interconnectivity between the IASB and ISSB.
14. Mr. Rees invited the Advisory Council's feedback on whether it would instead be better to articulate a *single* objective for the IASB and ISSB, highlighting the purpose of the standard-setting work of both boards to meet the overall information needs of investors and other capital market participants. He invited Council members to consider whether this would:
 - better promote the interconnectivity between the work of the two boards and their standards;
 - reflect that the Foundation establishing a new board to set standards on sustainability-related disclosures is an evolution of its existing objective, reflecting the evolving information needs of investors.
15. In response, Council members expressed a range of views including the following:
 - the need to better articulate the interconnectivity between the two boards was widely supported but there were different opinions regarding how this could be achieved;
 - some members emphasised the importance of improving the consistency of language used in the objectives that define the two boards;
 - in response to the proposal to introduce a single overarching objective for the two boards, the following cautions were noted:
 - the importance of ensuring progress made by the IASB is not impacted by the establishment of the ISSB;
 - the risk that bringing the two boards under one objective could change the interpretation or meaning of well-established language related to financial reporting eg. definitions of materiality;
 - the risk that articulating the two boards under the same objective may limit the ability of the ISSB to develop its conceptual framework;

- other members were supportive of a single overarching objective for the IFRS Foundation, noting it emphasised the connectivity, and addressed one of the key arguments in support of the two boards being hosted under the umbrella of the IFRS Foundation – its unique position to achieve coherence between financial reporting standards and sustainability-related financial standards;
- it was highlighted that the introduction of an overarching objective would supplement, rather than replace, separate definitions of the mandates of the IASB and ISSB in the *Constitution*.

16. Mr. Rees thanked the Advisory Council members for their comments and confirmed they will be reflected on as further work is done to address the articulation of interconnectivity in the *Constitution*.

Naming and branding of the new Board and Standards:

17. Mr. Prestidge invited Advisory Council input to advise on how naming and branding of the new Board and Standards could best represent the mission of the IFRS Foundation, with two boards working towards a common objective.

18. A number of members emphasised the importance of including the word ‘reporting’ in the name of the sustainability-related standards. Some concerns were expressed regarding the proposal to name the standards *IFRS sustainability standards*, including:

- the impression that IFRS reflects financial reporting and could confuse users;
- the potential impact on the concept of IFRS compliance which may be legislated, or required by regulators, and ultimately often opined upon by auditors.

Update on the sustainability-related work of the US Securities and Exchange Commission (SEC):

19. Mr. Coen invited Mr. Nigel James, Associate Chief Accountant of the US SEC, to update the Council on the SEC’s sustainability-related work. The update noted that:
- the SEC’s Annual Regulatory Agenda, announced in June 2021, included, as its first bullet point, ‘Disclosure related to climate risk, human capital, including workforce diversity and corporate board diversity, and cybersecurity risk’;
 - approximately 550 comment letters were received in response to Acting SEC Chair Allison Herren Lee’s [request for public comment](#) on climate change disclosures;
 - Chair Gensler has requested staff to develop mandatory climate risk disclosure rule proposals by the end of 2021 (see [here](#) for more detail);
 - the SEC are a member of the Monitoring Board and are providing oversight of the Foundation’s work through this forum;
 - SEC staff are members of IOSCO’s Technical Expert Group, established to assess the technical recommendations to be developed as part of the work of the TRWG.

20. Mr. Coen thanked Mr. James for his update.

Update on the work of the Technical Readiness Working Group:

21. Ms. Sue Lloyd, Vice Chair of the IASB, and Mr. Nick Anderson, IASB member, presented Agenda Paper 3A. The presentation noted the TRWG's:

- Purpose
- Membership
- Technical recommendations being developed for the new board's consideration
- Proposed architecture for the new standards, for the new board's consideration:
 - Presentation Standard (general requirements)
 - Thematic Standards (first climate)
 - Industry-specific Standards (disclosures specific to an industry)
- Aspects of connectivity between the IASB and the ISSB
- Outreach programme

22. The ensuing discussion included the following:

- support for the outreach programme and the importance of collaborating with relevant parties in each region to ensure input from a diverse range of stakeholders;
- the feedback from capital market participants regarding the importance of industry-specific metrics;
- how an entity will assess what is material for its sustainability-related disclosures;
- the engagement taking place to achieve coordination between the global baseline and jurisdictional initiatives.

23. Mr. Coen closed the meeting by thanking the staff for their work and thanking the Advisory Council members for the rich discussion.