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Comments on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards

Dear Mr Liikanen,

Deutsches Aktieninstitut appreciates the opportunity to respond to the exposure draft “Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards”, published by the IFRS Foundation on 30 April.

As mentioned in our comment letter to the “Consultation Paper on Sustainability Reporting”, we support the IFRS Foundation’s initiative to take a strong role in standard setting for global sustainability reporting standards. A simplification and streamlining of the sustainability reporting landscape is needed. Therefore, the development of a set of globally recognised sustainability reporting standards appears to be a reasonable step to create an utmost level of transparency and comparability. Such an approach will strengthen the trust of the general public in responsible management and climate-friendly corporate activities.

We support the creation of a new board for sustainability standards under the IFRS Foundation’s governance structure. In particular, the extensive experience with standard setting, the robust governance and the ability to ensure a high degree of connectivity with financial reporting could be beneficial. We also appreciate the intention of the IFRS to build the new board on the well-established frameworks of the Task Force on Climate-related Financial Disclosures (TCFD), as well as other leading initiatives and widely used sustainability reporting standards. The aim to cooperate with relevant organisations, initiatives and jurisdictions is the right approach to achieve globally accepted, consistent and comparable standards.

Therefore, we encourage the Trustees to consider ways to facilitate flexibility for interoperability with complementary reporting requirements that some jurisdictions may set beyond the International Sustainability Standards Boards’ baseline. Such complementary reporting requirements may especially capture the double materiality perspective. Compatibility between national, regional, and international standards is of utmost importance. A close dialogue and collaboration with the European Union and the European Financial Reporting Advisory Group (and other jurisdictions/regulators and standard setters) will therefore be essential. The new board’s standard-setting structure must allow for other standard setters to be embedded in the

global standard-setting environment to enable a co-constructive approach that allows for parallel standard-setting activities without overlaps or conflicts.

However, we also want to bring our key concerns regarding a sustainability standard to your attention. Our concerns relate especially to the aspects of materiality and the scope of the potential international standard.

1. A strong focus on investors' information demands regarding enterprise value could reduce global acceptance and relevance (e.g. with respect to the European legal framework, in particular the forthcoming European Corporate Sustainability Reporting Directive - CSRD), maintain a high level of complexity and fragmentation. Furthermore, from the perspective of other stakeholders, the legitimacy could be questioned. Moreover, a strong investor focus does not necessarily have to sufficiently address investors' information demands, since they are increasingly interested in sustainability information from a more general perspective and not only outside-in impacts.

Overall, a balance needs to be found between the needs of companies on the one hand (standards that are proportionate, easy to understand and implement) and investors on the other hand (demand for a very broad scope and a high level of details). When developing a standard, the ISSB should rely on the experience of external specialists and practitioners. From our point of view, it is crucial that company representatives as preparers of the reports are involved as well as its users. This could be the case by ensuring a transparent and participatory development process that provides sufficient opportunities for stakeholder participation as well as via future IFRS structures. We therefore support the proposal to create a "multi-stakeholder expert consultative committee". If such a committee could be inspired by both the Accounting Standards Advisory Forum and the IFRS Advisory Council, preparers and users could be able to support the adoption and acceleration of standards as well as provide strategic advice. Additionally, a proper due process and a high-level of transparency need to be ensured for the development of IFRS sustainability standards. Giving all relevant stakeholder groups full and easy access to information on the standard setting and sufficient time to comment on exposure drafts and other consultation documents will ensure high acceptance of the standards. The IFRS Foundation should follow this approach also for the development of the climate reporting standard.

2. As we mentioned in our previous comment letter, we also see the need for a priority of climate-related sustainability standards before addressing other issues. Nevertheless, we would explicitly welcome a rapid future expansion to include all relevant ESG factors. This is also in line with the vision and the expectations of the International Organization of Securities Commissions as regards the work towards a global baseline of sustainability information. The new board should not allow too much time to pass, as otherwise there may be a loss of acceptance of the upcoming standard. Therefore, the scope extension needs to be subject to an ambitious timeline which needs to be published early on to signal the commitment. Limiting the scope to climate for too long would force companies to apply one or more other standards in addition.

We kindly ask you to duly consider these aspects in the forthcoming process and look forward to further discussions.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Jan Bremer', written in a cursive style.

Jan Bremer
Head of Legal Department