



The Japanese Institute of  
Certified Public Accountants  
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN  
Phone: +81-3-3515-1128 Fax: +81-3-5226-3355  
e-mail: kigyokaikei@jicpa.or.jp  
<http://www.hp.jicpa.or.jp/english/>

July 29, 2021

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

Comments on the Consultation Paper on *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* (Exposure Draft)

The Japanese Institute of Certified Public Accountants (“we” and “our”) commends the ongoing efforts of the IFRS Foundation, and welcomes the opportunity to comment on the *Consultation Paper on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* (the “Proposed Amendments to the *Constitution*”).

Reporting of non-financial information, especially sustainability reporting, has gained greater attention than ever before, reflecting the heightened interests of investors and other market participant. Against the background, we have witnessed a growing awareness of issues relevant to achieving the goal of high quality, comprehensive corporate reporting, such as challenges relating to application of the concept of materiality and ensuring comparability of information. In parallel, several jurisdictions, including Japan, are accelerating policy initiatives on sustainability agendas, which would require close cooperation among relevant stakeholders globally.

Given the dynamics of the global environment, we believe it is becoming increasingly necessary for the IFRS Foundation to take a leadership role in this area. We hope that the Proposed Amendments to the *Constitution* will pave the way for the IFRS Foundation to work on the development of sustainability reporting standards that promote globally consistent and comparable information. We also expect that the IFRS Foundation will demonstrate its leadership role in the development of a high quality, comprehensive corporate reporting framework based

on the building blocks approach. Involving working arrangements with existing initiatives and standard-setters from key jurisdictions. Lastly, we are committed to actively contributing to the work of the IFRS Foundation, as we continue to examine how to improve the usefulness and reliability of corporate disclosure.

The following comments are our responses to the questions raised in the Consultation Paper.

Question 1
Do you agree that the amendments proportionately reflect the Trustees' strategic direction, considering in particular: (a) the proposed amendments to the objectives of the Foundation, outlined in the proposed new section 2b of the <i>Constitution</i> , as set out in Appendix A; and (b) the proposed amendments to reflect the structure and function of the new board, outlined in the proposed new sections 43–56 of the <i>Constitution</i> , as set out in Appendix A?

**Response to Question 1(a)**

We agree with the objective of the International Sustainability Standards Board (ISSB) to develop a single set of high quality sustainability standards, with a focus on the needs of investors and other market participants, as set out in the proposed section 2b of the Constitution. We also welcome the reference made in this section to the connection of sustainability standards with multi-stakeholder sustainability reporting from the perspective of the building blocks approach.

We, on the other hand, believe that the Proposed Amendments to the *Constitution* should clearly define the scope of corporate reporting within the remit of the ISSB. The proposed section 2b of the *Constitution* states that the ISSB aims for the provision of more “comparable information in corporate reports”. Corporate reports are generally considered to include financial reporting, and the use of the term “corporate reports” alone could give the impression that the remit of the ISSB is even broader than that of the International Accounting Standards Board (IASB) ; therefore, its remit should be specified more clearly, for example as “sustainability reporting in corporate reports.” In addition, we expect that a definition of “corporate reports” will become clearer in the future after considering its concept and scope including how it interacts with the scope of financial reporting.

The Exposure Draft of IFRS Practice Statement *Management Commentary* (the “ED-Practice Statement *MC*”) recently published by the IASB states that sustainability information is within the scope of the MC (ED-Practice Statement *MC*, IN11), while referring to the possibility that the entities might be able to apply sustainability standards issued by the ISSB to comply with the

Practice Statement MC (ED-Practice Statement *MC*, IN17-18). This may mean that the remit of the IASB and the ISSB may overlap. Speaking of climate related information, we believe that the connectivity between financial information and non-financial information is paramount; hence, content elements constituting corporate reporting should be designed to ensure consistency and connectivity between those elements so as to meet the holistic needs of users. To this end, we encourage the IFRS Foundation Trustees to clarify respective roles of the IASB and the ISSB, including the standard-setting remit as well as the collaborative relationship between the two boards. In doing so, we hope that the IFRS Foundation consider taking structural responses (e.g., designing a mechanism to ensure dialogue between the two boards and establishment of a joint committee) so as to ensure coordinated actions by the IASB and the ISSB. It would also be desirable to put a process into place to resolve a dispute between the two boards when it arises.

### **Response to Question 1 (b)**

#### **Diversity of the ISSB members**

As stated in paragraph 2 of the *Constitution*, it is important that the sustainability reporting standards should be developed in the public interest, such that the standards are accepted globally. To this end, we believe that achieving a geographical balance of the ISSB members is an extremely important factor in ensuring the ISSB's legitimacy as a global standard setter and gaining sufficient trust from stakeholders.

