

Mr Erkki Liikanen
Chair
IFRS Foundation
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United Kingdom

24 July 2021

Object: *Comments on the Exposure Draft regarding proposed targeted amendments to the IFRS Foundation Constitution to accommodate an International Sustainability Standards Board*

Dear Mr Liikanen,

ACTEO, Afep and MEDEF welcome the consultation launched by the IFRS Foundation and the opportunity to comment on the proposed targeted amendments to the Constitution to accommodate an International Sustainability Standards Board (ISSB).

ACTEO, Afep and MEDEF are the three main French business organisations representing interests of both financial and non-financial undertakings. Our member companies are international players with global operations and investors. They support the establishment of international sustainability reporting standards to ensure a global level playing field between companies and avoid duplication of disclosures. As a matter of fact, many initiatives in the field of ESG disclosures have emerged over the past years and our members consider that achieving a high-quality global standard could help streamline the reporting requirements, reduce the number of requests for non-financial data from different stakeholders and allow preparers to deliver useful reporting focused on material information. In this regard and considering that French companies have been engaged for many years in putting CSR at the heart of their strategies, that they present a high level of transparency in terms of ESG disclosures and have made strong commitments, notably to reduce their GHG emissions, we would like to express our strong interest in establishing as close a dialogue as possible with the future ISSB.

We would like to make some general comments before addressing the questions raised in the Exposure Draft.

General comments

- First of all, we would like to insist on the need for the ISSB to cooperate with the European initiatives included in the Action Plan for Sustainable Finance and aimed, in particular, at establishing a framework to facilitate sustainable investment (the EU Taxonomy¹), corporate sustainability reporting standards (the European Commission's proposal for a Corporate Sustainability Reporting Directive or CSRD) and at strengthening sustainability-linked disclosures in the financial sector (the EU Sustainable Finance Disclosure Regulation²). As it is envisaged to extend the remit of the ISSB beyond climate risks to other ESG topics, we consider that the ISSB should establish close cooperation with the EU in order to take into account the specificities of European companies whether related to local practices or regulations, especially in the fields of corporate governance and social matters.
 - o We generally agree with the key factors for success listed in the annex B. We especially strongly believe that achieving a sufficient level of global support from public authorities and regulators and markets stakeholders will be key to achieve success. To this extent we take the view that to achieve global support by public authorities and regulators and ensure that the governance in place is effective (Monitoring Board, DPOC), clarification of the role and responsibilities of the different bodies the Foundation has established (TRWG, MWG, Eminent Persons Group) vis-à-vis the future ISSB would be welcome.
 - o To achieve global support by market stakeholders, it is central to maintain an active dialogue through consultation processes and field test campaigns to ensure proper design and implementation of the standards. A phasing-in approach should also be considered to allow companies to adapt to the new requirements and progressively implement the proposed standards.
- We support the idea to create a multi-stakeholder expert consultative committee: climate change and sustainability matters are global challenges which require global cooperation. Considering furthermore the multiplicity of international initiatives in the field of ESG reporting mentioned in introduction, we believe that a multi-stakeholder expert consultative committee would be most instrumental in informing the standard setting process of the new board. This consultative committee should ensure a balanced representation of stakeholders and, in particular, of non-financial companies which should be adequately represented. The role of the multi-stakeholder expert consultative committee vis-à-vis the IFRS Advisory Council could be clarified in this regard.
- As regards the composition and expertise of the Trustees, no amendment is envisaged at this stage as the Trustees consider that their professional backgrounds ensure a broad set of skills, experience and perspectives which can be sufficiently adjusted in the coming years based on the rotation of their members. We note that, based on the current Constitution, the number of new Trustees to be appointed in 2021 and 2022 is rather limited (4 new members out of 22 according to our assessment). A significant number of new Trustees (7 new members) however will be appointed in 2023. Therefore, we would like to invite the Trustees to ensure that at least by the end of year 2023, the composition of the Trustees is adjusted, taking into account the new missions of the Foundation.

¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment.

² Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

- Funding of the new activities is one of the conditions laid down by the Foundation in order to decide to move forward in establishing a new board. This is an important issue for stakeholders who contribute to the financing of the IFRS Foundation. In this regard, transparency over the costs of establishing the ISSB would be greatly appreciated. In particular, information regarding additional resources needed and whether a pooling of resources, or a reallocation of resources, could be envisaged between the IASB and the new Board are relevant information for stakeholders in supporting the IFRS Foundation’s development.

Question 1

Generally speaking, we support the proposed amendments regarding the description of the IFRS Foundation’s objectives, the possibility for a minority of part-time members within the ISSB, a greater number of ‘at-large’ seats and the different tenures for the ISSB members in their first term to allow more flexibility. We also support the idea that the ISSB, where relevant, should replicate the structure and function of the IASB. Looking into details, we would like to make the following comments:

- As regards the new objectives of the IFRS Foundation and considering the potentially very wide scope of sustainability matters, we consider that a definition of sustainability standards should be included in new section 2 (b) to clearly specify the scope ; this definition could be a reference to ESG factors as is the case in the CSRD proposal (Article 1 (2)). We also suggest deleting the terms “corporate reports” that are too vague.
- The fact that a minority of ISSB members may be part-time members may raise issues regarding the independence of the future Board, as part-time members “*would not be expected to sever all other employment arrangements*”. We noted that these members will be required to demonstrate and maintain a sufficient level of independence. We believe however that this requirement could be strengthened to provide greater assurance regarding independence of the new Board: part-time members could be required to make public a statement of independence and details could be provided regarding what would be considered a “sufficient level of independence” (we understand that such details could be included in the guidelines of independence to be established by the Trustees).
- Regarding the composition of the ISSB, we support greater flexibility to attract candidates with the required skills and experience. However, we believe that geographical balance should be ensured to avoid that all ‘at large’ members come from the same area. Therefore, we suggest maintaining the geographical balance condition laid down in section 26 (e) regarding the composition of the IASB (“*subject to maintaining overall geographical balance*”).
- New section 54 requires a simple majority to decide the publication of an Exposure Draft or of a new sustainability standard. As far as the IASB is concerned, a qualified majority of two-thirds is required to decide such publication. The Exposure Draft does not give any rationale regarding why the voting rules for the ISSB should differ from the IASB’s majority rules. As mentioned above, we support the idea that the ISSB, where relevant, should replicate the structure and function of the IASB. We consider therefore that the same majority rules should apply to the ISSB: approval by 8 members if there are 13 members or fewer in the Board, and by 9 members if there are 14 members.
- Section 54 further specifies that the Chair and the Vice-Chair may seek to obtain public input on the proposed work plan for the new Board. We consider that consulting stakeholders to obtain public input should be mandatory. Furthermore, considering the rapid pace at which ESG matters

are evolving, it could be more appropriate to carry out public consultation on the agenda every 3 years instead of 5, at least in the first years (see section 55 (d) (ii)).

Question 2

We would welcome the establishment of the new sustainability board and consider that 'International Sustainability Standards Board' accurately describes the function that would be assigned to this new board.

On the contrary, we consider that naming the new sustainability standards 'IFRS sustainability standards' would be confusing for stakeholders. We do not share the Trustees' views regarding the potential risk of brand confusion arising from the IFRS Foundation's name being aligned only with the output of one of the two boards. As a matter of fact, users and preparers associate the IFRS with the IASB and not the IFRS Foundation. We believe that in practice and in a similar way, users and preparers of the future sustainability standards will associate these standards with the ISSB. Therefore, we suggest naming these future standards 'International Sustainability Reporting Standards' or 'ISRS'. If this suggestion was adopted, consequential amendments would be necessary in several sections of the Constitution.

Question 3

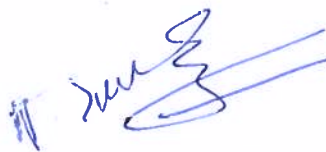
We support the consequential amendment proposed in sections 60 and 61 regarding the appointment and responsibilities of the Executive Director.

We remain at your disposal to answer any questions.

Yours sincerely,



Lise Chorques
Director General
ACTEO



François Soulmagnon
Director General
Afep



Christophe Beaux
Director General
Mouvement des Entreprises de France