



**Response: IFRS Consultation on Targeted Amendments to  
the IFRS Foundation Constitution  
29 July 2021**

## **Background**

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over \$95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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## **Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to set IFRS Sustainable Standards**

The WFE welcomes the opportunity to comment on this Exposure Draft (ED). There is considerable and growing consensus for the principle of internationally recognised sustainability reporting standards, which can assist both issuers and investors with an understanding of the financial risks and opportunities presented by Environmental, Social and Governance (ESG) issues.

Our [Annual Sustainability Survey](#) found that ensuring high-quality, comparable and consistent ESG disclosure is one of the biggest challenges faced by the exchanges in relation to instruments they list. Standards play a key role in specifying what issuers must report and 87% of our members either encourage or require reporting against a standard for sustainability-related disclosures. There are currently a range of views among our membership as to some of the details of the reporting standards, but we unequivocally believe the coalescence of global minimum standards, through the establishment of an International Sustainability Standards Board (ISSB), will help issuers navigate this evolving landscape more effectively.

As outlined in our response to the [IFRS Foundation's Consultation Paper on Sustainability Reporting](#) we are supportive of the IFRS Foundation's ambitions to provide a baseline for sustainability-related disclosure, and welcome the consolidation that is already happening within existing standard setters. The effectiveness and credibility of an ISSB will depend on its structure, governance, and mandate. Our members support the proposal to create a multi-stakeholder expert consultative committee. It will be imperative to the establishment of a 'building blocks' approach and we would urge the Trustees and International Organization of Securities Commissions (IOSCO) to begin work on this immediately. The WFE membership stands ready to assist the Foundation with its efforts to create standards. Working closely with issuers, investors and regulators, exchanges can contribute in an informed way to promote the adoption of standards. We would ask the Foundation to consider representation from the Market Infrastructure community on this committee.

Based on extensive engagement with preparers and users of accounts, WFE members propose the following amendments to the ED, in order to develop standards that bring transparency and accountability to financial markets.

- **Proposal 1- Expand the Foundation's remit to create a new board that will set IFRS sustainability standards**

The IFRS Foundation has already publicly signaled its intention to initially meet the information needs of investors when assessing enterprise value, which is aligned with its existing focus and provides a familiar basis for the development of an audit/assurance framework. As part of its 'building blocks' approach, we would also ask the Foundation to consider interoperability with local reporting requirements that may go beyond the Foundation's baseline. This approach recognises that the eventual adoption of standards will differ across jurisdictions. At the same time, the Foundation should now focus on engagement with stakeholders globally to ensure consistency in standard setting.

- At paragraph 43 of Appendix A, there is a suggestion that part-timers will form the minority of the board. In comparison to expertise in financial reporting, we envisage the pool of existing sustainability experts as being quite narrow. The IFRS Foundation has further made a commitment to announce the new board in time for COP 26. Given these pressures a pragmatic approach might be to employ the majority of board members on a part-time basis, akin to employing Non- Executive Directors (NEDs) within corporations. Appointments to the board should demonstrate the following principles of good corporate governance: avoidance of 'over boarding' (ie, taking on too many roles which prevent them from effectively fulfilling their duties); objectivity

and independence when developing standards (particularly where they are holding other positions outside of the ISSB); and diversity of thought, to prevent group think.

- At paragraph 44 of Appendix A, the draft constitution notes that members of the new board should have experience in sustainability reporting. Sustainability is a very broad term and is generally perceived as going beyond pure shareholder value maximization by adopting a “stakeholder capitalism” approach which focuses on creating long-term value for the benefit of stakeholders including: employees, communities, suppliers and customers. It would be helpful for the IFRS Foundation to work with market practitioners to define what is meant by sustainability reporting, in the interests of ensuring the board is equipped with the right level of expertise. A definition should also capture the concept of ‘dynamic materiality’, which acknowledges that the materiality of sustainability factors to investors can vary over time.

### **Proposal 2- Create the ISSB under the Foundation’s governance structure to set IFRS sustainability standards**

- Our members believe that the IFRS Foundation has created an authoritative brand and would prefer the Foundation to continue working under its existing name. The Foundation has a long-established reputation in setting financial reporting standards under the International Accounting Standards Board (IASB). To reflect the Foundation’s new mandate, equal status will need to be given to the work of the ISSB as well as identification of synergies between financial and sustainability reporting. As part of its broadened mandate, the IFRS Foundation should recognise that i) sustainability reporting can take the form of qualitative narrative reporting and ii) for accounting purposes, there is a need for both financial and narrative reporting on sustainability to be consistent with each other. Our members support the involvement of the IASB in the Technical Readiness Working Group (TWG) as it begins working with the auditing profession to produce standards that are subject to third-party assurance.
- As discussed, the Foundation has been clear in its intention to deliver enterprise value with an investor focus. Some of our members believe the ‘International Sustainability Standards Board’ is not reflective of the purpose and function of the new board. We also note that a ‘Global Sustainability Standards Board’ exists for the purposes of overseeing the development of the Global Reporting Initiative, which could cause further confusion to stakeholders. We suggest that the ‘International Enterprise Value Standards Board’ may be more appropriate.