EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

BOARD MEETING AGENDA

9.15am to 3.30pm Thursday 10 December 2020, In Person Meeting

	PUBLIC SESSION				
1.00pm	9.0	XRB Strategy	Discussion	Paper	Page No.
	10.0	**Accounting:**			
		10.1 PBE Policy Approach: IPSASB COVID-19 Deferral of Effective dates- Cover Memo	Noting	Paper	2
		10.2 PBE Policy Approach: IPSASB COVID19 Deferral of Effective Dates- Copy of NZASB Memo	Noting	Paper	3
	11.0	IFRS Foundation Consultation Paper on Sustainability Reporting			10
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		11.2 Draft Comment Letter	Approval	Paper	20
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	12.0	Review of IPSASB Oversight Arrangements			
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		12.2 PIC Report on Oversight of IPSASB Arrangements	Noting	Paper	56
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Next XRB Board Meeting: Friday, 26 February 2021 – In person meeting in Wellington

Agenda Item 10.1

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE: 25 November 2020

TO: Members of the External Reporting Board

FROM: Gali Slyuzberg

SUBJECT: **PBE Policy Approach: IPSASB *COVID-19: Deferral of Effective Dates***

Introduction

1. The attached memo (see agenda item 10.2) sets out the rationale for the NZASB's decision not to adopt the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates*.

Background

2. The NZASB regularly considers whether to incorporate amendments to IPSAS into PBE Standards. The NZASB applies the *Policy Approach for Developing the Suite of PBE Standards* (PBE Policy Approach) in making such decisions. There is a rebuttable presumption in the PBE Policy Approach that the NZASB will adopt a new or amended IPSAS. If the NZASB rebuts that presumption, it is required to report back to the XRB Board and explain why.

3. At its November 2020 meeting, the NZASB:

   (a) NOTED that the IPSASB has recently approved for issue an amending standard, *COVID-19: Deferral of Effective Dates,* which defers the effective date of IPSAS 41 and certain other pronouncements by one year, from 1 January 2022 to 1 January 2023;

   (b) NOTED that except for the deferral of the effective date of IPSAS 41 *Financial Instruments*, the deferrals in the IPSASB's amending standard are not relevant for PBE Standards;

   (c) AGREED not to defer the effective date of PBE IPSAS 41 *Financial Instruments* (which is 1 January 2022), for the reasons set out in the memo under consideration;

   (d) AGREED, given (b) and (c), not to adopt the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates*, into PBE Standards;

   (e) AGREED to table a copy of the memo it considered at a future XRB Board meeting to meet the requirements in paragraph 26 of the PBE Policy Approach (see agenda item 10.2).

Recommendations

4. It is recommended that the Board **note** the matters considered by the NZASB in deciding not to adopt the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates*.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	23 October 2020
To:	NZASB Members
From:	Gali Slyuzberg
Subject:	**PBE Policy Approach: IPSASB *COVID-19: Deferral of Effective Dates***

Purpose[1]

1. This memo applies the *Policy Approach for Developing the Suite of PBE Standards* (PBE Policy Approach) to the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates*, which was recently approved for issue by the IPSASB and is expected to be issued prior to the NZASB November meeting.

2. The amending standard defers the effective dates of a number of pronouncements. Most of these deferrals are not relevant for PBE Standards (see Table 2 below). With respect to the IPSASB's decision to defer the effective date of IPSAS 41 *Financial Instruments* by one year, we recommend no change to the effective date of PBE IPSAS 41 *Financial Instruments*. This memo explains why.

Recommendation

3. We recommend that the Board:

    (a) NOTES that the IPSASB has recently approved for issue an amending standard, *COVID-19: Deferral of Effective Dates,* which defers the effective date of IPSAS 41 and certain other pronouncements by one year, from 1 January 2022 to 1 January 2023;

    (b) NOTES that except for the deferral of the effective date of IPSAS 41, the deferrals in the IPSASB's amending standard are not relevant for PBE Standards (see Table 2 below);

    (c) AGREES not to defer the effective date of PBE IPSAS 41 (which is 1 January 2022), for the reasons set out in this memo;

    (d) AGREES, given (b) and (c), not to adopt the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates*, into PBE Standards;

    (e) AGREES to table a copy of this memo at a future XRB Board meeting to meet the requirements in paragraph 26 of the PBE Policy Approach.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Structure of this memo

4. This memo is set out as follows.

   (a) Background

   (b) Application of the PBE Policy Approach

   (c) Next steps

Background

5. Table 1 summarises relevant events between July 2020 and now.

Table 1 Lead up to *COVID-19: Deferral of Effective Dates*

Date	Comment
January 2017	PBE IFRS 9 *Financial Instruments* was issued, effective 1 January 2021 (subsequently deferred to 1 January 2022). PBE IFRS 9 was developed so that mixed groups could apply PBE IFRS 9 and NZ IFRS 9 *Financial Instruments* at the same time, and to give PBEs the opportunity to apply the newer financial instrument requirements, including the newer hedging requirements. NZ IFRS 9 was effective from 1 January 2018. The Government first applied PBE IFRS 9 in the consolidated *Financial Statements of the Government of New Zealand* for the year ended 30 June 2019. In addition to central government entities, a number of other entities consolidated in those financial statements and some local authorities have also chosen to adopt PBE IFRS 9. Most of the entities that did not early adopt PBE IFRS 9 have continued to apply PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 was always intended to be an interim standard, pending the development of IPSAS 41 and PBE IPSAS 41.
August 2018	IPSAS 41 was issued, effective 1 January 2022. IPSAS 41 is based on IFRS 9.
March 2019	PBE IPSAS 41 was issued, effective 1 January 2022. Most requirements in PBE IPSAS 41 are identical, or almost identical, to the requirements in PBE IFRS 9.
July 2020	**The IPSASB issued ED 73 *COVID-19: Deferral of Effective Dates*.** The ED proposed to defer the effective date of IPSAS 41 (and certain other pronouncements that are not relevant for PBE Standards – see Table 2) by one year, from 1 January 2022 to 1 January 2023. The ED had a 30-day comment period.
July 2020	We sought TRG feedback on ED 73. The TRG supported the staff view that the effective date of PBE IPSAS 41 should not be deferred. TRG comments included the following. • In New Zealand, we are already far along the track towards adoption of PBE IPSAS 41. • Based on experience in the for-profit sector, for those PBEs that have not yet adopted PBE IFRS 9 the impact of adopting PBE IPSAS 41 is likely to be minimal. Such entities might appreciate educational materials about the possible impact of adoption.

Table 1 Lead up to *COVID-19: Deferral of Effective Dates*

Date	Comment
August 2020	ED 73 was made available to New Zealand constituents on the XRB website. The website noted that the proposal to defer the effective date of IPSAS 41 would not necessarily be relevant for New Zealand PBEs, some of whom had already adopted the newer requirements in PBE IFRS 9 or PBE IPSAS 41, and the lead in time already given for PBE IPSAS 41.
August 2020	The Board agreed not to comment on ED 73 (August 2020, NZASB agenda paper 2.7). The Board also tentatively agreed not to propose to defer the effective date of PBE IPSAS 41 *Financial Instruments* (subject to application of the PBE Policy Approach to the final amendments).
September 2020	The IPSASB considered the three responses to ED 73. Two respondents supported all the proposals in ED 73. The Public Sector Accounting Standards Board, Kenya (PSASB) disagreed with the deferral of IPSAS 41 on the basis that IPSAS 41 and the related amendments were necessitated by the 2008 global financial crisis. The PSASB also noted that compared to IPSAS 29 *Financial Instruments: Recognition and Measurement*, IPSAS 41 and the related amendments may provide more relevant financial information regarding impairment, as well as the timing and uncertainty of cash flows which could be impacted by COVID-19. The IPSASB noted that early adoption of IPSAS 41 was still possible and approved the amendments for issue.
October 2020	**The IPSASB approved *COVID-19: Deferral of Effective Dates***. This amending standard defers the effective date of IPSAS 41 and certain other pronouncements by one year. See Table 2.

6. Table 2 below shows that the only amendment in *COVID-19: Deferral of Effective Dates* that is immediately relevant for PBE Standards is the deferral of the effective date of IPSAS 41.

Table 2 *COVID-19: Deferral of Effective Dates* – Relevance for PBE Standards

IPSASB amendments defer effective dates from 1 January 2022 to 1 January 2023	PBE Standards
• IPSAS 41 *Financial Instruments*	PBE IPSAS 41 is effective for PBEs from 1 January 2022. Staff recommend no change to the effective date of PBE IPSAS 41.
• *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41)	Not applicable – these requirements are already in PBE IPSAS 41.
• *Improvements to IPSAS, 2019* – but only in relation to amendments to IPSAS 41.	Not applicable – equivalent requirements are already in PBE IPSAS 41.
• IPSAS 42 *Social Benefits*	Not immediately relevant for PBE Standards.

Table 2 *COVID-19: Deferral of Effective Dates* – Relevance for PBE Standards

IPSASB amendments defer effective dates from 1 January 2022 to 1 January 2023	PBE Standards
• *Collective and Individual Services* (Amendments to IPSAS 19).	The Board has deferred its consideration of these topics until the IPSASB has completed its project on transfer expenses.

Application of the PBE Policy Approach

7. The PBE Policy Approach contains a rebuttable presumption that a new IPSAS or changes to an existing IPSAS will be incorporated into PBE Standards. In light of the IPSASB's decision to defer the effective date of IPSAS 41 by one year, the Board needs to consider whether it should also propose to defer the effective date of PBE IPSAS 41.

8. The IPSASB issued ED 73 as a general response to the impact of COVID-19 on entities that apply IPSAS. We accept that, for some governments, the adoption of IPSAS 41 will be a major exercise – and, given the disruption caused by COVID-19, such governments may welcome additional time to implement the standard. However, we consider that New Zealand's situation is different. Our reasons for not proposing to defer the effective date of PBE IPSAS 41 are set out in Table 3.

Table 3 Reasons for not deferring the effective date of PBE IPSAS 41

General comments
• IFRS 9 was developed in response to events in the global financial crisis and to address the deficiencies of the previous standard. It was intended to provide better information to users of financial statements. The same applies to PBE IPSAS 41, which is closely based on IFRS 9. o The section of the PBE Policy Approach that discusses the rebuttable presumption uses better reporting as a justification for the presumption. Paragraph 23 states that "it is presumed a new or amended IPSAS will lead to higher quality reporting by PBEs… in the absence of reasons to the contrary". Deferring the effective date of PBE IPSAS 41 would delay better reporting. o One of the IPSASB's respondents to ED 73 disagreed with the deferral of the effective date of IPSAS 41 on the grounds that this would delay better accounting for financial instruments (see Table 1, September 2020). • We do not regard aligning the effective dates of PBE Standards with IPSAS as critical. The effective dates of PBE Standards sometimes lag IPSAS. Similarly, we do not see any issue with PBE IPSAS 41 becoming effective before IPSAS 41. • PBE IFRS 9 (which has the same key requirements as IPSAS 41 and PBE IPSAS 41) was issued some time ago (in January 2017). It has already been adopted by the New Zealand Government as a whole. It has also been applied by a few local authorities and other public sector entities. • Other entities have had a reasonable lead in period to prepare for the adoption of PBE IPSAS 41 (PBE IPSAS 41 was issued in March 2019 and effective from 1 January 2022). • There are practical difficulties in maintaining three financial instruments standards.[2] o From a staff perspective, each set of new amendments that affects the financial instruments standards creates challenges. Other standards and amendments have been issued since PBE IPSAS 41 (and more are in the process of being finalised). Tailoring amendments for entities that have early adopted PBE IFRS 9 or PBE IPSAS 41 and for those that have not becomes untenable over time.

[2] PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*, PBE IFRS 9 and PBE IPSAS 41.

<table>
<tr><td colspan="2">o From a constituent perspective, the long lead in time for PBE IFRS 9 and PBE IPSAS 41 means that it is difficult to identify the related presentation and disclosure requirements. Deferring the effective date of PBE IPSAS 41 would prolong this difficulty for constituents. Our current plans are to make an updated version of PBE IPSAS 30 Financial Instruments: Disclosures available on the website at the beginning of next year.
• We have had a number of years of multiple financial instrument standards. It would be good to bring this transitional period to a close and have all Tier 1 and 2 PBEs applying the same standard as (i) each other and (ii) as Tier 1 and 2 for-profit entities.</td></tr>
<tr><td colspan="2">Comments about types of PBEs</td></tr>
<tr><td>Central Government PBEs</td><td>• Central government entities are already applying PBE IFRS 9, which has the same key requirements as PBE IPSAS 41.
• A number of entities that are consolidated into the financial statements of the New Zealand Government early adopted PBE IFRS 9 to align their accounting policies with the Crown.
• Deferring the effective date of PBE IPSAS 41 would be of limited benefit for these entities (there are a few additional requirements in PBE IPSAS 41, but it is substantively the same as PBE IFRS 9).</td></tr>
<tr><td>Larger PBEs outside central Government</td><td>• PBEs in this category – such as large local authorities and large not-for-profit (NFP) PBEs – may also hold complex financial instruments as well as a wider range of financial instruments.
• The majority of these entities have not adopted PBE IFRS 9. Instead they have chosen to wait for PBE IPSAS 41 to become effective.
• We believe that these entities have had sufficient time to prepare for the application of PBE IPSAS 41, and they still have time to do so given the current effective date of 1 January 2022.
• PBE IPSAS 41 is expected to lead to higher quality reporting on financial instruments, as compared to the requirements in PBE IPSAS 29. These benefits are as important, if not more important, in the current COVID-19 environment.</td></tr>
<tr><td>Smaller PBEs outside central Government</td><td>• PBEs in this category – such as smaller local authorities and NFPs – have relatively limited resources and most of them have not adopted PBE IFRS 9.
• Although PBE IPSAS 41 is a large and complex standard, many smaller PBEs are likely to hold simpler financial instruments – for example, their financial instruments are likely to predominantly consist of receivables and non-complex loans to others. Therefore, we do not think that the transition to PBE IPSAS 41 for such entities would be overly onerous.
• These entities have had a reasonable time to prepare for the adoption of PBE IPSAS 41.
• There may be merit in providing some education material to these entities over the next few months, to remind them of the requirements in PBE IPSAS 41.</td></tr>
</table>

Rebutting the presumption that an amendment to IPSAS will be incorporated into PBE Standards

9. Having set out our reasons for not proposing to change the effective date of PBE IPSAS 41, we now focus on the requirements of paragraphs 25 and 26 of the PBE Policy Approach (see extracts below). These paragraphs provide guidance on when it is appropriate to rebut the presumption that an amendment to IPSAS will be incorporated into PBE Standards. We have also included paragraph 19 of the PBE Policy Approach, which sets out the 'development principle', i.e. the factors that the NZASB considers when deciding whether to introduce or amend a PBE Standard.

Extracts from the PBE Policy Approach

3. The Development Principle

19. In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:[5]

(a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups and NFP PBE groups, than would be the case if the development was not made; and

(b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:

(i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;

(ii) *relevance to the NFP or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;

(iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);

(iv) *the impact on mixed groups*; and

(c) In the case of a potential development arising from the issue of a new or amended IFRS Standard that is relevant to PBEs, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).

…

Rebutting the presumption and not adopting a new or amended IPSAS

25. Depending on the circumstances, it may be appropriate to rebut the presumption in paragraph 22 and thereby not adopt a new or amended IPSAS, or part(s) thereof. Given that PBE Standards are based primarily on IPSAS, a decision to rebut the presumption is expected to occur only in exceptional circumstances. Examples of such circumstances include where the NZASB has significant concerns that, in the New Zealand context:

(a) adoption of a new or amended IPSAS would not be either appropriate or relevant (based on the development principle); and

(b) the costs of adoption of a new or amended IPSAS would outweigh the benefits to users of PBE financial reports.[9]

26. In the event that the presumption to adopt a new or amended IPSAS is rebutted, this will require the NZASB to report to the XRB Board:

(a) its decision and rationale for the decision, including reference to the relevant factors of the development principle; and

(b) what, if any, action(s) it plans to take in relation to the new or amended IPSAS, for example, whether a domestic standard will be developed and whether parts of the new or amended IPSAS will be incorporated into that domestic standard.

…

5 In applying the development principle and rebuttable presumptions in this policy document, the NZASB will consider the costs and benefits of initiating a new development and the relevance of a topic to PBEs based on consultation with constituents.

9 As discussed in paragraphs 14–18 and giving consideration to the factors in the development principle, the primary benefit of a potential development to the suite of PBE Standards is to improve the information provided to users of PBE financial reports and to promote higher quality financial reporting by PBEs.

10. Table 4 applies paragraphs 25 and 26 of the PBE Policy Approach to the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates*.

Table 4 Comments on paragraphs 25 and 26 of the PBE Policy Approach	
Para 25	Paragraph 25 has been written with whole standards in mind, not deferrals of effective dates. In this instance the Board has already issued a PBE Standard based on IPSAS 41. It is difficult to apply the development principle to the deferral of an effective date. Nevertheless, we have considered some of the factors in the development principle. Paragraph references to the specific factors considered are shown in square brackets. • Deferring the effective date of PBE IPSAS 41 would not lead to higher quality reporting. In fact, it would delay higher quality reporting by those entities that have not yet adopted PBE IFRS 9 or PBE IPSAS 41. [Paragraph 19(a)] • There will be costs associated with adoption of PBE IPSAS 41, but deferring the effective date would merely delay those costs. Many PBEs (those that have already adopted PBE IFRS 9) have already incurred most of the costs of transitioning to the newer requirements. As noted by the TRG, the impact of PBE IPSAS 41 on smaller PBEs that have not early adopt PBE IFRS 9 is expected to be minimal. [Paragraph 19(b)] • Delaying the effective date of PBE IPSAS 41 would have a negative effect on the coherence of PBE Standards. It has been difficult to maintain three standards on financial instruments in the period leading up to the PBE IPSAS 41 becoming effective. [Paragraph 19(b)(iii)]
Para 26	In terms of reporting to the XRB Board, we suggest that a copy of this memo be tabled at a future XRB Board meeting, along with a brief cover memo noting the Board's decision. No further actions are required in relation to the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates.*

Questions for the Board

Q1. Does the Board agree, for the reasons set out in this memo, not to adopt the IPSASB's amending standard, *COVID-19: Deferral of Effective Dates,* into PBE Standards?

Q2. Does the Board agree that a copy of this memo should be tabled at a future XRB Board meeting?

Next steps

11. If the Board agrees with our recommendations, we will arrange for a copy of this memo to be tabled at the next XRB Board meeting, along with a brief cover memo noting the Board's decision.

Attachment

Agenda item 4.2.1: IPSASB *COVID-19: Deferral of Effective Dates* (late paper)

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	3 December 2020
To:	XRB Members
From:	Anthony Heffernan and Lisa Kelsey
Subject:	**IFRS Foundation—Consultation Paper on Sustainability Reporting**

Introduction[1]

1. At its meeting in October the XRB agreed to comment on the IFRS Foundation's—*Consultation Paper on Sustainability Reporting* (the CP). Comments are due to the IFRS Foundation by 31 December 2020.

2. Agenda item 11.1 is for noting and includes background information on the sustainability reporting eco-system, as it currently stands. At the XRB meeting we plan to focus on the draft comment letter at agenda item 11.2.

Recommendations

3. We recommend that the Board CONSIDERS and APPROVES the draft comment letter to the Trustees of the IFRS Foundation on the CP (see agenda item 11.2).

Next steps

4. If the Board approves the draft comment letter we will finalise and submit it via the IFRS website prior to the 31 December 2020 deadline.

