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As the SR TEG meeting is taking place two days before this meeting, the EFRAG Secretariat kindly requests SRB members to assess this version of the DCL which is identical to the version uploaded to SR TEG. A marked-up version after SR TEG will be made available to SRB members before the meeting as a late upload.

ISSB RFI Agenda Consultation – [Draft] comment letter

EFRAG encourages You to submit your comments electronically using the online survey [\[INCLUDE LINK\]](#). Alternatively, EFRAG accepts comment letters submitted by using the '[Express your views](#)' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 25 July 2023.

International Sustainability Standards Board
IFRS Foundation
Opernplatz 14
60313 Frankfurt am Main
Germany
[XX Month 2023]

Dear Mr. Faber

Re: Request for information – Consultation on Agenda priorities

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the *Request for Information -Consultation on Agenda Priorities*, issued by the ISSB on 4 May 2023 (the 'RFI'). This letter is intended to contribute to the ISSB's due process.

Note to EFRAG SR TEG

Please note that the text highlighted in grey in this cover page will be uploaded in the electronic survey as answer to 'Question n. 8 – Any other comments' as it covers general aspects of EFRAG letter and not specifically one of the other questions.

EFRAG has been appointed as the advisor to the European Commission in the preparation of European Sustainability Reporting Standards (ESRS) for Europe in execution of the Corporate Sustainability Reporting Directive or CSRD. In that function EFRAG is developing draft ESRS. A first set was delivered to the European Commission in November 2022, covering an extensive list of sustainability matters across environmental, social and governance topics and under a double materiality perspective.

These standards are effective from 2024 for a first group of preparers¹ and from 2025 for the remaining preparers.² EFRAG has been as well tasked to develop standard(s) for small-medium enterprises and sector-specific ESRS.

Under the CSRD, ESRS should take account of any sustainability reporting standards developed under the auspices of IFRS. To avoid unnecessary regulatory fragmentation that could have negative consequences for undertakings required to apply the ESRS and operating globally, ESRS should contribute to the process of convergence of sustainability reporting standards at global level, by supporting the work of the ISSB. ESRS should reduce the risk of inconsistent reporting requirements for undertakings that operate globally, by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of those baseline standards is consistent with the Union's legal framework and the objectives of the Green Deal.

As a result, supporting the work of the ISSB is integral part of the mandate of EFRAG and operationalising the interoperability between ESRS and IFRS sustainability standards is one of the drivers of the content in the design of ESRS. The aim is in fact to reduce to the minimum the risk of double reporting.

The content of this letter has to be read in this context.

EFRAG strongly recommends that the ISSB develops and publicises the overall direction of travel in sustainability reporting, i.e. the target universe of all topics that are to be covered in its standard setting, also beyond the time horizon of the next workplan.

EFRAG considers that the first priority should be the beginning of new research and standard-setting projects. In fact, in the absence of a (set of) topical standard(s), like IFRS S2, providing the necessary structure and granularity of the requirements, the resulting information will not be of the desired (high) quality and comparability. The second priority should be supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 and researching targeted enhancements to the ISSB Standards (climate-adjacent disclosures).

The last priority would be to enhance the Sustainability Accounting Standards Board (SASB) Standards. This activity is of particular interest to EFRAG in the context of its development of the sector specific ESRS over the next few years as these will complement the sector-agnostic ESRS issued in November 2022. EFRAG anticipates that the industry-specific SASB standards will support the preparation of ESRS sustainability statements before the application of sector-specific ESRS standards. They are also a key source for EFRAG in the development of ESRS sector standards.

EFRAG suggests that the criterion interoperability should be added to the list of criteria in the RFI.

EFRAG will not put forward a prioritisation of the different research projects and the subsequent standards to be developed, because all sustainability matters are equally important. EFRAG accepts that for pragmatic reasons such as capacity issues, one project is dealt with before another. Interoperability and synergies that can be developed with other standard setter' initiatives could be a driver to assess priority.

In general, when considering how to define the scope of the different sustainability topics and sub-topics, EFRAG recommends considering the ESRS architecture. This will facilitate interoperability between the two systems.

¹ Currently in the scope of the Non-Financial Reporting Directive.

² Undertakings that exceed at least two of three following criteria: balance sheet total: 20 mio EUR; net turnover 40 mio EUR; average number of employees during the financial year: 250

EFRAG disagrees with the approach to describe the topics on biodiversity, human capital and human rights so broadly that they become all encompassing. EFRAG invites the ISSB to consider the structure of the topical ESRS. For biodiversity we alternatively suggest renaming the project to “Nature” and align it with the work of the TNFD (Taskforce on Nature Related Financial Disclosures).

EFRAG applauds the intention of the ISSB to broaden its coverage to social topics, as this will be a step forward in progressing toward a more complete reporting.

EFRAG highlights the intrinsic linkages between human capital and labour and human rights. To this extent, unbundling such concepts into two different topics (human rights and human capital) raises a number of questions. For the articulation of human capital, EFRAG suggests identifying clear affected stakeholder groups per topic.

EFRAG notes that the category of providers of financial capital is composed by a variety of different types of investors. For many users of general-purpose financial statements, the impact re human rights is not of interest for decision-making as they don't see it as a financial risk. EFRAG recommends that the ISSB goes head with approaching this topic, only provided that it recognises that the primary users of this information are investors who request impact materiality information. In this case, the ISSB should leverage on the contents of the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights.

EFRAG considers that a project on connectivity should be given high priority to develop guidance on connected information. We see the integration of reporting more as a longer-term project for which, given the current resources available and immediate other needs, there is no immediate place on the agenda.

EFRAG considers that a project on connectivity (not integration in reporting) should be given high priority. EFRAG notes that there would be both advantages and disadvantages to adopting the project as a formal joint project of the IASB and ISSB. EFRAG agrees with the ISSB incorporating concepts from the IASB's project on the Management Commentary and the Integrated Reporting Framework.

EFRAG's detailed comments and responses to the questions in the RFI are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Chiara del Prete or myself.

Yours sincerely,

Patrick de Cambourg

EFRAG SRB Chair

Appendix - EFRAG's responses to the questions raised in the RFI

Question 1 – Strategic direction and balance of the ISSB's activities

Notes to constituents – Summary of proposals in the RFI

- 1 As part of its next work plan, the ISSB's activities will primarily consist of:
 - (a) beginning new research and standard-setting projects;
 - (b) supporting the implementation of IFRS Sustainability Disclosure Standards (ISSB Standards);
 - (c) researching targeted enhancements to the ISSB Standards;
 - (d) enhancing the SASB Standards;
 - (e) ensuring connectivity between the ISSB's and IASB's respective requirements;
 - (f) ensuring interoperability of the ISSB Standards with other sustainability standards; and
 - (g) engaging with stakeholders.
- 2 While (a) relates to new research and standard-setting, (b)-(d) are part of the foundational work, i.e. committed activities to build upon IFRS S1 and IFRS S2 once issued. All the ISSB's activities are interrelated to some degree with the overall aim of delivering the comprehensive global baseline of sustainability-related disclosures. In particular, (e)-(g) are at the core of all the ISSB's activities, including new research and standard-setting and the foundational body of work.

