

ISSB Agenda Consultation - Initial discussion - Focus on integration in reporting

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of the EFRAG SR TEG. The paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Objective

- 1 The objective of this session is to update EFRAG SR TEG on the EFRAG SRB directions and to agree on key messages to be included in the EFRAG Draft comment letter.
- 2 A verbal update will be provided on the key messages from the EFRAG SRB 3 and 4 May 2023.

Background

- 3 The ISSB is consulting on the projects that will in the ISSB workplan in 2024 and 2025 and will seek feedback on:
 - (a) strategic direction and balance of its activities, including committed work and activities to build upon the foundation created by S1 and S2;
 - (b) criteria for assessing the priority of new projects; and
 - (c) priority, scope and structure of new research and standard-setting projects that could be added to the ISSB's work plan.
- 4 The request for information (RFI) on the ISSB Agenda consultation will include description of and seek feedback on:
 - (a) research projects on the sustainability-related risks and opportunities associated with:
 - (i) biodiversity, ecosystems and ecosystem services;
 - (ii) human capital¹;
 - (iii) human rights; and
 - (b) a research project on integration in reporting to support integrated disclosures beyond the requirements on connected information in the financial statements and sustainability-related financial disclosures, that are included in S1 and S2.

Integration in reporting

- 5 Integration in reporting encompasses where, what and how information on value creation can be connected through **conceptual and operational linkages**. It encompasses also the interdependencies, synergies and trade-offs between:
 - (a) different resources and relationships

¹ Please note that the enhancement of IFRS S2 with disclosure on just transition is not considered as being in scope of the new projects but rather as a future possible amendment to IFRS S2.

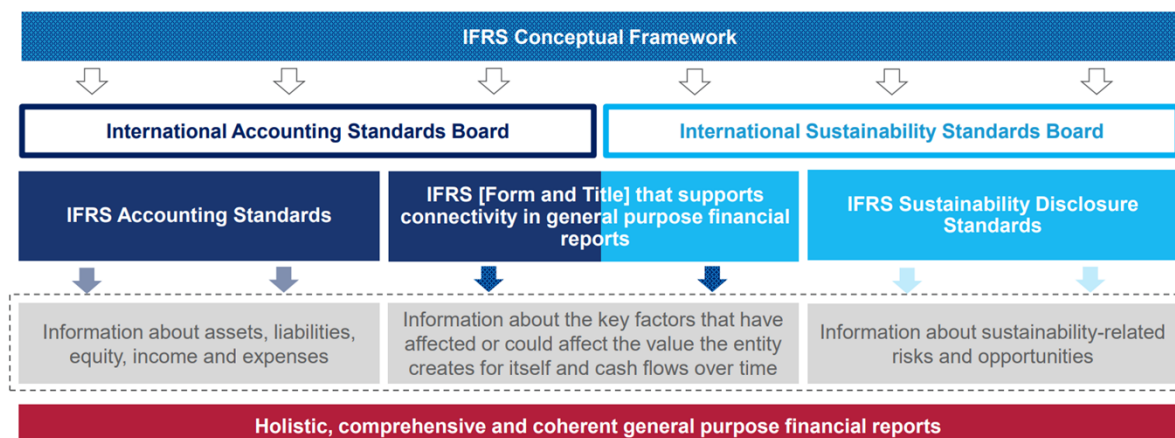


- (b) the ways in which the value that a company creates for itself and for its investors is inextricably linked to the value it creates for other stakeholders, society and the natural environment.
- 6 The two pictures below, extracted from recent agenda papers of the IFRS Foundation, provide a visual map of the role of the Management Commentary (or the Integrated Reporting Framework or a future new document that leverages on content of both) as the tool that supports connectivity between financial statements and sustainability information (financial materiality only), beyond the concept of *connected information*² required by IFRS S1.

