

International Sustainability Standards Board
IFRS Foundation
Opernplatz 14
60313 Frankfurt am Main
Germany

30 August 2023

Dear Mr. Faber, dear Emmanuel,

Re: Request for information – Consultation on Agenda priorities

On behalf of 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.

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 (CSRD). In that function EFRAG is developing draft ESRS. A first set was delivered as technical advice 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. The European Commission has published the Delegated Act incorporating these standards into the EU legal framework on 31 July 2023. These standards are effective from 2024 for a first group of preparers¹ and from 2025 for the remaining preparers in the scope of the CSRD.² EFRAG has been as well tasked to develop standard(s) for small-medium enterprises and sector-specific ESRS.

Recital 43 of the CSRD specifies that *sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. In particular, Union standards should take account of any sustainability reporting standards developed under the auspices of IFRS Foundation. 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.*

The legal text of the CSRD itself stipulates in its Art. 29b (2) that the standards shall take account, to the greatest extent possible, of the work of global standard-setting initiatives for sustainability reporting as required by point (a) of paragraph 5. This paragraph 5 stipulates that the standards:

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; 250 average number of employees during the financial year

... shall, to the greatest extent possible, take account of:

- (a) *the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development;*

As a result, supporting and contributing to the work of the ISSB is an integral part of the mandate of EFRAG and operationalising the interoperability between ESRS and IFRS sustainability standards is one of the drivers of the ESRS content design. 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.

In many parts of this letter, we recommend the ISSB to consider the content of the recently adopted ESRS and as a result this response may sound 'EU-centric'. However, this is grounded on the knowledge and experience gained from our extensive standard-setting work so far, as required by CSRD, which we hope can be of interest in a global perspective.

As a general comment, EFRAG would like to suggest that the ISSB emphasises (i) a clear direction of travel with a definition of the universe of sustainability-related information to be ultimately covered and of the corresponding underlying concepts, (ii) the priority to be given to interoperability in structure and content with other sustainability reporting standards, and (iii) connectivity to be included as a priority topic in the standard-setting workplan, together with the topical standards and the implementation guidance on issued standards.

EFRAG strongly recommends that the ISSB develops the overall direction of travel in its sustainability reporting, i.e., the target universe of topics to be covered, beyond the time horizon of the next workplan. In this respect, EFRAG would hope to see all the topics included in ESRS covered in the workplan. The ISSB may also want to consider whether the target architecture of IFRS Sustainability Standards may require further consultation with its constituents in due course. Furthermore, following the integration of the VRF and CDSB, it would be beneficial that the IFRS Foundation clarifies its intent as regards the standards and frameworks that are now under its responsibility.

EFRAG considers that beginning new research and standard-setting projects, (including connectivity between financial and sustainability reporting information)) and supporting the implementation of ISSB Standards IFRS 1 and IFRS S2 should be the highest priority. In fact, in the absence of a (complete set of) topical standard(s) like IFRS S2, that provides the necessary structure and granularity of the requirements, the resulting information reported will not be of the desired (high) quality and comparability. We also recommend that the ISSB provides insight into the overall timetable it will need to complete such a full universe of standards, even if such an estimation is considered indicative.

Then, priority could be given to enhancing 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 that will complement the sector-agnostic ESRS over the next few years. EFRAG also anticipates that the industry-specific SASB standards will support the preparation of ESRS sustainability statements before the issuance of sector-specific ESRS standards. In addition, they are a source for EFRAG in the development of ESRS sector standards.

EFRAG also considers that a mechanism to monitor and address interpretation issues should be added to the scope of the IFRS work on sustainability.

EFRAG recommends that the ISSB clarifies the first selection criterion and explicitly integrate the investors' interest in impact materiality. EFRAG notes that a growing number of investors base their investment decisions on information on impacts whatever their direct or indirect relationship with sustainability-related risks and opportunities that could

reasonably be expected to affect the entity's prospects. These investors wish either to avoid harming people or planet through their investment decisions or even to have a positive impact. In this context, it would also be beneficial for the ISSB to explain how the current definition of materiality in IFRS S1 and S2 is derived from the existing evidence of the investors' needs. In addition, EFRAG suggests that the criterion of "interoperability with other frameworks" should be added to the list of criteria in the RFI.

EFRAG will not suggest a prioritisation of the different research projects and the subsequent standards to be developed because it develops standards with comprehensive coverage in accordance with the CSRD. EFRAG accepts that for pragmatic reasons such as capacity one project is dealt with before another. Interoperability and synergies that can be developed with other standard-setting 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. EFRAG disagrees with the approach to describe the topic on biodiversity so broadly that it becomes all-encompassing and has significant concerns about the implied division and distinction between standards on human capital and human rights. EFRAG invites the ISSB to consider the structure of the topical ESRS. As a second-best option, for biodiversity we suggest renaming the project to "Nature" and aligning 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 towards a more complete reporting.

