

Chairman's Report IFRS Advisory Council November 2021

1. The Advisory Council met on 10 November 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: www.ifrs.org/news-and-events/calendar/2021/november/ifrs-advisory-council/
3. The Advisory Council Chair, Mr. Bill Coen, welcomed Advisory Council members to the meeting. Mr. Coen noted there had been several developments since the Advisory Council last met in September 2021 and the members would receive updates on the IFRS Foundation's recent activities at this meeting.

Update on Trustees' Activities:

4. Mr. Liikanen updated the Advisory Council members on developments since the Council last met. In particular, Mr. Liikanen reported on the four key announcements that the Trustees made on 3 November at the United Nations Climate Change Conference (COP26):
 - The decision to establish the International Sustainability Standard Board (ISSB). The announcement clarified the ISSB's purpose is to develop, in the public interest, a comprehensive global baseline of sustainability disclosures for the financial markets, IFRS sustainability disclosure standards. The ISSB will be established under the governance structure of the IFRS Foundation, alongside and working closely with the IASB.
 - The commitment to consolidate two investor-focused international sustainability standard-setters into the ISSB. The Value Reporting Foundation (VRF), which is home to SASB Standards and Integrated Reporting, and the Climate Disclosure Standards Board (CDSB) will become part of the IFRS family.
 - The publication of two prototypes: one on climate-related disclosures and the other on general sustainability disclosure requirements. This is the outcome of the work by the Taskforce for Climate-related Disclosures, the VRF, the CDSB, the World Economic Forum and the IASB, supported by IOSCO. The aim is to consolidate key aspects of this content into an enhanced, unified set of recommendations for consideration by the ISSB.
 - The location of the future offices. The ISSB will have a global presence through offices in the Americas, Asia and the EMEA (Europe, the Middle-East and Africa) region. Frankfurt and Montreal will host the key functions of the ISSB, with the seat of the Board and office of the ISSB Chair located in Frankfurt. It was noted that some proposals for Asian locations had been

received at a later point and therefore further time is required to consider these. Discussions are taking place with Beijing and Tokyo.

5. Mr. Liikanen confirmed that the announcement received strong support from the VRF and the CDSB. He also reported that representatives from Frankfurt and Montreal had expressed their firm commitment to collaborate to deliver the offices of the ISSB.
6. Mr. Liikanen emphasised that challenges remain but the first milestone had been achieved, as planned, by COP26.

Update on the Board's Activities:

7. Mr. Andreas Barckow, Chair of the IASB, updated Advisory Council members on the Board's activities since the Council last met (Agenda Paper 2). In his presentation Mr. Barckow highlighted:
 - His perspective, as a new Chair, regarding the key challenges the IASB faces.
 - Significant developments since the last Advisory Council meeting.
 - An overview of the current and forthcoming consultations up to the end of the first quarter in 2022, in particular:
 - The Post-implementation Review: *IFRS 9 – Classification and Measurement*
 - Supplier Finance Arrangements
 - Classification of Debt with Covenants
8. The ensuing discussion among Advisory Council members focused on a number of issues, including:
 - **Connectivity between the IASB and ISSB:**
 - How the Advisory Council can adapt to provide strategic advice to both boards.
 - The importance of achieving connectivity but also ensuring that work to achieve connectivity does not slow the pace of the ISSB's progress.
 - The distinction between the remit of the ISSB to set sustainability disclosure standards, as opposed to recognition and measurement standards, which are currently within the remit of the IASB.
 - The circumstances under which the IASB may need to review IFRS Accounting Standards to ensure there are no gaps, overlaps or conflicting messages with IFRS Sustainability Disclosure Standards.
 - The challenges of the IASB aligning its agenda with the ISSB, until the ISSB is fully operational.
 - **Resources to support the IASB:** Striking a balance between bolstering the IASB's capacity to deliver through the support of third parties, for example National Standard Setters, whilst ensuring the independence of its work, specifically its decision-making, is not compromised.
 - **Cryptocurrencies:** Whether there should be standard-setting related to cryptocurrencies or whether existing standards can meaningfully address the issues that arise. It was noted that, if there are gaps in accounting for cryptocurrencies, these need to be considered against all other issues stakeholders have identified for attention, and prioritised accordingly.

- **Intangible assets:** The need to revisit IAS 38 to increase transparency of the key value drivers that influence cashflow generation. In particular, updating existing literature and providing greater clarity around what intangibles and intellectual capital an entity has to inform users who are making assessments about the future cash generation potential.
- **Goodwill and impairment:** The work being undertaken to address the key question of whether an acquisition has been a success and how to develop disclosures that address the subsequent performance of the acquired business.
- **Management Commentary:** Whether it should continue to be voluntary or be made mandatory, and the consideration that both the IASB and the ISSB will need to give to this issue.
- **Pension accounting:** It was noted that the IASB has not yet made a decision regarding this topic's inclusion in the future workplan. However, if it were to be included, the work would likely prioritise employee benefit accounting. Pension accounting was not a priority topic for stakeholders responding to the agenda consultation. However, this is not the only consideration. Consideration will be given to whether the resources required to execute the project are proportionate to its need.
- **Endorsement:** The importance of considering endorsement processes in the timeline of standard-setting.
- **Further updates that would be beneficial to the Advisory Council:** It was noted that updates relating to IFRS for SMEs and IFRS Taxonomy would be welcome.