The broader reporting landscape



Staff's view of one possible long-term IFRS outlook



Possible scope of the project³

- 7 The ISSB Staff in the March 2023 Agenda Paper notes that this project would support the pursuit of integrated disclosures **beyond the requirements on connected information contained in S1 and S2** to create a new set of integrated information that

² Equivalent concept is set in ESRS 1.

³ Source: ISSB Staff Agenda Papers for the March 2023 meeting.



creates a comprehensive, coherent, and concise view of how an entity creates, preserves or erodes value. In particular:

- (a) The process of integration goes a step further than connecting information with the potential for unlocking additional layers of value achieved through the practice of integrated thinking and **breaking down internal silos**. The concept of 'connectivity of information' creates the conditions for integration by supporting the process of bringing together information that is relevant to value creation. While integration in reporting would go beyond what is currently in IFRS Standards, the broad concepts that enable integration in reporting, such as enhanced coherence and identifying linkages between different types of information in the reporting package, are already featured in various requirements and frameworks, including the requirements for connected information set out in S1 and S2, the Integrated Reporting Framework and the IASB's Exposure Draft Management Commentary.
 - (b) The rearticulated 'integration in reporting' project would seek to develop guidance to bring together sustainability-related financial information and other qualitative and quantitative financial information into a new set of integrated information through which investors and other users of an entity's reporting have a comprehensive, coherent and concise view of how an entity creates, preserves or erodes value. Such a project would extend beyond simply creating 'connections' between financial statements and the sustainability-related financial disclosures established by S1 and S2.
- 8 This project could also encompass **establishing a corporate reporting framework** that integrates disclosure across one or more documents.
- 9 The 'integration in reporting' project would be a larger project, relative to the connectivity project previously discussed, and would require more of the ISSB's resources.

EFRAG work on connectivity

- 10 **The EFRAG project to respond to the ISSB Agenda Consultation is in the workplan of the SR pillar, however the EFRAG Secretariat proposes that the SR TEG and SRB seeks advice to the FR TEG and FRB on the question related to the integration in reporting, due to its nature close to connectivity.**
- 11 The EFRAG Secretariat proposes to have a **joint session on 24 May and 23 August 2023** to approve respectively the draft comment letter and final comment letter (in both dates there is already an SRB planned and part of that meeting could be dedicated to the joint session).
- 12 A possible project on integration in reporting would focus on the conceptual linkages between financial and sustainability information. In addition, the EFRAG FR pillar has an active project that focus mainly (in the current phase) **on the operational linkages** between financial and sustainability information.
- 13 EFRAG FR pillar has worked in the past on the IASB Management Commentary Exposure Draft (MCED). EFRAG issued in December 2021 its comment letter, conveying the following position:
- (a) welcomed the objective to improve the information through this ED, but suggested to reconsider the finalisation of this project in the context of the of the ISSB
 - (b) supported an objective-based approach including the six proposed content elements and considered that developing rule-based requirements for the MC is primarily the responsibility of legislators, security regulators and/or national standard-setters



- (c) considered that the proposals in the ED introduce additional complexity by proposing three different types of disclosure objectives for the six content elements
- (d) considered that the statement of full compliance with the Practice Statement should be encouraged but not mandated and statement of partial compliance should not be allowed
- (e) suggested to explicitly address the subject of governance, to give equal emphasis to the discussion of opportunities and risks, and to holistically address disclosures on intangibles.

Questions in the RFI

- 14 The ISSB is expected to require feedback on:
- (a) relative priority and timeliness of advancing this project in the context of ISSB's mission to build out suite of 'sustainability' standards;
 - (b) whether and how the ISSB should work with the IASB;
 - (c) whether the project should utilise IASB's Exposure Draft Management Commentary⁴ (MCED), the Integrated Reporting Framework⁵ (IRF), both or other materials in pursuing this work.
- 15 See the Appendices for a visual map of the key contents of the two documents.