EFRAG highlights the intrinsic linkages between human capital and human rights (including labour rights). To this extent, unbundling such concepts into two different topics (human rights and human capital) would perpetuate misunderstandings about how they interrelate.

Bearing in mind the importance of human rights matters to value creation, EFRAG urges the ISSB to adopt a clear architecture that is compatible with the one developed and consulted on by EFRAG. Similarly, the ISSB should incorporate and build on the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights to the greatest extent possible.

EFRAG considers that a project on connectivity (not integration in reporting) to develop guidance on connected information should be given high priority. Such a project could consider initiating the development of a conceptual framework for sustainability reporting. Therefore, 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.

Should the ISSB start a project on integration in reporting, EFRAG:

- considers that it should be pursued as a formal joint project of the IASB and ISSB; and
- agrees with the ISSB incorporating concepts from the IASB's project on the Management Commentary and the Integrated Reporting Framework.

EFRAG recommends that the ISSB and IASB further explore the similarities and differences between proposals in the Management Commentary Practice Statement ED and the Integrated Reporting Framework and consider how the two frameworks could be further converged.

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 Didier Andries or myself.

Best regards, *Bien amicalement.*



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

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.

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 *beginning new research and standard-setting projects*, including connectivity between financial and sustainability information, and *supporting the implementation of ISSB Standards IFRS S1 and IFRS S2* should be the highest priority.

Regarding *beginning new research and standard-setting projects*, EFRAG considers that to ensure a level playing field and promoting a balanced reporting across all the relevant topics, the ISSB is to expand its set of topical standards as soon as possible. At the same time, expeditiously providing appropriate implementation material would be highly beneficial in supporting the first application of the two standards and would facilitate the broader acceptance of the new disclosures.

In this context, first and foremost, EFRAG strongly recommends that the ISSB develops and publicises its 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 proposed two-year period of the current Agenda consultation, to allow stakeholders to make an informed assessment of the framework in development. We also recommend that the ISSB provides insight into the overall timetable will need to complete such a full universe of standards, even if such an estimation is considered indicative. EFRAG would invite the ISSB to work on the list of topics covered in ESRS. Furthermore, following the integration of the VRF and CDSB, it would be beneficial that the IFRS Foundation clarifies its intent as regards the standards and frameworks that are now under its responsibility. The ISSB may also want to consider whether the overarching target architecture of its sustainability standards should be subject to a consultation in due course

Then, finally priority could be given to *enhancing the Sustainability Accounting Standards Board (SASB) Standards*. As mentioned in EFRAG's response to the SASB related RFI, 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. EFRAG recommends a sectoral approach to facilitate interoperability with the ESRS own standard setting. EFRAG also anticipates that the industry-specific SASB standards may play a role to support the preparation of ESRS sustainability statements before the issuance of sector-specific ESRS standards.

EFRAG considers that a mechanism to monitor and address interpretation issues should be added to the scope of the IFRS work on sustainability and that the ISSB should consider working on a standard for SMEs.

Question 1 (a)

- 1 EFRAG would rank the activities as follows:
 - (a) *beginning new research and standard-setting projects*, as well as *supporting the implementation of ISSB Standards IFRS S1 and IFRS S2*;
 - (b) *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)

- 2 EFRAG considers that one of the priorities should be *beginning 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 general 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 (complete set of) topical standard(s), like IFRS S2, that do provide the necessary structure and granularity of the requirements, the resulting information will not be of the desired (high) quality and comparability. In EFRAG's view, the issue of connectivity is to be treated as the same level of importance as the other research projects (for which we do not express in principle a prioritisation). For more detail, please refer to our answer to Question 7(a).
- 3 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 the overall direction of travel in its 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 proposed two-year period of the current Agenda consultation to allow stakeholders to make an informed assessment of the framework in development. We also recommend that the ISSB provides insight into the overall timetable will need to complete such a full universe of standards, even if such an estimation is considered indicative. EFRAG in particular would hope to see the ISSB cover the list of sustainability topics in ESRS Standards: Climate change; Pollution; Water and Marine resources; Biodiversity and Ecosystems; Resource use and circular economy; Own workforce; Workers in the value chain; Affected communities; Consumer and end-users and Business conduct.
- 4 EFRAG understands that there may not be sufficient capacity to develop all the contemplated topical standards at the same time or within the two-year period. Therefore, EFRAG recommends clear communication of the planned prioritised topical additions and the rationale for prioritising them (fast-growing demand for data, time-sensitivity, maturity from a technical standpoint, international momentum, etc). EFRAG makes further suggestions with regard to sequencing of social-related standards in our responses to later questions in this survey.
- 5 In the context of this much needed clarification of the ISSB's overall direction of travel, our constituents have observed that the following should be clarified:
 - (a) the ISSB's intent as regards the standards and frameworks that are now under its responsibility considering the consolidation of the CDSB, the VRF and the IIRC. This includes the monitoring responsibilities of the TCFD: will these elements continue to be monitored and available for use? And, if so, for how long?
 - (b) what are the ISSB and GRI's objectives as regards the creation of an interconnected two-pillar system for sustainability reporting that addresses the needs of broader stakeholders, not only those of primary users of general-purpose financial reports.
- 6 The ISSB may also want to consider whether the over-arching target architecture of its standards should be subject to a consultation in due course.
- 7 EFRAG considers that *supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 should have the same priority as beginning new research and standard-setting activities*. In particular, 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. Therefore, for ESRS disclosures that intersects with the ISSB disclosures, any initiative of the ISSB in this space would also benefit ESRS preparers. EFRAG stands ready to contribute and support the ISSB in this stream of activities.