5. If further work is required we would appreciate the assistance of two or three board members to review and finalise the comment letter.

Attachments

Agenda item 11.1:	Memo—Background information
Agenda item 11.2:	Draft comment letter
Agenda item 11.3	*Consultation Paper on Sustainability Reporting*

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	3 December 2020
To:	XRB Members
From:	Anthony Heffernan and Lisa Kelsey
Subject:	**IFRS Foundation—Consultation Paper on Sustainability Reporting**

Background[1]

IFRS Foundation—the CP

1. In January 2019 the Trustees of the IFRS Foundation (the Trustees) started to assess future strategy in the context of the IFRS Foundation's five-yearly review of structure and effectiveness.

2. In October 2019 the Trustees agreed that developments in sustainability reporting would be a key element of assessments of the Foundation's future strategy, and set up a Task Force to undertake further research and analysis.

3. In June 2020 the Trustees agreed that the Foundation should develop a consultation paper on whether it should expand its standard-setting activities into the area of sustainability reporting.

4. On 30 September 2020, the Trustees issued the CP for public consultation to identify the demand from stakeholders in the area of sustainability reporting and understand what the Foundation could do in response to that demand. The Trustees have been very clear that any involvement of the IFRS Foundation in sustainability reporting must be demand driven. The Trustees have proposed three high-level options in the CP, but they will not expand the remit of the Foundation unless there is international consensus that they should do so.

5. The high-level options proposed are:
   (a) maintain the status quo (i.e. do nothing);
   (b) facilitate existing initiatives;
   (c) create a Sustainability Standards Board and become a standard setter working with existing initiatives and building upon their work. This is the Trustees' preferred option, subject to it meeting the Trustees' 'requirements for success'.

6. The release of the CP followed a flurry of public statements by various bodies about the need for more reporting and the need for the various groups to work together. Since the CP was issued there have been a number of public statements in support of the consultation and an

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announcement about a merger of two key bodies. In Appendix 1 to this memo, we have provided a summary of public announcements just prior to the release of the CP and following the release of the CP.

Key acronyms used in this memo

CDP	Formerly Carbon Disclosure Project, now just CDP
CDSB	Climate Disclosure Standards Board
CRD	Corporate Reporting Dialogue
EFRAG	European Financial Advisory Group
IBC	International Business Council
IIRC	International Integrated Reporting Council
GRI	Global Reporting Initiative
NFRD	Non-Financial Reporting Directive
SASB	Sustainability Accounting Standards Board
SFF	Sustainable Finance Forum of the Aotearoa Circle
TCFD	Task Force on Climate-related Financial Disclosures
WEF	World Economic Forum

New Zealand context

7. We have included some New Zealand context in the comment letter. We felt it was important for the Trustees to understand recent development in New Zealand. We wanted to highlight that we have a domestic obligation to develop a standard on climate-related financial disclosures. We also wanted to highlight the work of the Sustainable Finance Forum of the Aotearoa Circle and the recommendation for the XRB to be mandated and resourced to develop sustainability standards.

The Five

8. As pointed out in the CP we have a supply side in transition. There is an almost overwhelming level of activity presently underway. Just prior to the publication of the CP the key bodies responsible for the current voluntary sustainability standards and frameworks (being SASB, GRI, CDSB, IIRC and CDP) issued a statement of intent to show how they are collaborating to construct a comprehensive global architecture of standards (see Appendix 2 for more information).

9. On 26 November, the IIRC and SASB announced[2] their intention to merge and become the Value Reporting Foundation. The press release about this announcement said that they see this as a major step towards simplifying the corporate reporting system and that the Value Reporting Foundation could eventually integrate other entities focused on enterprise value creation. The press release indicates that the CDSB is open to such discussions. This would leave the GRI, which has commented that it will continue to work closely with the Value Reporting Foundation.

[2] https://integratedreporting.org/news/iirc-and-sasb-announce-intent-to-merge-in-major-step-towards-simplifying-the-corporate-reporting-system/

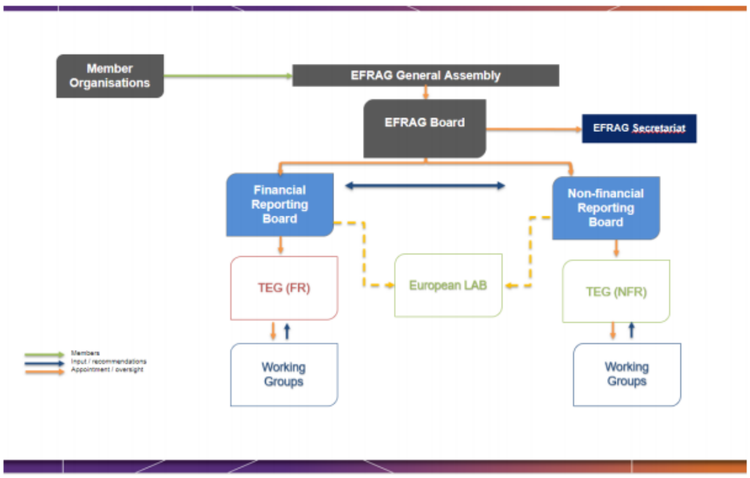
Europe

10. On 25 June 2020, the European Commission (EC) issued a request for technical advice mandating EFRAG to undertake preparatory work for the elaboration of possible EU non-financial reporting standards in a revised *Non-Financial Reporting Directive* (NFRD), the ultimate objective being to allow for the swift development, adoption and implementation of European standards, should that be the choice of the European Union following the wider revision of the NFRD.

11. The EC also issued a separate ad personam mandate, inviting the EFRAG Board President and European Lab Steering Group Chairman, Jean Paul Gauzès, to consider the possible need for changes to the governance and financing of EFRAG, if it were to be entrusted with the development of European non-financial reporting standards under a revised NFRD.

12. In his preliminary report on the mandate on potential need for changes to the governance and funding of EFRAG, Jean Paul Gauzès has proposed the following core structure.

1.4 EFRAG proposed new core structure



World Economic Forum

13. On 22 September 2020, the International Business Council (IBC) of the World Economic Forum (WEF), in collaboration with Deloitte, EY, KPMG and PwC, published a white paper, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, with the purpose of establishing consistency and comparability for companies reporting on their environmental, social, and governance (ESG) performance. They hope the establishment of common metrics could form the foundation of a market-based, global set of ESG accounting standards.

14. The Sustainable Finance Forum of the Aotearoa Circle has recommended that the XRB use these metrics as a starting point for developing sustainability reporting standards.[3]

[3] Sustainable Finance Forum Roadmap for Action Final Report 2020

IASB—Management Commentary Project

15. In November 2017, the International Accounting Standards Board (IASB) added to its agenda a project to revise the IFRS Practice Statement 1 *Management Commentary* (Practice Statement). In undertaking the project, the IASB said that it would consider how broader financial reporting could complement financial statements prepared applying IFRS Standards.

16. The IASB completed its substantive discussions about what guidance to provide in the revised Practice Statement at its October 2020 meeting. The IASB expects to publish an Exposure Draft of the revised Practice Statement in April 2021.

Australia

17. The AASB agreed at its November meeting to comment on the CP and has formed a subcommittee to draft the comment letter. The AASB supports the initiative to reduce diversity and achieve greater global consistency in sustainability reporting. AASB staff will undertake targeted outreach to inform the AASB's feedback to the Trustees, including the question of whether the IFRS Foundation is the appropriate organisation to lead the initiative. We will provide the Board with a verbal update of any preliminary views of the AASB at this meeting.

Appendix 1

International scan

Table 1 summarises public announcements by various key international stakeholders, both prior to the issue of the CP and following.

Table 1: Public announcements by key international stakeholders		
Prior to the issue of the CP		
Date/Stakeholder	**Public comments and links**	**Staff notes**
11 September 2020 Members of the Corporate Reporting Dialogue (CRD)* Facilitated by the Impact Management Project, World Economic Forum and Deloitte.	Statement of Intent to Work Together Towards Comprehensive Corporate Reporting Published a document setting out "a shared vision of the elements necessary for more comprehensive corporate reporting and a joint statement of intent to drive towards this goal." "…We need to create an equivalent mindset when it comes to sustainability disclosure, so that actors coalesce around a set of generally accepted frameworks and standards that have global legitimacy through regulatory mandates or other recognition by policymakers, and engage actively in the related ongoing standard-setting processes. Only then will the proliferation of alternative initiatives stop, companies' frustration be reduced, and quality and consistency of the reported information be improved." Link to Statement of Intent See Appendix 2 of this memo for more details *The five members of the CRD are: CDP, CDSB: Climate Disclosure Board, GRI: Global Reporting Initiative, IIRC: International Integrated Reporting Council, SASB: Sustainability Accounting Standards Board	Noted commitment to engage with IOSCO and the IFRS Foundation, including on how to connect sustainability disclosures standards focused on enterprise value creation to Financial GAAP Acknowledges concept of dynamic materiality Proposes a building block approach Supplemented by specific jurisdictional regulatory requirements As prior to publication no mention of the CP
11 September 2020 IFAC This news item also included quotes from Deloitte and IIRC (see below)	Kevin Dancey, CEO of IFAC, said, "The time for a global solution is now. Given the momentum that has developed this year—because of work by Accountancy Europe, WEF/IBC, the European Commission, the IOSCO Task Force and the five leading reporting initiatives—we have a unique opportunity to act in concert to do the right thing in the public interest. IFAC believes the IFRS Foundation, with the backing of public authorities, is optimally positioned to lead and coordinate this initiative, and they would do so with our full support. We recommend that the proposed board adopt a "building blocks" approach, working with and leveraging the expertise and disclosure requirements of the CDP, CDSB, GRI, IIRC and SASB." Link to release	IFAC supports the IFRS Foundation leading this work The way forward uses the building block approach proposed in the statement of intent issued by the CRD

Table 1: Public announcements by key international stakeholders		
11 September 2020 IIRC (as part of IFAC news release – see above)	Charles Tilley, IIRC Chief Executive Officer, said, "The IIRC has long championed a vision of a comprehensive and cohesive corporate reporting system to drive effective corporate governance and sustainable value creation. Bridging the gap between the two worlds of financial reporting and sustainability reporting is a vital element in fulfilling this vision and we support the development of a conceptual framework, based substantially on integrated reporting principles, to facilitate the linkages that will break down silos and restore trust." Barry Melancon, AICPA President and CEO, and IIRC Board Chair, added, "IFAC's recommendations are powerful, coming out at a time when the world is in search of answers. This is an important moment for the IFRS Trustees, as businesses and investors need robust and trusted standards and interconnected oversight. A cohesive approach to reporting is not just more efficient, it is essential to unlock the positive force of value creation. We also need innovation to complete the corporate reporting system, to ensure we have an assurance process that is fit for purpose and the technology to support high quality reporting and governance."	IIRC supports the development of a conceptual framework based substantially on <IR> principles
11 September 2020 Deloitte (as part of IFAC news release – see above)	Veronica Poole, Global IFRS Leader and Head of Corporate Reporting at Deloitte, said: "Transparent measurement and disclosure of sustainability performance is a fundamental part of effective business management and is essential for preserving trust in business as a force for good. IFAC's vision is fully aligned with the joint vision of the leading standard-setters on how their current standards and frameworks could complement IFRS Standards and US GAAP, and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system." "We now have a unique opportunity to accelerate progress and house all the relevant standards under one roof as suggested by IFAC, to connect sustainability disclosure standards focused on enterprise value creation to financial GAAP. Integrated reporting together with the IASB's work on Management Commentary can provide a framework for this connectivity. IOSCO has stated its commitment to bring about the system change for the capital markets and the IFRS Foundation trustees indicated that they are going to consult on introducing a sustainability focused standard-setter under the umbrella of the IFRS Foundation—the stars are lining up to bring about the fundamental shift in reporting that investors, business and society at large have been calling for."	Suggests the IASB's Management Commentary PS can provide a framework for connectivity
22 September 2020 The International Business Council (IBC) of the World Economic Forum (WEF), in collaboration with Deloitte, EY, KPMG and PwC	Published a white paper, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* With the purpose of establishing consistency and comparability for companies reporting on their environmental, social, and governance (ESG) performance. "Through adopting these indicators, the corporate sector can demonstrate to standard-setters, investors, regulators, governments and others that it has converged on a set of decision-useful sustainability metrics that could form the foundation of a market-based, global set of ESG accounting standards." Link to white paper	Defines a core set of Stakeholder Capitalism Metrics (SCM) Based on existing standards e.g. GRI, SASB Companies expected to disclose or explain any metrics deemed immaterial
30 September 2020 The Trustees issued the CP		
30 September 2020 CRD	The CRD wrote an open letter to Erik Thedéen, Chair of the IOSCO Sustainability Task Force. "We write to express our commitment to work closely with IOSCO and the IFRS Foundation to drive towards the vision laid out in our	Supportive of working together Notably absent is a definitive statement of

Table 1: Public announcements by key international stakeholders		
	joint statement of intent. We will continue to use our best endeavours in the public interest to achieve the comprehensive corporate reporting system that the world so urgently needs."	support for the development of a sustainability standards board (SSB) by the Trustees
30 September 2020 IFAC	IFAC Applauds IFRS Consultation on Sustainability Standards Board "IFAC looks forward to engaging with our members and other key stakeholders in formulating a full supportive response to the Consultation." Link to response	Supportive as a critical step on the path towards a global solution to sustainability reporting, as called for by IFAC on 20 September in its Enhancing Corporate Reporting: The Way Forward roadmap
15 October 2020 Professors of Accounting researching in the field of sustainability accounting and reporting*	Open letter to the Chair of the Trustees Erkki Liikanen. Link to open letter *19 signatories, including Prof Markus J. Milne (University of Canterbury)	Not supportive. Significant concern that the Trustees have not considered available academic research
October 2020 BlackRock, a global investment manager	Commentary *Sustainability Reporting: Convergence to Accelerate Progress* BlackRock agreed with the reference to 'dynamic materiality' by the joint statement of CDP-CDSB-GRI-IIRC-SASB and welcomed the IFRS Foundation consultation. Nonetheless, BlackRock noted that it will continue to advocate for TCFD and SASB aligned reporting until a global standard is established. Link to commentary	BlackRock supports convergence to achieve a globally recognised and adopted approach to corporate reporting In the meantime use TCFD and SASB
28 October 2020 Erik Thedeen, Chair of the IOSCO Sustainability Task Force	Open response to the open letter from the CRD "we look forward to continuing and deepening our collaboration with your organisations and the IFRS Foundation. An important aim will be to help ensure that these initiatives proceed towards convergence in a coordinated way that meets the needs of capital markets and serves the public interest." Link to open response	Supportive of both the CRD Initiative and the IFRS Foundation CP Notes that while these initiatives are currently running in parallel, the Task Force is keen to see them come together
5 November 2020 Chair of the Trustees Erkki Liikanen	Delivered the keynote speech at the UNCTAD Intergovernmental Working Group of Experts on International Accounting and Reporting "I still want to reiterate: this is a demand-driven process. If demand exists, then we will look to examine how to move forward. If you have views on this topic, whatever they are, please let us know. If there is no demand, then there is nothing more for us to do. It's down to you." Link to keynote speech	Chair of the Trustees making clear it is a demand driven process – If no demand then nothing more for the Foundation to do
6 November 2020 Janine Guillot, CEO, The SASB Foundation	Blog posted on SASB website *IFRS Foundation Aims for Coherence, Not Complexity* …"In my view, the IFRS Foundation's Consultation Paper on Sustainability Reporting is the most significant development in accounting standard-setting since the creation of the International Accounting Standards Board (IASB) in 2001. This is big—and, therefore, crucial to get right"…	Supportive, of the IFRS Foundation's proposal in principle, but how the proposal is implemented matters Goes on to list eight factors proposed SSB will need to be committed to.

Table 1: Public announcements by key international stakeholders		
	"We believe the new SSB could draw on the existing standards and frameworks already built for that purpose, including those of the IIRC, CDSB, SASB, and the Task Force on Climate-related Financial Disclosures (TCFD). These standards and frameworks focus their work on the sub-set of sustainability information that is most likely to be "financially material"…" Link to blog post	
10 November 2020 UK Government*	Notice Initial response to IFRS Foundation Trustees consultation "Climate change and sustainability are challenges that extend beyond national borders. They therefore demand international solutions. Internationally agreed sustainability reporting standards will help to achieve consistent and comparable reporting on environmental, social and governance (ESG) matters" Link to Notice *Department for Business, Energy and Industrial Strategy (BEIS), Bank of England (BoE), Department for Work and Pensions (DWP), Financial Conduct Authority (FCA), Financial Reporting Council (FRC), Her Majesty's Treasury (HMT) and The Pensions Regulator (TPR)	Supportive of the approach set out in the CP which seeks to build on the established work and accumulated knowledge of organisations already operating in this area
13 November 2020 European Commission (EC) and EFRAG	Progress report published for project on preparatory work for the elaboration of possible EU non-financial reporting standards This preparatory work is being carried out by a multi-stakeholder Project Task Force (PTF-NFRS) that was appointed by the Steering Group of the European Reporting Lab @EFRAG (European Lab), within which the project operates. Link to press release	Europe is full steam ahead
13 November 2020 European Commission (EC) and EFRAG	Preliminary Report on the mandate on potential need for changes to the governance and funding of EFRAG If EFRAG were to be entrusted with the development of possible EU non-financial reporting standards, its new mission would differ from its present mission of influencing the IASB and providing endorsement advice. Link to Report	The proposed new core structure in the report has a new Non-financial Reporting Board (same as proposed SSB under the IFRS Foundation)
26 November 2020 SASB and IIRC	IIRC and SASB announce intention to merge and hail this as a major step towards simplifying the corporate reporting system. The new organisation will be called the Value Reporting Foundation. Link to Press Release	Very interesting development. The issue of the CP by the IFRS Foundation has pushed the different frameworks into co-operating /merging

Appendix 2

The Five – the key bodies responsible for the current voluntary sustainability standards and frameworks

This Appendix contains extracts from the *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* issued by CDP, CDSB, GRI, IIRC and SASB in September 2020.

At a high-level, we view ourselves as a nested eco-system:

i. The GRI Standards are developed in the public interest and enable companies to report sustainability information that describes their significant impacts on the economy, environment or people, and hence their contributions – positive or negative – towards sustainable development, and can also be used to describe impacts on the company.

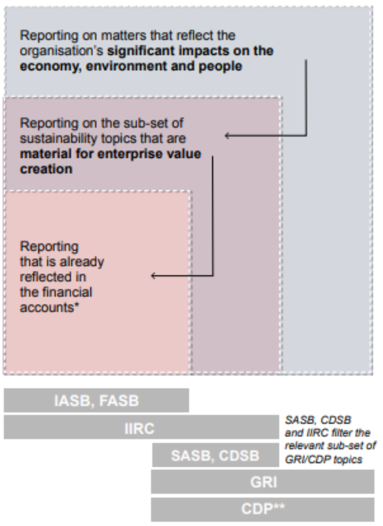
ii. The SASB Standards and CDSB Framework focus exclusively on enabling companies to identify the sub-set of sustainability information that is material for enterprise value creation, and therefore relevant for users making economic decisions. Whereas CDSB's Framework is industry agnostic and designed to facilitate effective disclosure of a company's natural capital, environmental and climate-related risks and opportunities, the industry-specific SASB Standards aid companies in preparing disclosures on five dimensions of sustainability, including the environment, social capital, human capital, business model and innovation, and leadership and governance.

iii. The <IR> Framework connects reporting of sustainability information to reporting on financial and other capitals.

iv. Finally, all of our organisations acknowledge the crucial role of technology in reporting. This includes the importance of enabling access for all stakeholders to corporate performance on sustainability topics, as CDP's platform does today for climate, water and forests.

