



ICGN

International Corporate Governance Network

Mr. Erkki Liikanen
Chair, Board of Trustees
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

14th September 2021

cc: Mr Lee White (CEO IFRS Foundation)

Via email: ELiikanen@ifrs.org Lwhite@ifrs.org hrees@ifrs.org

Dear Mr. Liikanen,

Subject: Proposed Establishment of an International Sustainability Standards Board

Led by investors responsible for assets under management of over \$59 trillion, and bringing together companies and stakeholders, ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to healthy and sustainable economies, societies, and the environment.

The purpose of this letter is to express the International Corporate Governance Network's (ICGN) support for the IFRS Foundation (Foundation) proposal to establish an International Sustainability Standards Board (ISSB) to serve as a global standard setter for sustainability reporting.

The establishment of an ISSB would be an important opportunity to build global sustainability standards that have credibility and meet the requirements of investors and companies. Investors and other stakeholders have increasingly called for sustainability information that is consistently produced, reliable and comparable. We believe the establishment of an ISSB would help to achieve this goal.

ICGN has long encouraged the integration of financial reporting with sustainability reporting and has advocated for the consolidation of sustainability standards and frameworks globally. This position was clarified in the recently updated ICGN Global Governance Principles which stated that:

“The board should encourage the company to utilise established sustainability related accounting and reporting standards and frameworks to facilitate consistency and comparability of reporting and to contribute to the global consolidation of sustainability related standards. The methodology and use of objective metrics underlying the company's disclosure should be rigorously explained.” Guidance 7.8

We present further detail relating to ICGN's Global Governance Principles and sustainability reporting in the Appendix.

We applaud the statement of intention by the International Organisation of Securities Commissions (IOSCO) to work with the Foundation to establish the ISSB. As noted in our

comment letter of 21 December 2020 to the Foundation's Consultation Paper on Sustainability Reporting, ICGN welcomes the Foundation's initiative and leadership in this important area of company reporting.¹

To summarise, some of our key conclusions from our December 2020 comment letter:

Governance

The relationship between the ISSB and the International Accounting Standards Board (IASB) under the Foundation will be critical in this context. Given the long standing and global influence that IASB has already achieved it is important that the ISSB is not in substance or perception regarded as a junior partner to the IASB within the Foundation. A culture of mutual respect should be fundamental to the Foundation, the IASB and SSB.

Investor input

To ensure that the investor perspective is given due consideration, it will be important to regularly engage with investors, and we would recommend the inclusion of investors with expertise on sustainability on the ISSB's governing board. In this regard ICGN would welcome the opportunity to propose a representative to serve as a Board Member of the ISSB and we will submit a proposal in due course for your consideration.

Cross learning

It is encouraging to know that linkage of climate risks to financial statements is already on the IASB agenda,² and we would encourage more consideration of the linkage between sustainability factors and financial statements as the ISSB takes shape. We believe an ongoing two-way exchange will be of benefit to both the ISSB and IASB by bringing together "joined up thinking" with regard to sustainability and financial reporting. For example, ICGN will also comment on the IASB's Third Agenda consultation. While this consultation addresses more traditional areas of financial accounting and reporting, our response will also encourage the IASB to build on the linkage of sustainability issues and how they may impact potential financial costs or liabilities.

Building on existing frameworks

We are also encouraged that the proposed ISSB would build on existing sustainability reporting frameworks and standards — and not seek to recreate existing models. The Foundation is no doubt following the European Union's (EU) initiatives in sustainable finance and reporting, and the EU is showing strong leadership in this area. As a global initiative we would hope there would be strong communication and coordination between the ISSB and EU authorities with the aspirational view of building common global standards.

Scope

¹ ICGN Comment Letter on IFRS Foundation's Consultation Paper on Sustainability Reporting, 21 December 2020: <https://www.icgn.org/sites/default/files/27.%20ICGN%20Letter%20to%20IFRS%20Foundation's%20Consultation%20Paper%20on%20Sustainability%20Reporting.pdf>

² Nick Anderson, IFRS Standards and Disclosures (November 2019): <https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en>

We appreciate the urgency of climate change as a critical systemic risk requiring the attention of both investors and companies. In this regard, clear progress has been made with corporate reporting particularly building global acceptance of Task Force on Climate-Related Disclosures (TCFD) and its framework for disclosing climate related risks. We also acknowledge that, while it is necessary and sensible to prioritise climate related issues, frameworks should also be developed for other sustainability issues that affect a company's natural and social capital — as well as its environmental and societal impact.

Building block approach

The Foundation's building block approach is a sensible way for the ISSB to develop. It is important that this approach include sustainability issues beyond climate and that the approach to materiality will include over time both financial materiality to investor and broader public accountability in terms of impact.

Audit and Assurance

Audit is an important element of a successful sustainability reporting system. Investors should come to expect an independent and rigorous audit or assurance process to provide them with similar levels of comfort as auditors provide in financial reports. Again, this amounts to a journey, and there remains scope for improvement. But this should be part of the ISSB agenda going forward. Here again, focusing on audits or assurance from a single materiality perspective will probably be a more straightforward starting point; but the ultimate ambition should extend to double materiality as well.

We hope that our comments are helpful, and we look forward to engaging with you in this or other matters where we could provide meaningful input. Should you wish to discuss our comments further, please contact me or George Dallas, ICGN's Policy Director, by email at george.dallas@icgn.org.

Yours faithfully,



Kerrie Waring
Chief Executive Officer, ICGN

Copy:

James Andrus, Co-Chair, ICGN Financial Capital Committee: James.Andrus@calpers.ca.gov
Nga Pham, Co-Chair, ICGN Financial Capital Committee: nga.pham@monash.edu

Appendix: the ICGN Global Governance Principles and sustainability reporting

The ICGN Global Governance Principles are often used by ICGN Members as a bellwether for their voting policies and company engagements. The ICGN Principles also inform national corporate governance on internationally accepted standards to help inspire the evolution of national corporate governance codes. The inclusion of reference to the global consolidation of sustainability standards in the ICGN Principles is thus an important development for policy

makers and market practitioners alike and reinforces the IFRS Foundation’s proposal to establish the ISSB.

More generally the ICGN Global Governance Principles also opine on sustainability reporting as follows:

“The board should provide sustainability reporting to reflect the complexities inherent in a contemporary business by blending financial, human and natural capital considerations in the context of a company’s current and future strategic direction. Sustainability reporting should support and enhance the information in the financial statements and help investors to form an assessment of the company’s position, performance, and long-term prospects. Such disclosures should:

- a) be linked to the company’s purpose, business model, strategy and associated risks and opportunities; b) put historical performance into context, and portray the risks, opportunities and prospects for the company in the future;
- c) be accessible and appropriately integrated with financial information;
- d) explain key performance indicators to measure progress towards achieving sustainability related targets;
- e) draw from external standards to allow for comparisons between companies or apply evidence-based estimates where external metrics do not exist; and
- f) be strengthened where possible by audit or independent assurance that is carried out annually having regard to established disclosure standards.” Guidance 7.4

Our policy work is conducted through five committees, including the ICGN Financial Capital Committee which respond to regulatory consultations and focuses on matters such as corporate reporting (financial and sustainability related), accounting and auditing, internal controls and internal audit, and standards and metrics more generally.