Comparison MCED VS IRF

- 16 MCED and IRF have similar objectives⁶, providing investors with insights for assessing an entity's prospects. Sometimes integrated reports are adapted to meet information needs of other audiences.
- 17 The MCED and the IRF incorporate similar principles and notions of value creation. An entity's 'resources and relationships' or 'capitals' play a prominent role in both documents.
- 18 **The requirements specified in the MCED and the IR Framework should result in similar information being provided in the reports.** The IRF includes additional requirements for information about an entity's governance that are not included in the MCED. However, the way in which the requirements are specified can be different.

Initial observations of the EFRAG Secretariat

Integrated reporting in the European context

- 19 The existing IASB Management Commentary Practice Statement is not endorsed for use in Europe and the current content of Management Reports issued by European companies are mainly inspired by national guidance/requirements. Should the ISSB project on integrated reporting result in the issuance of a new Practice Statement (with the same Authoritative status), **it would not be endorsed for use in Europe.** Such a

⁴ <https://www.ifrs.org/content/dam/ifrs/project/management-commentary/ed-2021-6-management-commentary.pdf>

⁵ <https://www.integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf>

⁶ <https://www.ifrs.org/content/dam/ifrs/meetings/2023/april/ircc/ap1-comparison-between-mc-and-ir.pdf>



Statement would represent a source of guidance to support the preparation of Management Reports, however it is not clear at this stage how widespread its use would be for the entities in scope of the CSRD, in particular those less exposed to the financial markets and their information needs.

- 20 ESRS sustainability statements are to be presented in a dedicated section of the Management Report and their content is defined by the ESRS. ESRS 1 allows incorporation by reference, including from other sections of the Management Report.
- 21 **An executive summary including integrated information in a section of the management report outside the section dedicated to ESRS sustainability statements is possible** and could be incorporated by reference in the ESRS sustainability statements (see Appendix H of ESR 1 for an illustration).
- 22 However, this is not expected to be a replacement of the content of the ESRS sustainability statements themselves, i.e. the undertaking shall ensure that incorporation by reference does not impair understandability.

Relative priority

- 23 EFRAG Secretariat understands that the issuance of other topical standards is not alternative to the work on integrated reporting, as they are both in the pipeline. The key issue is whether the ISSB should give immediate priority to one or the other.
- 24 The EFRAG Secretariat considers that there are good arguments to support both scenarios:
 - (a) *Priority to topical standards beyond climate*
 - (i) Working on the integration, before the issuance of the topical standards, would not allow to benefit from insights deriving from the definition of the content of the topical standards. In other terms, the ISSB would work on integration of information before knowing the content of that should be integrated. For example, the content areas for social could be conceptually different from the content areas for environment.
 - (ii) As the ESRS already cover the other topics, if the ISSB gives priority to topical standards, the difference in scope between reporting of European companies and the global baseline would be reduced earlier, with positive effects on international level playing field.
 - (b) *Priority to integrated reporting*
 - (i) With the first application of IFRS S2 in 2024, providing to the market a coherent and cohesive corporate reporting is an important users' need.
 - (ii) The IASB project MCED is to be completed and has been active since November 2017.
- 25 EFRAG could consult its constituents in its draft comment letters, before taking a view.

ISSB working with the IASB

- 26 The ISSB staff recommended in the March 2023 Agenda Papers that the project should be rearticulated **as an ISSB project** that could be pursued jointly with the IASB, rather than it being only a formal 'joint project'.
- 27 In its comment letter on the IASB MCED, EFRAG recommended the project to be finalized in the context of the ISSB.
- 28 The EFRAG Secretariat notes that inputs from both the boards are needed. If one of the two boards takes the leadership (and the ultimate decision making) this would facilitate the governance of the project (and its timeliness), however appropriate input from and



cooperation with the other board is essential. In conclusion the recommendation of the ISSB staff seems appropriate (ISSB project run jointly with the IASB, which we understand means that the IASB acts as an advisor to the ISSB).