- 8 EFRAG suggests that to support implementation the ISSB should consider:
 - (a) giving guidance on the integration of ESG risks in the overall company's risk management, along the lines of TCFD framework and recommendations on (climate-related) risk management, that inspired both ISSB and EFRAG work on their respective climate standards; and
 - (b) mapping documents as part of the work on interoperability that identify common disclosure requirements for companies to meet both sets of requirements (ESRS and IFRS SS).
- 9 In the context of the implementation support, the IFRS Foundation should as well monitor and address interpretation issues.
- 10 The next priority after the issuance of implementation support material on IFRS S1 and S2, would be researching disclosures adjacent to climate. These are important as they allow to provide a complete depiction of the topic. In this context, 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). Section 3.6 *Material impacts or risks arising from actions to address sustainability matters* in ESRS 1 *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.
- 11 Then, finally, priority could be given to enhancing 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 that will complement the sector-agnostic ESRS over the next few years. EFRAG recommends a sectoral approach as well to future standard setting, to facilitate interoperability with the ESRS own standard setting and timetable. EFRAG also anticipates that the industry-specific SASB standards may play a role to support the preparation of ESRS sustainability statements before the issuance of sector-specific ESRS standards (as foreseen in the transition provisions of ESRS 1). In addition, the SASB standards are a source of inspiration for EFRAG in the development of ESRS sector standards. The necessary standard-setting activity to enhance SASB material (see EFRAG response to the SASB Internationalisation Exposure Draft) should consider as well how to improve interoperability with ESRS at sector level and EFRAG stands ready to contribute to and support the ISSB's activities. In particular, EFRAG notes the importance that the SASB standards cover economic activities worldwide to make them internationally applicable.

Question 1 (c)

- 12 When looking at the overall workplan of the ISSB, EFRAG finally notes that:
 - (a) engagement with stakeholders is a core activity and should play an important role;

³ Issued as delegated act by the European Commission in July 2023.

- (b) the ISSB should consider the role small and medium enterprises ('SMEs') has to play in the transition to more sustainable economy and the necessity that SMEs provide appropriate data on value chain to those that prepare reports under IFRS standards. EFRAG is currently working on a voluntary standard for SMEs, that could be source of inspiration for further work of the ISSB.

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

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

EFRAG suggests that the criterion of “interoperability” should be added to this list of criteria in the RFI. As for the criterion “importance of the matter to investors”, EFRAG recommends to explicitly integrate the investor’s interest in impact materiality.

Question 2 (a)

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

Question 2 (b)

- 14 EFRAG considers that the ISSB should add facilitation of interoperability with other jurisdictional standards, 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 the scope of CSRD, including subsidiaries and branches of non-European parent companies⁴. In the latter case, in addition to reporting under ESRS these may have in due course to report according to the IFRS Sustainability Standards along with certain ESRS disclosure requirements on a group basis.
- 15 EFRAG emphasises that the coverage of material impacts is important to provide investors with proper reporting on risks and opportunities including how they relate to impacts, across all the ESG (and business conduct) topics. This is amply illustrated by the construct of IFRS S2. This is also illustrated by ESRS and by the forthcoming EFRAG implementation guidance on the materiality assessment.
- 16 EFRAG therefore recommends that the ISSB clarifies the first criterion and explicitly integrate the investors' interest in impact materiality.
- 17 From a general standpoint EFRAG notes that a growing number of investors base their investment decisions on information on impacts *per se* regardless of the direct or indirect relationship with sustainability-related risks and opportunities where these could be reasonably expected to affect the entity's prospects. This is further supported by increasing international market and regulatory attention to embedding