Feedback from previous Advisory Council meetings:

2. Ms. Nili Shah, Executive Technical Director, updated the Advisory Council on how strategic advice provided by members at previous meetings has been considered and applied to the work of the IASB and the IFRS Foundation (Agenda Paper 3).
3. In particular, Ms. Shah highlighted:
 - **IASB's third Agenda Consultation** – The comment period closed at the end of September 2021 and the Board expected to begin deliberating feedback at its November 2021 meeting. Ms. Shah reported that responses from comment letters are largely consistent with feedback provided by the Advisory Council at its May 2021 meeting. It was also noted that an Advisory Council meeting is scheduled for January 2022 to seek advice from the Advisory Council on the staff's proposals, in response to the consultation. The advice provided will feed into the IASB's decision making in the first quarter of 2022.
 - **Digital reporting** – There are three key areas of focus for this work:
 - Researching the digital financial reporting landscape to understand where challenges may lie and what shape further work by the IASB might take.
 - Educating and raising awareness of digital financial reporting issues with stakeholders to enable them to provide informed feedback on the extent to which the IASB should be focussing its time on the consumption of digital reporting.

- Supporting the Technical Readiness Working Group (TRWG) in developing recommendations to provide the ISSB with a running start to facilitate the digital consumption of sustainability information from day one.

The Advisory Council will consider this topic in greater depth in 2022.

- **Future of Work** – IFRS Foundation staff have returned to the office. Advice from the Council members in February 2021 was taken on board, and the Foundation is taking an evolutionary approach, allowing flexibility within certain parameters.
4. The Advisory Council discussed progress towards monitoring consistent adoption and application of IFRS Standards. It was noted that resources have been stretched as a consequence of the work to establish the ISSB but adoption and application nevertheless remains a priority. Staff has been considering what related policies and procedures might look like, and how they can be applied in practice. However, staff also need to consider how the introduction of the ISSB will impact monitoring going forward and therefore this issue requires ongoing careful evaluation.

Update on sustainability-related reporting:

5. Mr. Lee White, Executive Director, updated Council members on the latest developments in relation to the ISSB's establishment, including:
- announcement at COP26;
 - consolidation with the VRF and the CDSB;
 - publication of the prototype requirements;
 - composition of the ISSB;
 - advisory bodies to support the ISSB;
 - ISSB locations;
 - next steps.
6. Mr. Coen congratulated Mr. White on the achievements to date. He noted that the establishment of the ISSB has implications for the Advisory Council, including how to ensure it has the appropriate expertise to provide advice on sustainability disclosures standards.
7. Mr. White said he will work with Mr. Coen to provide the Advisory Council with key milestones in 2022 for their engagement and advice around the establishment of the ISSB. For example, Mr. White reported that stakeholders, including the G20's Sustainable Finance Working Group, have emphasised that effective engagement with emerging economies will be critical to the ISSB's success in building a global baseline. Mr. White invited the Council's advice on how the Foundation can enhance its efforts to increase engagement and build capacity in small and medium-sized enterprises (SMEs) and emerging markets.
8. The ensuing Advisory Council discussion considered a number of themes, including:
- The timetable for recruitment of the members of the ISSB and the process for providing technical resources to the new board.

- The flexibility provided within the *Constitution* to enable the Chair and Vice Chair to publish an initial Exposure Draft on climate-related disclosures, before the new board is fully constituted, subject to full oversight by the Due Process Oversight Committee. The importance of working at speed to recruit the complete, diverse board was emphasised.
- The importance of developing a unified culture across the consolidated organisations and the role that can be played by the Trustees, the two boards and the senior leadership teams to facilitate this.
- The lessons that can be learned from South Africa’s long-established ESG reporting regime to ensure the ‘wheel is not reinvented’.
- The importance of the investor voice to the work of the ISSB. It was noted that the CDSB and VRF have done significant work in this area. The VRF has a well-established [Investor Advisory Group](#).
- The importance of effective engagement with emerging economies to ensure the ISSB’s credibility and legitimacy – the need to encourage adoption in emerging economies to achieve a truly global footprint. There was discussion about possible strategies to effectively engage emerging markets and build capacity in relation to the work of the ISSB, including:
 - ensuring an appropriate focus on SMEs;
 - locating satellite offices in Africa and/or South America. The importance of the global footprint was emphasised but it was also noted that operational challenges may arise if a number of locations host the ISSB functions;
 - the role of multilateral organisations – the IMF, OECD, UN and World Bank – in the Sustainability Consultative Committee, and the link they can provide to emerging economies.
- The role that the proposed Sustainability Standards Advisory Forum will play in facilitating engagement with jurisdictions to ensure IFRS sustainability disclosure standards are compatible with requirements that are jurisdiction-specific or aimed at a wider group of stakeholders.
- What the global baseline means in practice. It was noted that it is not intended to be the basic minimum but, instead, a comprehensive approach to the topic the standard is addressing on which jurisdictions can build based on their national or jurisdictional objectives.
- How the sustainability disclosure standards will be enforced or become universally adopted, noting there are two elements:
 - the bottom-up approach, where the ISSB will work with the investor and preparer communities to build capacity to use the standards;
 - work with jurisdictions and their regulators to encourage them to require the standards.

It was noted that IOSCO has indicated it would potentially work towards an endorsement mechanism and this could be a valuable step towards encouraging adoption.

9. Mr. Coen closed the meeting by thanking the staff for their work and thanking the Advisory Council members for the rich feedback to the Trustees, the IFRS Foundation leadership, the IASB and the ISSB.