Implications of possible IASB-ISSB connectivity-related workstreams on the EFRAG research project
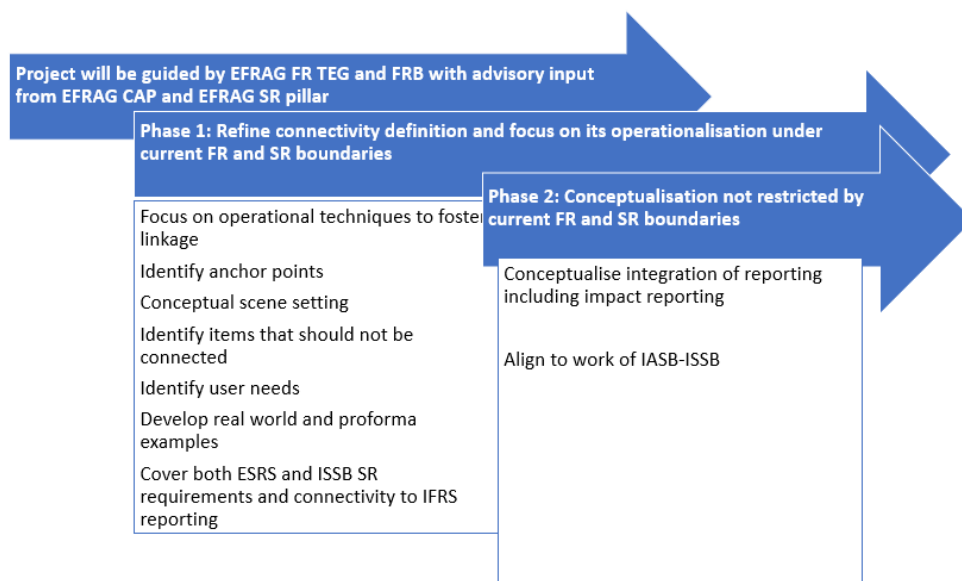## Issues Paper

Objective

1   As part of the conceptual scene setting, in April 2023, EFRAG FR TEG discussed and agreed on the objectives of the EFRAG research project on connectivity, the elements of connectivity, and confirmed the inclusion of the management report/management commentary within the scope of the project. However, relevant information within other sections of the reporting package (e.g., remuneration report) could still be in scope (e.g., to the extent that such information has been included in the sustainability statements through cross-referencing).

2   The purpose of this session is for EFRAG FR TEG to complete the discussion of the matters raised in the issues paper for the April 2023 EFRAG FR TEG meeting. Specifically, to obtain EFRAG FR TEG views on:

(a)   The implications of possible IASB-ISSB connectivity-related workstreams (including the distinction of the connectivity versus integration of reporting terms, the scope of a possible "integration in reporting" project) on the EFRAG research project,

(b)   The use of the EFRAG CAP.

Background

3   In June 2022, the EFRAG FRB approved the addition of a project on the connectivity between FR and SR information to the EFRAG proactive research agenda. The project was identified as a high priority in the feedback to the May 2021 EFRAG agenda consultation (it was the most supported new EFRAG proactive agenda project).

4   At the February 2023 joint meeting of EFRAG FR TEG and the EFRAG FRB, the scope and a two-phase approach to the project were approved. The first phase will focus on defining "connectivity" for the purposes of this project and operationalising it within the current FR and SR boundaries[1].

5   The precise scope of the second phase will be determined at a later date. The preliminary view is that it could conceptualise connectivity without being limited to the conceptual boundaries of FR and SR including addressing integration of reporting. In this issue paper, the term integration of reporting is not necessarily synonymous with the implementation of the International Integrated Reporting Council (IIRC) and its six-capital framework, which is currently voluntarily applied by many companies – but is used in a more general sense connoting a future state of increased integration of

---

[1] In the context of this issues paper, current FR and SR boundaries connotes existing legislative, regulated reporting, scope and placement requirements in respect of FR and SR information.

reporting. Below is a diagrammatic depiction of the key elements of the two-phase approach.

Project will be guided by EFRAG FR TEG and FRB with advisory input from EFRAG CAP and EFRAG SR pillar

Phase 1: Refine connectivity definition and focus on its operationalisation under current FR and SR boundaries

Focus on operational techniques to foster linkage

Identify anchor points

Conceptual scene setting

Identify items that should not be connected

Identify user needs

Develop real world and proforma examples

Cover both ESRS and ISSB SR requirements and connectivity to IFRS reporting

Phase 2: Conceptualisation not restricted by current FR and SR boundaries

Conceptualise integration of reporting including impact reporting

Align to work of IASB-ISSB

Possible implications of IASB-ISSB connectivity-related workstreams on the EFRAG Research Project