Question 1

Paragraphs 18–22 and Table 1 of the RFI provide an overview of activities within the scope of the ISSB's work.

- (a) From highest to lowest priority, how would you rank the following activities?
 - (i) beginning new research and standard-setting projects
 - (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
 - (iii) researching targeted enhancements to the ISSB Standards
 - (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.
- (c) Should any other activities be included within the scope of the ISSB's work? If so, please describe these activities and explain why they are necessary.

EFRAG's response

EFRAG considers that the first priority should be the *beginning of new research and standard-setting projects*.

EFRAG strongly recommends that the ISSB develops and publicise the overall direction of travel in sustainability reporting, i.e. the target universe of all topics that are to be covered in its standard setting. This overall picture is necessary beyond the two-year proposed time period of the current Agenda consultation to allow stakeholders to make an informed assessment of the framework in development.

EFRAG considers that the second priority should be *supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 and researching targeted enhancements to the ISSB Standards* (climate-adjacent disclosures). Expediently providing appropriate implementation support material would be highly beneficial in supporting the first application of the two standards and would facilitate the broader acceptance of the new disclosures.

EFRAG's last priority would be to *enhance the Sustainability Accounting Standards Board (SASB) Standards*. This activity is of particular interest to EFRAG in the context of its development of the sector specific ESRS over the next few years as these will complement the sector-agnostic ESRS issued in November 2022. EFRAG anticipates that the industry-specific SASB standards, as best available practice, will play an important role to support the preparation of ESRS sustainability statements before the application of sector-specific ESRS standards.

EFRAG has not identified any other activities to be included in the scope of the ISSB work.

Question 1 (a)

- 3 EFRAG would rank the activities as follows (from highest to lowest priority):
- (a) beginning new research and standard-setting projects;
 - (b) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 and researching targeted enhancements to the ISSB Standards (climate-adjacent disclosures);
 - (c) enhancing the Sustainability Accounting Standards Board (SASB) Standards; and
 - (d) researching targeted enhancements to the ISSB Standards (post-implementation review).

Question 1 (b)

- 4 EFRAG considers that the priority should be the *beginning of new research and standard-setting projects*. The issuance of IFRS S1 is a step ahead and will contribute to the availability of initial disclosures on sustainability risks and opportunities other than climate-related aspects. However, IFRS S1 is a principles-based standard that relies on an entity-specific identification of both the sustainability matters to report on, and the detailed disclosures. In the absence of a (set of) topical standard(s), like IFRS S2, providing the necessary structure and granularity of the requirements, the resulting information will not be of the desired (high) quality and comparability.
- 5 In this context, next to the identification of the first few topics that will be included in the work plan for the next two years, EFRAG strongly recommends that the ISSB develops and publicise the overall direction of travel in sustainability reporting, i.e.

the target universe of all topics that are to be covered in its standard setting. This overall picture is necessary beyond the two-year proposed time period of the current Agenda consultation to allow stakeholders to make an informed assessment of the framework in development. EFRAG understands that there may not be sufficient capacity to develop all topical standards at the same time or within the two-year time period and does not consider this a problem, as long as there is prioritisation and clear communication of the planned topical additions.

- 6 EFRAG consider that the second priority should be *supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 and researching targeted enhancements to the ISSB Standards* (climate-adjacent disclosures). In particular:
 - (a) EFRAG considers that expeditiously providing appropriate implementation support material would be highly beneficial in supporting the first application of the two standards and would facilitate the broader acceptance of the new disclosures. EFRAG has been requested in March 2023 by the European Commission to start working on implementation support, which includes the issuance of non-authoritative guidelines and addressing implementation questions, to supplement the first set of ESRS³. As such, for the disclosures in ESRS that pertain to the intersection with the ISSB disclosures, any initiative of the ISSB in this space would also benefit ESRS preparers. EFRAG stands ready to support the ISSB in this stream of activities.
 - (b) EFRAG considers that researching adjacent disclosures to climate as equally important as it allows to provide a complete depiction of the topic. In addition, EFRAG notes that the disclosures related to just transition to a lower-carbon economy are covered in the social ESRS, despite being triggered by the mitigation of climate change. In the ESRS architecture the nature of a sub-topic (just transition being a 'social' issue) prevails over the fact that it is triggered by the actions to mitigate another topic (climate change). A specific provision in [draft] ESRS 1⁴ *General Requirements* requires entities to illustrate the linkages between information covering sub-topics falling in different ESRS standards. EFRAG invites the ISSB to consider aligning to this approach, to facilitate interoperability.
- 7 EFRAG's last priority would be to *enhance the Sustainability Accounting Standards Board (SASB) Standards*. This activity is of particular interest to EFRAG in the context of its development of the sector specific ESRS over the next few years as these will complement the sector-agnostic ESRS issued in November 2022. EFRAG anticipates that the industry-specific SASB standards, as best available practice, will play an important role to support the preparation of ESRS sustainability statements before the application of sector-specific ESRS standards (as foreseen in the transition provisions of ESRS 1⁵). In addition, the SASB standards are also a key source of inspiration for EFRAG in the development of ESRS sector standards and any initiative of the ISSB could improve interoperability at sector ESRS level, and stands ready to support the ISSB's activities.

³ Released by EFRAG in draft in November 2022 by EFRAG and expected to be issued as Delegated Act in time for its first-time adoption in 2024 as per the Corporate Sustainability Reporting Directive (CSRD).

⁴ Paragraphs 56 and 57 of the November 2022 draft ESRS 1.

⁵ Paragraph 132 of the November 2022 draft ESRS 1.

Question 1 (c)

- 8 EFRAG has not identified any other activities to be included in the scope of the ISSB work.

Question 2 – Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan

Notes to constituents – Summary of proposals in the RFI

- 9 *The ISSB evaluates a potential new research or standard-setting project for its work plan primarily to determine whether the project will meet the information needs of investors in making decisions about providing resources to an entity, in accordance with the objective of IFRS S1. The ISSB considers the following criteria:*
- (a) *The importance of the matter to investors;*
 - (b) *Whether there are any deficiencies in the way companies disclose information on the matter;*
 - (c) *The types of companies that the matter is likely to affect, including whether the matter is more prevalent in some industries and jurisdictions than others;*
 - (d) *How pervasive or acute the matter is likely to be for companies*
 - (e) *How the potential project interconnects with other projects in the work plan;*
 - (f) *The complexity and feasibility of the potential project and its solutions;*
 - (g) *The capacity of the ISSB and its stakeholders to progress the project in a timely way.*

Question 2

Paragraphs 23–26 of the RFI discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.

- (a) Do you think the ISSB has identified the appropriate criteria?
- (b) Should the ISSB consider any other criteria? If so what criteria and why?

EFRAG’s response

Considering the ongoing developments in sustainability reporting, and the fact that ISSB set of standards is still under development, EFRAG suggests that the criterion “interoperability” should be added to this list of criteria in the RFI.

Question 2 (a)

- 10 Please refer to our answer to Question 2 (b).

