ICAEW
REPRESENTATION 97/26

ICAEW REP 97/26 PROPOSED TARGETED AMENDMENTS TO THE IFRS FOUNDATION CONSTITUTION

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ICAEW supports the IFRS Foundation's mission to serve the public interest by promoting transparency, efficiency and accountability in capital markets through globally recognised corporate reporting standards. We recognise that the proposed constitutional amendments are intended to support the Foundation's long-term effectiveness and sustainability, and we assess the proposals with that objective in mind. In doing so, we have considered whether the proposals will maintain confidence in the Foundation's governance framework while balancing organisational efficiency with the capacity, expertise, geographic representation and stakeholder engagement required to support effective standard-setting and the continued development of high-quality global standards.

We therefore welcome the Trustees' efforts to establish a clear governance framework for the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB) as board membership evolves. We recognise the flexibility that the proposed board-size ranges are intended to provide, particularly in enabling the Foundation to respond to changing workloads and priorities. However, a key consideration is the trade-off between the efficiency gains that may arise from smaller boards and the need to retain sufficient capacity, expertise and geographic diversity. This is particularly important given the breadth and complexity of the IASB's and ISSB's respective remits. While the upper end of the proposed ranges may achieve an appropriate balance, we are concerned that the lower end could reduce board capacity and diversity to a level that may affect the boards' effectiveness and their ability to represent a sufficiently broad range of perspectives.
Our principal considerations are set out below.

ICAEW Chartered Accountants Hall Moorgate Place London EC2R 6EA UK
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 icaew.com

QUESTION 1: BOARD SIZE AND GEOGRAPHICAL ALLOCATION OF BOARD MEMBERS DO YOU AGREE WITH HOW THE TRUSTEES PROPOSE TO AMEND THE CONSTITUTION TO IMPLEMENT THEIR DECISION TO REDUCE THE SIZE OF THE BOARDS BY:

(A) SPECIFYING A RANGE FOR BOARD MEMBERSHIP; AND

(B) AMENDING THE GEOGRAPHICAL ALLOCATION OF MEMBERS TO MAINTAIN APPROPRIATE INTERNATIONAL DIVERSITY AND BALANCE?

IF NOT, WHY NOT AND WHAT WOULD YOU PROPOSE INSTEAD AND WHY?

1. ICAEW supports specifying a range for board membership rather than a fixed number but considers the proposed range to be set too low: we suggest twelve as the normal operating size for each board, with ten reserved for exceptional circumstances. We recognise that both boards have historically operated with up to 14 members and that a smaller board may be appropriate where technical quality, effectiveness and geographical diversity can be maintained. We support the proposal to specify a range for board membership rather than a fixed number, allowing the Trustees to respond to evolving priorities and workloads. However, we consider the proposed lower limit of eight members to be insufficient and are concerned that the reduced geographical allocations may weaken the boards' international standing and outreach capacity.

2. We note the Trustees' expectation that each board will comprise ten members by the end of 2028. Our concern is therefore with the lower end of the proposed range rather than the concept of a range itself. At eight members, the boards' capacity for outreach, which is one of the most important responsibilities of board members, would be stretched, and even ten members would leave limited margin for absence, turnover and the breadth of the boards' remits.

3. We therefore suggest that twelve should operate as the normal operating size for each board, with ten available only in exceptional circumstances rather than as a routine operating size. We also support the ability to determine the size of each board independently. Given the differing responsibilities and workloads of the IASB and ISSB, there may be periods when one board requires greater capacity than the other. The IASB's detailed and technically demanding work programme, in particular, may justify a larger membership. We therefore encourage the Trustees to make active use of this flexibility and to differentiate between the IASB and ISSB where circumstances warrant, rather than defaulting both boards to ten.