- sustainability considerations in their investment decisions. Investors may wish in particular either to avoid harming people or planet through their investment decisions or would consider having a positive impact.
- 18 EFRAG acknowledges the investor focus and single materiality approach of the ISSB current mission, but notes the following feedback received from its constituents: the foundation of sustainability goes beyond investors and involves a much wider stakeholder group. This is also consistent with the message received during the IFASS meeting of April 2023, where 62% of global standard setters indicated receiving feedback on expansion of sustainability reporting beyond the investor focused requirements being developed by the ISSB.
 - 19 EFRAG also notes the conceptual difficulty to identify whether and how material impacts will or will not in the long term have financial implications.
 - 20 In this context, it would also be beneficial for the ISSB to:
 - (a) explain how the current definition of materiality in IFRS S1 and S2 is derived from the existing evidence of the investors' needs; and
 - (b) illustrate how the coverage of impacts in ISSB standards may leverage in the future from its cooperation with GRI.
 - 21 Furthermore, EFRAG considers that the ISSB should corroborate the proposed criteria with the use of as much as possible objective evidence and quantitative data, to avoid possible bias in the project selection.
 - 22 Finally, we recommend to additionally consider the interaction with the IASB standard-setting projects and IASB standards when assessing the ISSB's work plan.

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

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 suggest a prioritisation of the different research projects and the subsequent standards to be developed, because EFRAG develops the ESRS under a comprehensive coverage in accordance with the CSRD. 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-setting initiatives could be a driver to assess priority.

Question 3(a)

- 23 Specific comments on how to approach each of the proposed projects are provided in our answer to the following questions. Consistent with the recommendation to develop a complete coverage of E, S and G topics (see our answer to Question 1), EFRAG does not express preferences in the context of 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 **it develops the ESRS with comprehensive coverage in accordance with the CSRD**. 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 setting initiatives could be a driver to assess priority. Some respondents highlighted however concerns about this response due to capacity considerations and given the ISSB's due process requirements in the context of a global standard-setting exercise.

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

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.

Our preferred approach forward is that the ISSB considers the ESRS E4 *Biodiversity and ecosystems* and how the other environmental standards have integrated the different nature-related sustainability matters. As a second-best alternative, we suggest the ISSB to rename this project “Nature” and align it with the work of the TNFD.

Question 4 (a)

- 24 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 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. As with TNFD, the ISSB should focus on the impact drivers in this case, those that cause biodiversity loss and ecosystem degradation.
- 25 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.
- 26 EFRAG developed four standards covering environmental topics beyond climate (water and marine resources; pollution; biodiversity and ecosystems; and resource use and circular economy). A potential ISSB scope of biodiversity different than the one used by EFRAG for the same term, would generate confusion.
- 27 Our preferred approach forward is that the ISSB considers ESRS E4 *Biodiversity and ecosystems* and how our environmental standards have integrated the different nature-related sustainability matters (please refer to the table below). As a second-best alternative we suggest the ISSB to rename this project “Nature” and align it with the work of the TNFD.
- 28 EFRAG notes the importance of providing appropriate guidance on reporting for impacts and dependencies as a prerequisite for reporting on risks and opportunities in the context of environmental topics. In this direction, the ISSB standards would benefit from incorporating the LEAP framework, which has inspired both TNFD and ESRS E4.
- 29 Furthermore, the topic of biodiversity is time sensitive, given the Kunming-Montreal Global Biodiversity Framework which identified 23 action-oriented targets for urgent action by 2030. To face this time-critical topic, we recommend that the ISSB adopts a similar approach to that done with IFRS S2, for which leveraging on TCFD a standard was completed in only two years. This would mean leveraging current content such as the final TNFD framework and ESRS E4 to accelerate significantly the standard-setting process.
- 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 ESRS 1 *General Requirements*, AR 16 in the adopted delegated act:

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
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 	
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 	
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 	
ESRS E5	Resource use and 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-specific standards allow asking 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 firstly that the ISSB considers EFRAG’s framework of sustainability reporting standards in building standards with regard to biodiversity. This includes the items covered in Corporate Sustainability Reporting Directive

ISSB RFI Consultation on Agenda Priorities

(CSRD) (as explained in the Explanatory note⁵, released by EFRAG jointly with the first drafts of ESRS⁶) as well as the sources mentioned in the [basis for conclusion](#) of the relevant standard. For your convenience we highlight these below. Sources including regulations and frameworks that EFRAG would suggest considering are:

	General sources
	<p>EU Action Plan on Financing Sustainable Growth</p> <p>European Green Deal</p> <p>Banking Sector Pillar 3 disclosures on ESG risks</p> <p>TCFD</p> <p>ISO 14001</p>
Topical standard	Sources to be considered
Biodiversity and ecosystems	<ul style="list-style-type: none"> • CDSB Application Guidance on Biodiversity-related disclosures • SASB standards • GRI standards (GRI 2, 3, 304-3) • TNFD Technical scope (2021); TNFD draft disclosures recommendations (2022); TNFD LEAP (Locate, Evaluate, Assess, Prepare) • Science Based Targets Network • Global Capitals Coalition Biodiversity Guidance • Convention on Biological Diversity, 1992, including the Post-2020 Global Biodiversity Framework • Product Environmental Footprint • Biodiversity Guidance of the Natural Capital Protocol; • Kunming Declaration (2021)/Nagoya Protocol • ISO TC331 • EMAS Regulation (EU) 1221/2009 • CDP Forests Questionnaire • EFRAG PTF-NFRS • IUCN • Align project building on the EU Business and Biodiversity Platform work • Sharm El-Sheikh Declaration, 2018 • Finance for Biodiversity Pledge (signed in 2023) <p>A financial institution-specific initiatives:</p> <ul style="list-style-type: none"> ○ UNEP Finance Initiative – Principles for Responsible Banking
Pollution	<ul style="list-style-type: none"> • Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances • Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) • Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, in conjunction with the Delegated Acts on Technical Screening Criteria for the environmental objectives. • EU Action Plan: "Towards a Zero Pollution for Air, Water and Soil" (ZPAP)

⁵ The document explains how ESRS have considered the initiatives and legislation in Article 1 (8) of the CSRD that added article 29 (b)-5 to the Accounting Directive.

⁶ Document available [here](#).

ISSB RFI Consultation on Agenda Priorities

	<ul style="list-style-type: none"> • EU Regulation 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register (E-PRTR Regulation) • Sustainable Finance Disclosure Regulation (SFDR) PAI indicators [Emissions to water; Emissions of inorganic pollutants; Emissions of air pollutants; Emissions of ozone-depleting substances] • Classification, Labelling and Packaging (CLP) Regulation ((EC) No 1272/2008 • Regulation (EC) No 1907/2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) • Chemicals Strategy for Sustainability Towards a Toxic-Free Environment • Platform on Sustainable Finance's report on the four remaining environmental objectives from March 2022
Water and marine resources	<ul style="list-style-type: none"> • GRI 2 – GRI 3 • SDG 6 / 14 • CoP questionnaire • CDP Water questionnaire • CEO Water mandate • Alliance for Water Stewardship • UNGC Communication on Progress • CDSB Application Guidance • Alliance for Water Stewardship • UNGC Communication on Progress • SPOTT indicator framework • Joint publication of the WWF and the German Environment Agency • WBCSD's "Right tools for the job" • Future Fit Benchmark
Resource use and circular economy	<ul style="list-style-type: none"> • UN's SDG Goal 12 – Targets 12.2 and 12.5 • GRI 301; GRI 306 • ISO TC323 /WG3 • Value Reporting Foundation - based on the standards of the Sustainability Accounting Standards Board [SASB] • Circulytics indicators list

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

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 towards a more complete reporting.

EFRAG highlights the intrinsic linkages between human capital and human rights (including labour rights). To this extent, unbundling such concepts into two different topics (human rights and human capital) will perpetuate misunderstandings with regard to how they interrelate.

EFRAG questions the use of the term 'human capital' and suggests rather referring to 'workforce'.

In terms of interoperability with other sustainability reporting frameworks, we note that the 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 seeking alignment with the ESRS architecture for interoperability purposes and to decrease the potential burden for double reporters.

Question 5 (a)

- 34 EFRAG applauds the intention of the ISSB to broaden its coverage to social topics, as this will be a step towards a more complete reporting.
- 35 EFRAG highlights the intrinsic linkages between human capital and human rights, including labour rights. To this extent, unbundling such concepts into two different topics (human rights and human capital) will perpetuate misunderstandings with regard to how they interrelate. Human capital is built upon the basis that human rights are respected and encompasses a range of human rights. Additionally, EFRAG considers that the term "human capital" is often understood as covering the intangible benefits for the undertaking as well as the considerations listed above.