Question 2 (b)

- 11 EFRAG considers that the ISSB should add facilitation of interoperability with other jurisdictional standard setting, including ESRS, or internationally applied frameworks and initiatives to its criteria. Simultaneously with the ISSB set of standards, other initiatives at jurisdictional or international level are being developed. Therefore, to reduce the future costs for preparers stemming from risks of double reporting, future requirements should be aligned as much as possible with existing standards or material and with standards or material under development. This is particularly relevant for companies in scope of CSRD, including subsidiaries

and branches of non-European parent companies,⁶ where these may choose to report according to the IFRS Sustainability Standards.

Question 3 – New research and standard-setting projects that could be added to the ISSB’s work plan

Notes to constituents – Summary of proposals in the RFI

- 12 *Appendix A of the RFI proposes a prioritised list of sustainability-related reporting matters that the ISSB could research as part of its new work plan. The ISSB could pursue new standard-setting for some or all of these matters, if appropriate. The ISSB has decided to seek feedback on a prioritised list of matters, instead of making an open call to stakeholders to suggest focus areas or proposing a longer list of potential focus areas, not all of which the ISSB would have the capacity to make progress on in its new work plan.*
- 13 *To identify the wide range of sustainability-related reporting matters to consider in its work plan, the ISSB reviewed a wide range of internal and external sources. Internal materials included:*
- (a) public feedback on the Consultation Paper on Sustainability Reporting issued in September 2020 by the Trustees of the IFRS Foundation;
 - (b) public feedback on [draft] IFRS S1 and [draft] IFRS S2;
 - (c) agenda priorities of the CDSB and VRF; and
 - (d) input from consultative and advisory bodies, including the TRWG.
- 14 *External materials were also reviewed, including:*
- (a) standards, guidance, recommendations and work plans published by other sustainability standard-setters and framework providers;
 - (b) the work of market-led initiatives focused on the measurement and disclosure of sustainability-related information;
 - (c) regulatory and policy developments in jurisdictions worldwide;
 - (d) the priorities of investor groups; and
 - (e) disclosures made by entities in a range of industries and geographical contexts.
- 15 *Using this research, the ISSB compiled a preliminary list of broadly defined sustainability topics that could be considered for inclusion in its new work plan.*
- 16 *In order to prioritise this initial first list, the ISSB considered projects for its work plan that would improve the connections between information provided in the sustainability-related financial disclosures and the financial statements.*
- 17 *The ISSB also considered the internal anticipated available capacity and further considered various sources of information and engaged with IASB members and technical staff to understand the scope and timing of IASB projects with significant sustainability related implications.*
- 18 *Based on this research and outreach, the ISSB prioritised four projects:*

⁶ Subsidiary undertakings of third-country parent undertakings should be exempted from applying the sustainability reporting requirements when the consolidated sustainability reporting is done in accordance with the CSRD or in a manner equivalent to the sustainability reporting standards developed in execution of the CSRD. This is not valid for large undertakings whose securities are admitted to trading on a regulated market in the European Union.

- (a) Biodiversity, ecosystems and ecosystem services
- (b) Human capital;
- (c) Human rights; and
- (d) Integration in reporting.

Question 3

Paragraphs 27–38 of the RFI provide an overview of the ISSB’s approach to identifying sustainability-related research and standard setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB’s work plan.

(a) Taking into account the ISSB’s limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?

(i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.

(ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

EFRAG’s response

EFRAG will not put forward a prioritisation of the different research projects and the subsequent standards to be developed, because in our view all sustainability matters are equally important. EFRAG accepts that for pragmatic reasons such as capacity issues, one project is dealt with before another. Interoperability and synergies that can be developed with other standard setter initiatives could be a driver to assess priority.

Question 3(a)

- 19 EFRAG does not support the description of projects as proposed by the RFI (see our answers to Questions 4, 5 and 6). Further, EFRAG will not put forward a prioritisation of the different research projects and the subsequent standards to be developed, because in our view all sustainability matters are equally important. EFRAG accepts that for pragmatic reasons such as capacity issues, one project is dealt with before another. Interoperability and synergies that can be developed with other standard setter initiatives could be a driver to assess priority.

Question 4 – New research and standard-setting projects that could be added to the ISSB’s work plan: biodiversity, ecosystems and ecosystem services

Notes to constituents – Summary of proposals in the RFI

- 20 *Reasons why the ISSB is seeing this project as a priority: Issues related to BEES have drawn increasing attention from investors. Human activities, including business, have directly and indirectly contributed to changes in BEES: consumption, production, trade and technological innovations cause changes in land and sea use, direct exploitation of organisms, climate change, pollution and invasive non-native species, which are all direct drivers of BEES loss. Nevertheless, entities can contribute to and benefit from the preservation, conservation and restoration of biodiversity, which can lead to increased business resilience due to the enhanced stability of raw material supply and pricing, as well as reduced costs for inputs to production (for example, due to water purification).*
- 21 *Biodiversity loss poses a significant threat to financial stability. Research by the World Economic Forum indicates that US\$44 trillion of economic value generation—more than half of the world's GDP—is directly dependent on nature and the ecosystem services it provides.*
- 22 *Many ecosystem services are not replaceable and studies, such as those by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), have found that most ecosystem and biodiversity indicators are already in decline, highlighting the immediacy of the financial risk.*
- 23 *The interest in BEES among investors was confirmed by the ISSB's research and outreach activities. BEES emerged as a priority topic because (1) it underpins all human activities, including business, and (2) research and work on BEES and the related risks and opportunities for investors are evolving at a significant pace.*
- 24 *Despite the significant progress of BEES-related research and work, a well-established and internationally accepted set of disclosure practices, tools and metrics has yet to emerge to facilitate understanding of how BEES affects an entity's financial position, performance and prospects over the short, medium or long term.*
- 25 *Challenges in meeting investors' needs include:*
 - (a) *defining, organising and categorising BEES-related topics and subtopics in the context of business and sustainability-related disclosures, and the lack of consensus on what ought to be prioritised for standard setting;*
 - (b) *the overlap with other sustainability-related risks and opportunities—for example, those related to greenhouse gas emissions (also related to climate-related risks and opportunities) or socioeconomic aspects (for example, access to water and land); and*
 - (c) *the fact that BEES-related risks and opportunities vary significantly among various geographical locations and business models, economic activities and other common features that characterise participation in an industry (for example, material information about sustainability-related risks and opportunities related to the use of natural resources, such as water, is influenced by the availability of the natural resource in the geographical location where it is used and by how the natural resource is used).*

Question 4

The research project on biodiversity, ecosystems and ecosystem services is described in paragraphs A3–A14 of Appendix A of the RFI. Please respond to these questions:

- (a) Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors.

You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

(i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and

(ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.

(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

EFRAG's response

EFRAG disagrees with the approach to describe the topic so widely that it becomes a catch-all topic.

We therefore suggest to consider the “[draft] ESRS Biodiversity and ecosystems“. Alternatively we suggest the ISSB to rename this project “Nature” and align it with the work of the TNFD.