This "big picture" view of the relationship between our standards and frameworks, including their relationship to the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), is illustrated in Figure 2.

Figure 2. Standards address distinctive materiality concepts



* Including assumptions and cash flow projections
** Reflects the scope of the CDP survey, insofar as it functions de facto as a disclosure standard for climate, water and forests, as well as the scope of CDP's data platform

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Agenda Item 11.2

31 December 2020

Mr Erkki Liikanen
Chair IFRS Foundation Trustees
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org or By email: commentletters@ifrs.org

Dear Mr Liikanen

IFRS Foundation Consultation Paper on Sustainability Reporting

1. The External Reporting Board (XRB) is pleased to have the opportunity to comment on the *Consultation Paper on Sustainability Reporting* (the CP) published by the Trustees of the IFRS Foundation (the Trustees). The XRB is the independent Crown Entity responsible for developing and issuing financial reporting, auditing, assurance, and ethical standards in New Zealand.

2. The CP is of particular relevance, interest and importance to New Zealand constituents and the XRB as a standard setter.

Key Points

3. We believe the ultimate goal is a global set of internationally recognised EER/integrated standards that can be applied by different types of reporting entities.

4. There needs to be a strong value add proposition for the Foundation to set up a new sustainability standards board (SSB). The worst possible outcome would be to add another standard-setting organisation into the sustainability reporting eco-system and add to the complexity and confusion.

5. In our view, the CP does not provide sufficient detail for us to answer in the affirmative to the Trustees proposal to create an SSB. The CP is lacking a clear strategy for the delivery of one set of international recognised sustainability reporting standards.

6. The missing piece in the CP is a clear strategy on how the IFRS Foundation is going to work with established international organisations.

7. We are disappointed the Trustees did not take the opportunity to recognise the absolutely critical role that reporting by governments plays in managing climate-related risks.

The New Zealand context

8. In order to give context to our responses we have begun by outlining some recent developments in New Zealand. In this section we have provided a summary in chronological order of the developments in sustainability reporting in New Zealand.

Revision of the NZX Code

9. In May 2017, the New Zealand Stock Exchange (NZX) published a revised NZX Corporate Governance Code (NZX Code). One of the key aims of the revised NZX Code is to promote issuer disclosure of environmental, social and governance factors (ESG).

XRB and EER

10. In June 2018, following the revision of the NZX Code and the growing interest in broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements, the XRB commenced work on an Extended External Reporting (EER) project. The term EER, as used by the XRB, can include reporting information on an entity's governance, business model, risks, opportunities, prospects (including forward-looking financial information), strategies and economic, environmental, social and cultural impacts.

11. In March 2019, the XRB released a position statement on EER. In this statement the XRB observed the growing demand from stakeholders, supported by research, for entities to provide: increased transparency on material risks (including ESG risks) and strategies for managing those risks; forward-looking information about an entity's long-term sustainability; information about an entity's key resources and relationships; and greater visibility around corporate citizenship. The XRB acknowledged the demand for EER by stakeholders and expressed its strong support of entities presenting EER. The XRB noted its support for the continued innovation in EER and expressed its commitment to working collaboratively with key stakeholders, including policy makers and regulators, to help generate the right balance between policies, regulation and innovation.

12. The XRB has been working to promote awareness of EER and the benefits of EER. The XRB has developed an EER section on its website which explains what EER is and describes the benefits of EER.

13. In response to constituents' requests about which frameworks and standards might be appropriate for them, and to assist constituents to access relevant guidance, the XRB developed a navigational resource and made it available on its website. The XRB has also been awaiting the IASB ED on Management Commentary which it expects to discuss the relevance of ESG information and how to incorporate such information in management commentary.

14. The XRB cannot issue EER/integrated standards due to a limit in its current mandate.

Mandatory climate-related financial disclosures

15. In October 2019, the Ministry for the Environment and the Ministry of Business, Innovation & Employment issued a Discussion document – *Climate-related financial disclosures – Understanding your business risks and opportunities related to climate change*. This document sought views about the legislative means for implementing new mandatory (comply-or-explain) climate-related financial disclosures requirements — i.e. whether the XRB should be given the power to issue accounting standards on climate-related financial disclosures.

16. In August 2020 Cabinet discussed introducing a mandatory climate-related financial disclosure regime. In September 2020, the New Zealand Government announced[1] that Cabinet had agreed to introduce a mandatory climate-related financial disclosure regime which would require certain entities to report climate-related financial disclosures in accordance with a standard to be developed by the XRB. The new regime will be on a comply-or-explain basis, based on the Task Force on Climate-related Financial Disclosures (TCFD) framework, which is widely acknowledged as international best practice. The expected time frame for the introduction of this new regime is short. Legislation is expected to be enacted in 2021, ready for mandatory reporting by entities in 2022–2023 (for example, entities with March balance dates will be required to report in accordance with the new standard for the year ending 31 March 2023).

17. The New Zealand mandatory climate-related financial disclosure regime will apply to a range of entities including banks, investment schemes, insurers, crown financial institutions of a certain size, and all equity and debt issuers listed on the New Zealand Stock Exchange (NZX).

18. The New Zealand Government plans to extend the XRB's mandate and funding base to enable it to carry out the development of a standard(s) for climate-related financial disclosures. Preparatory work has already commenced and initial funding secured.

Reporting climate-change related information

19. In New Zealand some organisations that provide essential public services to New Zealand can be required by the Minister for Climate Change to report climate change-related information under the *Climate Change Response (Zero Carbon) Amendment Act 2019* (CCRA)[2]. It is highly likely that these organisations will also use the new XRB standard to report this information.

Sustainable Finance Forum

20. In November 2020, the Aotearoa Circle's Sustainable Finance Forum (the Aotearoa Circle is a partnership of public and private sector leaders, unified and committed to the pursuit of sustainable prosperity and reversing the decline of New Zealand's natural resources) released its Sustainable Finance Roadmap for Action. Recommendation 5: *Improve and extend external reporting and disclosures* (see Appendix 1) calls for the XRB's mandate to be widened to include developing standards on sustainability.

[1] Announcement by Climate Change Minister, James Shaw
15 September 2020 New Zealand first in the world to require climate risk reporting

[2] https://www.mfe.govt.nz/climate-change/guidance/climate-change-reporting

21. The recent release of this paper, coming shortly after the New Zealand Government's decisions about mandatory climate-related financial reporting, illustrates the increasing demands for sustainability reporting (both in terms of the nature of information that should be reported and the types of entities that should be required to report).

TCFD Recommendations

22. Paragraph 33 of the CP discusses the work of the TCFD, we were disappointed that the CP implies that the TCFD somehow lacks credibility by pointing out the TCFD is a private-sector task force that has not been established on a permanent footing. More than 1500 organisations globally have expressed their support for the TCFD recommendations. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) encourages all companies issuing public debt or equity as well as financial sector institutions to disclose in line with the TCFD recommendations[3]. In New Zealand there are already a number of companies that have adopted the TCFD recommendations, the new XRB standard is to be based on the TCFD recommendations.

23. We also note that there are a number of other jurisdictions whose policy makers have announced initiatives for mandatory climate-related reporting. For example, the UK has recently announced its intention to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

24. We acknowledge the substantial work already underway to support the adoption of the TCFD recommendations, For example, the development of the TCFD Knowledge Hub (the hub). CDSB hosts the hub on behalf of the TCFD. The hub hosts a range of resources that help organisations to identify, analyse and report climate-related financial information. The hub has been created to support the adoption of the TCFD recommendations.

25. We strongly recommend that any international standard on climate-related financial disclosures use the TCFD recommendations as its starting point.

The Consultation Paper

26. Global capital markets and other constituent groups are increasingly demanding more consistent and comparable information on sustainability. There have been a number of responses to these calls for information, leading to the current position where we consider that there is a need to consolidate and legitimise some of those options.

27. We agree there is a need for a global set of internationally recognised sustainability reporting standards (that have the same recognition as IFRS and ISA standards) that produce decision-useful information.

28. We believe the ultimate goal is a global set of internationally recognised EER /integrated standards that *can be applied by different types of reporting entities i.e. not just large publicly accountable corporates.*

29. The proposal put forward by the Trustees in the CP is the development of a sustainability standards board (SSB) under the governance structure of the IFRS Foundation.

[3] https://www.mainstreamingclimate.org/publication/ngfs-a-call-for-action-climate-change-as-a-source-of-financial-risk/

30. There needs to be a strong value add proposition for the Foundation to set up a new sustainability standards board (SSB). The worst possible outcome would be to add another standard-setting organisation into the sustainability reporting eco-system and add to the complexity and confusion.

31. In our view, the CP does not provide sufficient detail for us to answer in the affirmative to the Trustees proposal to create an SSB. The CP is lacking a clear strategy for the delivery of one set of international recognised sustainability reporting standards.

32. The missing piece in the CP is a clear strategy on how the Foundation is going to work with established international organisations.

33. Part 4 of the CP discusses working with established organisations, and mentions the TCFD and the five framework and standard-setting institutions of international significance (the five)—International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the Climate Disclosure Project (CDP). Paragraph 36 states that if this consultation were to find sufficient demand for the IFRS Foundation to add sustainability reporting to its remit and the key requirements for success were to be met, the Trustees would decide how best to engage with existing organisations involved in sustainability reporting. This engagement would focus on the most appropriate approach to achieving the goals of global consistency and reduced complexity, for example, by consolidating existing initiatives.

34. However, we note that the requirements for success listed in paragraph 31 do not include working with established international organisations. The CP does not give a sense that this is a key priority of the Trustees. Rather than setting up a new Board we see a role for the Foundation (using its established legitimacy and credibility) to bring these established organisations together to develop one set of international recognised sustainability reporting standards.

35. There is already momentum towards convergence amongst the five. Just prior to the issue of the CP the five issued a *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* (statement of intent) to show how they are collaborating to construct a comprehensive global architecture of standards. We are also aware that the five are working to develop prototypes of a conceptual framework, a presentation standard (inspired by IAS 1) and a climate-related financial disclosures standard based on work done to date by the five. Then there is also the recent announcement by the IIRC and SASB of their intention to merge and become the Value Reporting Foundation.

36. Also prior to the release of the CP, the International Business Council (IBC) of the World Economic Forum (WEF), in collaboration with Deloitte, EY, KPMG and PwC, published a white paper, *Measuring* Stakeholder *Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation.* The result is 21 core and 34 expanded metrics and disclosures. The IBC note that the set of decision-useful sustainability metrics could form the foundation of a market-based, global set of ESG accounting standards. The metrics draw extensively on the existing standards of the five. The five have indicated they will continue to engage with the WEF.

37. In IOSCO's open response to the open letter from the five, Mr Thedeen noted that IOSCO's Task Force on Sustainable Finance (STF) are considering the scope for improvement in sustainability-related disclosures on two main dimensions: Content and Governance, due process and the public

interest. Mr Thedeen expressed delight at the progress made on both dimensions. On content he welcomed the publication of the statement of intent and open letter by the five and noted that the 'building blocks' approach outlined in the statement of intent has the potential to deliver an integrated and consolidated set of disclosures that meets multiple stakeholders' needs. On governance Mr Thedeen welcomed the CP published by the Trustees. He commented that while to date the two initiatives have been running in parallel, he is keen to see them come together. He considers the initiatives to be highly complementary.

38. We agree with the comments made by Mr Thedeen, the IFRS Foundation has no developed content. It must be able to leverage off the work that has already been done; the CP insufficiently addresses the interaction of all of the established international organisations and therefore the added value of a new SSB under the IFRS foundation is not clearly articulated. What would not be a good outcome is a whole new set of standards, which do not build on the market-adopted frameworks that exist today. Preparers are already applying standards and frameworks developed by the five (in New Zealand we have preparers applying GRI, <IR> and TCFD amongst others). It is important that these standards and frameworks come together.

39. What the Foundation does have is the global networks, harmonisation and consensus building capacity. The IFRS Foundation does have established relationships with the five (through the IASB membership of the corporate reporting dialogue)) and the TCFD (through the IASB membership of the Financial Stability Board (FSB)).

40. We recommend before it pursues the establishment of a separate board the Foundation share a clear strategy on how it is going to work with the established international organisations to deliver a global set of international sustainability standards. The ultimate goal would be consolidation into one standard setting board and not to repeat the current situation that still faces the IFRS Foundation where the USA maintains its own GAAP through the FASB.

41. By using the 'building block' approach suggested by the five the development of a harmonised global standard on climate related disclosures should be able to be achieved in a timely manner.

Requirements for success

42. Paragraph 31 of the CP lists the requirements for success should the Trustees receive sufficient support to establish a new Sustainability Standards Board. In our view these are prerequisites and must be in place before any further development of the SSB option. As we have discussed above, an additional prerequisite is the development and sharing of a clear strategy on how the IFRS Foundation is going to work with established international organisations.

43. As requested, we have provided our comments on the success factors identified by the Trustees.

    (a) achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets;

44. Agree this prerequisite is critical. Public policy initiatives are already underway (see New Zealand context above), it is critical to get support from public authorities. IOSCO played a vital role in endorsing the content and developing the governance of global financial reporting standards 20 years ago. IOSCO would need to play a similar role with sustainability standard-setting today. Market stakeholders are demanding decision useful sustainability information. Preparers are already applying standards and frameworks developed locally and internationally

45. It seems short sighted of the IFRS foundation to take this critical strategic opportunity without apparent regard to the reporting requirements of governments. In our opinion the reporting by governments of both financial and non-financial information is mission critical to the protection of intergenerational wellbeing of the citizens of the world. If we are to see the UN sustainable development goals achieved, the IFRS foundation needs to join the call for consistent reporting requirements between the private and the public sectors. If the IFRS foundation chooses to ignore the need for government reporting standards in the non-financial reporting space it will impose a greater burden (out of proportion), on listed corporates and create an uneven playing field across the globe.

46. The foundation need not in our opinion limit itself to the reporting by listed corporates but to tackle the sustainability reporting needs from a whole of economy perspective and develop a standard setting board across sectors.

(b) working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting;

47. Agree, that it is vital to have cooperation with regional initiatives to achieve global consistency and comparability. However, the above prerequisite needs to also include working with jurisdictional initiatives for example, New Zealand (see New Zealand context above) and the UK.

48. A fundamental success of the IASB is its established relationships with jurisdictions around the world. Recent times have shown us we can use virtual technologies to connect, the Trustees will need to take advantage of this to ensure voices around the globe are appropriately reflected in a global set of internationally recognised sustainability reporting standards.

49. It would have been helpful if the CP had outlined how it is going to work with regional initiatives such as the preparatory work underway by EFRAG on behalf of the European commission. Unfortunately, we have not achieved global financial reporting standards as we still have US GAAP and IFRS. We would not like to see a similar outcome for sustainability reporting.

(c) ensuring the adequacy of the governance structure;

50. If the Trustees proceed with the development of an SSB, it is critical that the governance reflect both public and private sector reporting needs. We would strongly encourage the Trustees to develop a governance structure that captures both the private and public sector. As we commented above, we see as the ultimate goal—a global set of internationally recognised EER/integrated standards that can be applied by different types of reporting entities i.e. not just large publicly accountable corporates. This would mean bringing in the key governance players that will do this. It may also involve changing the makeup of the Trustees to bring on the appropriate breadth of experience.

(d) achieving appropriate technical expertise for the Trustees, SSB members and staff;

51. When the IASB was set up it had many IAS in place, it had a board and staff from G4+1 who had experience in standard setting with a conceptual framework. As we have discussed above, an additional prerequisite is the development and sharing of a clear strategy on how the Foundation is going to work with established international organisations. It is these organisations that have the appropriate technical expertise , this must be leveraged.

(e) achieving the level of separate funding required and the capacity to obtain financial support;

52. We question whether the Trustees need to continue to fund financial reporting development at the same level going into the future. This success factor does not acknowledge the interconnectedness between financial and non-financial reporting. However, we agree there needs to be sufficient funding to ensure the success of interconnected standard setting— i.e. standards for reporting on financial and non-financial information.

(f) developing a structure and culture that seeks to build effective synergies with financial reporting;

53. We are disappointed that the CP did not reflect more on the work of the IIRC, the IASB has been a member of the IIRC since the inception ten years ago. The IIRC has delivered on what it set out to do by developing the International <IR> Framework. The concept of capitals has been adopted by the New Zealand Government in its wellbeing reporting which is now part of the Public Finance Act and is recognised through the New Zealand Treasury's living standards framework.

(g) ensuring the current mission and resources of the IFRS Foundation are not compromised.

54. We do have a concern that the above success factor shows lack of commitment and acknowledgement of the interconnectedness between the financial and non-financial information.

Other comments

A well-defined scope

55. ESG, sustainability, non-financial reporting, EER – these terms are interpreted differently, the IFRS foundation needs to have a well-defined scope.

56. Reporting needs to expand beyond traditional financial and non-financial (human, social, natural capital) reporting, to include reporting on intellectual capital and manufactured capital reporting. Standards for these capitals need to be considered.

Timeliness

57. Consistent and comparable climate-related disclosures is required now to support the urgent call for a global response to address the threats associated with the impacts and causes of climate-change. It will take time to set up a Board and get staff (unless you can subsume existing international organisations within the Foundation). Jurisdictions are already moving on this, especially on mandating climate related financial disclosures. We recommend the Trustees develop a timeline for the development and issue of a standard on climate-related financial disclosures.

The way forward

58. The XRB looks forward to further engagement from the Trustees, which we hope will address a number of outstanding strategic issues. We consider questions 4 through to 11 to be premature as we don't think the Trustees have sufficiently articulated a strong value add proposition for the development of an SSB. In our view the paper fails to reflect the important connection between

financial and non-financial reporting i.e. reporting must be integrated — albeit standards may be set by separate boards.

59. If you have any queries or require clarification on any matters in this submission, please contact me (P: +64 4 550 2048; E: april.mackenzie@xrb.govt.nz).

Yours sincerely

April Mackenzie
Chief Executive
External Reporting Board

Appendix 1

Sustainable Finance Forum Roadmap for Action Final Report – November 2020

Extract from *Sustainable Finance Roadmap for Action*

Recommendation 5: Improve and extend external reporting and disclosures

1) Develop consistent foundational metrics and disclosures

We recommend:

a) Move towards a 'comply or explain' structure and signal a second move to an 'apply and explain' mandatory regime for foundational sustainability metrics and disclosures, similar to the model adopted by the UK Stewardship Code, 2020. This would require reporting entities to disclose their actions and progress against standard reporting criteria, and to explain how their organisation's purpose and actions have contributed to improvements in the organisation's assessment and management of its significant environmental and social issues.

b) A suite of credible, comparable foundational metrics and disclosures that encompass key material stakeholder concerns and leverage international standards is developed. These disclosures should include social purpose, material issues, long-term purpose, and the integration of environmental and social risks and opportunities into strategy.

c) We recommend the External Reporting Board (XRB), in consultation with Māori and others, be mandated and resourced to develop these standards, using the WEF's White Paper as a starting point.