- 36 The contents of the proposed human capital topic per A22 describe a variety of sub-topics that range between workforce investment and health and safety measures. While we do not advocate for prioritisation, we suggest grouping or classifying the various social sub-topics therein. The criteria for such grouping can be identified on the basis of paragraph 42 below and, as a minimum, fundamental labour rights should be included.
- 37 EFRAG has a number of concerns regarding the implied architecture of the ISSB social standards, which relate both to its proposal for a standard on human capital and human rights.
- 38 First, the scope of the human capital topic seems to suggest that it is limited to the entity's own workforce as per A15. Notwithstanding its note that labour conditions in the value chain could be possibly part of human capital (refer to A22 (f) and its related footnote 16), the ISSB proposes treating human rights as particular to workers in the value chain under a separate human rights standard. Yet many of the human capital topics also equate with or contain human rights considerations, including Diversity, Equity and Inclusion (which is based on tackling discrimination), health and safety in the workplace and compensation.
- 39 EFRAG has followed the requirements of the CSRD in terms of worker-related subtopics to be identified. In particular, the CSRD establishes three groups of social subtopics: working conditions, equal treatment and opportunities for all and other human rights. These groups of subtopics which are considered sector-agnostic relate both to an undertaking's own workforce, and to value chain workers.
- 40 Second, we suggest that the ISSB seeks alignment with the ESRS architecture for interoperability purposes and to decrease the potential burden for double reporters. The ESRS already cover human capital/human rights for an undertaking's own workforce in ESRS S1 whilst the human capital/human rights of workers in the value chain are described in ESRS S2. More generally, the ESRS social chapter is split into four separate affected stakeholders' groups covering own workforce, value chain workers, affected communities, as well as consumers and end-users. This architecture of social standards has been tested through public consultation from both an impact materiality and financial materiality perspective and has received positive feedback. It sets a solid and comprehensive basis for the development of specific disclosures that relate to human capital and/or human rights issues from both an impact materiality and financial materiality perspective.
- 41 EFRAG urges the ISSB to adopt a clear architecture that is compatible with the one developed and consulted on by EFRAG, and which begins with a broad and comprehensive vision of the 'social' domain for corporate disclosures. If ISSB selects categories of issues such as 'human capital' and 'human rights' as its starting point, given the related overlaps that it acknowledges, it will perpetuate conceptual and terminological confusion that EFRAG worked hard to avoid.
- 42 The overview of the own workforce and workers in the value chain equivalent sustainability standards in the ESRS is provided below and can be read in our ESRS 1 AR 16 and following:

ISSB RFI Consultation on Agenda Priorities

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
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
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)

43 In our view, one needs to consider the hierarchy and detail of sustainability matter-related areas. Taking into consideration our answer to Question 5 (a), EFRAG considers that the sustainability risks and opportunities defined at sub-topic level are substantially the same across industries and sectors. This means that 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 in a particular sector is additional to the sector-agnostic sustainability information.

Question 5 (c)

- 44 EFRAG suggests that the ISSB considers EFRAG's framework for sustainability reporting standards in building social standards that encompass risks and opportunities related to human capital. The ISSB might also consider the Explanatory note of how 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

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

Bearing in mind the importance of human rights matters to value creation EFRAG urges the ISSB:

- (a) **to adopt a clear architecture that is compatible with the one developed and consulted on by EFRAG; and**
- (b) **to incorporate and build on the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights to the greatest extent possible as the basis of the reporting**

standards, as human rights topics are anchored in international due diligence instruments.

Question 6 (a)

- 45 EFRAG applauds the intention of the ISSB to broaden its coverage to social topics, as this will be a step towards a more complete reporting.
- 46 EFRAG reiterates that human rights impacts reflect the most severe impacts that an undertaking can have on people and, as a consequence, are sources of material risks for the entity's cash flows, access to finance or cost of capital over the short, medium or long term.
- 47 EFRAG refers to its response to Question 5(a) where we highlight the intrinsic linkages between human capital and human rights, which include labour rights. To this extent, unbundling such concepts into two different topics (human rights and human capital) will perpetuate misunderstandings with regard to how they interrelate. As an example, we note that evidence shows that the payment of wages below a living wage is both relatively common within undertakings' own workforces in many sectors, and frequently a material risk.⁷ If the ISSB selects categories of issues such as "human capital" and "human rights" as its starting point, with all the overlaps that it acknowledges, it could perpetuate conceptual and terminological confusion that EFRAG worked hard to avoid.
- 48 Bearing in mind the importance of these matters to value creation, EFRAG urges that, for interoperability purposes and to decrease the potential burden for double reporters, the ISSB adopts a clear architecture that is compatible with the one developed and consulted on by EFRAG. The EFRAG architecture begins with a broad and comprehensive vision of the "social" domain for corporate disclosures. (as further elaborated in paragraphs 39 and 40 above).
- 49 In doing so, EFRAG recommends that the ISSB incorporates and builds on (to the greatest extent possible) 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 in international due diligence instruments.
- 50 EFRAG is willing to support the ISSB's work related to the interrelation between impacts and dependencies and financial materiality on human rights.
- 51 The overview of these sustainability matters in the social area are listed below and can be read in ESRS 1 AR 16 and following:

⁷ See: <https://businessfightspoverty.org/new-report-the-case-for-living-wages-how-paying-living-wages-improves-business-performance-and-tackles-poverty/>; and <https://www.businessinsider.com/companies-should-invest-in-workers-and-pay-a-livable-wage-2022-5>

ISSB RFI Consultation on Agenda Priorities

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
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
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
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 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

ISSB RFI Consultation on Agenda Priorities

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
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)

- 52 In our view, 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-specific standards can 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)

- 53 EFRAG suggests that the ISSB firstly considers the ESRS framework of sustainability reporting standards when building social standards that encompass risks and opportunities related to human rights.
- 54 Specifically, on the topic of Social, there are a number of recognised international instruments on social and human rights. As these are an important part of the global baseline, EFRAG considered these together with other regulations and frameworks when drafting the ESRS. Therefore, in line with the CSRD itself which establishes a list of relevant references, EFRAG would suggest that the ISSB considers the following in this context:
- UN Guiding Principles on Business and Human Rights;
 - OECD Guidelines for Multinational Enterprises;
 - UN Global Compact; and
 - the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and its fundamental conventions.
- 55 Further details about how these sources were incorporated directly into our requirements can be found in our Explanatory note and the basis of conclusions of the relevant standard, i.e. ESRS S1-S4.

Question 7 – Integration in reporting

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 ensuring connectivity of reporting requirements and information (not a project on integration in reporting) is a high priority. EFRAG acknowledges that, as stated in the RFI, ensuring the connectivity of IASB and ISSB requirements is a foundational and strategic activity for both the ISSB and the IASB and as such its priority should be set separately from research and standard-setting activities on the topical Standards.

Should the ISSB decide to initiate a project on integration in reporting, EFRAG:

- **Considers that it should be pursued as a formal joint project of the IASB and ISSB; and**
- **Agrees with the ISSB incorporating concepts from the IASB's project on the Management Commentary and the Integrated Reporting Framework. EFRAG recommends that the ISSB and IASB further explore the similarities and differences between proposals in the management Commentary Practice Statement ED and the Integrated Reporting Framework and consider how the two frameworks could be further converged.**

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

56 EFRAG⁸ considers the connectivity between financial and sustainability reporting information to be a high priority, together with the development of topical standards. In this respect, a project on connectivity was added to EFRAG's proactive research

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.

agenda in June 2022. In its research, EFRAG will consider both ESRS and IFRS Sustainability Disclosure Standards requirements including those related to connected information. EFRAG acknowledges that, as stated in paragraphs 19-e and 22 of the RFI, (and as acknowledged in our response to Question 1) ensuring the connectivity of IASB and ISSB requirements is a foundational and strategic ISSB activity. The ISSB should work on connectivity jointly with the IASB.

- 57 As ensuring connectivity is essential to both the IFRS Foundation and EFRAG activities (i.e., connectivity of product and process), EFRAG also considers there to be an opportunity for the ISSB (and IASB) to collaborate with and, where appropriate, to leverage the work undertaken by EFRAG and other organisations, including standard setters.
- 58 EFRAG also acknowledges the importance, particularly in the long term, of the broad objective of a 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 'connectivity' and 'integration in reporting', for the following reasons, EFRAG has reservations on the immediate priority of a project on integration in reporting:
- (a) *Connectivity should be the immediate priority:* There is a difference between the scope of a project on integration in reporting as described in the RFI (i.e., paragraph A49 states the project could lead to establishing a corporate reporting framework that integrates disclosures, and paragraph A40 describes a broader notion than the connection of information via operational and conceptual linkages) and a focus on connectivity that would align with the first phase of the EFRAG research project on connectivity (see Paragraph 68 below in response to Question 7(d)). EFRAG considers the project on integration in reporting should be considered in the longer term and the immediate priority should be on the development and implementation of connectivity guidance. EFRAG acknowledges that, as noted earlier, ensuring connectivity of IASB and ISSB requirements is foundational and a strategic ISSB activity and, as stated in paragraphs A44 and A45 of the RFI, 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. And 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. By focusing in the shorter term on connectivity, this work could also inform the work in the longer term on integration in reporting. A project on connectivity will likely be less resource intensive, than one on integration in reporting. This is because a project on integration in reporting has a broader scope and will likely entail a longer period of completion than a focus on connectivity.
- (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, but we consider the conceptual framework research a prerequisite. This would avoid overlaps or gaps and ultimately confusion between two pillars of standardised corporate reporting that are bound to and should be designed to complement each other.