6   On 4 May 2023, the ISSB issued a Request for Information- *Consultation on Agenda Priorities* (RFI) seeking views on the relative priority of four possible new research and standard-setting projects, namely, **Biodiversity, ecosystems and ecosystem services; Human capital; Human rights;** *and* **Integration in reporting**. The EFRAG SR pillar will lead EFRAG's response to this consultation with the EFRAG FR pillar contributing to the response on the topic of "Integration in reporting". Accordingly, a joint EFRAG FR TEG and SR TEG meeting is scheduled for later in May 2023 to discuss EFRAG's response to the "Integration in reporting" question. Today's EFRAG FR TEG session is not intended to duplicate or pre-empt the forthcoming joint FR-SR TEG and FRB-SRB meeting discussions that will formulate EFRAG's views on the possible project on "integration in reporting".

7   Nonetheless, as the objective of EFRAG's proactive research is to influence the work of the IASB-ISSB in a synergistic, non-duplicative manner, it is important to consider if the possible "Integration in reporting" project ought to have any implications for the EFRAG research project.

8   Of note, in its RFI, the ISSB has framed[2] 'connectivity, connection in reporting' as being a distinct and narrower notion than 'integration of reporting'. This raises the question of whether, to the extent EFRAG and other stakeholders' feedback indicate support for this distinction, the intended second phase of the EFRAG project should be renamed.

9   It is too early to anticipate the precise scope of the potential ISSB project on "Integration in reporting". Nonetheless, at a high level, it seems that such a potential ISSB project may address issues that were earmarked as being within the possible scope of the second phase of the EFRAG research project. Hence, to ensure non-duplicative and value-adding efforts, the appropriate timing and scope of the second phase of the EFRAG project may need to be revised, in line with the agile project setup needed for an evolving and comprehensive topic like connectivity. Furthermore, it will likely be necessary to consider whether integration of reporting as applied by the ISSB is synonymous with the use of the term in the context of the EFRAG research project (i.e., not being limited to the current application of the IIRC IR framework).

Questions for EFRAG FR TEG

10   To the extent that it is relevant for the EFRAG research project, do EFRAG FR TEG members have any comments on the ISSB's proposed distinction between "connectivity" and "integration in reporting"?

11   Should the potential distinction between the terms connectivity and integration in reporting have any bearing on how EFRAG describes the second phase of the research project?

Use of EFRAG CAP

12   EFRAG CAP is expected to be operational in Q2 2023 and will be updated on the agreed objective, scope and two-phase approach of the research project as approved by EFRAG FR TEG and FRB. In addition, we propose to consult the panel on the following:

   (a)   establishing an inventory of anchor points with good coverage of the E-S-G sustainability matters related to the agreed connectivity elements for the first phase of the EFRAG research project;

   (b)   For each anchor point (or an initial subset of them depending on the effort required):

         (i)   develop a brief illustration of the conceptual boundaries of the different documents to be connected (i.e., what should and what should not be expected to be found in the primary financial statements, in the notes to the

---

[2]Paragraphs A40 and A41 of the ISSB RFI state that "*Integration in reporting takes the concept of connectivity a step further. Integration in reporting not only encompasses where, what and how information on value creation can be connected through conceptual and operational linkages (for example, in terms of compatibility of language and assumptions), but also includes the collective consideration of the interdependencies, synergies and trade-offs between:*

(a) the various resources and relationships reported on in general purpose financial reports; and

(b) how the value that an entity creates for itself and for its investors is inextricably linked to the value the entity creates for other stakeholders, society and the natural environment.

Integration in reporting can ensure that connections between financial and sustainability performance are explicitly, efficiently and effectively communicated in a manner that is more easily understood by an entity's investors."

financial statements, in the sustainability statements and other sections of the management report);

    (ii)   identify the possible connectivity technique/s applicable; and

    (iii)   collect good existing examples and, where existing practices cannot be identified, consider developing mock-up disclosures.

.

13   The elements of "connectivity" agreed by EFRAG FR TEG in April and other conceptual scene-setting considerations (e.g., scope) <u>should be taken as a given by the EFRAG CAP</u>. Alternatively, the EFRAG CAP's further refinements in the articulation of the elements of connectivity and other aspects of conceptual scene setting could be sought.

14   It is expected that the EFRAG FR TEG will be debriefed by the EFRAG CAP Chair on the discussions and outcomes of each EFRAG CAP meeting. It is proposed that this briefing should consist of a written report and presentation by the EFRAG CAP Chair that is open to the public.

Questions for EFRAG FR TEG

15   Would EFRAG FR TEG find it useful to receive comments from EFRAG CAP on the elements of connectivity to be considered in the first phase of the project (i.e., the scope of the first phase of the project)?

16   Does EFRAG FR TEG have any other suggested areas for consultation with EFRAG CAP?

17   Does EFRAG FR TEG have any other comments on its expected interaction with EFRAG CAP?