Utilisation of the MCED or IRF

- 29 The ISSB staff analysis shows that there is a good level of overlap in terms of contents and that the two documents should result in similar information provided in the reports. This Agenda consultation could help to establish whether the IFRS stakeholders consider that one of the two is superior to the other. EFRAG could also include a question to its constituents to cover this point.
- 30 The main difference between the two for the purpose of this question is their effective use: while the MCED is still a proposal under construction (with a number of comments from the consultation that need to be addressed with research and re-deliberation), the IRF is currently used and has been reviewed in 2021.
- 31 Adopting the MCED, would allow to benefit of and leverage on the feedback already obtained by the IASB in the project MCED. However, the feedback indicated elements to reconsider before finalization and, as such, a round of re-deliberation is necessary. This may require longer time than simply adopting the IRF.
- 32 Adopting the IRF would be beneficial for the companies that currently have committed to that framework and produce their report on that basis. The consultation on the first set of ESRS confirmed that there this framework is also used in Europe. Adopting the IRF could be less costly and disruptive for them.
- 33 Considering the level of similarity of the two contents, an integration of the content of the two documents could also be considered. However, this would require time to develop a proposal and to run another consultation. The ISSB should first assess the concrete benefits of such integration.
- 34 The EFRAG Secretariat notes that one of the key messages of the consultation on the MCED has been that the proposals should not be finalized without first involving the ISSB. This seems to suggest that the constituents are prepared to another consultation, including in the content also ISSB material.

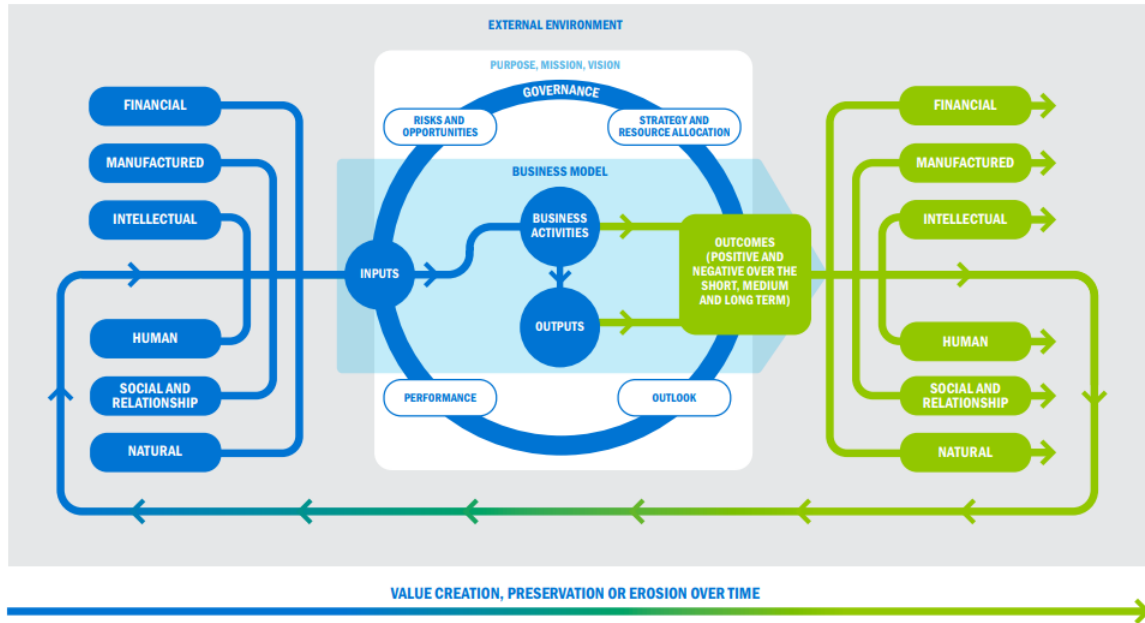
Question to the members and observers

- 35 What are your preliminary orientations on the questions in the RFT?
 - (a) relative priority and timeliness of integrated reporting as opposed to topical standards
 - (b) whether and how the ISSB should work with the IASB
 - (c) whether the project should utilise MCED or the RFI (or a combination of the two)