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 of the RFI is too broad and may result in varied interpretations of the project objectives. In this regard, we also note there is a question on whether or not the framework for financial reporting would have to be amended to encompass integration in reporting. When referring to integration in reporting, EFRAG considers this under the existing framework for financial reporting as we have reservations in principle on a possible expansion of financial reporting to cover certain sustainability-related risks and opportunities. EFRAG considers this would risk blurring the meaningfulness of financial information.
- (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. The IASB climate-related project should also be considered in our view. As stated in our response to question 7c, these are overlapping and important objectives for the IFRS Foundation to consider. However, even if viewed collectively, they ought to be seen only 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.
- 59 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 high priority to a project on connectivity because this 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*
- 60 Firstly, should the ISSB start a project on integration in reporting, EFRAG observes that such a project 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, close collaboration between the two boards should be sought and decisions should be by consensus (when possible). There should be clarity from the outset of the project about how that collaboration would work in practice (see also paragraph 70 in the response to Question 7 (d)).
- 61 Based on the feedback received from its constituents, EFRAG considers that such a project, if started, should be pursued as a formal joint project of the IASB and ISSB. This would 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. This would also better leverage on the different and complementary competencies of the two Boards; and leverage institutional (IASB and IASB staff) knowledge related to the management commentary project and ensure continuity. Finally, this would put less strain on the resources of the ISSB and its staff by spreading the efforts (including Board members' time) to both Boards and their respective staff. EFRAG believes that the above benefits would outweigh the need for extra coordination efforts, extra time requirements and scope complexities involved by a joint project.

- 62 In relation to the IFRS Foundation's work on connectivity, EFRAG notes that no matter how the IFRS Foundation would allocate the work between the IASB and ISSB, both boards should endorse or confirm the outcome of the work.
- Question 7 (c)- Building on Management Commentary Practice Statement, Integrated Reporting Framework and/or other sources*
- 63 EFRAG notes that, in its recent outreach to stakeholders, the IFRS Foundation has conveyed it considers management commentary⁹/integrated report to be part of the investor-focused general-purpose financial reports¹⁰(along with financial statements and sustainability-related financial disclosures), and that management commentary/integrated report can facilitate the connectivity between general-purpose financial reports by providing the management perspective on financial, sustainability-related and other factors to explain past performance and provide insights on future prospects. EFRAG notes that similar to other leading economies, the EU and its individual member states have their own requirements for the management report/management commentary. The EU's CSRD 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.
- 64 Albeit with some concerns, 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 and reiterates its position in response to the ED that the IASB-ISSB should jointly complete the project.
- 65 EFRAG also notes that, although the Integrated Reporting framework is not mandated in the EU, a number of European companies prepare integrated reports¹¹. We recognise that, in developing the Management Commentary ED proposals, the IASB took account of the Integrated Reporting Framework and other relevant initiatives.
- 66 In considering integration in reporting within the EU context, EFRAG notes that the CSRD requires that ESRS information be presented as part of a separate and dedicated section of the management report (referred to as sustainability statement). This does not preclude some form of 'integration', as ESRS 1 allows incorporation by reference including from other sections of the management report. Appendix A of ESRS 1 includes an illustration of an executive summary including integrated information in the management commentary, incorporated by reference in the ESRS sustainability statement. However, undertakings shall ensure that incorporation by reference and other forms of integration does not impair the understandability of the sustainability statement.
- 67 After considering the above, EFRAG recommends that the ISSB/IASB further explore similarities and differences between proposals in the management Commentary Practice Statement ED and the Integrated Reporting Framework and

⁹ The IASB issued a non-mandatory management commentary practice statement in 2010, and in 2021, it issued an Exposure Draft for a revised management commentary practice statement.

¹⁰ [April 2023 IFRS Advisory Council Slides](#)- see slides 4, 10, 12 and 13.

¹¹ 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).

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 audiences¹² (providers of capital).

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

- 68 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.
- 69 EFRAG questions this conclusion especially since neither ESRS nor ISSB standards are applicable yet. 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.
- 70 EFRAG's phase 1 research could also inform the ISSB's project and we encourage cooperation with the ISSB and other interested organisations, including standard setters, on the matter.
- 71 In this regard, in addition to its own research project, EFRAG assesses that the IFRS Foundation could leverage on and consider coordinating other activities dealing with the topic (e.g., projects carried out by the UKEB, the MASB, the XRB, the AASB and the ASCG).
- 72 As conveyed in EFRAG's response to the IASB Agenda 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 and would enable support and further development of the concept under the existing resource restrictions.

¹² See, for example, slide 22 of Agenda paper 8 for the April 2023 IFRS Advisory Council meeting.

Question 8 – Other comments

Do you have any other comments on the ISSB's activities and work plan?

73 EFRAG has no further comments.