2) Extend disclosure requirements to asset owners, fund managers, and large private companies

We recommend:

a) That public sustainability reporting, including disclosures of the foundational metrics and disclosures outlined above, be required from the following entities, with a focus, in the first instance, on those deemed to be Tier I entities as well as capital providers. For example, the first tranche could include those deemed to be publicly accountable, and include others:[i]

    a. Tier I Public benefit entities (including Crown Financial Institutions, central and local government) which has public accountability, or is a large Public Benefit Entity with total expenses > $30million.
    b. Registered banks, credit unions and building societies.
    c. All asset owners and fund managers with greater than $1 billion in total assets under management (registered and privately held).
    d. Tier I 'for profit' entities, which are those which have public accountability, or are large for-profit public sector entities (with total expenses > $30million).
    e. All listed equity and /or debt issuers.
    f. Licensed insurers.

3) Improve the approach to, and uptake of, third party verification and assurance

We recommend:

a) Initially, the XRB be funded to allow them to support, educate and promote Extended External Reporting (EER) Assurance, and continue their active participation in the IAASB project.

b) As non-financial disclosures continue to evolve, a programme be developed which trains and registers third-party verifiers and assurers for environmental and social metrics and disclosures. The vision is to create a pool of credible and reliable professionals who could undertake this service, which traditional financial auditors are less able to provide.

c) Longer-term, require assurance over metrics and disclosures related to significant non-financial risks (e.g. climate-related financial risks), as well as the circa 21 standard metrics and disclosures identified in the recommendation above.

4) Use the value of quality reporting to drive positive environmental and social outcomes

a) Encourage the public sector and corporate entities to adopt Impact Management Project's (IMP) impact measuring and reporting framework to help shift the focus of reporting to deliver positive environmental and social outcomes. As the IMP is a framework rather than a methodology, we believe this provides enough flexibility to make the adoption of this recommendation practical in a short timeframe.

September 2020

IFRS® Foundation

Consultation Paper on Sustainability Reporting

Comments to be received by 31 December 2020

IFRS®

IFRS Foundation

Consultation Paper on Sustainability Reporting

September 2020

Consultation Paper on Sustainability Reporting is published by the IFRS Foundation Trustees for comment only. Comments need to be received by 31 December 2020 and should be submitted by email to commentletters@ifrs.org or on the 'Open for comment' page at www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

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IFRS Foundation *Consultation Paper on Sustainability Reporting*

Preamble and Invitation to Comment

1 A Task Force, set up at the initiative of the Trustees of the IFRS Foundation (Trustees) in October 2019, has prepared this document for public consultation to identify the demand from stakeholders in the area of sustainability reporting and understand what the Foundation could do in response to that demand.[1]

2 This initiative must be understood in the context of IFRS Foundation's five-year review of its strategy, which started in January 2019. For further details of the work of the Trustee Task Force see Annex A.

3 The Trustees[2] invite detailed comments from stakeholders on the matters set out in this paper. The Trustees are providing a consultation period of no less than 90 days, consistent with previous invitations to comment on the IFRS Foundation's strategic reviews. The deadline for comments to be received is 31 December 2020. The Trustees will analyse all comments received and base their conclusions about the Foundation's potential role on these comments. The Trustees appreciate stakeholders taking the time to respond to the questions outlined on page 15–16 of this document.

Part 1: Assessment of the current situation

Growing and urgent demand

4 The Trustee Task Force has informally engaged with a cross section of stakeholders involved in sustainability reporting (including the investor and preparer communities, central banks, regulators,[3] public policy makers, auditing firms and other service providers). Through that *informal* engagement it became clear that sustainability reporting is continuing to increase in importance for those stakeholders. Notwithstanding differences in scope and motivation, all stakeholders share a common message: there is an urgent need to improve the consistency and comparability in sustainability reporting. A set of comparable and consistent standards will allow businesses to build public trust through greater transparency of their sustainability initiatives, which will be helpful to investors and an even broader audience in a context in which society is demanding initiatives to combat climate change.

1 The Trustees are responsible for the governance and oversight of the IFRS Foundation and the International Accounting Standards Board. The Trustees are not involved in any technical matters relating to IFRS Standards. The Trustees are accountable to the Monitoring Board, a body of publicly accountable market authorities.

2 Note that this Consultation Paper and its contents have been approved by the IFRS Foundation Trustees for publication.

3 The Monitoring Board was kept informed of the preparation of the consultation paper but did not provide formal comments on this paper, nor approved it prior to its publication. Throughout the consultation period and the subsequent consideration by the Trustees of the public responses, the Monitoring Board expects to take the following steps:

- Establish a dedicated working group to prepare for the Monitoring Board's engagement with the Trustees;
- During the consultation period, the working group will assemble the Monitoring Board's questions and input for consideration by the Trustees; and
- After public input is received from the consultation paper, the Monitoring Board members will actively engage with the Trustees before the Trustees determine what additional steps, if any, should be taken.

5 **Investors**—Large institutional investors demand better disclosure of climate risks and sustainability indicators. These investors use sustainability reporting to inform their decisions and want comparable and verifiable information. Investors are, together with preparers, the driving force behind the increasing number of calls for clear, consistent and comparable sustainability information. Asset managers and institutional investors are currently facing an increasing set of expectations from their customers, clients and beneficiaries, while contending with underdeveloped data and analytics on investable assets and significant cost pressures. The investor community has already taken steps to help to ensure that the world's largest corporate greenhouse gas emitters act on climate change.[4]

6 **The corporate sector**—Increasing numbers of companies are committed to developing their sustainability reporting. Such commitment is driven by regulation, consumer behaviour, investor demand and the recognition of the impact that managing sustainability risks can have on long-term value creation. A broad consensus holds that the current practice of sustainability disclosure is inefficient and sometimes ineffective due to a lack of commonly accepted standards and the inability to compare the information reported or provide assurance. Companies also lack clarity about how they should report on the impact of climate-change transitions. Concerns are also emerging over increasing regional and domestic regulatory requirements and their impact on global competitiveness. The corporate sector also has established many initiatives on sustainability reporting.[5]

7 **Central banks**—Central banks are increasingly focused on climate-related risks and sustainability more broadly as important drivers of their financial stability work. Prudential regulators are starting to incorporate climate analyses into stress tests, and regulatory stress testing of banks and insurers increasingly includes estimates of climate-change impacts. This area is evolving quickly because of the intensifying demand to understand the impact of climate change on companies. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS)[6] has been established to help strengthen the global response required to meet the goals of the Paris agreement[7] and to enhance the role of the financial system in managing risks and mobilising capital for green and low-carbon investments in environmentally sustainable development.[8]

8 **Market regulators**—Regulators' involvement in sustainability reporting is influenced by their governments' public policy positions. Consequently, regulators' views of sustainability reporting are more prominent in some regions, such as Europe or China, where securities and banking regulators are key leaders of policy initiatives. However, the International Organization of Security Commissions (IOSCO) is currently considering how its members could be involved in sustainability reporting.[9]

4 For example, see Climate Action 100+.

5 For example, see the Partnership for Carbon Accounting Financials (PCAF), World Business Council for Sustainable Development (WBCFSD).

6 https://www.ngfs.net/en.

7 United Nations, *Paris Agreement*, 2015.

8 See, for example, Network for Greening the Financial System, Technical document: Guide to climate scenario analysis for central banks and supervisors, June 2020 and Network for Greening the Financial System, Technical document: A sustainable and responsible investment guide for central banks' portfolio management, October 2019.

9 IOSCO, Sustainable Finance and the Role of Securities Regulators and IOSCO: Final Report, April 2020.

9 **Public policy makers**—In response to public policy initiatives[10,11] to tackle climate change, companies will need to adapt their business models to become compatible with net zero carbon-emission targets that major jurisdictions have set in line with financial markets that are evolving to a net-zero world. Policy makers also expect that, in their reporting, companies may have to consider global public policy initiatives[12] relating to climate change.

10 **Auditing firms and other service providers**—Auditing firms and data and index providers develop and assess reporting frameworks. Auditing firms could play a major role in providing assurance if sustainability reporting were to be standardised and the information provided required such assurance.

A supply side in transition

11 Many organisations currently provide sustainability reporting frameworks, standards and metrics.[13] Some of their work overlaps, but ultimately each standard- or framework-setter is seeking to produce specific products for its own stakeholders. Some organisations focus on non-financial standard-setting, some focus on creating a framework for non-financial information, and some focus on frameworks for climate-related disclosures.

12 These organisations' target audiences for standards also vary—the primary audience could be investors or wider society. Differences in focus and audience lead to differences in the way the organisations approach materiality, with some organisations focusing on the impact of risks on a company and other organisations focusing on a company's impact on the environment (see discussion on materiality). In response to this, there has been an effort made by some organisations to coordinate in order to build a shared vision on which a coherent corporate-reporting system can be based (see paragraph 34).

13 Some countries and regions are taking initiatives that complement the private sector initiatives we have discussed. The European Union is highly engaged in sustainability reporting and has proposed its own approach (see discussion on providing a global platform).

14 Diverse approaches and objectives pose the threat of increasing fragmentation globally. The potential of fragmentation and the growing demands from stakeholders demonstrate the need for a global framework to provide greater comparability and reduce the complexity of approaches and objectives.

The need for consistency in reporting and comparable information

15 Outreach with stakeholders and research by the Task Force has revealed that a wide range of voluntary frameworks and standards are in use and that preparers are faced with opting to report using multiple standards, metrics or frameworks with limited effectiveness and impact, a high risk of complexity and an ever-increasing cost.

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10 See legally binding initiatives in Denmark, France, New Zealand, Sweden and the United Kingdom.

11 See discussion below on the initiatives of the European Union and providing a global platform.

12 The Paris Agreement has been ratified by 189 parties. The agreement has two main objectives: *Long-term temperature goal (Art. 2)* – 'The Paris Agreement, in seeking to strengthen the global response to climate change, reaffirms the goal of limiting global temperature increase to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degree'; and *Global peaking and 'climate neutrality' (Art. 4)* – 'To achieve this temperature goal, Parties aim to reach global peaking of greenhouse gas emissions (GHGs) as soon as possible, recognizing peaking will take longer for developing country Parties, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of GHGs in the second half of the century.'

13 Annex C provides an overview of organisations involved in sustainability reporting.

16 Demand for better disclosure of sustainability information is urgent. Many stakeholders acknowledged that delays to global coherence, most pressingly on climate-related disclosures, will increase the threat of fragmentation and consequently cause difficulties in engaging capital markets to smooth the transition to a low-carbon economy. Many jurisdictions have committed to target dates to achieve net-zero emissions and reporting standards could play a vital role in assisting with these targets.

What can the IFRS Foundation contribute?

17 There have been several recent calls for the IFRS Foundation to become involved in reducing the level of complexity and achieving greater consistency in sustainability reporting.[14] Such calls suggest that the IFRS Foundation's track record and expertise in standard-setting, and its relationships with global regulators and governments around the world, could be useful for setting sustainability reporting standards.

18 The IFRS Foundation's mission is to develop IFRS Standards that seek to bring transparency, accountability and efficiency to financial markets around the world. The work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. The IFRS Foundation has existing standard-setting expertise and due process procedures focused on transparency, broad consultation and accountability that, as some have suggested, could be deployed to reduce complexity and achieve greater consistency in global sustainability reporting.

19 The IFRS Foundation maintains strong and collaborative international relationships with governments, regulators and national standard-setters to deliver its mission. The Foundation works closely with such stakeholders in connection with the Foundation's standard-setting, implementation support and maintenance activities. In many instances those relationships are formalised through memorandums of understanding.[15] Such established relationships assist in the consistent use of IFRS Standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in 144 jurisdictions around the world.[16]

20 The IFRS Foundation's standard-setting body, the International Accounting Standards Board (IASB), is also a member of the Corporate Reporting Dialogue (CRD),[17] which strives to strengthen cooperation, coordination and alignment among standard-setters and framework developers that have significant international influence in corporate reporting. The CRD also involves some standard-setters that focus on sustainability reporting.

21 The Foundation's current relationships could help to achieve further global consistency and reduce complexity in sustainability reporting, as some stakeholders suggest. Such work would require the support of, and a close institutional relationship with governments, regulators and national standard-setters.

14 Accountancy Europe, *Follow up paper: interconnected standard-setting for corporate reporting*, June 2020; Eumedion, Feedback statement on Eumedion's Green paper '*Towards a global standard setter for non-financial reporting*', July 2020; and International Federation of Accountants, *Enhancing Corporate Reporting: The Way Forward*, September 2020.

15 IFRS Foundation, *Cooperation agreements*, accessed 21 September 2020.

16 IFRS Foundation, *Who uses IFRS Standards?*, accessed 21 September 2020.

17 Corporate Reporting Dialogue, *Participants*, accessed 21 September 2020.

Part 2: High-level options for the IFRS Foundation

22 The Trustees considered different options for how the IFRS Foundation could approach sustainability reporting while understanding the growing calls for the urgent need for further consistency in reporting and comparable information. The Trustees' consideration on the strategic direction of the Foundation in this area ultimately focused on 'change or no change', and the following options were considered:

(a) **Maintain the status quo**—the Trustees considered that maintaining the Foundation's current structure would not enable it to significantly reduce the complexity and improve comparability in sustainability reporting. Such an approach would carry the lowest risk of failure for the Foundation, but would provide the least benefit to the Foundation's stakeholders and other parties interested in achieving global comparability and a reduction of complexity in global sustainability reporting. Such an approach would not respond to several stakeholders' calls for the Foundation to take a leading role in global sustainability reporting.

(b) **Facilitate existing initiatives**—the Trustees considered that the Foundation could attempt to facilitate and harmonise existing initiatives, which could assist in reducing complexity. But this approach also carries an equal risk of causing fragmentation and adding to the complexity—by adding another voice to the discussion, rather than creating a global framework for consistent standard-setting.

(c) **Create a Sustainability Standards Board and become a standard-setter working with existing initiatives and building upon their work**—subject to consultation to understand whether demand is sufficient to create such a standard-setting body (see the section, Requirements for Success), this option is considered the best of those discussed to assist in reducing complexity and achieving comparability in sustainability reporting. The IFRS Foundation action could lead to an approach that seeks to harmonise and streamline sustainability reporting, which could benefit stakeholders of the IFRS Foundation and benefit sustainability reporting.

Part 3: A new Sustainability Standards Board

23 To achieve coherence and comparability, the approach recommended by the Task Force and supported by the Trustees would be to create a new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation to develop global sustainability standards. The Trustees' approval of such an initiative is conditional on the satisfaction of the requirements for success (see paragraph 31).

24 The objective of the SSB would be to develop and maintain a global set of sustainability-reporting standards initially focused on climate-related risks. Such standard-setting would make use of existing sustainability frameworks and standards (for more information on the proposals for building upon existing initiatives and a 'climate-first approach' see paragraphs 41−43).

25 The proposed establishment of the SSB within the institutional and governance structure of the IFRS Foundation could achieve the objectives of developing a framework for sustainability reporting which is coherent with and connected to financial reporting and the IASB's own mission to serve investors and other primary users of financial statements.

26 The SSB could leverage and adapt the standard-setting process, due process procedures and network of the IFRS Foundation. The SSB could promote the consistent use and application of the new sustainability-reporting standards and contribute to international collaboration, cooperation and coordination among sustainability-reporting bodies, governments, regulators and other stakeholders to achieve further convergence.

27 The SSB would operate alongside the IASB, and the two boards would benefit from the increasing interconnectedness between financial reporting and sustainability reporting. Some have argued that using the knowledge base of the accountancy profession is a vital component in developing high-quality and consistent measurement and disclosure requirements in sustainability reporting.[18]

28 Stakeholders could also benefit if a single organisation developed requirements in financial reporting and sustainability reporting. Notably, such a standard-setter could help to significantly reduce complexity: the IASB and its staff could collaborate with the SSB; their expertise could be used to develop research synergies. The boards would need formal and informal mechanisms for communication and dialogue to develop these links and create synergies.

Proposed governance structure of the SSB

29 The IFRS Foundation's three-tier governance structure[19] could be effectively used for the creation of an SSB. This structure consists of an independent standard-setting board of experts governed and overseen by a global set of Trustees who, in turn, are accountable to a monitoring board of public authorities, the IFRS Foundation Monitoring Board. The Monitoring Board provides a formal link between the Trustees and public authorities to enhance the public accountability of the IFRS Foundation.

30 Structured in three tiers, the SSB would operate alongside the IASB and would be subject to the governance and oversight of the Trustees and the Monitoring Board. It is expected that if the SSB is established, Trustees will be selected who will provide a balance of professional backgrounds and experience and have an interest in developing and promoting transparency in sustainability reporting globally as well as in promoting consistent and comparable financial reporting.

Requirements for success

31 The Trustees have provisionally chosen to further develop the SSB option, on the condition that it would meet the following requirements for success. The Trustees consider these requirements essential for success:

(a) achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets;

(b) working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting;

(c) ensuring the adequacy of the governance structure;

(d) achieving appropriate technical expertise for the Trustees, SSB members and staff;

18 Accountancy Europe, *Interconnected Standard Setting for corporate Reporting*, December 2019.

19 IFRS Foundation, *Our structure*, accessed 21 September 2020.

(e) achieving the level of separate funding required and the capacity to obtain financial support;

(f) developing a structure and culture that seeks to build effective synergies with financial reporting; and

(g) ensuring the current mission and resources of the IFRS Foundation are not compromised.

Part 4: Relationships with other institutions and initiatives

Working with established organisations

32 The Foundation is arguably well positioned to develop an appropriate institutional and governance framework to develop consistently applied global sustainability-reporting standards. However, some stakeholders are concerned that introducing the IFRS Foundation as a standard-setter in this area could put at risk the current momentum created by other frameworks and standard-setting bodies.

33 In 2015, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD), and the IASB as a member of the FSB has participated in the oversight of the TCFD's work through its regular reports to the FSB. Nearly 800 public- and private-sector organisations, including global financial firms responsible for assets in excess of $118 trillion, have endorsed the TCFD and its work.[20] The IFRS Foundation continues to be involved in the FSB's work, as set out in its 2020 work programme,[21] to oversee the TCFD's implementation monitoring report and its further guidance on climate-related scenario analyses. However, the TCFD is a private-sector task force without any mandate or ability to set international standards and has not been established on a permanent footing.

34 Recently, a statement issued by the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the Climate Disclosure Project (CDP) set out a proposal for collaboration to form the 'building blocks' of a set of metrics on global non-financial reporting. In that statement, the organisations reported that they would welcome the prospect of working with the IFRS Foundation.[22,23] This statement has been followed by the issuance of a joint paper,[24] which outlines a collective commitment to drive toward the goals of creating a coherent and comprehensive corporate-reporting system through an ongoing program of deeper collaboration.

35 It is important for an SSB to build upon the established work of the aforementioned organisations and accumulated knowledge in this area. If the demand exists for the IFRS Foundation to become further involved in the remit of sustainability reporting, the IFRS Foundation can build on its own work. The Foundation has established expertise in standard-setting and the established organisations in sustainability reporting could provide their knowledge to benefit the new SSB.

20 Task Force on Climate-related Financial Disclosures, *Task Force on Climate-related Financial Disclosures: Status Report*, June 2019.

21 Financial Stability Board, *FSB work programme for 2020*, accessed 21 September 2020.

22 Accountancy Europe, *Follow up paper on interconnected standard-setting*, June 2020.

23 The IFRS Foundation does have established relationships with these named organisations through the International Accounting Standards Board's membership of the CRD.

24 *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting: Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB*, September 2020.

36 The SSB would also need to build expertise and acquire the adequate human capital for its task. If this consultation were to find sufficient demand for the IFRS Foundation to add sustainability reporting to its remit and the key requirements for success were to be met, the Trustees would decide how best to engage with existing organisations involved in sustainability reporting. This engagement would focus on the most appropriate approach to achieving the goals of global consistency and reduced complexity, for example, by consolidating existing initiatives.