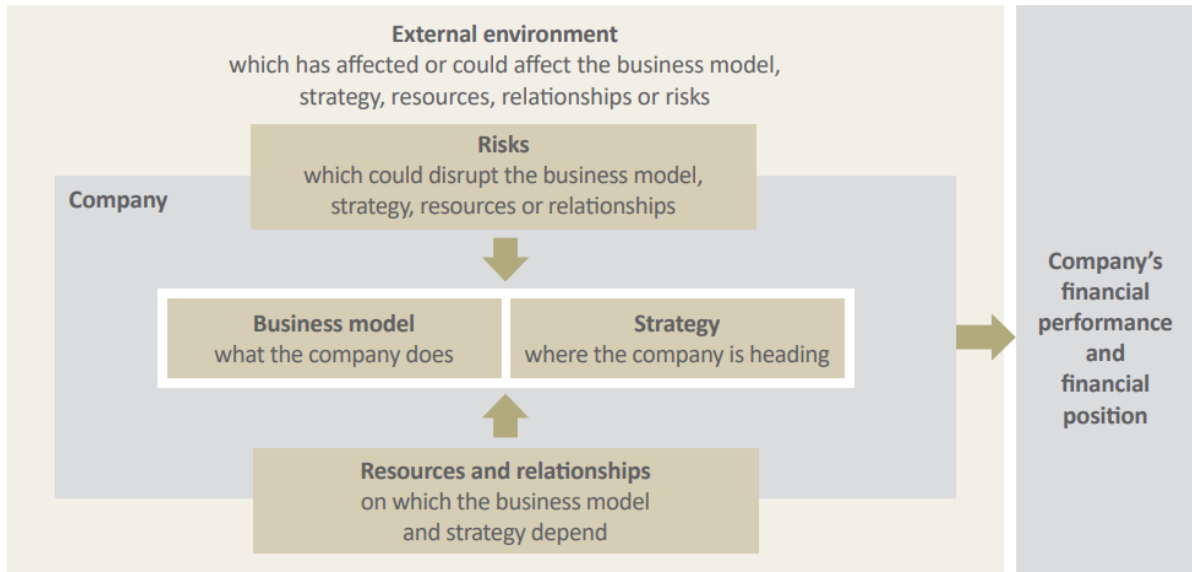


APPENDIX 1 – Visual map Integrated Reporting Framework

Figure 2. Process through which value is created, preserved or eroded



APPENDIX 2 – Visual map of the content areas in MCED



APPENDIX 3 –MCED disclosure objectives

Headline objectives		
Business model	Strategy	Resources and relationships
<p>Management commentary shall provide information that enables investors and creditors to understand... how the entity's business model creates value and generates cash flows.</p>	<p>management's strategy for sustaining and developing the entity's business model.</p>	<p>the resources and relationships on which the entity's business model and management's strategy for sustaining and developing that model depend.</p>
Risks	External environment	Financial performance and financial position
<p>Management commentary shall provide information that enables investors and creditors to understand... the risks of events or circumstances that could disrupt:</p> <p>(a) the entity's business model;</p> <p>(b) management's strategy for sustaining or developing that model; or</p> <p>(c) the entity's resources or relationships.</p>	<p>how the entity's external environment has affected or could affect:</p> <p>(a) the entity's business model;</p> <p>(b) management's strategy for sustaining and developing that model;</p> <p>(c) the entity's resources or relationships; or</p> <p>(d) risks to which the entity is exposed.</p>	<p>the entity's financial performance and financial position reported in the entity's financial statements.</p>