4. Furthermore, the scale of the reduction in regional representation is significant. The current IASB comprises 14 members with a normal allocation of four members each from Asia-Oceania, Europe and the Americas, and the current ISSB is similarly composed with three members from each of those regions. Under the proposals, both boards would move to a normal allocation of two members from each of those regions, with Africa retained at one. Representation from Europe and the Americas would therefore halve. While members are not appointed as representatives of particular regions, in practice they undertake much of their outreach within their own regions and jurisdictions. Jurisdictional representation therefore contributes to the boards' legitimacy, even where members act and vote in an individual capacity.

5. We note the Trustees' position that jurisdictional participation can be achieved across the two boards and through the standard-setting advisory forums, the Advisory Council and other consultative bodies. We do not consider these arrangements a sufficient substitute. These channels are consultative rather than decision-making, and the Trustees' own approach places considerable emphasis on board-member-led engagement with stakeholders. Fewer board members inevitably mean less board-member-led outreach, regardless of where any shortfall arises. We therefore suggest that the Trustees either restore higher minimum allocations for the

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largest regions or set out explicitly how board-member-led outreach coverage will be maintained under the proposed arrangements.

6. Related to this, we note that at-large appointments – board members without a regional allocation – are not subject to any geographical constraint and could, at smaller board sizes, form a significant proportion of a board. We would encourage the Trustees, when appointing at-large members, to have regard to the existing balance of the board, both geographically and across other constituencies (for example users, preparers and assurers), so that the board as a whole maintains balanced representation.

7. Finally, we note the funding context: the boards will draw on reserves in the short term while the new funding model develops. Governance arrangements that risk weakening the boards' international legitimacy may also affect confidence in the Foundation and, by extension, the credibility on which its funding model ultimately depends. We encourage the Trustees to consider these effects together rather than in isolation.

QUESTION 2: ATTRIBUTES OF BOARD MEMBERS DO YOU AGREE WITH THE TRUSTEES' DECISION TO PROPOSE NO CHANGES IN THE CONSTITUTION:

(A) TO THE MAIN PROVISIONS RELATED TO PART-TIME BOARD MEMBERSHIP; AND

(B) TO THE MAIN QUALIFICATIONS FOR MEMBERSHIP OF THE BOARDS? IF NOT, WHY NOT, AND WHAT WOULD YOU PROPOSE INSTEAD AND WHY?

8. We agree that no major changes are needed to the main qualifications for membership of the boards. The existing requirements continue to provide an appropriate framework and help ensure that the boards collectively comprise a suitable mix of perspectives, including those of preparers, auditors, users, academics, regulators and other relevant specialists.

9. We also support retaining the existing provisions relating to part-time membership. These arrangements provide useful flexibility and can assist in attracting suitably qualified and experienced candidates who may not otherwise be available to serve. We support the requirement that both Chairs serve as full-time members and welcome the transitional provision allowing the number of part-time ISSB members temporarily to exceed the minority threshold between appointments, thereby avoiding unnecessary operational constraints.

10. However, as board sizes reduce, the proportion of part-time members may have a greater effect on overall board capacity than is the case today. We therefore encourage the Trustees to keep the operation of these arrangements under review and to ensure that the balance between full-time and part-time membership continues to support effective standard-setting, stakeholder engagement and due process.

11. As board sizes reduce, we would also encourage the Trustees to consider how expertise in digital reporting, data and artificial intelligence is maintained within the boards' collective skill set, given the growing significance of these matters across both boards' work.

QUESTION 3: VOTING ARRANGEMENTS DO YOU AGREE WITH HOW THE TRUSTEES PROPOSE TO UPDATE THE VOTING REQUIREMENTS IN THE CONSTITUTION TO FACILITATE EFFECTIVE DECISION-MAKING FOR THE SMALLER BOARDS? IF NOT, WHY NOT AND WHAT WOULD YOU PROPOSE INSTEAD AND WHY?

12. As board size reduces, the margin for dissent narrows and individual members' votes carry greater weight. While a larger board can accommodate a broader range of views and a greater degree of disagreement while still reaching a decision, a smaller board has less capacity to do so.

13. We also note the interaction between the voting requirements and the Due Process Handbook rule on small group meetings. Small group discussions are an important part of the boards'

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deliberative process: they enable members to debate proposals in depth, test emerging views and improve the quality of proposed Standards before formal decision-making.

