

Erkki Liikanen
Chair
IFRS Foundation Trustees
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United Kingdom

Subject: ESMA response to the Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution*

Dear Mr Liikanen,

The European Securities and Markets Authority (ESMA) welcomes the opportunity to comment on the IFRS Foundation Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution*.

ESMA strongly supports the mission of the IFRS Foundation and the work of both the IASB and the ISSB. The distinct mandates and governance arrangements of the two Boards help support the effective development of high-quality standards, ensure independence of each Board as well as connectivity between financial and sustainability reporting.

High-quality global reporting standards are essential for investor protection, market transparency and efficient capital allocation. ESMA values its longstanding cooperation with the IFRS Foundation under the Statement of Protocols for Cooperation on International Financial Reporting Standards. In ESMA's view, effective governance arrangements are important to supporting this cooperation and, more broadly, the development and consistent application of high-quality IFRS Standards.

ESMA supports the Trustees' objective of ensuring the long-term sustainability of the IFRS Foundation and appreciates the efforts to adapt governance arrangements to evolving circumstances. In this respect, ESMA urges the Trustees to ensure that the amended Constitution is fit for the future and that the IFRS Foundation continues to uphold a robust, high-quality standard-setting process.

Board size and geographical allocation

ESMA recognises that the proposed changes to the overall size of the Boards are necessary to safeguard the IFRS Foundation's long-term financial sustainability. ESMA therefore supports the proposal to reduce the size of the IASB and the ISSB and agrees that a degree of flexibility may be useful in determining Board size and composition. However, ESMA has some concerns regarding the proposed range of 8 to 12 members for both Boards. ESMA considers that a Board comprising only eight members may create risks of not providing a sufficiently robust basis for maintaining the breadth of technical expertise, diversity of perspectives and stakeholder engagement necessary for global standard-setting. Additionally, ESMA notes that materially smaller Boards may have unintended funding implications if long-

standing contributors perceive a growing disconnect between their level of support and their representation and/or benefits.

In ESMA's view, 10 members should generally represent the lower bound for the normal operation of the IASB and ISSB. A Board of that size would help ensure that the breadth of experience and skills required for global standard-setting can be maintained. Board membership may occasionally fall below that level for a limited period, for example due to a gap between the expiry of a Board member's term and the appointment of their successor, or a period of reduced standard setting. ESMA considers that the Board size should generally be determined by the scope and inherent complexity of its workplan, rather than by the Board's workload, which may fluctuate over time due to factors that are difficult to estimate.

ESMA also notes that the Exposure Draft provides limited guidance on how the Trustees would exercise their discretion in determining the total number of Board members. Greater transparency regarding the factors considered by the Trustees would enhance predictability and stakeholder confidence.

Similarly, while ESMA recognises the benefits of maintaining flexibility through at-large appointments, the proposed number of at-large members appears relatively high in comparison to the number of members representing given geographical constituencies¹. In this respect, ESMA believes that the proposed amendments do not provide sufficient clarity as to how the discretion in relation to at-large appointments would be exercised or what safeguards and guiding principles would apply. In this regard, it could be considered whether one of the at-large positions could be allocated to the jurisdictions hosting the Boards, reflecting the particular responsibilities and long-term commitments associated with hosting the institutions.

Although Board members act in the public interest and not as representatives of particular jurisdictions, geographical balance remains an important contributor to the legitimacy and acceptance of the standard-setting process. In this respect, ESMA considers it important that European Union countries continue to have a sufficiently strong presence on both Boards.

The European Union represents one of the largest jurisdictions applying IFRS Accounting Standards (for both listed and non-listed companies) and it has been a longstanding supporter and funder of the IFRS Foundation². On the sustainability reporting front, the EU has set out a comprehensive reporting regime which is intended to be interoperable with ISSB standards. Under certain conditions, the European Sustainability Reporting Standards (ESRS) allow the inclusion of ISSB disclosures into ESRS-compliant reports. EU issuers and investors operating in international markets have an interest in ensuring high quality and comparability of sustainability disclosures prepared based on ISSB standards.

¹ In a Board composed of 12 members, five seats would be held by at-large members, while seven seats would be allocated to the different geographical regions.

² As of the end of 2025, around 3.800 issuers in the European Economic Area (EEA) prepared consolidated or separate financial statements in accordance with IFRS Accounting Standards. In addition, EU contributes approximately 26% of the IFRS Foundation's total funding.

Against that background, ESMA expects the **European Union** to retain a strong and meaningful presence on both Boards being represented, at a minimum, by two members at the IASB Board and depending on the overall board size, one or two members at the ISSB Board.

Attributes of board members

ESMA agrees with the Trustees' decision not to amend the main qualification requirements for Board members. In the context of smaller Boards, maintaining a broad mix of technical expertise, practical and regulatory experience and stakeholder perspectives is essential irrespective of the size of the Board. ESMA also emphasises the importance of retaining investor representation, as well as financial and market regulatory expertise, in particular, in a context of a reduction in Board size. Ensuring an appropriate balance of these perspectives will be increasingly important to enable the Boards to continue reflecting the needs of capital markets, ensuring public interest and to support a balanced and robust standard-setting process.

Currently, in a Board of 14 members, three members may be part-time members (i.e. around 20% of the total number of board members). ESMA is concerned that the proposed reduction in the minimum number of Board members is not accompanied by a corresponding reduction in the maximum number of part-time members³. In particular, for the IASB, it will be important to ensure that part-time appointments do not adversely affect the Board's capacity to deliver its work programme in a timely and effective manner.

Moreover, where part-time membership arrangements are in place, sufficient safeguards should be in place to ensure that there is no conflict of interests, that the Boards are acting independently, both in fact and in appearance and are committed to IFRS Foundation objective to develop high-quality standards that serve the public interest. ESMA therefore encourages the Trustees to monitor carefully the use of part-time appointments and their impact on the Boards' overall effectiveness, independence and governance.

Voting arrangements

ESMA supports the objective of aligning voting requirements with smaller Boards and agrees that adjustments are necessary to ensure effective decision-making. Given the significance of publishing Exposure Drafts and Standards and in light of ESMA previous comments regarding the minimum Board size, the Trustees should consider setting the minimum threshold at six affirmative votes (rather than five) to ensure that the decisions related to major technical decisions are broadly supported and are perceived as appropriately representative.

³ In a board composed of eight members, three members could be part-timers which would represent around 40% of the total number of members.

Other targeted amendments

While ESMA does not have comments on the other amendments, it notes that the proposed flexibility regarding the duration of Board member terms would also benefit from additional guidance. In particular, greater clarity regarding the principles that would govern the determination of initial and subsequent terms would improve transparency, predictability and the ability to attract high-quality candidates to the different Boards. ESMA also questions whether broad discretion over the length of an initial term could create perceptions of unequal treatment or uncertainty for candidates. A standardised initial appointment period may better support confidence in the independence and fairness of the appointment process, while performance or suitability concerns could be addressed through established review or termination mechanisms.

In case you have any questions or comments regarding this letter, please contact Isabelle Grauer-Gaynor, Head of the Corporate Finance and Reporting Unit.

Yours sincerely,

[signed]

Verena Ross