Providing a global platform

37 The Task Force's research and informal consultation has indicated that demand is growing for international coordination of an agreed set of sustainability-reporting standards. International standardisation assists in providing a level playing field for companies that prepare reports and international comparability for investors.

38 Regional and jurisdictional public policy initiatives, most notably by the European Union, have worked to:

(a) establish the International Platform on Sustainable Finance (IPSF);[25]

(b) review the Non-Financial Reporting Directive during 2020;[26]

(c) start preparatory work on non-financial reporting standards, as the European Commission requested the European Financial Reporting Advisory Group (EFRAG) to do this as quickly as possible;[27] and

(d) develop a Taxonomy for sustainable activities.[28]

39 A process of 'bottom up' cooperation among regional initiatives or existing standard-setters alone would not be sufficient to realise the goal of establishing even a basic set of standards. To develop such standards, a global initiative would be needed, and it would be vital for that global initiative to cooperate with regional initiatives to achieve global consistency and comparability.

40 Stakeholders' views are welcomed on whether and how the IFRS Foundation could work with effective regional and national initiatives to achieve a global comparability and consistency for global stakeholders.

25 European Commission, *International platform on sustainable finance*, accessed 21 September 2020.

26 European Commission, *Public consultation: Non-financial reporting by large companies (updated rules)*, February 2020.

27 European Commission, *Speech by Executive Vice-President Valdis Dombrovskis at the IFRS Foundation conference 'Financial reporting: remaining relevant in a changing environment'*, accessed 21 September 2020.

28 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

Part 5: Scope—if an SSB were to be established by the IFRS Foundation

A 'climate-first' approach

41 The Task Force's research and informal consultation indicates that developing global sustainability-reporting standards for climate-related information is the most pressing concern. Climate risk is a financial risk of growing importance to investors and prudential regulators, mostly because of public policy initiatives by major jurisdictions globally. Given the immediacy of these initiatives, it is proposed that any initial work to be undertaken by the SSB focuses on climate-related information. Companies are already considering how their business operations will be affected by a transition to a low-carbon global economy, which will increasingly directly affect companies' financial reporting.[29,30] What is meant by 'climate-related information' is open to interpretation. That information could focus specifically on climate change and greenhouse gas emissions,[31] or take into consideration wider environmental factors[32] and the associated financial risks.

42 The SSB could prioritise climate-related risk because of its urgency but could also consult on other environmental priorities. In certain jurisdictions a broader approach is already underway, and a focus solely on climate-related disclosures could misalign with public policies (for example jurisdictional regulations relating to the disclosure of information on pollution).[33] The SSB could also broaden its work over time to focus on other priorities beyond a specifically climate or environmental focus (for example into social and other related matters) as demands change. This work would be subject to the IFRS Foundation's existing due process requirements.

43 During the Task Force's informal consultation, many stakeholders have argued that, at a later stage, the SSB might adopt a broader scope of sustainability reporting that includes the interrelationship between environmental, social and governance factors. For example, the mandate for the current World Economic Forum International Business Council[34] initiative also refers to the principles of governance, planet, people and prosperity, and proposes a flexible structure that would initially focus on climate but would be able to enlarge its scope in due course.

29 Climate Financial Risk Forum, *Climate financial risk forum guide: Summary*, June 2020.

30 IFRS Foundation, 'Climate-related and other emerging risks disclosures: Assessing financial statement materiality', *In Brief*, November 2019.

31 As defined by United Nations, *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, December 1997.

32 World Economic Forum International Business Council, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, January 2020.

33 Alex L. Wang, 'Explaining Environmental Information Disclosure in China', *Ecology Law Quarterly*, vol. 44, 2018, p. 865.

34 World Economic Forum International Business Council, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, January 2020.

Approach to materiality

Objective of sustainability reporting

44 When considering the concept of materiality, it is important to determine the objectives of sustainability reporting, what information is needed to achieve those objectives and which stakeholders will use the information reported by companies. Qualitative characteristics of useful sustainability information also need to be developed, drawing upon principles set out in existing frameworks such as the TCFD, the SASB, the International <IR> Framework and the Sustainable Development Goals Disclosure recommendations (SDGD).[35]

45 The IASB has developed a conceptual framework that sets out the underlying concepts for financial reporting and guides the development of IFRS Standards. The *Conceptual Framework for Financial Reporting* helps to ensure that the Standards are consistent and that similar transactions are treated in the same way, so as to provide useful information for investors, lenders and other creditors. The *Conceptual Framework* incorporates qualitative characteristics of financial reporting that could inform the qualitative characteristics useful in sustainability reporting. The SSB could develop a conceptual framework of its own to guide its work on consistent and comparable sustainability reporting.

Considering value creation in the context of single and double materiality

46 The current mission of the IFRS Foundation is to deliver robust, reliable and transparent information as input for the decisions of the primary users of general-purpose financial statements. IFRS Standards are based on the concept of financial materiality, which implies focusing on information which − if omitted − could influence the decisions of investors or other users of the financial statements who are interested in the performance and long-term health of the reporting entity:

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity. —IAS 1 *Presentation of Financial Statements*.

47 Given the IFRS Foundation's current mandate and approach, some stakeholders have indicated that if the Foundation were to create an SSB it should focus on producing information about the effects of relevant events (for example, climate change) on the reporting entity, as this would support the decisions of investors and other market participants (the prime audience for financial reporting).

48 On the other hand, some stakeholders are interested in developing standards referring to the principle of 'double materiality', under which the impact of the reporting entity on the wider environment would also be reported (see, for example, the EU guidelines on non-financial reporting).[36] In this case, the disclosures are typically about issues that are material to multiple stakeholders' understanding of a company's effect on its environment. A multi-stakeholder approach is, for example, adopted by the GRI.

35 Adams, C. A., with P. B. Druckman and R. C. Picot, *Sustainable Development Goals Disclosure* (SDGD) Recommendations, January 2020.

36 European Commission, *Guidelines on reporting climate-related information*, 2019, p. 7.

49 Moreover, it must be recognized that disclosures that focus on a company's impact on the environment are becoming increasingly important to the investor audience (see the TCFD's recommended disclosure on GHG Emissions), because there is a connection between a company's impact on the environment and the risks and opportunities for that company.[37] Such disclosures are increasingly important for investors to understand a company's long-term value creation as well as its impact on the climate.

Proposed approach for the SSB on materiality

50 For the SSB to commence with a double-materiality approach would substantially increase the complexity of the task and could potentially impact or delay the adoption of the standards. Therefore, a gradualist approach is recommended. If established, the SSB would initially focus its efforts on the sustainability information most relevant to investors and other market participants. Such information would more closely connect with the current focus of the IASB.

51 The SSB could consider how to broaden its scope as it proceeds with its work, while working with other initiatives, to provide a more comprehensive assessment of the risks and opportunities for a reporting entity. This comprehensive assessment would be particularly important if more jurisdictions embrace the double-materiality concept to minimize the risks of global and jurisdictional fragmentation of standards.

Achieving assurance

52 To achieve globally consistent sustainability reporting practices, sustainability information reported by companies will ultimately need to be subject to external assurance. However, there are conceptual and practical challenges to achieving such assurance, including the need for a consistent global framework and the difficulties of setting out qualitative sustainability-related disclosure requirements.[38] These challenges are aligned with the conceptual challenges relating to materiality.

53 It may take some time for key stakeholders to develop common sustainability disclosures, but the objective is for companies to disclose information that has been externally assured. As the discipline of sustainability reporting matures, disclosures may vary, and some may require the use of developing methodology, such as the use of scenario analysis and stress testing. Such testing will affect the level of assurance of that information that can be provided. However, it would be desirable that the assurance framework for sustainability information will ultimately be similar to that for financial statements.

54 The IFRS Foundation has expertise in creating financial reporting standards with regard to auditing challenges and to help achieve this, has developed working relationships with the International Auditing and Assurance Standards Board (IAASB) and the audit profession.

37 Task Force on Climate-related Financial Disclosures, *Status Report*, June 2019, p. 2.

38 P. De Cambourg, President of the Autorité des Normes Comptables, *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe*, May 2019, p. 161.

Questions for consultation

Question 1

Is there a need for a global set of internationally recognised sustainability reporting standards?

(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

(b) If not, what approach should be adopted?

Question 2

Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

Question 3

Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

Question 4

Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

Question 5

How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

Question 6

How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

Question 7

If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

Question 8

Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

Question 9

Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

Question 10

Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

Question 11

Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

Annex A – Process

A1 The Trustees of the IFRS Foundation (the Trustees) started to assess future strategy in January 2019 in the context of the IFRS Foundation's five-yearly review of structure and effectiveness. One key element of that consideration was the growing interest among stakeholders in wider corporate reporting. As the Trustees' consideration advanced it was clear that sustainability reporting[39] was particularly prominent within that context.

A2 The Trustees agreed in October 2019 that developments in sustainability reporting would be a key element of assessments of the Foundation's future strategy, and set up a Task Force to undertake further research and analysis. The Trustees were made aware of the growing demand for further consistency in reporting and for comparable information through interactions with stakeholders and a growing body of research on the subject.[40]

A3 Since then, the Task Force has engaged with a cross section of stakeholders involved in sustainability reporting (including the investor and preparer communities, central banks, regulators, public policy makers, auditing firms and other service providers). Through that *informal* engagement it became clear that sustainability reporting is rapidly growing in importance, and that the multitude of organisations involved has led to added complexity. The Task Force's initial findings were presented to the Trustees in February 2020, and the Trustees mandated the Task Force to explore with stakeholders involved in global financial market governance whether and to what extent the IFRS Foundation could have a role in the remit of global sustainability reporting.

A4 The Trustees agreed in June 2020 that the IFRS Foundation should develop a consultation paper on whether it should expand its standard-setting activities into this area. The Trustees noted that their motivation to consult publicly was to fully understand the type of demand from stakeholders in the area of sustainability reporting and what the Foundation could do in response to that demand.

A5 The Trustees also agreed to establish a group of independent external experts to inform the development of this Consultation Paper. The IFRS Foundation Advisory Group on Sustainability Reporting (AGSR) was established in July 2020 and included Peter Praet (Chair), Eloy Lindeijer, Howard Davies, Ma Jun, Mary Schapiro, Patrick de Cambourg and Rudolf Bless. The AGSR provided advice on the consultation paper.[41] The Trustees approved the exposure of this Consultation Paper on 17 September 2020.

39 For the purpose of this paper the term 'sustainability reporting' is used as a catch-all phase referring to information related to all environmental, social and governance (ESG) matters.

40 Barker R. and R. G. Eccles, *Should FASB and IASB be responsible for setting standards for nonfinancial information?* a Green Paper of the University of Oxford Saïd Business School, October 2018; P. De Cambourg, President of the Autorité des Normes Comptables, *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe*, May 2019; and Bank for international settlements (BIS), *The green swan: Central banking and financial stability in the age of climate change*, January 2020.

41 Note that this Consultation Paper and its contents are approved by the IFRS Foundation Trustees. The views expressed in this paper are those of the IFRS Foundation Trustees and do not necessarily reflect the advice or the views held by the AGSR or its individual members. The AGSR saw an earlier draft of this paper and did not see its final version.

Annex B – Research considered by the Trustees

Investors

Eumedion, *Feedback statement on Eumedion's Green paper 'Towards a global standard setter for non-financial reporting'*, July 2020.

Larry Fink, Chairman and CEO of Blackrock, *A Fundamental Reshaping of Finance*, January 2020.

R. Kumar, N. Wallace and C. Funk of State Street Global Investors, 'Into the Mainstream: ESG at the Tipping Point', in *Harvard Law School Forum on Corporate Governance*, 13 January 2020.

Corporate Sector

World Economic Forum International Business Council, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, January 2020.

Central Banks

Bank for international settlements (BIS), *The green swan - Central banking and financial stability in the age of climate change*, January 2020.

Network for Greening the Financial System, Technical document: *Guide to climate scenario analysis for central banks and supervisors*, June 2020.

Network for Greening the Financial System, Technical document: *A sustainable and responsible investment guide for central banks' portfolio management*, October 2019.

Market Regulators

IOSCO, *Sustainable Finance and the Role of Securities Regulators and IOSCO: Final Report*, April 2020.

Climate Financial Risk Forum, *Climate financial risk forum guide: Summary*, June 2020.

Public Policy

Alex L. Wang, 'Explaining Environmental Information Disclosure in China', *Ecology Law Quarterly*, vol. 44, 2018, p. 865.

European Commission, *Public consultation: Non-financial reporting by large companies (updated rules)*, February 2020.

Speech by Executive Vice-President Valdis Dombrovskis at the IFRS Foundation conference 'Financial reporting: remaining relevant in a changing environment', February 2020.

European Union, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, Guidelines on reporting climate-related information, European Union, 2019.

Global Governance

Task Force on Climate-related Financial Disclosures, *Task Force on Climate-related Financial Disclosures: Status Report*, June 2019.

United Nations, *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, December 1997.

United Nations, *Paris Agreement*, 2015.

Thought leadership

Accountancy Europe, *Interconnected Standard Setting for corporate Reporting*, December 2019.

Accountancy Europe, *Follow up paper on interconnected standard-setting*, June 2020.

Adams, C. A., with P. B., Druckman and R. C. Picot, *Sustainable Development Goals Disclosure (SDGD) Recommendations*, January 2020.

Barker R. and R. G. Eccles, *Should FASB and IASB be responsible for setting standards for nonfinancial information?*, a Green Paper of the University of Oxford Saïd Business School, October 2018.

P. De Cambourg, President of the Autorité des Normes Comptables, *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe*, May 2019.

International Federation of Accountants, *Enhancing Corporate Reporting: The Way Forward*, September 2020.

IFRS Foundation

IFRS, 'IFRS Standards and climate-related disclosures', *In Brief*, November 2019.

IFRS Foundation, *Cooperation agreements*, accessed 21 September 2020.

IFRS Foundation, *The use of IFRS Standards around the world*, accessed 21 September 2020.

IFRS Foundation, *Our Structure*, accessed 21 September 2020.

Annex C – Connected organisations involved in sustainability reporting

Each organisation listed below contains a link to the 'about' section on their website

Connected through the IASB's membership of the Financial Stability Board

The Financial Stability Board's Task Force on Climate-related Financial Disclosures

Fellow members of the Corporate Reporting Dialogue

CDP

Climate Disclosure Standards Board

Global Reporting Initiative

International Integrated Reporting Council

Sustainability Accounting Standards Board

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EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

DATE:	3 December 2020
TO:	Members of the External Reporting Board
FROM:	Anthony Heffernan
SUBJECT:	**REVIEW OF IPSASB OVERSIGHT ARRANGEMENTS**

Introduction

1. The Public Interest Committee (PIC)[1] released in November 2020 its final report: *Review of the Oversight Arrangements of the International Public Sector Accounting Standards Board* (the 'Final Report'). This report summarises global feedback received from the review of current oversight arrangements of the IPSASB (agenda item 12.2).

2. In early 2020 the PIC commenced a review of the current oversight arrangements of the IPSASB. To seek feedback from key stakeholders on its performance and identify areas for improvement, the PIC issued for public consultation a *Survey on IPSASB Oversight Arrangements* (the 'survey').

3. The XRB identified several concerns over the current IPSASB oversight arrangements during the 2019 year and highlighted these in its responses to the survey in February 2020 (agenda item 12.3).

Recommendation

4. We recommend the Board NOTES the summary of XRB concerns raised in its submission and the corresponding PIC response as provided in their Final Report (refer to Table 1 of this memo).

Final Report findings

5. The general sentiment noted in the Final Report concerning the results of the public consultation exercise was "overwhelmingly positive" on the current oversight functions and activities of the PIC.

[1] The PIC was established in 2015 to provide oversight of the IPSAB to ensure that the public interest is served by IPSASB in its standard setting activities. The PIC comprises of four members representing the Organisation for Economic Co-operation and Development (OECD), International Monetary Fund (IMF), International Organisation of Supreme Audit Institutions (INTOSAI), and World Bank.

6. Strong support was expressed for the continuance of the PIC mandate centred around promoting public interest in the standard-setting activities of the IPSASB. Feedback noted most respondents considered the current activities of the PIC remained appropriate. The key activities of the PIC include:

   (a) reviewing the terms of reference of the IPSASB;

   (b) reviewing the arrangements for nomination and appointment of IPSASB members; and

   (c) reviewing procedures and processes for formulation of the IPSASB's strategy and work programme, and development of individual IPSASs.

7. The XRB response to the survey highlighted support for any measures that enhance the governance and oversight arrangements of the IPSASB, including the work of the PIC as an independent oversight body.

8. The XRB noted it was broadly supportive of the current PIC oversight activities but provided recommendations for four key areas of improvement, as summarised in Table 1 below.

Table 1 — XRB Recommendations for improvement of the current oversight arrangements of the IPSASB

Key XRB concerns	**PIC response in Final Report**
The Importance of the PIC's activities being guided by its Terms of Reference	
• The PIC needs to guard against involvement (or the perception of involvement) in operational matters which remain the responsibility of the IPSASB or other bodies.	• The PIC noted concerns from a small number of respondents that the activities of the PIC may infringe on the operational independence of the IPSASB. • The PIC reviews the processes and procedures employed by IPSASB in its standard-setting activities but does not seek to directly influence the decisions concerning the IPSASB's strategy and work programme. • The PIC reiterated that it has never proposed a specific addition to the IPSAB work programme nor rejected a specific project by the IPSAB.
Nomination and appointment of IPSAB members	
• To produce high-quality standards, the IPSASB needs experienced, capable and contributing Board members – concerns were raised that too much weight was being given to other inclusiveness factors in the appointment process.	• Appointments to the IPSASB are made by IFAC. The role of the PIC is to ensure that the appointment process operates in the public interest. • The PIC does not get involved in decisions on individual appointments. • Some respondents noted concerns that the PIC actions have led to less

	qualified members being appointed to the IPSASB in order to increase the inclusiveness of appointments (including concerns that appointments were focused primarily on achieving gender parity). • The PIC reiterated its commitment to qualified and inclusive appointments (including gender, geography and accounting background) to the IPSASB. • The PIC emphasised its focus on ensuring processes are in places that promote appointments to the IPSASB have a high technical competency
IPSAB funding arrangements	
• The PIC activities should be expanded to include responsibility for oversight of the IPSASB funding model. • The IPSASB needs additional funding or other forms of support in response to the increasing number of jurisdictions expected to adopt IPSAS.	• Oversight of IPSASB funding strategies is currently outside the mandate of the PIC. • The PIC stands ready to engage in a wider discussion with IFAC about whether to expand its mandate to include oversight of IPSASB funding activities.
Taking the time required to develop high-quality standards	
• The Board acknowledged the need to complete projects in a timely manner ('speed to market'), but the IPSASB's paramount consideration must be the development of high-quality standards. • The public interest is not necessarily severed by faster completion of projects. • The IPSASB should issue standards only once it is satisfied that it has considered all relevant issues and has developed appropriate requirements.	• The PIC reiterated its focus on promoting the development of *relevant and timely* standards. • The PIC reiterated that it has never established time deadlines for the promulgation of any standard.

9. Staff will continue to monitor PIC and IPSASB activities in relation to concerns raised in response to the survey. The IPSASB Chair has been invited to attend the NZASB February 2021 virtual meeting, this will provide an opportunity to discuss any ongoing concerns.

