



July 27, 2021

IFRS Foundation  
The IFRS Foundation Trustees  
Columbus Building 7  
Westferry Circus, Canary Wharf  
London E14 4HD, United Kingdom

Dear IFRS Foundation Trustees,

UNDP is delighted to have the opportunity to provide comments to the Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board (ISSB) to Set IFRS Sustainability Standards. We welcome IFRS's focus on improving the quality of sustainability related disclosures in financial and enterprise value reporting, recognizing the increasing importance of sustainability related issues on enterprise value.

Given relevance to the other questions, we provide our response to Question 4 prior to our responses to Questions 1 – 3.

[Question 4 – Are there any other matters you would like to raise in relation to the proposed targeted amendments to the Constitution?](#)

*Focus on financial materiality and enterprise value*

Organizations impacts on society and the environment and their dependencies on the world are increasingly interdependent. Understanding which sustainable development issues are material for enterprise value starts with a thorough understanding of the impacts the organization has on society and the environment. Starting from the perspective of enterprise value has the potential to systematically under-estimate future financial risks.

If the IFRS Foundation's intention is to focus on better reporting of sustainability related issues in financial and enterprise value reporting (which by its own account appears to be the case), then there also exists a need for better multi-stakeholder sustainability reporting. This is because enterprise value reporting is contingent on first understanding the organization's broader sustainable development context and impacts on society and the environment. Acknowledgement of such and clarity of the distinctions between the two from IFRS would be helpful. This includes being clear that while the sustainability topics identified under both approaches may be similar, or the same, that the risks to different stakeholders and their risk tolerances will differ, and different definitions of materiality under both approaches will likely lead to significant differences in what is reported, including on the emphasis given to different topics. Therefore, without both perspectives provided, report users do not have complete information on which to make informed decisions.



In our view, an over-emphasis on enterprise value reporting at the expense of multi-stakeholder sustainability reporting puts at risk the express goals of the IFRS Foundation. Firstly, as stated above, that the financial statements and enterprise value reporting are inaccurate or incomplete, and secondly that the stated goal of financial markets policy makers and regulators to strengthen financial system stability is consequently not met.

### *Climate first approach*

We understand the focus and sense of urgency around climate related risks and disclosures and the desire to focus on one initial area. However, following the IASB requirement for information to be useful where one of the requirements is that it should be complete, the focus on one area would appear to mean that the information would not be useful. In our view, the system needs to be designed to accommodate complexity and interdependency across the SDGs. Exclusive focus on climate will not be materially complete, nor will it enable an assessment of trade-offs made against other sustainable development goals in pursuit of those climate related goals. Further, building the system around climate risks in the first instance will also not necessarily lend itself to an easy broadening of the system to accommodate interdependency and other issues – especially social issues – later.

### *Alignment between enterprise value reporting and multi-stakeholder sustainability reporting*

We agree interoperability between multi-stakeholder sustainability reporting and enterprise value reporting is critical (as an intermediate step before it becomes fully integrated) – and further, as discussed above, that high quality multi-stakeholder sustainability reporting is a prerequisite for high quality enterprise value reporting. Developing systematic connections between enterprise value reporting and multi-stakeholder sustainability reporting will be critical to support interoperability and more effective and efficient reporting outcomes for both reporters and users of those reports.

### *Paradigm shift – beyond financial materiality*

In our view, organizations prospects for future prosperity increasingly depend on the health of the planet and the wellbeing of humanity. In this new paradigm, the distinction between financial materiality and multi-stakeholder materiality (an artificial construct created at a point in time that is approaching its use-by-date) should dissolve. All impacts that are important to the stakeholders that experience them and to the achievement of the SDGs have the potential to impact organizations' performance and ability to operate – and therefore are important to investors.

We understand that we may be a couple of iterations away from achieving this shift to properly align the system and the actors in it with this new paradigm. However, we note it for consideration as in this paradigm a much more integrated, streamlined, efficient and straightforward corporate reporting framework would be possible, and it would be good if the design of the intermediate solution could have an eye on that future.



Question 1 – Do you agree that the amendments 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 Constitution, as set out in Appendix A; and (b) the proposed amendments to reflect the structure of the new board, outlined in the proposed new sections 43-56 of the Constitution, as set out in Appendix A?

Further clarification on the relationship between IASB and ISSB would be useful. If the focus is on information that is useful to investors, then this would appear to fall under IASB, in accounting standards in relation to past decisions or else in the management commentary (which is currently under review, including in relation to the inclusion of sustainability related information).

On the assumption IFRS proceeds with establishing a separate board, in our view, the membership and structure of the new board, given its focus on sustainability related issues, should be diverse and representative of multi-stakeholder perspectives, including from the SME sector to avoid inadvertently reinforcing existing, or creating additional, barriers for SMEs and organizations operating in developing market contexts, for example which results in them being excluded from global supply chains. Further, as inequality is so fundamental to the concept of sustainability, we suggest the use of share of global GDP is perhaps not the most appropriate metric to determine representation on the proposed ISSB – in particular, the proposed under-representation of Africa stands out. We would further suggest clear governance around diversity (including gender, race, religion, lived experience, skills and competencies including those related to sustainable development) of representation beyond regional participation is needed.

Is the intention that remuneration for ISSB Board Members be equalized with those of their IASB counterparts? If not, sustainability will likely be seen as being of lesser importance. If so, this potentially undermines sustainability and SDG 10 by increasing inequality and signaling this is not important.

In terms of governance, in our view it is important that the proposed multi-stakeholder expert consultative committee is separate from IFRS and ISSB and retains its independence.

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?

Based on how IFRS describes its intentions with respect to the new board, in our view there are possibly more appropriate names that would better describe the new board and its associated standards and improve clarity (including reducing current confusion) amongst reporting entities and report users. Our understanding of IFRS’s intent is it intends to focus on better reporting of sustainability related issues in financial and enterprise value reporting. We believe that generally, sustainability reporting is understood to be reporting of organizations’ impacts on society and the environment or based on a multi-stakeholder approach to determining materiality of topics (what we



refer to as multi-stakeholder sustainability reporting throughout to provide clarity and distinction from enterprise value reporting, or what IFRS Foundation is calling sustainability reporting). Calling both these perspectives “sustainability standards” or “sustainability reporting” in our view, increases the level of confusion and opportunity for information to be misleading or at least misinterpreted by report users, and consequently is potentially detrimental to the 2030 Sustainable Development Agenda and achievement of the SDGs.

[Question 3 – Do you agree with the proposed consequential amendment, outlined in proposed new sections 60 and 61 of the Constitution, as set out in Appendix A?](#)

As per Question 1, given the Board’s focus on sustainability related issues, our view is that expertise in sustainable development and sustainability reporting should be express requirements for filling the roles of both the Executive Director and the Chair of the ISSB.

#### Concluding remarks

We appreciate the opportunity to comment and the IFRS Foundation’s openness to considering a variety of perspectives in pursuit of the most efficient and effective path towards more compete and useful reporting of sustainability related information in financial and enterprise value reporting and interoperability (and ultimately full integration) with multi-stakeholder sustainability reporting.

Sincerely,

A handwritten signature in black ink, which appears to read 'Marcos Neto', is positioned above a horizontal line.

Marcos Neto  
Director, Finance Sector Hub, United Nations Development Programme (UNDP)