Question 4 (a)

- 26 EFRAG disagrees with the approach to describe the topic so widely that it becomes a catch-all topic, as it risks degrading relevant subtopics by looking at them through the lens of biodiversity alone. This approach does not in our view allow to develop a comprehensive reporting view on the impact, risks and opportunities that can be associated with these subtopics. For example looking at water only through the lens of biodiversity does not provide insight into the use of water as a scarce resource.
- 27 In this regard we note that, in our view, it will be difficult to combine both “Nature” and “Circular economy” under the same heading and suggests that these subtopics become reporting areas in their own right.
- 28 EFRAG developed four standards covering environmental topics beyond climate (water and marine resources; pollution; biodiversity and ecosystems; and resource

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use and circular economy). A potential ISSB scope of biodiversity different than the one used by EFRAG for the same term, would generate confusion.

- 29 We therefore suggest to consider the “[draft] ESRS Biodiversity and ecosystems” and how our standard has integrated the different nature-related sustainability matters [please refer to the table below]. Alternatively we suggest the ISSB to rename this project “Nature” and align it with the work of the TNFD.
- 30 In developing its own set of topical sustainability reporting standards EFRAG has identified different sustainability matters for each of those areas identified in paragraph A11 of the RFI. In our view, a more granular approach to the definition of the matters should be taken, as a basis for determining disclosures.
- 31 The overview of these sustainability matters in the environmental area (except for climate change) are listed below and can be read in our [draft] ESRS 1 General Requirements, AR 12 and following:

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
[draft] ESRS E2	Pollution	<ul style="list-style-type: none"> • Pollution of air • Pollution of water • Pollution of soil • Pollution of living organisms and food resources • Substances of concern • Substances of very high concern 	
[draft] ESRS E3	Water and marine resources	<ul style="list-style-type: none"> • Water withdrawals • Water consumption • Water use • Water discharges in water bodies and in the oceans • Habitat degradation and intensity of pressure on marine resources 	
[draft] ESRS E4	Biodiversity and ecosystems	<ul style="list-style-type: none"> • Direct impact drivers of biodiversity loss 	<ul style="list-style-type: none"> • Climate Change • Land-use change • Direct exploitation • Invasive alien species • Pollution • Others
		<ul style="list-style-type: none"> • Impacts on the state of species 	Examples: <ul style="list-style-type: none"> • Species population size • Species global extinction risk
		<ul style="list-style-type: none"> • Impacts on the extent and condition of ecosystems 	Examples: <ul style="list-style-type: none"> • Land degradation • Desertification • Soil sealing
		<ul style="list-style-type: none"> • Impacts and dependencies on ecosystem services 	
[draft] ESRS E5	Circular economy	<ul style="list-style-type: none"> • Resources inflows, including resource use • Resource outflows related to products and services • Waste 	

Question 4 (b)

- 32 EFRAG is of the view that in answering this question one needs to consider the hierarchy and detail of sustainability matter-related areas. Taking into consideration our answer to Question 4 (a), EFRAG is of the view that the sustainability risks and opportunities defined at sub-topic level are substantially the same across industries and sectors. I.e. these sustainability risks and opportunities would benefit from the development of multiple topical standards under the ISSB framework. However, at sub-subtopic level important sector differences may occur. This border between sub-topic and sub-subtopic level marks the limit where in our view topical standards can bring added value and from where sector depending standards allow to ask for more relevant information. For example by requiring disclosures at a lower level of aggregation (development of metrics at operational site level).

Question 4 (c)

- 33 EFRAG suggests in the first place that its own framework of [draft] sustainability reporting standards can be considered by the ISSB in building standards with regard to biodiversity. Other regulations that EFRAG would suggest considering are:
- (a) Global Reporting Initiative;
 - (b) SASB industry standards;
 - (c) The Taskforce on Nature-related Financial Disclosures (TNFD);
 - (d) The European Commission's Align project;
 - (e) The EU Business and Biodiversity Platform;
 - (f) CDSB Application Guidance on Biodiversity-related disclosures;
 - (g) Global Capitals Coalition Biodiversity Guidance;
 - (h) The Science Based Targets Network;
 - (i) Product Environmental Footprint;
 - (j) Biodiversity Guidance of the Natural Capital Protocol;
 - (k) CDP Forests 2021 questionnaire;
 - (l) ISO 14097;
 - (m) IUCN – International Union for Conservation of Nature;
 - (n) Convention on Biological Diversity, 1992, including the Post-2020 Global Biodiversity Framework;
 - (o) Cancun Declaration, 2016;
 - (p) Sharm El-Sheikh Declaration, 2018;
 - (q) Kunming Declaration.
- 34 EFRAG further suggests considering the Explanatory note of how [draft] ESRS take into account the initiatives and legislation in Article 1 (8) of the CSRS adding article 29 (b)-5 to the Accounting Directive, released by EFRAG jointly with the first drafts of ESRS⁷.

⁷ Document available [here](#)

Question 5 – New research and standard-setting projects that could be added to the ISSB’s work plan: human capital

Notes to constituents – Summary of proposals in the RFI

- 35 *Reasons why the ISSB is seeing this project as a priority: Institutional investors around the world increasingly seek information on human capital management in making investment decisions. Efforts in the US and the UK include, respectively, the Human Capital Management Coalition, a group of 37 institutional investors representing more than US\$8 trillion in assets under management, and the Workforce Disclosure Initiative (WDI), an investor coalition of 68 institutions with US\$10 trillion in assets under management.*
- 36 *Consequently, many entities are seeking clearer guidance on how to prepare more effective disclosures about the management of their human capital. The interest in these issues was confirmed by the ISSB's research and outreach activities, which identified human capital as a priority topic. Although reporting on human capital is increasing, investors said they do not have information that is sufficiently decision-useful and comparable to evaluate.*
- 37 *Challenges in meeting investors' needs include:*
- (a) *the multifaceted nature of human capital management and differences in how risks and opportunities manifest in various business models, economic activities and jurisdictions;*
 - (b) *legal prohibitions on collecting workforce data in some jurisdictions;*
 - (c) *competitive sensitivities related to the disclosure of some information (for example, the use of alternative workforces);*
 - (d) *aspects of human capital, such as workplace culture, that can be inherently difficult to measure;*
 - (e) *other aspects, such as the use of alternative workforces, automation and artificial intelligence, which are rapidly evolving and less well established; and*
 - (f) *understanding the role of individual entities in managing related social impacts, values and culture. Some aspects of human capital management-or mismanagement-may be drawing increased scrutiny because of their potentially profound social impacts, but it is significantly less clear what role an individual entity plays in managing such impacts.*

Question 5

The research project on human capital is described in paragraphs A15–A26 of Appendix A of the RFI. Please respond to the following questions:

(a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors.

You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

(i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and

(ii) your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.

(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A25 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

EFRAG's response

EFRAG applauds the intention of the ISSB to broaden its coverage to social topics, as this will be a step forward in progressing toward a more complete reporting.