Attachments

Agenda item 12.2	Public Interest Committee — Report on Oversight Arrangements of the IPSASB
Agenda item 12.3	XRB Submission – Survey of IPSASB Oversight Arrangements

Review of the Oversight Arrangements for the International Public Sector Accounting Standards Board

PUBLIC INTEREST COMMITTEE

12 November 2020

PUBLIC INTEREST COMMITTEE

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1. The Public Interest Committee (PIC) was established in 2015 to provide oversight for the International Public Sector Accounting Standards Board (IPSASB). Uniquely among international standard-setters, there had been no oversight arrangements in place for the IPSASB prior to the establishment of the PIC. This lack of oversight had been cited as a hindrance to the adoption and implementation of International Public Sector Accounting Standards (IPSAS) by governments. The period since 2015 has witnessed great growth in momentum for the use of IPSAS to improve financial management and reporting by governments.

2. The PIC's establishment followed the recommendations of the IPSASB Governance Review Group, which was chaired by individuals from the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD) and the World Bank. The Review Group also included representatives from the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the International Organization of Supreme Audit Institutions (INTOSAI). Eurostat and the International Federation of Accountants (IFAC) served as observers. The Review Group's conclusions were based on an extensive public consultation exercise among key stakeholders, and the public at large, on the governance and oversight of the setting of accounting standards for the public sector. [1]

3. In its first five years, the PIC has been concerned with establishing itself, preparing its foundation documents, setting up protocols for key aspects its work, creating routines for its communication with IPSASB and IFAC, regularizing its meeting, and in general to organize its way of working in order to ensure effective oversights for the IPSASB. It has done so in close co-operation with IPSASB and IFAC.

Activity Indicators – 2015-2020

Standards Approved	21
Exposure Drafts	20
Strategy and Work Plans Reviewed	1
New Members Appointed	21
Members Re-Appointed	15

[1] All documents related to the establishment of the Public Interest Committee can be found on its website: http://www.oecd.org/gov/budgeting/pic.htm

PUBLIC INTEREST COMMITTEE

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4. As the year 2020 represents the Public Interest Committee's fifth year anniversary, it was viewed an appropriate time to carry out an external consultation on the current oversight arrangements for the IPSASB in order to seek input from stakeholders on its performance and identify areas for improvement. This consultation was also envisaged at the time of its establishment.

5. The mainstay of the public consultation exercise was a *Survey on IPSASB Oversight Arrangements*, which was widely disseminated. The Committee also reached out directly to key stakeholders, including current and past chairs of the International Federation of Accountants (IFAC), IPSASB, IPSASB Consultative Advisory Group (CAG) and key officials, to seek their input on the activities of the Public Interest Committee.

6. The Committee is very pleased with the level of engagement in this public consultation exercise. Sixty-five responses were received from individuals and institutions with a wide range of institutional, professional and regional backgrounds. This was a greater response than to the original public consultation establishing the present oversight arrangements. The Committee would like to express its sincere thanks to all respondents to the Survey. The Committee would like to thank especially those individuals and organizations that generously gave their time to provide supplementary communications to the Committee.

7. The results of the public consultation exercise was overwhelmingly positive on the current oversight arrangements. It did however bring up a number of points for further consideration. These can usefully be divided into *operational issues* that concern the manner in which the Public Interest Committee carries out its work and *structural issues* that concern the overall governance arrangements.

Key Review Issues

Operational Issues	Oversight of Due Process Oversight of Appointment Process Oversight of Strategy Visibility of PIC Activities
Structural Issues	Mandate of the Public Interest Committee Importance of Public Interest Oversight Membership of the Public Interest Committee Overall Governance Arrangements

8. This report will discuss each of these issues in turn. It will present the results of the Survey, highlight the concerns raised based on the commentary to the Survey and further communications, and present the Committee's reactions.

Oversight Activities

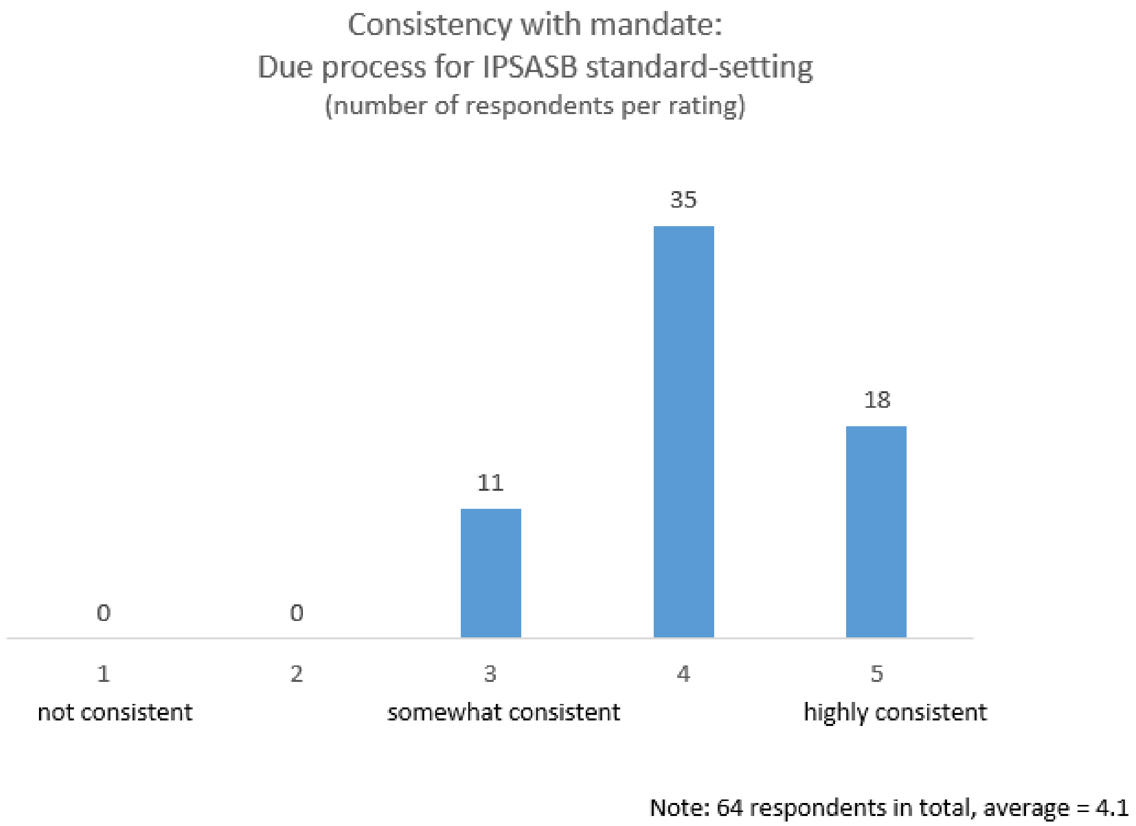
9. The Committee's public interest oversight is based on promoting three key pillars. The Survey questions asked respondents to rank how the PIC performed in respect to each of these pillars vis-à-vis its mandate.

Three Pillars of PIC's Oversight Activities

Due Process

10. The Committee reviews the processes and procedures employed by IPSASB in its standard-setting activities to ensure that rigorous due process is carried out so that the IPSASB delivers high quality standards. This is in accordance with the *International Public Sector Accounting Standards Board – Due Process and Working Procedures* protocol which was agreed between IPSASB and PIC and became effective in June 2016.[2]

[2] This document is available on the PIC website: http://www.oecd.org/gov/budgeting/pic.htm



11. Eighty-three percent of respondents to the Survey scored the performance of the Public Interest Committee as "Highly Consistent," or next best, vis-à-vis its due process mandate. Seventeen percent responded as it being "Somewhat Consistent." There were no scores of "Not Consistent," or next lowest.

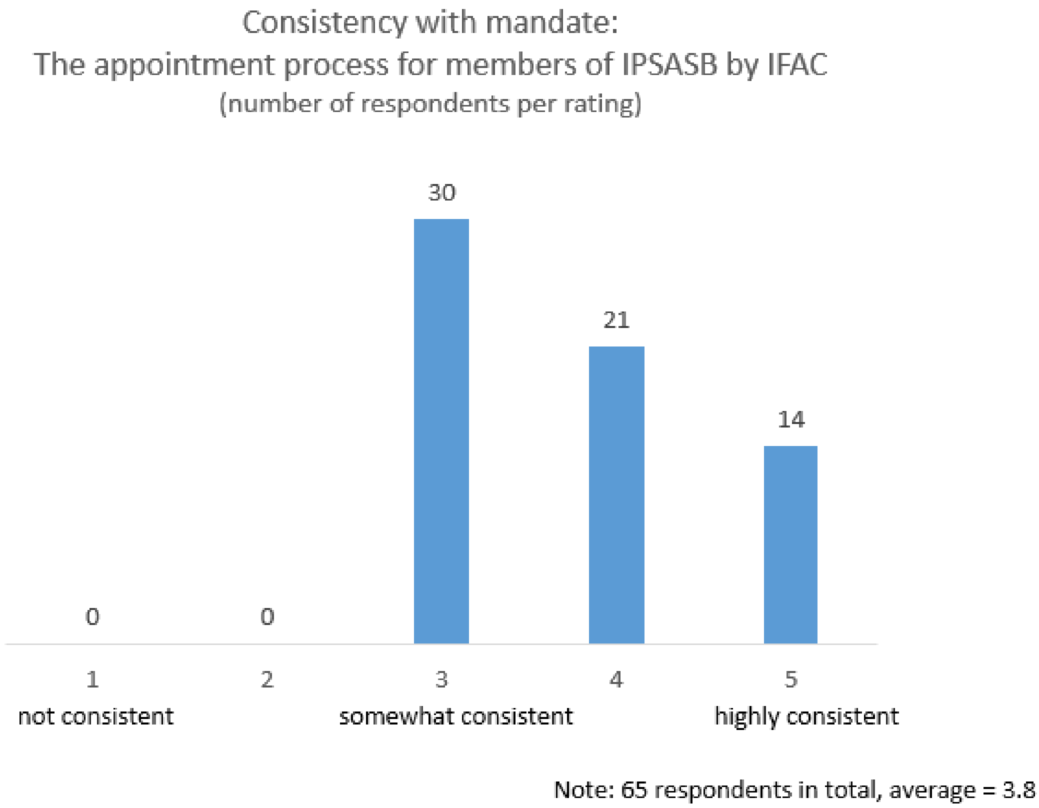
12. Some respondents expressed a desire for the Public Interest Committee to further formalize and elaborate the basis for its conclusions regarding adherence to due process. There was also a wish expressed for the Committee to ascertain due process at each milestone of the standard-setting process, rather than as a single *ex-post* event.

13. The Committee also notes comments regarding the importance of regular attendance at IPSASB meetings by PIC members.

14. Ensuring due process is the *sine qua non* of the Public Interest Committee's activities. It acknowledges the points raised as areas for improvement. It has initiated discussion with IPSASB on how best to address them. The Committee believes that some of the issues raised may also relate to the need to improve communications by PIC – see below.

Appointments Process

15. Appointments to the International Public Sector Accounting Standards Board are made by the International Federation of Accountants. The role of the Committee is to ensure that the appointment process operates in the public interest. The Committee does not get involved in decisions on individual appointments.



16. Fifty-four percent of respondents to the Survey scored the performance of the Public Interest Committee as "Highly Consistent," or next best, vis-à-vis its appointment process mandate. Forty-six percent responded as it being "Somewhat Consistent." There were no scores of "Not Consistent," or next lowest.

17. The high number of "Somewhat Consistent" scores is notable. Commentary indicates a concern by some respondents that the Public Interest Committee's actions have led to less qualified members being appointed to the Board in order to increase the inclusiveness of appointments. There is also concern that the inclusiveness criteria has been focused primarily on gender.

18. The Committee acknowledges it has focused on achieving gender parity in the membership of IPSASB as a goal. This was achieved in 2020 following five years interactions

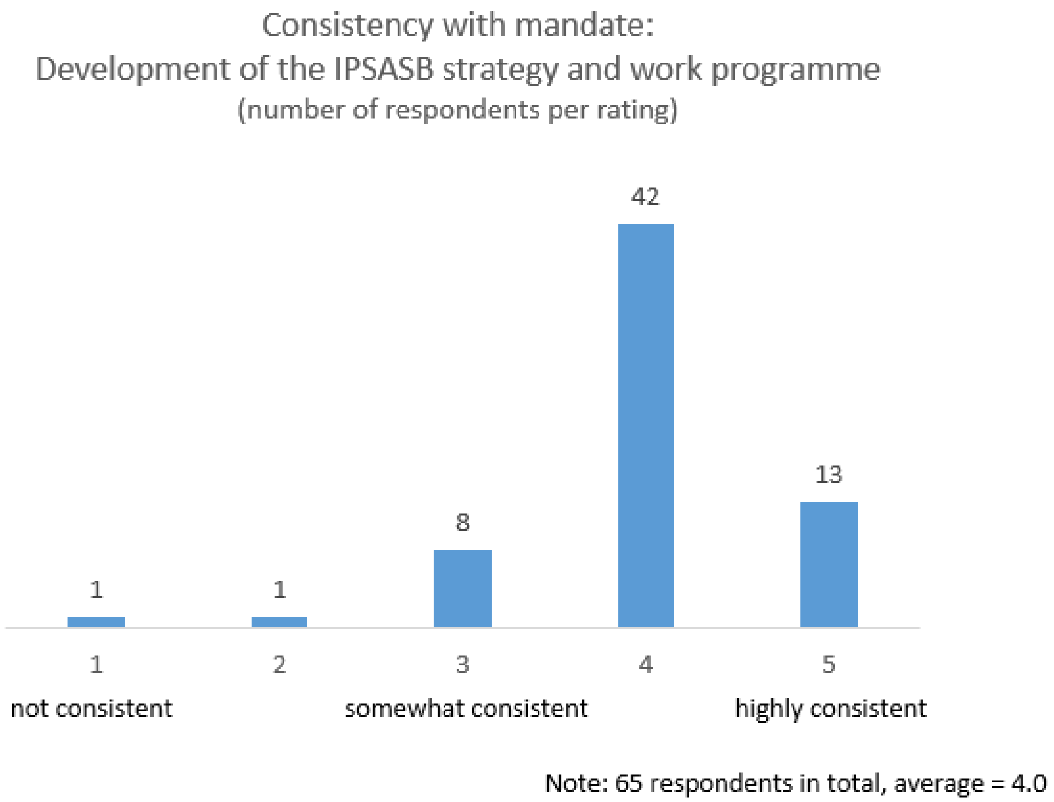
with IFAC and its Nominating Committee to improve the "pipeline" of qualified candidates and the implementation of various other initiatives, including mentoring and clearer descriptions of the role and obligations of potential members. This gradual approach was adopted for the very reason of ensuring that all appointments to the IPSASB are of high technical competency.

19. In this context, it is worth highlighting that a performance assessment of each member of the professional boards supported by IFAC is carried out annually. The aggregate rating for IPSASB members has in fact been *increasing* in each of the past three years, and is on par with those of the other boards.

20. The Committee reiterates its commitment to qualified and inclusive appointments to the IPSASB and to inclusiveness in all its dimensions – including gender, geography and accounting background. Such a representative Board will only strengthen the IPSASB and its mission.

Strategy and Work Programme

21. The Public Interest Committee promotes the development of relevant and timely accounting standards. It does so by concerning itself with the process by which decisions on strategy and work programme are developed. It does not take a view on individual standards.



22. Eighty-four percent of respondents to the Survey scored the performance of the Public Interest Committee as "Highly Consistent," or next best, vis-à-vis its strategy and work programme mandate. Twelve percent ranked it as being "Somewhat Consistent." Three percent scored it as "Not Consistent," or next lowest.

23. The lower scores reflect a concern by a small number of respondents that the activities of PIC in this area may infringe on the operational independence of IPSASB, or give rise to the perception of doing so.

24. Some respondents also noted that the present arrangements for due process review by the PIC of the strategy and work plan could be further enhanced in cases of any deviations from the agreed work programme.

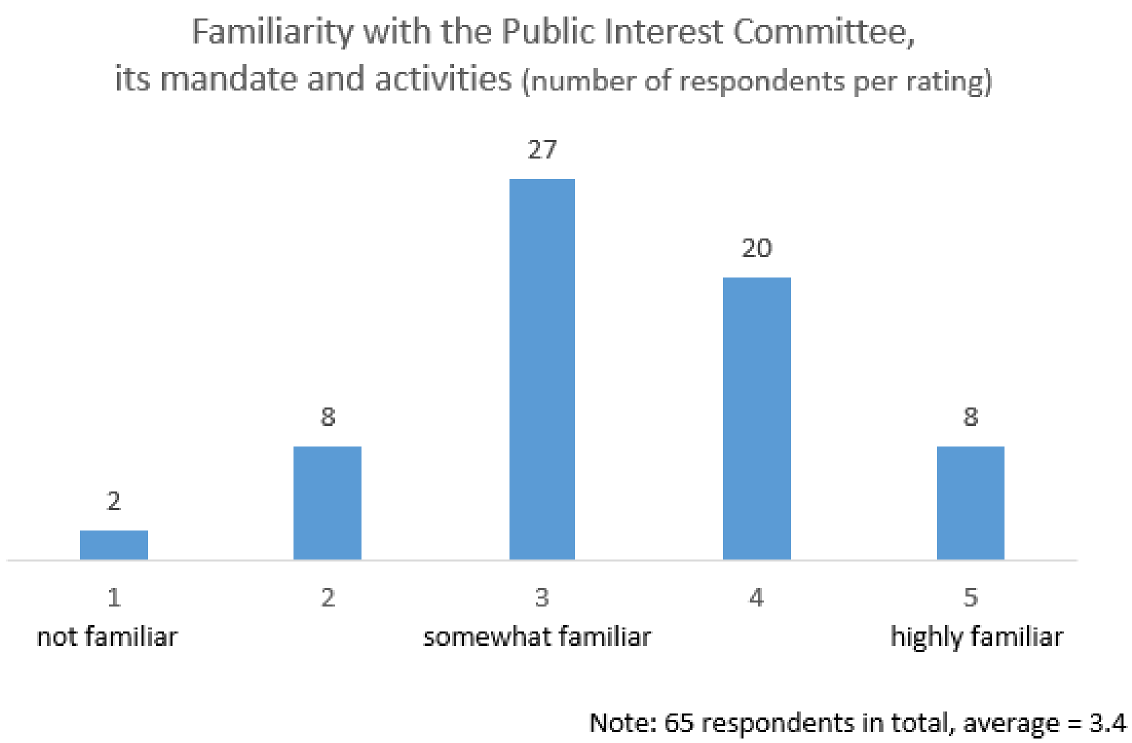
25. The Public Interest Committee views the promotion of the development of *relevant and timely* standards as a crucial part of its mandate. This involves having a public sector specific focus to its review of the overall strategy and work programme, and a concern for the number of activities undertaken at a single time and its effect on overall timeliness of the development of individual standards. In this context, it has also encouraged a wide consultation process by IPSASB for the development of its strategy and work programme.

26. The Committee reiterates that it has never proposed a specific addition to IPSASB's work programme nor rejected a specific project by IPSASB. Similarly, it has never established time deadlines for the promulgation of any standard.

27. The Committee will take up the issue of revisions to the agreed work programme as part of its discussion on overall due process with IPSASB.

Visibility of the Public Interest Committee

28. The Committee has been aware that it does not enjoy a high degree of visibility. It has generally viewed this as the result of its relatively recent establishment and the specialized nature of it functions.



29. The Survey showed that forty-three percent of respondents were "Highly Familiar," or next best, with the Public Interest Committee. Forty-two percent were "Somewhat Familiar." Fifteen percent were "Not Familiar," or next lowest, with the Committee.

