

## **AICPA & CIMA response to the IFRS Foundation consultation on the **Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards.****

22 July 2021

### **The Association**

The Association of International Certified Professional Accountants advances the global accounting and finance profession through its work on behalf of 696,000 AICPA and CIMA members, students and engaged professionals in 192 countries and territories. We are the worldwide leader on public and management accounting issues through advocacy, support for the CPA license, the CGMA designation and specialised credentials, professional education and thought leadership. We build trust by empowering our members and engaged professionals with the knowledge and opportunities to be leaders in broadening prosperity for a more inclusive, sustainable and resilient future.

The American Institute of CPAs® (AICPA), the world's largest member association representing the CPA profession, sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit organisations, and federal, state and local governments. It also develops and grades the Uniform CPA Examination and builds the pipeline of future talent for the public accounting profession.

The Chartered Institute of Management Accountants® (CIMA) is the world's leading and largest professional body of management accountants. CIMA works closely with employers and sponsors leading-edge research, constantly updating its professional qualification and professional experience requirements to ensure it remains the employer's choice when recruiting financially trained business leaders.

### **Our Response**

AICPA & CIMA is pleased to respond to the above consultation. AICPA & CIMA has long supported International Financial Report Standards (IFRS), the International Accounting Standards Board and the IFRS Foundation. The AICPA was a charter member of the International Accounting Standards Committee (IASC), formed in 1973, the predecessor of the International Accounting Standards Board (IASB), and has used its best efforts to advance international convergence of accounting standards since then. CIMA has consistently supported the creation and adoption of international reporting standards as set by the IASB and supported their adoption by the European Union in 2005.

AICPA & CIMA supports the intention to amend the Constitution to expand the objectives of the Foundation to encompass the development of globally accepted sustainability standards. As outlined in the response to the IFRS September 2020 consultation this is an important step forward. We are broadly in favour of the proposed amendments and the consequential changes that are suggested in your consultation document of 30<sup>th</sup> April 2021.

Nevertheless, there are 3 issues that we would highlight as being critical to get right in its implementation -

## The Importance of Independent Standard Setting

Our long-standing view is that for any new standards setter to be a success including the ISSB, it must adhere to the following criteria -

- **Independence** – The body should be independent from the undue influence of its constituency.
- **Due Process and Standards** – The body should follow a due process that is documented and open to all relevant aspects of alternatives. The body’s aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure.
- **Domain and Authority** – The body should have a unique constituency not served by another existing Accounting Principles Rule standard-setting body. Its standards should be generally accepted by its constituencies.
- **Human and Financial Resources** — The body should have sufficient funds to support its work. Its members and staff should be highly knowledgeable in all relevant areas.
- **Comprehensiveness and Consistency** – The body should approach its processes comprehensively and follow concepts consistent with those of existing standard-setting bodies for analogous circumstances.

Reporting standards derive their legitimacy from the confidence that they are established, interpreted and, when necessary, modified based on independent, objective considerations. The development process must be free — in both fact and appearance — of outside influences that inappropriately benefit any particular participant or group of participants in the financial reporting system. Even the appearance of outside influence could create doubts about the integrity of the system. That’s dangerous because once confidence in the process is lost, then confidence in the standards themselves and the willingness to follow them will erode as well.

In revising the constitution, IFRS Foundation Trustees need to ensure that its remit and purpose is expanded to include the creation and work of the ISSB while maintaining adherence to the above criteria. We therefore agree that the expansion of the remit suggested reflects the intended new dimension of the Foundations’ work.

### Skills and Experience of the IFRS Foundation Trustees and ISSB Members

It is necessary for the makeup of the Trustees to evolve. The Trustees need to have an infusion of more people with new skills and experience who understand the evolving sustainability landscape and the related reporting standard setting impacts.

In setting out the structure and function of the new board it is critical that the Foundation recruits individuals to the Board with the right breadth of skills and experience. For example, the Foundation should look for those with ESG-related experience as well as adequate financial reporting expertise.

While we note that the ISSB need a broad base of skills, experience and perspectives and that ‘*ISSB members may have professional backgrounds that reflect a diverse range of expertise and roles that are relevant to sustainability*’ we believe that the Board as a whole should be made of up individual Members that have specific knowledge related to climate and social matters as well as experience with financial reporting standards, investment decision making and business models as these are key



to cementing real life changes in business practice. Most importantly new Members need to have the right mindset and act as catalysts for change.

### **New Board and Associated Standards Name**

We feel that the Integration of Financial and Sustainability perspectives is critical, and we support the naming of the new Board as the International Sustainability Standards Board. However, we would note that the name 'the International Financial Reporting Standards (IFRS) Sustainability Standards' when said in full is confusing. This could be changed to 'International Sustainability Reporting Standards' (ISRS) for clarity and brevity.

Finally, we support the intention to align other parts of the constitution with the creation of the new board and the ambition of the Trustees to make a final determination about a new board in advance of the United Nations Climate Change Conference in November 2021.

Yours Faithfully,

Andrew Harding

Chief Executive  
Management Accounting