

Response to IFRS Foundation exposure draft on targeted amendments to constitution to accommodate an International Sustainability Standards Board

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- 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 Constitution, 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 Constitution, as set out in Appendix A?*

Yes, we agree.

European insurers recognise that an international approach to sustainability reporting standards is needed considering the global nature of their investments and activities. Insurers support initiatives that aim to achieve global standards and so avoid fragmentation and overlapping requirements, and to reduce compliance costs for reporting companies, improve the comparability and availability of data and market transparency for investors.

Regarding the proposed amendments we have the following comments:

- **Insurers support having a board structure inspired by what currently exists at the IASB.**
- **Insurers support the ISSB objective of promoting the convergence of national and regional sustainability reporting standards** and IFRS sustainability reporting standards. Indeed, cooperation with existing initiatives is key: global standards should be based as much as possible on relevant and well-established existing sustainability reporting guidance (eg principles and definitions) that have already reached a high level of maturity, such as the Task Force on Climate-related Financial Disclosures (TCFD) framework for climate-related reporting.
- **Insurers welcome the fact that the IFRS Foundation intends to collaborate with regional initiatives.** It is key that the set-up of the ISSB allows for jurisdictions and their standard setters to get involved and contribute to the standardisation initiative at global level through constructive two-way cooperation.
- Together with the composition of the new ISSB, it is important that **the role and articulation of the different working groups** (ie the technical readiness working group, multilateral working group and eminent persons group) **that will contribute to the process of standard setting within the new body are clarified.** This is essential to ensure a **fully transparent standard setting process**, allow **consistent public oversight** and thus contribute to the success of the initiative. Such clarifications will help build a robust governance for the development of sustainability standards, in line with the G7 Finance recommendations released in June 2021.

- **While insurers support the flexibility given to the ISSB in the constitution on field testing, performing field tests should be considered being a norm rather than an exception if considerable concerns exist or emerge relating to particular standards.** Field tests are an essential tool to ensure that proposed standards are practical, cost-efficient, and workable in all environments and entity-specific circumstances. Experience from standard-setting in financial reporting has shown the importance of appropriate field testing, and this may be even more relevant for sustainability reporting which is currently in its infancy.
- **Board members of the ISSB should not be chosen only using the geographic criteria.** In fact, beside the geographic criteria — which is important to ensure a good balance of views and to ensure that the future standards will fit the needs of all jurisdictions and be applied by all the countries across the world — the composition of the Board should also reflect the variety of profiles involved in sustainability reporting processes from preparers and investors to civil society. This element will be key to ensure that to-be-developed standards will satisfy all involved stakeholders. Insurers acknowledge that this is a difficult exercise as stakeholders may have different expectations which could result in intricate standards for companies. To strike the right balance between the various stakeholders' positions, it is critical to ensure that:
 - An inclusive and regular dialogue is established to consider stakeholder expectations,
 - Particular attention is given to companies' strain in reporting. In particular, the cost of producing data and the sensitivity of certain information that could affect the competitiveness of companies must be carefully considered throughout the process in a proper manner.
- **On ISS Board decision making, it is important to ensure the transparency, fairness and authority of the standard setting process of the ISSB:** ie it should be equivalent to that of the IASB. Therefore, the ISSB's voting requirements for approval should be equivalent to those of the IASB, instead of only a simple majority. Getting things right is usually more important than getting things done and having substantial board member agreement is more likely to promote wider stakeholder support.

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?*

Yes insurers agree that 'the International Sustainability Standards Board (ISSB)' setting 'IFRS sustainability standards' accurately describes the function of the new board and its associated standards.

However, it should be clear that the IFRS sustainability standards only focus on the development of sustainability reporting standards.

For example, it should be made sufficiently clear in the constitution, where relevant, even if not in the naming of the standards, that the IFRS sustainability standards would actually represent sustainability reporting standards (eg in section 2b of the Constitution).

3. *Do you agree with this proposed consequential amendment, outlined in proposed new sections 60 and 61 of the Constitution, as set out in Appendix A?*

Yes insurers agree with this proposed consequential amendment, outlined in proposed new sections 60 and 61 of the constitution, as set out in Appendix A.

4. Are there any other matters you would like to raise in relation to the proposed targeted amendments to the Constitution?

Yes, the most fundamental of which is that the sustainability standards developed by **the IFRS Foundation / the ISSB should encompass the concept of 'double' materiality for sustainability** (how sustainability issues may affect the company's financial performance and the impact of the company's activities on society and the environment). This principle lies at the core of sustainability reporting. See below for additional matters of concern.

Sustainability information is fundamentally different from financial information and **the IFRS work should set its scope to encompass all the aspects of sustainability from the outset, not only focus on climate**. All aspects of sustainability should be considered, including other environmental issues, governance and social (ESG) aspects. The trustees stated in their strategic announcement in March that "due to the urgent need for better information about climate-related matters, the new board would initially focus its efforts on climate-related reporting". Although prioritisation and a phased approach is necessary, it is essential however that international standards go beyond climate related reporting and build on the interconnection between all the issues and with the aim to ensure a consistent alignment with public policies.

Sustainability standards should include forward-looking, transition information and include more qualitative elements than financial information. Sustainability reporting is fundamentally different from financial reporting in many aspects, and qualitative elements will have a more prominent role than in financial reporting.

It is important that the ISSB has a sufficient level of expertise in the field of sustainability reporting, in particular at the board's inception. Sufficient expertise is also needed on the governing bodies of the IFRS Foundation (ie the Monitoring Board, Trustees and the IFRS Advisory Council) to ensure the credibility and international buy-in of the sustainability standards. The regular rotation of members might not be enough to sufficiently adjust the required experience and expertise of the bodies' members.

However, insurers recognise that the current members of the governing bodies of the IFRS Foundation are very well connected worldwide, which is important to foster trust and the required global acceptance of the IFRS sustainability standards. Their knowledge of financial reporting matters is also **key to ensuring connectivity between financial and sustainability reporting standards**; keeping the acting members in office would be a sign of continuity of the work of the IFRS Foundation.

Finally, insurers would also like to bring to the attention of the trustees' considerations about the **key requirements for success set in the Annex B to the consultation**. Insurance Europe generally agrees with the aspects mentioned by the trustees and would also raise the following points which are key to achieving success:

- The need for a **sectoral breakdown and a phasing-in approach**. Developing one set of standards applicable across industries is unlikely to appropriately reflect their sustainability performance. Developing sector specific metrics may be needed to ensure that industries' business models are considered. Additionally, because sustainability standards are in their infancy, it is important to adopt a phased in approach to allow the industry and users to learn how to report and consume sustainability information.
- Achieving a **global support** from stakeholders through on-going **public oversight**.
- **Cooperating with regional initiatives** is fundamental to achieve global consistency in sustainability reporting.
- **Maintaining an active dialogue with stakeholders** through consultation processes and field-testing campaigns is needed to ensure proper design and implementation of the standards.
- Developing information-tagging to allow digital, machine readable format from the outset.

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