The Proposed Amendments to the *Constitution* states that four out of 14 members should be appointed from any area. In our view, this proposal risks that the members may be concentrated in specific area(s), which would undermine the ISSB's ambition to be recognized as a global standard setter. Considering that the constitutional arrangement of the IASB is different in this respect, we believe that the same approach should be applied to that of the ISSB as the composition of the both boards ought to be designed to ensure fairness and objectivity. Even if the number of at-large seats is expanded, we believe that the IFRS Foundation Trustees should be careful not to result in a geographical imbalance. In this regard, we believe that the *Constitution* should clearly state that "care should be given to avoid the situations where an excessively large number of members are concentrated in specific region(s)".

Furthermore, assuming that the ISSB's standards have the same authority of the IASB, the ISSB should be required to follow the rigor and transparency required to the IASB in terms of the member selection process and voting quorum.

#### **Voting quorum of the ISSB**

According to the *Constitution*, decisions of the ISSB shall require approval by a simple majority

of the members of the ISSB, a less stringent requirement than that required for the IASB. However, given that both boards should be designed to be recognized as entities that set global reporting standards in the public interest, we do not find reasonable ground to set a less stringent requirement for the ISSB than the IASB.

If the voting quorum for the ISSB is set in such a way, we are afraid that its legitimacy as a global standard setter may be undermined. As standards should be developed through careful consensus building process, we believe that the same voting quorum should be applied to the ISSB.

Question 2
------------

On the potential naming of the new board and its associated standards, do you agree that ‘the International Sustainability Standards Board (ISSB)’ setting ‘IFRS sustainability standards’ accurately describes the function of the new board and its associated standards?
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

*Name of the board*

We agree with the proposal not to change the name of the Foundation (the “IFRS Foundation”). As there are uncertainties about activities of the ISSB (including its remit and scale, outcome of the activities, and even the overall direction of the Foundation), we agree that changing names could involve a non-negligible risk.

*Naming of the standards*

However, we disagree with the proposal to name the standards of the ISSB as “IFRS Sustainability Standards,” because including the term “IFRS” to Sustainability Reporting is likely to cause confusion about the scope of sustainability information which is not limited to financial reporting.

In our understanding, sustainability reporting standards of the ISSB will be developed based on the ‘building blocks approach’, such that the IFRS Foundation will seek global acceptance of the ISSB standards, regardless whether and how IFRS is recognized in each country’s financial reporting system. We worry that using the term “IFRS” in the name of the standards may serve as an obstacle to promote the building blocks approach globally.

For this reason, we recommend that the standards developed by the ISSB should be named to be consistent with the subject matter of the reporting. In our view, this will help communicate a clear message that this set of the standards is globally accepted sustainability reporting standards, and even promote the brand values.

Question 3
------------

Do you agree with this proposed consequential amendment, outlined in proposed new sections 60 and 61 of the <i>Constitution</i> , as set out in Appendix A?
-------------------------------------------------------------------------------------------------------------------------------------------------------------

We agree with the proposed amendment.

Question 4
------------

Are there any other matters you would like to raise in relation to the proposed targeted amendments to the <i>Constitution</i> ?
----------------------------------------------------------------------------------------------------------------------------------

*Cooperation between the IASB and the ISSB*

We believe it is highly important that the IASB and the ISSB work closely together. Both financial reporting and sustainability reporting are intended to be used in an integrated fashion by investors and other market participants in the assessment of equity value of corporates. It is therefore essential to ensure the connectivity of information in both reporting. Additionally, there is possibility of overlap between the IASB and the ISSB, because, as mentioned above, the IASB's work already covers disclosures of management commentary that is outside of financial statements.

Please refer to our response to Question 1 (a) for our views on how the IASB and ISSB should work together.

*Funding and management of funds*

In order to develop standards for sustainability reporting, it is important for the IFRS Foundation to secure sufficient funds and to have common understanding of how best to meet funding requirements. In order to maintain objectivity and fairness of activities of a board, securing diverse funding sources is paramount. At the least, excessive reliance on funding from a specific institution should be avoided. In addition, from the viewpoint of ensuring fairness of a board, it is desirable for the IFRS Foundation to specify objective indicators regarding the expected level of fund contributions, such as the ratio of contributions to GDP.

As mentioned above, we believe that it is important that the IASB and the ISSB work together. At the same time, however, given the different remits of the two boards as well as possibly different nature of respective resource providers, we believe it is important that financial resources contributed to the activities of the ISSB be managed separately from those of the IASB, which contributes to securing the trust of stakeholders. Although it is expected that resources such as personnel and facilities could be shared effectively among the IASB

and the ISSB, we believe it is important for the IFRS Foundation to set a mechanism that helps fulfill respective financial accountability of the two boards. One way is to require two boards to prepare respective financial statements such that their respective accountabilities are fulfilled through external communications.

Yours faithfully,

Takako Fujimoto

Executive Board Member - Business Accounting Standards and Practice/Corporate Disclosure  
The Japanese Institute of Certified Public Accountants