30. The Committee recognizes it needs to devote greater attention to communications as an integral part of its operations. It is convinced that some of the issues raised in terms of its oversight actions can in part be attributed to a lack of effective communications by the Committee.

31. The Committee will enhance its communications efforts, including upgrading its website and engaging further with various fora to discuss the activities of the Public Interest Committee activities.

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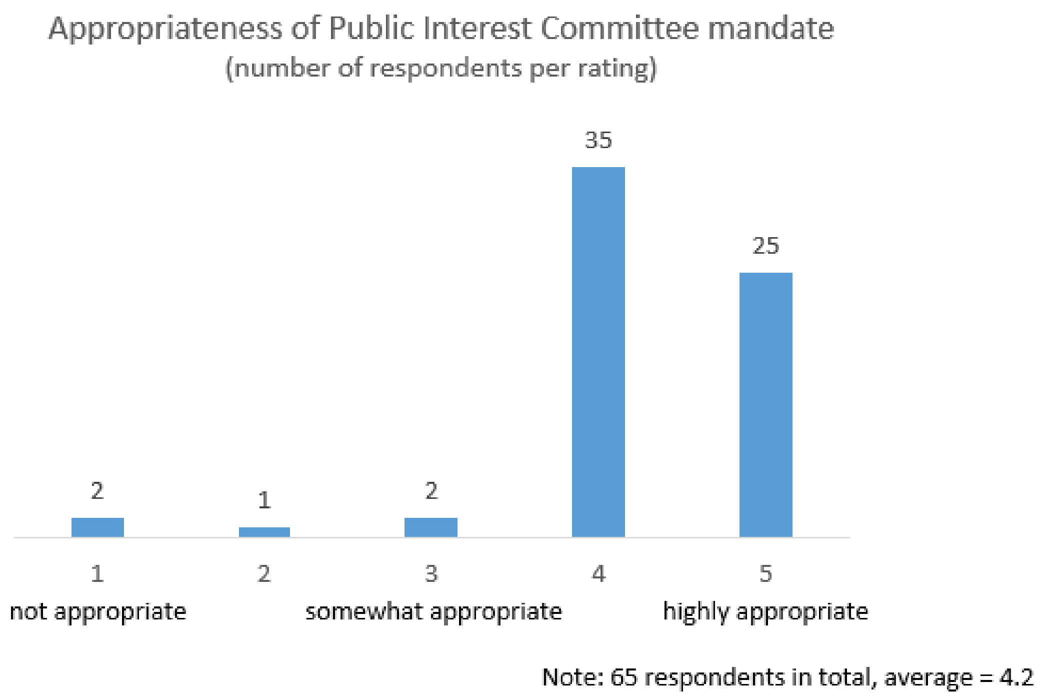
32. The remainder of the report is devoted to a discussion of the structural issues arising from the public consultation exercise.

Key Review Issues

Operational Issues	Oversight of Due Process Oversight of Appointment Process Oversight of Strategy Visibility of PIC Activities
Structural Issues	Mandate of the Public Interest Committee Importance of Public Interest Oversight Membership of the Public Interest Committee Overall Governance Arrangements

Mandate of the Public Interest Committee

33. The previous questions focused on how the Public Interest Committee implemented its mandate. The Committee also sought observations on whether the mandate itself was appropriate.

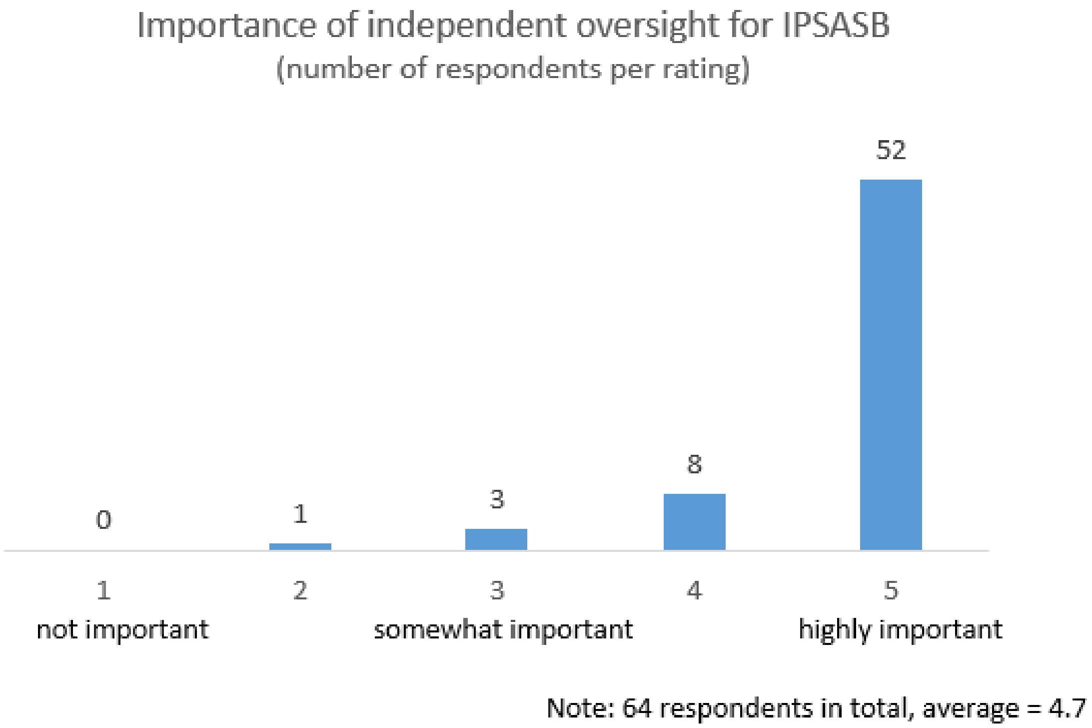


34. The Survey showed Ninety-two percent of respondents indicated that the mandate of the Public Interest Committee was "Highly Appropriate," or next best. Three percent ranked it as "Somewhat appropriate," and five percent scored it as "Not Appropriate," or next lowest.

35. The lower scores relate to the overall governance arrangements put in place and whether the mandate of the Public Interest Committee should be expanded in coverage. This is discussed further in the section on overall governance arrangements below.

Independent Oversight

36. The Survey results clearly shows the paramount interest of respondents in the importance of independent oversight for IPSASB.



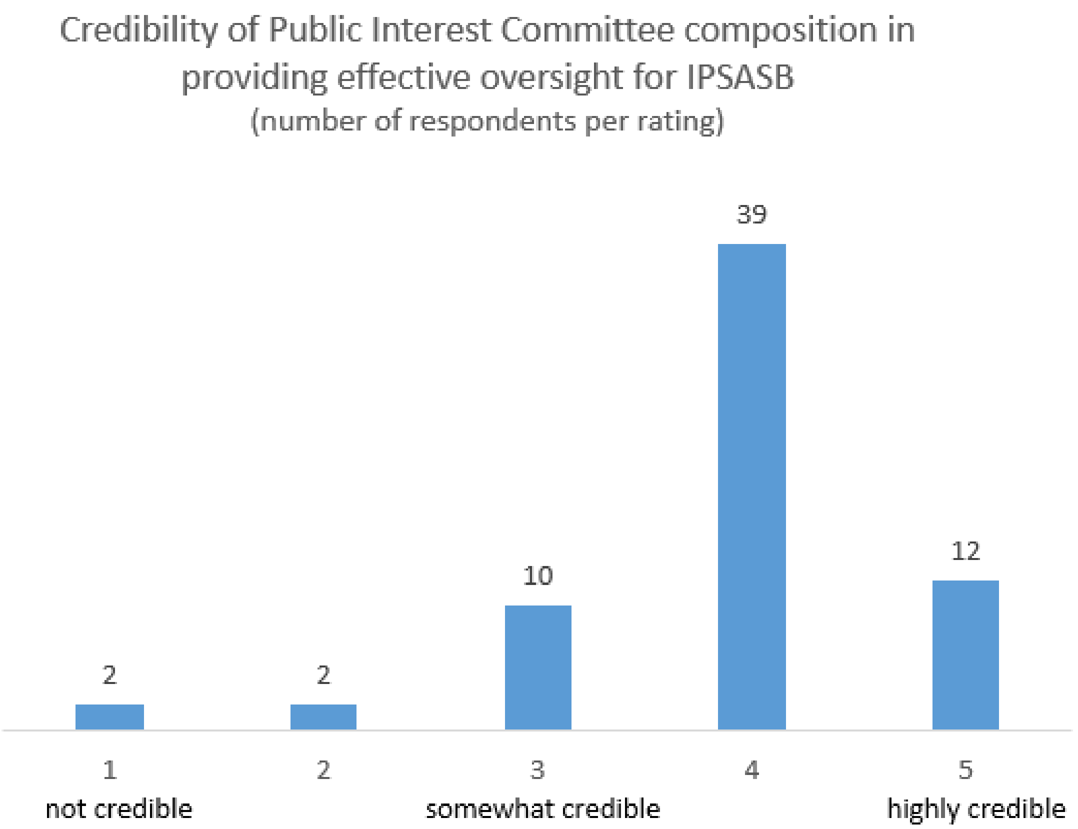
37. Ninety-two percent of respondents scored the importance of independent oversight as "Highly Important," or next best. Five percent ranked it as "Somewhat Important," while one respondent scored it as next lowest.

38. The lower scores generally reflected an emphasis on the confidence in IPSASB itself in this respect, specifically noting that the IPSASB produced standards for eighteen years prior to the establishment of the PIC. (It should however be noted that those early standards were based on IFRS, which had been subject to public oversight themselves.)

PUBLIC INTEREST COMMITTEE

PIC Membership

39. The Public Interest Committee is composed of individuals from the International Monetary Fund (IMF), the International Organization of Supreme Audit Institutions (INTOSAI), the Organization for Economic Cooperation and Development (OECD) and the World Bank Group.



Note: 65 respondents in total, average = 3.9

40. The Survey shows that Seventy-nine percent of respondents viewed the composition of the Public Interest Committee as “Highly Credible,” or next best. Fifteen percent scored it as “Somewhat credible.” Six percent ranked it as “Not credible,” or next lowest.

41. The lower scores by some respondents reflect a desire to have a greater number of organizations represented on the Public Interest Committee, including other international organizations, regional development banks and credit rating agencies. There were also suggestions to invite representatives from national standard-setting bodies to participate as observers on the Committee.

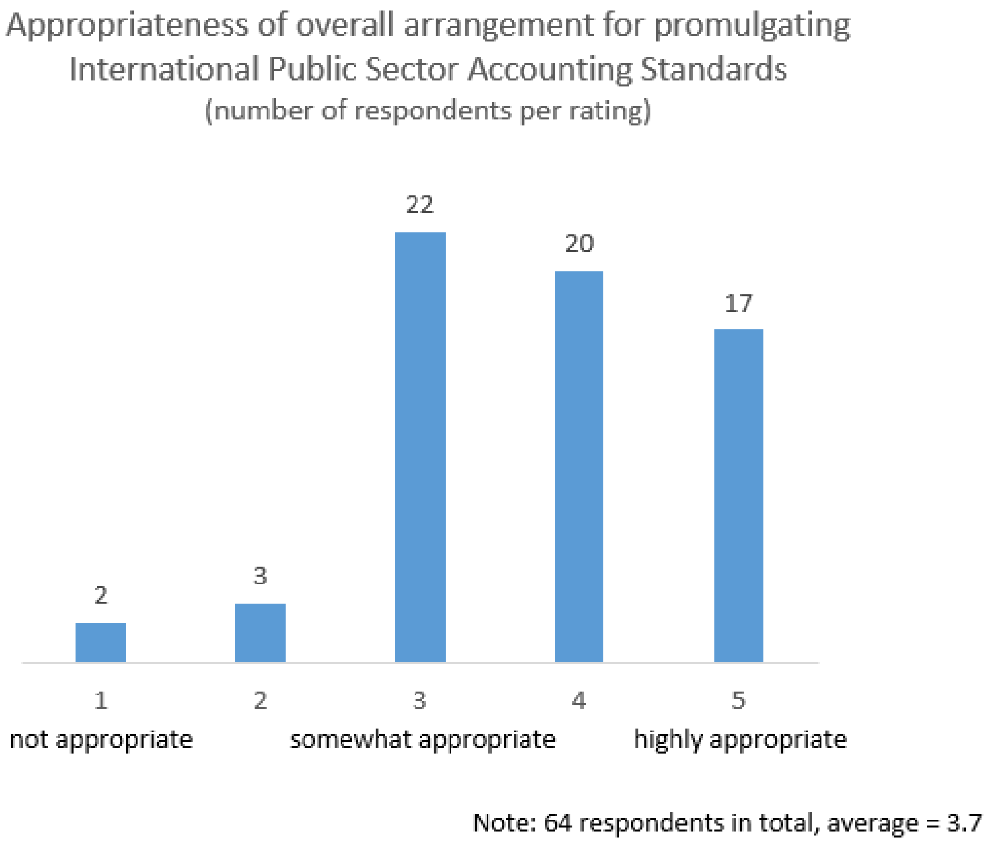
42. In this context, it should be noted that at the establishment of the Public Interest Committee, a wide range of organizations were consulted on participating in the Committee. Only the organizations that presently constitute the Committee agreed to join. The Committee welcomes other organizations to indicate their interest in joining. Its Terms of Reference explicitly state that "additional members of the Committee may be admitted with the consensus approval of all existing Committee members and subject to the new member accepting their responsibilities." Similar references are for Observers to participate in the Committee.

43. The Committee also makes a special note of comments regarding frequent turnover in its membership and the need for stability in its operations.

44. The Committee will review its Terms of Reference to see if any further changes are required in regard to the above.

Overall Governance Arrangements

45. Finally, the Committee sought the opinion of respondents on the overall arrangements that were put in place five years ago for promulgating International Public Sector Accounting Standards.



46. The Survey indicates that Fifty-seven percent of respondents consider the overall arrangements as "Highly Appropriate," or next best. Thirty-four percent score it as "Somewhat appropriate." Eight percent score the overall arrangements as "Not Appropriate" or next lowest.

47. These scores are significantly lower than those for the appropriateness of the mandate for the Public Interest Committee itself. It reflects a view by some respondents that further governance reforms are needed in addition to the creation of the Public Interest Committee. The specific issues cited include the funding arrangements for the IPSASB and the appointments of IPSASB members with both being inexorably linked with the role of IFAC, its membership and the Forum of Firms.

48. These issues go to the core of the current arrangements and are outside of the scope of the present review. The Committee however feels it should highlight these concerns as they may serve to undermine trust in the overall arrangements. The Public Interest Committee stands ready to engage in such wider discussions, specifically to examine whether to extend its mandate to oversight of the funding activity for IPSASB.

Conclusion

49. The Public Interest Committee is pleased with the overwhelmingly positive results of the public consultation exercise. It is grateful for the confidence shown by respondents in its work.

50. The Committee views *rigorous due process* so that the IPSASB delivers high quality standards as the *sine qua non* of its activities. It will initiate discussions with IPSASB on further elaborating the procedures employed in this regard, including at key milestones during the development of standards. This discussion will also encompass oversight is ensured for deviations from IPSASB's agreed strategy and work plan.

51. The Committee reiterates its commitment to *qualified and inclusive appointments* to the IPSASB and to inclusiveness in all its dimensions – including gender, geography and accounting background. Such a representative Board will only strengthen the IPSASB and its mission. Ensuring a "pipeline" of suitable candidates for the Board is essential.

52. The Committee reiterates its focus on the development of *relevant and timely standards*. This involves having a public sector specific focus to its review of the overall strategy and work programme, and a concern for the number of activities undertaken at a single time and its effect on overall timeliness of the development of individual standards. In

this context, it encourages a wide consultation process by IPSASB for the development of its strategy and work programme.

53. The Committee will enhance its communications efforts**,** including upgrading its website and engaging further with various fora to discuss the activities of the Public Interest Committee activities. It is convinced that some of the issues raised in terms of its oversight actions can in part be attributed to a lack of effective communications by the Committee.

54. The Committee welcomes other organizations to indicate their interest in joining. It will review its Terms of Reference to see if any changes are required in regard to new members and observers. It will also see if any changes to its Terms of Reference are required in regard to the appointment of members to promote stability in its operations.

55. The Committee stands ready to engage in a wider discussion on the overall governance arrangements in place, specifically to examine whether to extend its mandate to oversight of the funding activity for IPSASB.

56. Finally, the Committee would like to express its gratitude once again to all those who participated in the public consultation exercise and gave so generously of their time.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

24 February 2020

Public Interest Committee (PIC)
Organisation for Economic Co-operation and Development (OECD)
2, rue André Pascal
75016 Paris

By email: PublicInterestCommittee@oecd.org

Dear PIC Members

Survey of IPSASB Oversight Arrangements

Introduction

The External Reporting Board (XRB) is pleased to have the opportunity to respond to the *Survey of IPSASB Oversight Arrangements*. The XRB is an independent Crown entity responsible for financial reporting strategy and developing and issuing accounting, and auditing and assurance standards in New Zealand.[1]

The *Accounting Standards Framework* in New Zealand is based on a multi-sector, multi-standards approach. For-profit entities report in accordance with NZ IFRS based on IFRS® Standards issued by the International Accounting Standards Board (IASB). Public benefit entities (PBEs) apply PBE Standards based on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards (IPSASB). PBEs are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit rather than for a financial return to equity holders.

Many PBEs have legislative requirements to prepare general purpose financial reports (GPFR) in accordance with standards issued by the XRB. For example, the consolidated financial statements of the Government of New Zealand, and the financial statements of local authorities and many other public sector entities are prepared in accordance with PBE Standards. In addition, many not-for-profit entities with legislative reporting requirements (such as registered charities) are required to apply PBE Standards.

Given our use of IPSAS in New Zealand, we strongly support the IPSASB's mission to serve the public interest by developing high-quality accounting standards (and other publications) and its overarching objective of strengthening Public Financial Management globally through increasing the adoption of accrual-based IPSAS.[2] We therefore support measures that enhance the governance and oversight of the IPSASB, including the work of the PIC, and any measures that will assist the IPSASB

1 Information about the role, responsibilities and focus of the XRB is set out in Appendix A.

2 IPSASB Strategy and Work Plan 2019-2023.

as it delivers on this objective by (i) developing and maintaining IPSAS and (ii) raising awareness of IPSAS and the benefits of accrual adoption.

The XRB has a statutory obligation to consult with constituents before issuing standards. In order to contribute to the development of international standards that are appropriate for adoption in New Zealand the XRB actively participates in the IPSASB's due process consultations and contributes in other ways to the work of the IPSASB. The XRB also relies on the robustness of the IPSASB's due process to deliver high-quality standards.

In the XRB's view, the term 'high quality' has a number of aspects. It implies that standards are principles-based, lead to appropriate reporting of transactions and events, have been developed after due consideration of stakeholders' views and the costs and benefits associated with the requirements, and can be readily understood and implemented.

Key points

We have raised three key points in our responses to the survey questions.

- The importance of the PIC's activities being guided by its Terms of Reference.
- A call for the PIC's Terms of Reference to be expanded to encompass responsibility for developing a sustainable funding model for the IPSASB.
- The importance of taking the time required to develop high-quality standards.

We touch briefly on these points below and address them in more detail in our responses to the survey questions.

We agree that the activities of the PIC, as set out in its current Terms of Reference, are appropriate and encourage the PIC to focus on these activities. The PIC has the right (and obligation) to check that the IPSASB is acting in accordance with its processes and procedures, including its due process requirements, as it strives to maintain and develop high-quality standards and promote the adoption of accrual-based IPSAS.

