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Sent electronically through the IFRS Foundation Website (www.ifrs.org)

27 July 2021

Mr Erkki Liikanen
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Liikanen,

**IFRS Foundation Exposure Draft
Proposed Targeted Amendments to the IFRS Foundation *Constitution* to
Accommodate an International Sustainability Standards Board to Set IFRS
Sustainability Standards**

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our views on this IFRS Foundation Exposure Draft (ED).

The HKICPA has responded to the Consultation Paper on Sustainability Reporting (CP). In that response, we noted there is an urgent need for a global set of sustainability reporting standards, and that the development of a sustainability standards board under the structure of the IFRS Foundation is an appropriate approach.

As such, we broadly support the IFRS Foundation's proposed governance structure to provide adequate oversight of a new sustainability standards board, and consider that the amendments are proportionate to the Trustees' strategic direction. We remain of the view that it is important that the IFRS Foundation advance quickly on this initiative given the international demand.

Our detailed comments are provided in the Appendix.

If you have any questions regarding the matters raised in this letter, please contact me, Cecilia Kwei, Director (ceciliakwei@hkicpa.org.hk) or Tiernan Ketchum, Deputy Director (tiernanketchum@hkicpa.org.hk) of the Standard Setting Department.

Sincerely,

A handwritten signature in black ink that reads 'Chris Joy'. The signature is written in a cursive, slightly slanted style with a long horizontal stroke at the end.

Chris Joy
Executive Director, Standards and Regulation

Work undertaken by HKICPA in forming its views

The Hong Kong Institute of Certified Public Accountants:

- (i) issued an Invitation to Comment on the ED on 3 May 2021 to its members and other stakeholders;
- (ii) sought input from its Sustainability Committee, which is comprised of a diverse selection of senior-level sustainability experts; and
- (iii) developed its views through its Financial Reporting Standards Committee. The Committee comprises academics, preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

This submission outlines the HKICPA's views and summarises our stakeholders' comments on the ED. You may access our stakeholder responses here:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Open-for-comment-documents/fred/fin-report-archives/2021ar>

Detailed comments on the ED

Proposal 1 – Expand the Foundation’s remit to create a new board that will set IFRS sustainability standards

Question 1 – Do the amendments proportionately reflect the Trustees’ strategic direction?

1. In our response to the CP, we noted that the Institute and the majority of its stakeholders considered that establishing a new sustainability standards board within the structure of the IFRS Foundation would be an appropriate way forward. We continue to think that the IFRS Foundation offers a robust governance structure with requisite processes, experience and relationships. We furthermore recommended that the IFRS Foundation leverage on the expertise of existing initiatives, and appreciate that this has been captured in the Trustees’ strategy.

Question 1(a) – Amendments to the objectives of the Foundation (section 2b of the Constitution)

2. We consider that the proposed objective of the International Sustainability Standards Board (ISSB) is broadly proportionate to the Trustee’s strategic direction as laid out in the ED. We appreciate that the proposed objective broadly aligns to that of the IASB, and according to the ED is drafted to provide the ISSB with the broadest possible objective within the Trustees’ strategic scope. As noted in our response to the CP, we generally consider that a broader definition of materiality focusing on enterprise value creation should be the goal for the ISSB, as has been proposed by the Trustees.
3. We have two drafting comments on the proposed objective:
 - a. The ISSB’s objective focuses on investors and other participants of capital markets. This aligns to the Trustees’ strategic focus on investors and enterprise value. The ISSB’s objective lacks reference to “other users” of information as is in the IASB’s objective. It is unclear whether this implies any restriction in scope.
 - b. The ISSB’s objective includes “connect[ing] with multi-stakeholder sustainability reporting”. This presumably is to support the Trustees’ strategic building blocks approach and the strategy to build on existing initiatives. It may be helpful for the Trustees’ to provide a definition of “sustainability” and “multi-stakeholder sustainability reporting”.
4. We have also noted feedback from certain stakeholders that the existence of

dynamic materiality (sustainability matters can move between three reporting regimes noted on page 26 of the CP feedback statement¹) means that challenges can arise for entities if substantially different standards are required for each reporting regime. As such, the interdependency between enterprise value sustainability reporting and broader multi-stakeholder sustainability reporting should be considered carefully. In particular, interoperability – the ability for entities to use the same information for enterprise value and multi-stakeholder sustainability reporting – should be promoted where possible. We appreciate that the Trustees¹ have created working groups on technical readiness and the multilateral working group in this regard.