EFRAG highlights the intrinsic linkages between human capital and labour and human rights. To this extent, unbundling such concepts into two different topics (human rights and human capital) raises a number of questions in terms of completeness and relevance of information as human capital is built upon the basis that labour and human rights are respected.

The risk of the current approach is to define the topic so widely that it could become a "catch-all" topic.

In terms of interoperability with other sustainability reporting frameworks, we note that the [draft] ESRS already cover human capital for its own workforce in ESRS S1 whilst workers in the value chain (human and labour rights) are described in ESRS S2. Therefore, we suggest that alignment with the ESRS architecture is to be sought for interoperability purposes and decrease the potential burden for double reporters.

Question 5 (a)

- 38 EFRAG applauds the intention of the ISSB to broaden its coverage to social topics, as this will be a step forward in progressing toward a more complete reporting.
- 39 EFRAG highlights the intrinsic linkages between human capital and labour and human rights. To this extent, unbundling such concepts into two different topics (human rights and human capital) raises a number of questions in terms of completeness and relevance of information as human capital is built upon the basis that labour and human rights are respected (i.e. the "floor" to human capital considerations).
- 40 When reviewing the contents of the proposed human capital topic as per A22, a variety of sub-topics that range between workforce investment and health and safety measures are described. On this regard, setting up clear criteria to identify a

narrower list of subtopics or a grouping therein would be recommended; examples of criteria could be identified in para 45 below and, as a minimum, the fundamental labour rights should be included. The risk of the current approach is to define the topic so widely that it could become a "catch-all" topic.

- 41 The scope of the human capital topic seems to suggest that it's limited to the entity's own workforce as per A15, notwithstanding labour conditions in the value chain (refer to A22 (f) and its related footnote 16) could be possibly part of this remit. EFRAG suggests identifying clear affected stakeholder groups per topic and questions whether it is appropriate to cater for labour conditions of workers in the value chain within human capital when it is aimed at own workforce; similarly, the question posed would be the rationale of excluding the subtopic of labour conditions in own workforce for the human capital topic.
- 42 With regards to the identification of sustainability matters and its granularity, EFRAG has followed the requirements of the CSRD in terms of subtopics to be identified. In particular, the CSRD establishes three subtopics: working conditions, equal treatment and opportunities for all and other work-related rights (including fundamental human rights). Such subtopics which are considered sector-agnostic are further broken down as per para 45 below. Therefore, the question that remains is the architecture of the human capital standard and its granularity.
- 43 It is also to be noted that the boundaries between impact and financial materiality on own workforce sustainability matters are clearly defined with impact materiality being core and fundamental to the sustainability system.
- 44 In terms of interoperability with other sustainability reporting frameworks, we note that the [draft] ESRS already cover human capital for its own workforce in ESRS S1 whilst workers in the value chain (human and labour rights) are described in ESRS S2. Therefore, we suggest that alignment with the ESRS architecture is to be sought for interoperability purposes and decrease the potential burden for double reporters. The ESRS social chapter split into four separate affected stakeholders groups and standards has been tested through public consultation with positive feedback and it is a solid and comprehensive basis for the human capital and human rights standard for future sustainability standards from other standard setters.
- 45 The overview of the own workforce and workers in the value chain equivalent sustainability standards in the ESRS (except for affected communities and consumers/end users) is provided below and can be read in our [draft] ESRS 1 General Requirements, AR 12 and following:

ISSB RFI Consultation on Agenda Priorities

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
[draft] ESRS S1	Own workforce	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> Secure employment Working time Adequate wages Social dialogue Freedom of association, the existence of works councils and the information, consultation and participation rights of workers Collective bargaining, including rate of workers covered by collective agreements Work-life balance Health and safety
		<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> Gender equality and equal pay for work of equal value Training and skills development Employment and inclusion of persons with disabilities Measures against violence and harassment in the workplace Diversity
		<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Privacy
[draft] ESRS S2	Workers in the value chain	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> Secure employment Working time Adequate wages Social dialogue Freedom of association, including the existence of work councils Collective bargaining Work-life balance Health and safety
		<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> Gender equality and equal pay for work of equal value Training and skills development The employment and inclusion of persons with disabilities Measures against violence and harassment in the workplace Diversity
		<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Water and sanitation Privacy

Question 5 (b)

46 EFRAG is of the view that in answering this question one needs to consider the hierarchy and detail of sustainability matter-related areas. Taking into consideration our answer to Question 5 (a), EFRAG is of the view that the sustainability risks and opportunities defined at sub-topic level are substantially the same across industries and sectors. I.e. these sustainability risks and opportunities would benefit from the

development of multiple topical standards under the ISSB framework. However, at sub-subtopic level important sector differences may occur. For example, by requiring metrics that relate to particular hazards that are known to occur commonly in a particular sector is additional to the sector-agnostic sustainability information.

Question 5 (c)

- 47 EFRAG suggests considering the Explanatory note of how [draft] ESRS take into account the initiatives and legislation in Article 1 (8) of the CSRD adding article 29 (b)-5 to the Accounting Directive.

Question 6 – New research and standard-setting projects that could be added to the ISSB’s work plan: human rights

Notes to constituents – Summary of proposals in the RFI

- 48 *Reasons why the ISSB is seeing this project as a priority: Entities may have processes in place to manage human rights-related risks according to national laws or international instruments providing guidelines. Nevertheless, entities are increasingly challenged to manage these risks as international economies become more interconnected and supply chains become more complex.*
- 49 *This situation creates increasing risks for entities that do not have appropriate due diligence processes and practices in place. Entities that contribute to-or are perceived to contribute to-human rights violations, through action or inaction may be subject to protests, consumer or group boycotts, or suspension of permits or of access to goods. They may also face substantial costs related to compensation, settlement payments or fines and write-downs in the value of their assets in sensitive areas. The effects of human rights-related risks on financial position and performance are materialising in the form of, for example, significant reductions in share price in response to investigations on harsh working conditions. Furthermore, human rights due diligence legislation (for example, the European Commission's Directive on Corporate Sustainability Due Diligence, France's Corporate Duty of Vigilance Law, the UK's Modern Slavery Act, and the German Supply Chain Due Diligence Act) is becoming more stringent.*
- 50 *In such a context, a growing number of investors view human rights information as relevant to their assessments and related decision making. For example, The UN Guiding Principles Reporting Framework is backed by a coalition of 88 investors representing US\$5.3 trillion in assets under management. The Investor Alliance for Human Rights-representing more than 200 organisations with more than US\$12 trillion in assets under management-has also called on entities to publicly disclose information in five areas, including how they prevent, mitigate and remediate adverse human rights impacts in their value chains.*
- 51 *Challenges in meeting investors' needs include:*
- (a) *difficulties in measuring and comparing human rights due diligence, which can lead to qualitative disclosures that may be less consistent, inadequate or incomplete, or susceptible to 'social washing';*
 - (b) *the overlap with other sustainability matters-for example, the just transition to a lower carbon economy or human capital;*
 - (c) *differing definitions and views of human rights-related topics across jurisdictions and cultures;*
 - (d) *complexities in standard-setting arising from industry-specific manifestations of human rights-related risks-such as those associated with privacy violations (technology), community relations (extractives) or child labour (apparel); and*
 - (e) *the practical and technical issues inherent in taking account of risks and effects in an entity's value chain.*

Question 6

The research project on human rights is described in paragraphs A27–A37 of Appendix A of the RFI. Please respond to these questions:

(a) Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB’s research? You can suggest as many subtopics or issues as you deem necessary. To help the ISSB analyse the feedback, where possible, please provide:

(i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and

(ii) your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.