However, in order to maintain its credibility as an independent oversight body, the PIC needs to guard against involvement (or the perception of involvement) in operational matters which remain the responsibility of the IPSASB or other bodies. Although we acknowledge the high level of interest in some projects and desire for completion of those projects, the IPSASB's paramount consideration must be the development of high-quality standards. In order to produce high-quality standards the IPSASB needs experienced, capable and contributing Board members.

We would support the PIC's Terms of Reference being expanded to encompass responsibility for the development of a sustainable funding model for the IPSASB and to explore other ways of supporting the IPSASB. We note that an increasing number of jurisdictions are expected to adopt IPSAS.[3] In our view the IPSASB needs additional funding or other forms of support to deal with this increasing demand.

[3] IFAC/CIPFA *International Public Sector Financial Accountability Index, 2018 Status Report*: "Within five years, it is projected that the number of governments reporting on accrual will rise from 25% to 65%."

In recent times we have heard the phrase 'speed to market' being used in relation to IPSASB projects and activities, with the implication that this is something that the IPSASB should aspire to or that the IPSASB needs to do better in this regard. Although we acknowledge the high level of interest from many jurisdictions, including New Zealand, in some projects and the desire for completion of those projects, the IPSASB's paramount consideration must be the development of high-quality standards.

The public interest is not necessarily served by the faster completion of projects. The IPSASB should issue standards only once it is satisfied that it has considered all relevant issues and has developed appropriate requirements. We recognise that international standard setting is difficult and at times there may be compromises to reach consensus. However, the IPSASB must always strive, and be seen to strive, to develop high-quality standards.

Concluding comments

Consistent with New Zealand's use of IPSAS in developing accounting standards for the public sector and some not-for-profit entities, we support the IPSASB's strategic objectives and activities. We also support the role of the PIC as an independent oversight body. We are broadly supportive of the current arrangements but have made some suggestions that we think could enhance the PIC's contribution to the public interest and more effectively support the work of the IPSASB.

Our response to the survey questions are set out in Appendix B to this letter.

If you have any queries or require clarification on any matters in this submission, please do not hesitate to contact me (**P**: +64 4 550 2048; **E**: April.Mackenzie@xrb.govt.nz).

Yours sincerely

April Mackenzie

Chief Executive

External Reporting Board

Appendix A

External Reporting Board's (XRB) role, responsibilities and focus

1. The XRB is an independent Crown entity responsible for financial reporting strategy and the development and issuance of accounting, and auditing and assurance standards in New Zealand. The XRB was originally established under section 22 of the Financial Reporting Act 1993, with continued existence under section 12 of the Financial Reporting Act 2013.

2. The XRB develops and issues accounting standards for the for-profit, not-for-profit and public sectors.

3. New Zealand legislation establishes **who** is required to report in accordance with standards issued by the XRB (for example, Companies Act 1993, Charities Act 2005, etc.). The XRB is responsible for the XRB accounting standards themselves which state **what** and **how** entities are required to report. The XRB does not have the mandate to establish who is required to report in accordance with standards it issues.

4. In developing and issuing its standards, the XRB focuses on the information needs of the primary users of general purpose financial reports (GPFRs).

Appendix B – Response to the survey questions

Question 1
How familiar are you with the Public Interest Committee, its mandate and activities?

Rating 4/5

New Zealand's strategy of using IPSAS as the basis for PBE Standards is mentioned in our cover letter. XRB staff, together with other key stakeholders in New Zealand, such as the Treasury and the Office of the Auditor-General, are closely involved in the activities of the IPSASB. We are of the view that confidence in the oversight and governance arrangements of the IPSASB is an important contributor to global acceptance of IPSAS and continued support of IPSAS as the most appropriate base for developing PBE Standards in New Zealand.

Although we are familiar with the PIC's mandate and take an active interest in the activities of the PIC, we have limited information as to how the PIC goes about performing its mission, its more detailed objectives and the outcomes of its activities. The minutes of the PIC's meetings are publicly available but they contain more information about the reports the PIC has received from the IPSASB and the IPSASB's Consultative Advisory Group (CAG), rather than information about the PIC's deliberations and actions.

We think that visibility of the PIC's activities would be improved if a PIC member attended each IPSASB meeting and formally reported to the IPSASB. Although the IPSASB Chair reports back to IPSASB members on his meetings with the PIC, we consider that there should be a formal line of communication from the PIC to IPSASB members and observers. This would lead to more transparency over the PIC's current and planned activities.

Question 2
Do you believe the activities and recommendations of the Public Interest Committee in the following areas are consistent with its mandate?
(a) Development of the IPSASB strategy and work programme:
(b) The appointment process for members of IPSAS by IFAC:
(c) Due process for IPSASB standard setting:

Question 2(a): Development of the IPSASB strategy and work programme

Rating 3/5

The PIC's Terms of Reference state that it will "review the IPSASB's reports on procedures and processes for formulating its strategy and work plan and developing individual accounting standards to ensure that the views of all relevant stakeholders are sought and given due consideration, and advise IPSASB members on any proposed changes."

The PIC's activities include monitoring the delivery of key project milestones and the process for identifying new projects for inclusion in the Work Plan.

We note the PIC has been active in ensuring appropriate due process has been followed by the IPSASB in developing its Strategy and Work Plan (namely through regional round table events to assess the projects of most urgency and importance for key constituents and other stakeholders).

We believe that the activities and recommendations of the PIC in relation to these matters are broadly consistent with its mandate.

However, we are concerned that the PIC has placed undue emphasis on the need to complete projects, as per the initial project milestones. Our concerns about this are outlined in our response to Question 3.

Question 2(b) The appointment process for members of IPSAS by IFAC

Rating 3/5

The PIC's Terms of Reference state that it will "review the IFAC Nominating Committee's reports on procedures and processes for nomination and appointment of the IPSASB members and advise the IFAC on any proposed changes."

The IFAC Nominating Committee makes recommendations to the IFAC Board, relevant public interest oversight authority, and IFAC Council, as appropriate, for approval of the composition of the independent standard-setting boards and IFAC Board and committees.

As stated in the 2021 call for nominations:

> The Nominating Committee reviews the nominations to recommend the most suitable candidates for the available positions: those who are most likely to enhance the quality of the output of a particular board or committee. In evaluating candidates from what is typically a large pool of candidates, the Nominating Committee considers matters such as relevance of candidates' professional backgrounds, technical skills, past and present contributions to the accountancy profession at regional and international levels, and the ability to make a significant contribution to the matters and areas of emphasis reflected in the work plan of a particular board or committee when considered in combination with the mix of current members' backgrounds. Although the Nominating Committee also considers gender and regional balance, the most suitable candidate principle is the overriding objective for selection.

While we support IFAC's ongoing efforts to have an appropriate gender and geographical balance on its boards, we also agree with IFAC that the most suitable candidate principle must be the overriding objective for selection. The IPSASB is not a governance or management board. It is a standard-setting board which requires a high-level of technical accounting and standard-setting expertise. The IPSASB relies heavily on the contributions of its members to assist it in developing high-quality standards. Members must therefore be experienced, capable and active contributors. In order for members to be able to contribute effectively to the Board, they also need to have sufficient time and support to devote to the work of the IPSASB.

Recent PIC meeting minutes indicate that the PIC is conscious of this aspect of its Terms of Reference. In March 2019 the PIC recommended that the IPSASB continue its dialogue with regions and develop a strategy on how to attract and mentor suitable candidates for future membership.

The PIC's minutes indicate that the PIC has been looking at ways to support the development of potential candidates. We applaud these efforts. However, we also encourage the PIC not to lose sight of the focus on the most suitable candidate principle. As an oversight body the PIC has an interest in ensuring that IPSASB members contribute effectively to the work of the IPSASB.

Question 2(c) Due process for IPSASB standard setting

Rating 3/5

The PIC's Terms of Reference state that it will "review the IPSASB's reports on procedures and processes for formulating its strategy and work plan *and developing individual accounting standards* to ensure that the views of all relevant stakeholders are sought and given due consideration, and advise IPSASB members on any proposed changes." In particular, the PIC's activities include:

- Reviewing IPSASB documentation supporting the application of due process for all new or revised IPSAS.
- Reviewing IPSASB documentation supporting the application of due process followed to develop the strategy and work plan.
- Providing advice and comments on the appropriateness of the items on the IPSASB Work Plan and its broader strategy, from a completeness and a public interest perspective.
- Seeking regular updates on the implementation of the IPSASB's Strategy and Work Plan and how the public interest is considered through IPSASB activities.

We believe the activities and recommendations of the PIC in relation to these matters are consistent with its mandate. However, we think that the PIC should be more transparent about what it is doing and establish a formal line of communication back to the IPSASB.

Appropriate due process is fundamental to the development of high-quality standards. We therefore encourage the PIC to consider whether there has been appropriate due process throughout major projects, not just at the end. This may include reviewing the IPSASB's planned constituent engagement activities on documents issued for comment and providing feedback on whether the planned activities are appropriate.

We are aware that the PIC monitors some of the IPSASB's outreach (for example, in relation to developing the IPSASB's Strategy and Work Plan and raising awareness of IPSAS). However, we are not aware of how much attention the PIC gives to planned outreach on significant projects.

In reviewing the IPSASB's due process documentation we encourage the PIC to consider whether exposure drafts (and other consultation papers) are sufficiently clear and supported by sufficiently detailed explanations of how the IPSASB reached its decisions for constituents to understand the issues and provide informed feedback. The importance of this is underscored by the IPSASB's Due Process and Working Procedures (June 2016), paragraph 11.

> In voting in favour of the release of an exposure draft, a member of the IPSASB is confirming that he or she is satisfied that the draft would form an acceptable international standard in the event that no comments were received on exposure that required the IPSASB to amend the proposals.

We encourage the PIC to monitor the IPSASB's adherence to this requirement.

Question 3

Do you believe the mandate of the Public Interest Committee is appropriate?

Rating 4/5

We agree that the PIC's mandate, as set out in its current Terms of Reference, is appropriate for an oversight body. The PIC has the right (and obligation) to check that the IPSASB is acting in accordance with its processes and procedures, including its due process requirements, as it strives to maintain and develop high-quality standards and promote the adoption of accrual-based IPSAS.

There may be some opportunities to clarify the PIC's mandate by outlining the PIC's view of the public interest and how the PIC's activities contribute to the public interest. This is discussed below under the heading 'public interest'.

We encourage the PIC to focus on the activities outlined in its Terms of Reference and to guard against involvement (or the perception of involvement) in operational matters which remain the responsibility of the IPSASB or other bodies. This is necessary to maintain the credibility of the PIC as an independent oversight body. There is one area where we are concerned that the PIC is overstepping its role, or may be perceived as doing so. This is discussed below under the heading 'speed to market'.

We think that the PIC's mandate should be extended to encompass developing a sustainable funding model for the IPSASB. This is discussed below under the heading 'funding'.

Public interest

Despite the difficulty of getting consensus on a precise definition of the public interest, we think that the PIC should be transparent about how it views the public interest and the matters (and activities) the PIC should consider in striving to promote the public interest. To open this discussion, we have outlined ways in which we think the public interest is upheld.

- There is a clear separation of duties between those who set the standards and those who oversee compliance with processes.
- The standard-setting Board is exempt from undue influence from any stakeholder group (including Government) and has a user-needs focus (i.e. to provide information to users for accountability and decision-making purposes).
- Standard setters have legitimacy through the way they operate (agenda consultations, due process, open meetings, etc).
- Standard setters have legitimacy through the quality of their standards.
- Board members on both the IPSASB and PIC have an appropriate mixture of technical and practical standard-setting expertise.
- Standard-setting boards are supported by appropriate and sustainable multi stakeholder funding – which ensure the Board has appropriate resources to support all necessary standard-setting activities to develop high-quality international standards that will promote IPSAS adoption by Governments and other public sector entities.
- The due process ensures that all relevant stakeholder views are considered.

Speed to market

In recent times we have heard the phrase ‘speed to market’ being used in relation to IPSASB projects and activities, with the implication that this is something that the IPSASB should aspire to or that the IPSASB needs to do better in this regard. Although we acknowledge the high level of interest from many jurisdictions, including New Zealand, in some projects and the desire for completion of those projects, the IPSASB’s paramount consideration must be the development of high-quality standards.

As an oversight body we think it is appropriate for the PIC to have an interest in whether the IPSASB’s resources are being used efficiently and effectively. However, the decisions as to whether the IPSASB has sufficiently considered the issues and come to agreement about proposals or requirements in standards, remain operational decisions for the IPSASB. Even in the case of standards which draw substantially on the work of the IASB, the IPSASB must consider GFS requirements and public sector specific issues.

If there are difficult issues and the IPSASB receives conflicting comments from constituents then, in order to meet its due process requirements, and to ensure that it continues to issue high-quality standards, it is necessary and important that the IPSASB take the time needed to understand those views and consider its options.

Standards derive their authority not just from external requirements to apply the standards, but through acceptance of the requirements by preparers and users of the financial information. High quality is an essential prerequisite for such acceptance and the credibility of international standards. The IPSASB strives to achieve its mission through two main activities (being to (i) develop and maintain IPSAS and (ii) raise awareness of IPSAS and the benefits of accrual adoption). The IPSASB’s mission will be achieved only through the development of high-quality standards.

The public interest is not necessarily served by the faster completion of projects. The IPSASB should issue standards only once it is satisfied that it has considered all relevant issues and has developed appropriate requirements. We recognise that international standard setting is difficult and at times there may be compromises to reach consensus. However, the IPSASB must always strive, and be seen to strive, to develop high-quality standards.

An inappropriate focus on meeting milestones gives rise to significant risks, some of which we have noted below.

- Projects that are inappropriately rushed may actually take longer to complete. If a due process document is insufficiently developed, not well-drafted, or does not provide a clear rationale, respondents are more likely to raise major concerns and, in the case of an exposure draft, there is a higher risk that re-exposure in the form of another exposure draft will be required.
- Final standards should not be issued until the Board are satisfied that the requirements are appropriate, clearly expressed and internally consistent. If constituents have trouble understanding requirements this negatively affects the credibility of IPSAS and ultimately leads to a failure in the IPSASB meeting its objective of promoting the broader adoption of accrual-based IPSAS, and a failure by the PIC to promote the public interest. It also imposes costs on constituents (and possibly the IPSASB).

To achieve the PIC's overarching mission of *promoting public interest in standard-setting activities*, we encourage the PIC to consider whether proposed project milestones are realistic, based on the project's complexity, importance, relevance, potential for sensitive issues and scope for diverse views.

We also encourage the PIC to take an active role in monitoring the development of individual projects, ensuring appropriate staff resources are in place and that the processes for high-priority projects are operating in an efficient and effective manner. When individual projects take longer than expected we encourage the PIC to seek an understanding of why additional time has been required and how the IPSASB intends to proceed. Exploring the reason for delays may create opportunities to avoid delays in other projects. However, some delays may be unavoidable.

The issue of timeliness in standard setting has recently been considered by the IFRS Advisory Council and its observations may be of interest to the PIC. The Advisory Council addressed some key questions in respect of how the IFRS Foundation could balance the due process requirements and effective stakeholder engagement with perceptions around timeliness. Members provided varied advice. The common themes were as follows.

- Better communication is seen as the key to reducing the perception of timeliness issues.
- Quality trumps timeliness in standard setting.
- Timeliness is not necessarily seen as an issue in reality.
- There is, however, a need to both recognise and address the perception of a lack of timeliness.
- Flexibility (and nimbleness) of approach for different projects and different stakeholders may assist in reducing perceived timeliness issues.

We note that constituents also have the opportunity to comment directly to the IPSASB on the progress of projects via the periodic agenda consultation process.

Funding

We would support the PIC's Terms of Reference being expanded to encompass responsibility for the development of a sustainable funding model for the IPSASB and other ways of supporting the IPSASB. We note that an increasing number of jurisdictions are expected to adopt IPSAS.[4] In our view the IPSASB needs additional funding or other forms of support to deal with this increased demand.

As the PIC knows, the IPSASB's output is constrained by the resources it has available. The volunteer Board meets only four times a year and, in comparison to other international standard-setting boards the IPSASB has fewer staff. New Zealand has made a point of acknowledging the need for the IPSASB to have reliable funding and the need for IPSASB members to be supported in their work.

It is important that the IPSASB be seen to be independent from its funders. This means that a body external to the IPSASB needs to assume responsibility for the funding of the IPSASB and that there needs to be a broader base of funders. We believe that the PIC is an appropriate body to assume this

[4] IFAC/CIPFA *International Public Sector Financial Accountability Index, 2018 Status Report*: "Within five years, it is projected that the number of governments reporting on accrual will rise from 25% to 65%."

responsibility. Funds spent developing high-quality standards will have a direct impact on improving the quality of financial reporting and strengthening the public financial management (PFM) of governments. This sits directly alongside the PIC's responsibilities to promote the adoption of standards that promote the public interest.

Question 4
Do you believe the present composition of the Public Interest Committee is credible in providing effective oversight for IPSASB?

Rating 3/5

The PIC's Terms of Reference state that the Committee will be comprised of individuals with expertise in public sector or financial reporting, and professional engagement in organisations that have an interest in promoting high-quality and internationally comparable financial information. Since its inception, membership of the PIC has been largely limited to representatives from the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), the World Bank Group (WBG) and International Organisation for Supreme Audit Institutions (INTOSAI).

Although all of these organisations play an important role in promoting better reporting by governments and public sector entities and contribute to the adoption of accrual-based IPSAS, we encourage the PIC to look for opportunities to appoint a member with experience in setting public sector accounting standards. We believe that someone with such experience would enhance the effectiveness of the PIC's oversight. The PIC might also like to consider how to solicit broader user views (for example, credit rating agencies or taxpayers/investors in government debt).

One way this could be done is to establish one or two rotating membership positions (or observer positions). This suggestion would increase the pool of people with a good understanding of the role of the PIC and the work of the IPSASB.

Question 5
Do you believe it is important to have independent oversight for IPSASB to ensure that the public interest is served in the promulgation of International Public Sector Accounting Standards?

Rating 5/5

Consistent with previous views expressed by the XRB (and as noted in our responses to other questions), we consider that independent oversight of the IPSASB is an important contributor to public confidence in the IPSASB and its standards. Independent oversight gives the public, and the governments and organisations that adopt IPSAS, confidence that the IPSASB has followed its due process requirements as it strives to develop high-quality standards.

Independent oversight of the IPSASB also protects it from undue influence, or from the appearance of undue influence, from specific stakeholders or funders.

However, as alluded to in our other responses, we consider that the public interest is most strongly served by the standards themselves. It is the standards that lead to better financial reporting and allow the public to hold governments and other public sector entities to account. Independent oversight enhances the credibility of the standards.

Question 6 **Do you believe this overall arrangement for promulgating International Public Accounting Standards remains appropriate?**

Rating 4/5

We are supportive of many aspects of the current arrangements. We have made the following suggestions in our response to other survey questions.

We have made some suggestions in response to Question 1 about improving the visibility of the PIC's activities and establishing formal lines of communication between the PIC and the IPSASB.

We have made suggestions in response to Question 3 about expanding the mandate of the PIC to develop a sustainable funding model for the IPSASB. The IPSASB needs to be sufficiently resourced to develop high-quality standards in a timely manner and consult appropriately with its constituents. It also requires resources to support the adoption of accrual accounting by governments. We encourage the PIC to investigate additional revenue streams as well as other ways of supporting the IPSASB.

We have made some suggestions in response to Question 4 about broadening the PIC membership.