

**Mr Erkki Liikanen
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Ref: Response to Exposure Draft on Targeted Amendments to the IFRS Foundation Constitution to accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards

Dear Mr Liikanen, dear Erkki,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to provide input on the IFRS Foundation's consultation on Targeted Amendments to the IFRS Foundation Constitution to accommodate an International Sustainability Standards Board (ISSB) to set IFRS Sustainability Standards.

We are pleased to provide our views on this consultation in light of ESMA's mandate to consider sustainable business models and the integration of ESG factors across the multiple areas of sectorial legislation that fall within our remit with the objective of promoting high-quality, comparable and reliable sustainability reporting.

As we indicated in our December 2020 response to the Foundation's Consultation Paper on Sustainability Reporting, ESMA welcomes the initiative of the IFRS Foundation to consider establishing an ISSB to develop high-quality standards building on the best practices arising from the existing reporting frameworks and standards.

We generally support the direction of the proposed amendments to the Constitution to give effect to the establishment of the new Board. Please note below a few considerations for further improvement of these proposals.

Firstly, we suggest that the IFRS Foundation establishes a roadmap to move from the constitutional arrangements that are applicable to the inception phase of the new Board, to those that will be effective once this initial phase has been successfully completed. In that respect, we would expect that the proposed ability of the ISSB to comprise an unspecified 'minority' of part-time board members to be time-limited (for example, no later than two years after the inception of the new Board or in any case as soon as it is practicable to ensure

independence). After this period, the ISSB would have the same maximum number of part-time board members as for the IASB (currently, maximum three members). This would grant the ISSB the necessary flexibility in its first years of operation, while ensuring that in due time the same governance rules apply to both the ISSB and the IASB. Similarly, we understand that in the initial phase of the establishment of the new Board, its Chair and Vice-Chair will have a more proactive role in initiating the workplan of the ISSB and launching a public consultation. Given the transitory nature of these assignments, it can be considered to include all provisions relating to the inception of the ISSB in a separate sub-section of the Constitution. These transitional provisions could also include the composition of the Board with the proposed initial larger number of part-time members in the first years of operation, as suggested earlier. The roadmap could envisage the timely establishment of an interpretations committee on matters relating to the application of the sustainability reporting standards after a certain period following the publication of the first reporting standards.

Secondly, the proposed rules of procedure for the publication of an Exposure Draft by the ISSB differ from those that are applicable to the IASB. It would be important to maintain alignment with the well-tested due process adopted by the IASB unless there are specific reasons for diverging from it. Following the same due process will afford the new Sustainability Standards the same legitimacy as the IFRS.

Thirdly, we have considered the matters on which no substantive amendments are proposed, most notably in relation to the role of the Monitoring Board and the creation of a multi-stakeholder expert consultative committee. ESMA concurs with the Trustees' assessment that the Monitoring Board will have the appropriate expertise given its existing members extending their work to ESG-related matters and that the continued focus of the IFRS Foundation on investors' needs confirms the relevance of the current composition of the Monitoring Board. ESMA emphasises the importance for the IFRS Foundation to establish the multi-stakeholder expert consultative committee as soon as possible as this would permit it to contribute to setting up the initial workplan of the new Board from an early stage and promote interoperability with regional standard setting initiatives as soon as possible. In this respect, we note that the European Commission proposal on the Corporate Sustainability Reporting Directive (CSRD) issued on 21 April sets a higher level of ambition for sustainability reporting standards with a double materiality reporting perspective.

Furthermore, ESMA supports the efforts already envisaged by the Trustees to secure proper funding to the ISSB while preserving its independence and it emphasises the importance of ensuring continuous interaction between the EU initiatives for standardisation of sustainability reporting and the future work of the ISSB.

Finally, ESMA suggests revisiting the current proposal for the naming convention of the future sustainability standards which currently are referred to as 'IFRS Sustainability Standards'. The 'IFRS' acronym in fact refers to 'financial reporting' and, as such, it may be misleading when used in relation to international sustainability reporting standards.



In case you have any questions on these comments, please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

Anneli Tuominen