(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard setters and framework providers to expedite the project, while taking into consideration the ISSB’s focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A36 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

EFRAG’s response

EFRAG notes that for many users of general-purpose financial statements, the impact re human rights is not of interest for decision-making as they don’t see it as a financial risk. The ISSB would need to clearly define who they develop the standards for and what time horizon they take into account. Among them, some are interested in information based on impact materiality.

As the dividing line between impact materiality and financial materiality in this area is even more challenging than for other topics. EFRAG recommends that the ISSB goes ahead with approaching this topic, only provided that:

(a) it recognises that the primary users of this information are investors who request impact materiality information; and

(b) it leverages on the contents of the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights.

Question 6 (a)

52 EFRAG applauds the intention of the ISSB to broaden its coverage to social topics, as this will be a step forward in progressing toward a more complete reporting.

- 53 EFRAG notes that the category of providers of financial capital, which marks the limits of the financial materiality, is composed by a variety of different types of investors. For many users of general-purpose financial statements, the impact re human rights is not of interest for decision-making as they don't see it as a financial risk. The ISSB would need to clearly define who they develop the standards for and what time horizon they take into account. Among them, some are interested in information based on impact materiality. EFRAG notes that for the topic human right the dividing line between impact materiality and financial materiality is even more challenging than for other topics. EFRAG recommends that the ISSB goes head with approaching this topic, only provided that:
- (a) it recognises that the primary users of this information are investors who request impact materiality information; and
 - (b) it adopts the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights as the basis of the reporting standards, as human rights topics are anchored on international due diligence instruments.
- 54 In developing its own set of topical sustainability reporting standards EFRAG has integrated the human rights related matters into its social topical standards, that cover four different categories of affected groups of people. EFRAG questions which affected groups of people are covered by the human rights standard. Whilst there's an explicit mention to workers in the value chain and indigenous' communities, we cannot identify own workforce or consumers and end-users as affected groups covered. Hence, prima facie, the scope of this standard would not cover all the relevant affected stakeholder groups.
- 55 In addressing how to disentangle human rights and human capital, the articulation of the ESRS social standards may be a source of inspiration in terms of architecture and also for its explicit coverage of labour rights as described in the CSRD.

Question to SR TEG members

- 56 Do EFRAG SR TEG members think that the statement per para 53(a) is correct? Should not identify dynamic materiality as another focus/interest of investors? Please explain.
- 57 The overview of these sustainability matters in the social area) are listed below and can be read in our [draft] ESRS 1 General Requirements, AR 12 and following:

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[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
[draft] ESRS S1	Own workforce	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> Secure employment Working time Adequate wages Social dialogue Freedom of association, the existence of works councils and the information, consultation and participation rights of workers Collective bargaining, including rate of workers covered by collective agreements Work-life balance Health and safety
		<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> Gender equality and equal pay for work of equal value Training and skills development Employment and inclusion of persons with disabilities Measures against violence and harassment in the workplace Diversity
		<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Privacy
[draft] ESRS S2	Workers in the value chain	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> Secure employment Working time Adequate wages Social dialogue Freedom of association, including the existence of work councils Collective bargaining Work-life balance Health and safety
		<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> Gender equality and equal pay for work of equal value Training and skills development The employment and inclusion of persons with disabilities Measures against violence and harassment in the workplace Diversity
		<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Water and sanitation Privacy
[draft] ESRS S3	Affected communities	<ul style="list-style-type: none"> Communities' economic, social and cultural rights 	<ul style="list-style-type: none"> Adequate housing Adequate food Water and sanitation Land-related impacts Security-related impacts
		<ul style="list-style-type: none"> Communities' civil and political rights 	<ul style="list-style-type: none"> Freedom of expression

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			<ul style="list-style-type: none"> • Freedom of assembly • Impacts on human rights defenders
		<ul style="list-style-type: none"> • Particular rights of indigenous communities 	<ul style="list-style-type: none"> • Free, prior and informed consent • Self-determination • Cultural rights
[draft] ESRS S4	Consumers and end-users	<ul style="list-style-type: none"> • Information-related impacts for consumers and/or end-users 	<ul style="list-style-type: none"> • Privacy • Freedom of expression • Access to (quality) information
		<ul style="list-style-type: none"> • Personal safety of consumers and/or end-users 	<ul style="list-style-type: none"> • Health and safety • Security of a person • Protection of children
		<ul style="list-style-type: none"> • Social inclusion of consumers and/or end-users 	<ul style="list-style-type: none"> • Non-discrimination • Access to products and services • Responsible marketing practices

Question 6 (b)

58 EFRAG is of the view that in answering this question one needs to consider the hierarchy and detail of sustainability matter-related areas. Taking into consideration our answer to Question 6 (a), EFRAG is of the view that the sustainability risks and opportunities defined at sub-topic level are substantially the same across industries and sectors. I.e. these sustainability risks and opportunities would benefit from the development of multiple topical standards under the ISSB framework. However, at sub-subtopic level important sector differences may occur. This border between sub-topic and sub-subtopic level marks the limit where in our view topical standards can bring added value and from where sector depending standards allow to ask for more relevant information. For example requiring metrics on free, prior and informed consent may not be relevant for each individual sector but may be very relevant in extractive industries operating in particular regions.

Question 6 (c)

59 EFRAG suggests in the first place that its own framework of [draft] sustainability reporting standards can be considered by the ISSB in building standards with regard to human capital. Other regulations that EFRAG would suggest considering are:

- (a) Global Reporting Initiative;
- (b) SASB industry standards;
- (c) International Labour Organisation Core Conventions and Good Work agenda;
- (d) UN Guiding Principles on Business and Human Rights with particular attention for the due diligence process;
- (e) UN Guiding Principles Reporting Framework;
- (f) United Nations Declaration of the Rights of Indigenous Peoples.
- (g) Universal Declaration of Human Rights;
- (h) European Social Charter;
- (i) EU Charter of Fundamental Rights;
- (j) UN Guiding Principles;
- (k) UN Convention on the Rights of Persons with Disabilities;
- (l) UN International Covenant on Economic, Social and Cultural Rights ;
- (m) UN International Covenant on Civil and Political Rights ;

- (n) OECD Guidelines ;
- 60 EFRAG further suggests considering the Explanatory note of how [draft] ESRS take into account the initiatives and legislation in Article 1 (8) of the CSRS adding article 29 (b)-5 to the Accounting Directive.