14. At a board size of eight members, a potential blocking minority would consist of two members, and the Handbook's restrictions would apply, significantly restricting members' ability to meet and discuss technical matters outside formal board meetings, in practice to the point where even informal contact between a small number of members could be prohibited.

15. We encourage the Trustees to consider whether this Handbook rule should be revised alongside the constitutional amendments: applying both a raised effective approval threshold (six votes out of eight members) and a prohibition on small group discussions to an eight-member board would materially impede the development of high-quality Standards.

16. Finally, as board size reduces and individual votes carry greater weight, we would encourage the Trustees to ensure that transparency around dissenting views is maintained, including through the continued publication of dissenting opinions alongside Standards and Exposure Drafts.

17. In addition, we note that neither the Constitution nor the Due Process Handbook contains an explicit requirement for the boards to seek to achieve decisions by consensus. Decisions are taken by ballot under the applicable voting thresholds, with due process requiring instead that proposals be debated in public meetings and that differing views be considered. As boards reduce in size and individual votes carry greater weight, we would encourage the Trustees to consider introducing an explicit expectation that the boards seek to achieve decisions by consensus wherever possible, with voting acting as a backstop rather than the primary route to a decision. This would help preserve the deliberative quality of standard-setting on smaller boards and complements the transparency arrangements already reflected in the publication of dissenting opinions.

QUESTION 4: OTHER TARGETED AMENDMENTS DO YOU AGREE WITH THE OTHER PROPOSED TARGETED AMENDMENTS TO THE CONSTITUTION

18. ICAEW broadly supports the proposed targeted amendments to the Constitution. In our view, they improve flexibility, transparency and consistency while remaining consistent with the Foundation's existing governance framework and due process requirements.

19. We support the proposal to provide greater flexibility over the length of individual board members' terms while retaining a normal maximum total period of service of eight years, extendable to ten years in exceptional circumstances. This strikes an appropriate balance between continuity and renewal and should assist the Foundation in managing succession and retaining expertise where required. We also welcome the clarification that initial appointments may be made for up to five years and renewed for one or more further terms.

20. We also support the proposal to permit the IASB to consult on a work plan covering a period shorter than five years, aligning its position with the flexibility already available to the ISSB. Given the pace at which reporting issues can evolve, this approach appears pragmatic and should allow the boards to respond more effectively to changing circumstances.

21. We welcome the proposed amendments that strengthen transparency and consistency within the Foundation's due process arrangements. In particular, clarifying that a Basis for Conclusions should accompany both an Exposure Draft and a final Standard supports stakeholders' understanding of the boards' reasoning and decision-making. We also support the alignment of the Discussion Paper approval process with the Due Process Handbook's written-ballot requirements, which resolves an existing inconsistency.

22. Finally, we consider the updates to the description and delegated authority of the Managing Director, together with the removal of transitional provisions associated with the establishment

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of the ISSB, to be sensible housekeeping amendments that help ensure the Constitution remains current and reflects the Foundation's operating arrangements.

SUMMARY OF KEY RECOMMENDATIONS

1. Operate twelve members as the normal operating size for each board, with ten reserved for exceptional circumstances.
2. Reconsider the reduced geographical minimums or set out explicitly how board-member-led outreach coverage will be maintained, given that the consultative bodies cited by the Trustees are not a substitute for voices in the room. When appointing at-large members, the Trustees should have regard to the existing geographical and constituency balance of the board.
3. Exercise the board-by-board sizing flexibility now, particularly in relation to the IASB's technical workload, rather than defaulting both boards to ten.
4. Address the combination of the 75% approval threshold and the small group meeting restriction at eight members.
5. Confirm how the balance of full-time independent members will be safeguarded and evidenced as boards reduce in size.
6. Introduce an explicit expectation that the boards seek to achieve decisions by consensus wherever possible, with voting acting as a backstop rather than the primary route to a decision.

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