Question 1(b) – Amendments to reflect the structure and function of the new board (sections 43-56 of the *Constitution*)

5. We generally consider that the proposed amendments, placing the ISSB within the three-tier structure of the IFRS Foundation, provide adequate oversight of the standard-setting activities of a new board. We have the following comments:
- a. ED section 46 addresses stakeholder activities and references maintaining liaison with stakeholders with an interest in sustainability standard-setting. This aligns with the IASB's functions and helps to support the objective of leveraging off existing initiatives. We would however note that the concept of sustainability includes a wide range of topics, and hence it will be important for the IFRS Foundation to interpret such stakeholders broadly. For example, with regard to climate-related risks the ISSB should consider the need to establish explicit engagement with international organizations involved in climate science. We note that the IFRS Foundation has acknowledged such points in its CP feedback statement and through the establishment of groups such as the multi-stakeholder expert consultative committee.
 - b. ED section 47 may more appropriately refer to "IFRS sustainability standards" instead of "Standards".
 - c. ED section 54 proposes that publication of an ED or IFRS sustainability standard shall require approval by a simple majority of the ISSB. The IASB however requires approval by at least 60% of the members for such decisions. It is unclear why the ISSB should have a lower threshold for such major actions, particularly given that the ISSB is purportedly to stand at par with the IASB and the ED's proposals are designed to reflect the structure of the IASB where possible. We suggest the approval requirements be made congruent to support full and fair consultation unless the IFRS Foundation has rationale to diverge.
 - d. ED section 54 allows for the initial proposed work plan for the ISSB to be published for comment with the approval of the Chair and Vice-Chair of the ISSB. The ISSB's initial work plan is likely to be of importance for setting the scope and tone of the board's work in the near future. We suggest that this temporary exception to standard due process be considered carefully so as to ensure adequate transparency and full and fair consultation.

Proposal 2 – Create the International Sustainability Standards Board under the Foundation's governance structure to set IFRS sustainability standards

Question 2 – Potential naming of the new board and its associated standards

¹ The three reporting regimes as per the 'Prototype climate disclosure standard' noted in the ED are (1) monetary amounts recognised in the financial statements, (2) sustainability matters that affect enterprise value, and (3) all sustainability matters that reflect significant impacts on people, the environment and the economy.

6. We think that the proposal to name the new board as “the International Sustainability Standards Board (ISSB)” appropriately reflects the function of the new board. However, as noted in our response to the CP, some of our stakeholders have suggested that the term “sustainability” should be defined. Additionally, given that the Trustees’ strategic direction is towards enterprise-value reporting relevant to investors, we suggest that the IFRS Foundation take care to be clear in its communications and labelling so as to avoid engendering misperceptions and confusion amongst certain stakeholders who view sustainability matters more broadly.
7. We note that the ED proposes to retain the IFRS Foundation’s current name, and have two boards setting IFRS standards – “IFRS sustainability standards” by the ISSB, and “IFRS accounting standards” by the IASB. We consider that these naming conventions describe the relevant functions of the boards and also note the IFRS Foundation’s branding considerations. However, we suggest that the IFRS Foundation should consider:
 - a. Will existing IFRS Standards (proposed to become “IFRS accounting standards”) need to be renamed to avoid confusion with IFRS sustainability standards? E.g. will IFRS 9 be renamed IFRS Accounting Standard 9?
 - b. What acronyms or abbreviations does the IFRS Foundation expect practice will use? Stakeholders are familiar with using the terms “IFRS” and “IFRSs” to describe international accounting standards – will such practice be expected to change under the proposed branding? Will stakeholders find it awkward to use the full IFRS acronym along with the posterior qualifiers and hence resort to alternative abbreviations?

Proposal 3 – Consequential amendment to the Foundation’s governance
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Question 3 – Proposed consequential amendment to sections 60 and 61 of the Constitution

8. We agree with the proposed consequential amendment to stipulate that the Executive Director of the IFRS Foundation should be appointed by the Trustees after consultation with the chairs of the IASB and ISSB. This is a reasonable amendment to clarify reporting lines and establish the ISSB’s position within the governance structure.
9. We note that paragraph 61 of the Constitution has been amended to state that the Chairs of the IASB and ISSB are “responsible for establishing the senior technical team”. As drafted, it is unclear whether this means that the Chairs of each board have equal authority for staffing decisions over both boards’ technical team (e.g. the Chair of the IASB would have equal authority for ISSB staffing decisions and vice-versa) or whether the Chairs will be responsible for staffing their board’s respective team.

Question 4 – Any other matters

10. As noted in our response to the CP, we think that there should be due process in place to enable each board to leverage off the other’s expertise, and consideration should be given to scope and how overlapping issues will be resolved. At present is it not fully clear how this will be accomplished, or what interim measures will be in place (if any) in advance of a sustainability interpretations committee or other formal solution.

~ End ~