Question 7 – Integration in reporting

Notes to constituents – Summary of proposals in the RFI

- 61 *The proposed research project in the RFI on 'integration in reporting' is intended to build on (and augment) the progress already achieved in IFRS S1 and IFRS S2 with respect to 'connected information' to develop guidance on how entities might bring sustainability-related financial information together with other qualitative and quantitative financial information.*
- 62 *Integrating this information could give investors a comprehensive, coherent and concise view of how an entity creates, preserves or erodes value. Integration in reporting encompasses where, what and how information on value creation can be connected through conceptual and operational linkages.*
- 63 *This project could also lead to establishing a corporate reporting framework that integrates disclosure across one or more documents.*
- 64 *The RFI makes a distinction between connection in reporting and integration in reporting and indicates the latter is broader notion than the former. It is noted that the connection in reporting requirements are included in IFRS S1 and S2 as stated in Paragraphs A44 and A45. Both IFRS S1 and S2 require information within the sustainability-related financial disclosures to be linked to information in the financial statements by requiring disclosure of current and anticipated effects on the entity's financial statements due to sustainability related (IFRS S1) and climate-related (IFRS S2) risks and opportunities. IFRS S1 states that sustainability-related financial disclosures shall:*
- (a) be prepared for the same reporting entity and reporting period as the related financial statements;*
 - (b) be provided at the same time as the financial statements and as part of the general purpose financial report (which also includes the financial statements);*
 - (c) include financial data and assumptions that are consistent with the corresponding financial data and assumptions in the financial statements, to the extent possible, considering the requirements of IFRS Accounting Standards or other relevant generally accepted accounting principles (GAAP); and*
 - (d) discuss significant differences between financial data and assumptions the entity uses to prepare its sustainability-related financial disclosures and the financial data and assumptions the entity uses to prepare its financial statements.*
- 65 **Paragraph A 46 describes integration in reporting** *noting that it 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 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.*

- 66 *In pursuing the project, the ISSB could consider the materials and projects of the IFRS Foundation, including the Integrated Reporting Framework and the IASB's Exposure Draft (ED/2021/6 Management Commentary) (the 'ED') to explore similarities and differences between that Exposure Draft and the Integrated Reporting Framework.*
- 67 *The ISSB could work with the IASB in pursuing this project as a formal joint project with joint decision making. Alternatively, the ISSB could pursue this project and coordinate with the IASB to exchange information and obtain input to inform the ISSB's decision making, as appropriate.*

Question 7

New research and standard-setting projects that could be added to the ISSB's work plan: Integration in reporting

The research project on integration in reporting is described in paragraphs A38–A51 of Appendix A. Please respond to the following questions:

(a) The integration in reporting project could be intensive on the ISSB's resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation's suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB's new two-year work plan?

(b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)? (i) If you prefer a formal joint project, please explain how you think this should be conducted and why. (ii) If you prefer an ISSB project, please explain how you think this should be conducted and why.

(c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from: (i) the IASB's Exposure Draft Management Commentary? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why. (ii) the Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why. (iii) other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.

(d) Do you have any other suggestions for the ISSB if it pursues the project?

EFRAG's response

EFRAG considers that a project on connectivity (not integration in reporting) should be given high priority. EFRAG notes that there would be both advantages and disadvantages to adopting the project as a formal joint project of the IASB and ISSB. EFRAG agrees with the ISSB incorporating concepts from the IASB's project on the Management Commentary and the Integrated Reporting Framework.

Question 7 (a) – Priority of integration in reporting topic

- 68 EFRAG⁸ considers a project on the connectivity between financial and sustainability reporting information to be a high priority and it was added to EFRAG's proactive research agenda in June 2022. In its research, EFRAG will consider both ESRS and IFRS Sustainability Disclosure Standards requirements. Therefore, EFRAG considers there is an opportunity for the ISSB (and IASB) to collaborate with and, where appropriate, leverage the work undertaken by EFRAG and other organisations, including standard setters.
- 69 EFRAG also acknowledges the importance, particularly in the long term, of the broad objective of a possible project on integration in reporting. Specifically, to create an integrated, coherent and comprehensive system of corporate reporting that provides a holistic and transparent view of how an entity creates value over time. Of note, the EFRAG's research project, which will be conducted in two phases, intends to consider integration in reporting in the second phase. However, taking into account the RFI's distinction between 'connection' and 'integration in reporting', for the following reasons, EFRAG has reservations on the priority of a project on integration in reporting at this point in time:
- (a) *Connectivity should be the immediate priority*: The immediate priority should be on the development and implementation of connectivity (also referred to as connected information) guidance. We acknowledge that, as stated in paragraphs A44 and A45, IFRS S1 and S2 contain requirements for connected information. However, these requirements are only a starting point to address the issues related to connected information. There will be a need to focus on and learn from the practical implementation of these requirements. It will also be useful for the IASB and ISSB to ascertain from stakeholders if there are other facets of connectivity that ought to be considered. Furthermore, a connectivity project, in the manner EFRAG interprets the term, will likely be less resource intensive, than a project on integration in reporting. This is because integration in reporting would go a step further than connectivity and will likely entail a longer period of completion.
 - (b) *Sustainability reporting conceptual framework development needed*: Currently, there is only a conceptual framework for financial reporting. An effective Integration of reporting project would also need to be underpinned by a robust conceptual framework for sustainability reporting information. However, the development of the latter has not been considered a priority in the ISSB agenda consultation and we consider it suitable to be considered at a later date. Correspondingly, a broad project on integration in reporting as described in the ISSB RFI is better addressed at a later stage.
 - (c) *Possible meaning and scope of the integration in reporting project should be further clarified*. The description of integration in reporting in Paragraph A40 is too broad and may result in multiple interpretations and confusion on the project objectives. In this regard we note, for example, the question on whether the framework for financial reporting would have to be amended to encompass integration in reporting or not. When referring to integration in reporting, EFRAG considers this under the existing framework for financial reporting (that is, without changing this framework).

⁸ In both EFRAG's October 2021 comment letter response to the 2021 IASB Third Agenda Consultation and its December 2021 comment letter response to the Management Commentary Exposure Draft, EFRAG stated that a project on connectivity between financial and sustainability reporting information should be a very high priority. It was the highest rated priority in the EFRAG agenda consultation.

- (d) *Risk of conflated objectives*: Paragraph A46 refers to stakeholder interest in the future of the Integrated Reporting Framework. Paragraph A47 refers to support for the incorporation of the work and feedback on the IASB Management Commentary project and for the IASB and ISSB to work together in finalising this project. As stated in our response to question 7c, these are two overlapping and important objectives for the IFRS Foundation to consider. However, even if viewed collectively, they ought to be only seen as a facet of integration in reporting. In other words, addressing these two objectives cannot be deemed to be equivalent to addressing all facets of integration in reporting.
- (e) We recognise that the envisaged 'integration in reporting' project would be a large and resource-intensive project for the ISSB that may impact the pace at which it will ultimately be able to develop topical standards (besides IFRS S1 *Climate-related disclosures*). EFRAG considers that it is beneficial to give a higher priority to a project on connectivity because the consideration of connectivity may affect the way new standards (both sustainability or financial reporting) or major amendments are developed and subsequently implemented.

Question 7 (b) – ownership and coordination of possible project

- 70 At this stage, EFRAG has not formed a final view on whether, from an operational standpoint, such a project should be advanced as a formal joint project with the IASB (with joint decision-making) or pursued as an ISSB-led project (which could still draw on input from the IASB on an as-needed basis without being a formal joint project). Thus, EFRAG is seeking constituents' views on these two options before forming its final view.
- 71 EFRAG observes in that respect that the RFI does not contain information about the actual capacity implications for both the ISSB and the IASB of either decision. EFRAG recommends that such an assessment is made to inform the final decision.
- 72 EFRAG observes that a possible project on integration in reporting would require strong cooperation and coordination (and the combined skills and competencies) between the ISSB and IASB, including at the staff level. Therefore, regardless of which of the two Boards would be given the operational lead on the project, for practical and efficiency reasons, a very close collaboration between the two boards should be sought after. It should also be clarified from the outset of the project how that collaboration would work in practice (see also paragraph 82 in the response to Question 7 (d)).

Question for constituents

- 73 As noted, EFRAG will consider the feedback received from respondents to its draft comment letter to form a final view on the appropriate project ownership and coordination. EFRAG identifies the following advantages and disadvantages for the setting up of a formal joint project with joint decision-making.
- 74 The advantages of a formal joint project would be that it is more likely to:
- (a) Ensure a balanced representation and consideration of both the financial and sustainability reporting views in the running of the project from inception and ensure that decision made reflects the consensus and majority views of both sides;
 - (b) Better leverage on the different and complementary competencies of the two Boards;

- (c) Leverage institutional (IASB and IASB staff) knowledge related to the management commentary project and ensure continuity; and
- (d) Put less strain on the resources of the ISSB and its staff by spreading the efforts (including Board members' time) on the two Boards and their respective staff. To that effect, EFRAG notes that the reframed 'integration in reporting' project proposed in the RFI would be a larger project relative to the connectivity project previously discussed by the IFRS Foundation and would require more of the ISSB's resources.

75 Conversely, the disadvantages of a formal joint project would be that it may:

- (a) Add complexities in terms of decision making which may affect the timeliness and resource intensity of this project;
- (b) Require more coordination efforts between the ISSB and IASB to advance the project and take decisions. In that regard, an ISSB-led project would offer more flexibility in that regard by leaving the possibility to coordinate with the IASB to exchange information and obtain input to inform the ISSB's decision making, only when and as appropriate.
- (c) Require time from the IASB and thereby delay the development in other areas of financial reporting. In this regard, EFRAG, however, notes that its constituents considered connecting financial and sustainability reporting to be a high priority project, when providing input on EFRAG's response to the IASB's Third Agenda Consultation and EFRAG's proactive agenda consultation. It would therefore be consistent with this feedback for the IASB to prioritise a project on connectivity.
- (d) Create specific scope complexity to address since the ISSB Standards are designed to be 'GAAP agnostic' (that is applicable by entities applying reporting standards than IFRS) and that not all entities applying IFRSs will also apply the ISSB Standards. A joint project would need to address that additional complexity.

Do you agree with the advantages and disadvantages of a formal joint project identified in paragraphs 74 and 75 above?

Do you think that a project on integration in reporting should be run as a formal joint project with the IASB or be run by the ISSB and only draw on the IASB input as needed?

Would your answer be different, if the project would be about 'connectivity'?

Question 7 (c)- Building on Management Commentary Practice Statement, Integrated Reporting Framework and/or other sources

- 76 EFRAG notes that the European Union has specific regulations governing the content and placement of financial and sustainability information in the Management Report. The IASB Management Commentary Practice Statement is not endorsed in the European Union.
- 77 Albeit with some concerns expressed, in its response to the Exposure Draft (ED/2021/6 *Management Commentary*) (the 'ED'), EFRAG welcomed many of the ED proposals and the IASB's initiative to overhaul the existing practice statement. EFRAG supported developing objectives-based guidance for the benefit of jurisdictions where guidance either does not exist or could be enhanced and to cross-fertilise best practices across jurisdictions. EFRAG notes the considerable resources expended (i.e., by both IASB and its constituents) during the development and obtaining or giving feedback to the ED proposals. These resources would be wasted if the Management Commentary project is left uncompleted.

- 78 EFRAG also notes that, although the Integrated Reporting framework is not mandated in the EU, a number of European companies prepare integrated reports⁹. We recognise that, in developing the Management Commentary ED proposals, the IASB took account of the Integrated Reporting Framework and other relevant initiatives.
- 79 Accordingly, EFRAG recommends that the ISSB /IASB further explore similarities and differences between those management commentary proposals and the Integrated Reporting Framework and consider how the two frameworks could be further converged. In doing that, consideration should be given that these:
- (a) Both emphasise the need for connection between elements within the report; and the report and other sources of information (specifically financial statements in the case of the Management Commentary);
 - (b) Both incorporate the notion of value creation and focus on the entity's ability to create value for itself, and its impacts on others to the extent those impacts affect that ability (although the IR Framework also emphasises the link between value created or eroded for itself and others);
 - (c) Both give a prominent role to an entity's 'resources and relationships' (Management Commentary) or 'capitals' (Integrated Reporting);
 - (d) The Management Commentary and the Integrated Report target different (the audience for the Integrated Report includes also all stakeholders interested in value creation in a broader sense) and overlapping audiences¹⁰ (providers of capital).

Question 7 (d) - Other suggestions for the ISSB if it pursues the project

- 80 EFRAG notes the ISSB's decision to reframe its proposed project in the RFI as a project on 'integration in reporting' rather than connectivity as initially intended. EFRAG understands that this decision was made on the assumption that the IFRS S1 and S2 requirements on 'connected information' (including the revisions made in the redeliberation process) would already address all the other aspects and challenges of connectivity.
- 81 EFRAG questions this conclusion especially since neither ESRS nor ISSB SDS are applicable yet and it will be necessary to observe sustainability statements/disclosures by entities under the mandatory requirements before being able to fully consider all the practical and conceptual challenges of connectivity. This is the reason why EFRAG's research project has a two-phase approach as follows:
- (a) The first phase will consider the definition of connectivity and how to operationalise it within the existing conceptual boundaries of financial and sustainability information; and
 - (b) The second and longer-term phase (possible scope and content still to be defined) in which EFRAG would consider how to enhance integration in reporting. The objectives of this phase would align with those of the IFRS Foundation project described in the RFI.
- 82 EFRAG's phase 1 research could also inform the ISSB's project and we encourage cooperation with the ISSB and other interested organisation, including standard setters, on the matter. As conveyed in EFRAG's response to the IASB Agenda

⁹ Based on information provided to EFRAG, we understand that approximately 450 companies in the EU prepares some type of integrated reports (that is, integrated reports that may not comply with all the aspects of the International Integrated Reporting Framework).

¹⁰ See, for example, slide 22 of Agenda paper 8 for the April 2023 IFRS Advisory Council meeting.

Consultation, cooperation between financial reporting and sustainability reporting standard-setters is essential to ensure the continuity and coherence of corporate reporting. This collaboration could take place through a consultative working group.

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