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## Integration in reporting - Update on feedback to ISSB agenda consultation and related IASB-ISSB discussion

### Issues Paper

#### Objective of the paper

- 1 The objective of this paper is to seek the views of EFRAG FRB and EFRAG SRB members on the following:
  - (a) feedback to the May 2023 ISSB consultation on agenda priorities ([RFI](#)) related to a possible topic on integration in reporting, which is relevant to the IASB, ISSB, and as a result for both the EFRAG FR and SR pillars. Other topics (besides integration in reporting) addressed in the RFI are under the exclusive purview of the ISSB and as a result the EFRAG SR pillar. As a result, these other topics are not included in this issues paper;
  - (b) discussions on points (drawn from the feedback) related to integration in reporting and connectivity during the joint IASB and ISSB meeting held on 25 January (IASB-ISSB joint meeting); and
  - (c) discussions by the Integrated Reporting and Connectivity Council (IRCC)<sup>1</sup> in a meeting held on 30 January 2024.

#### Structure of the paper

- 2 The paper is structured as follows:
  - (a) Background information on the RFI (paragraphs 3-5);
  - (b) EFRAG's response to the RFI (paragraph 6)

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<sup>1</sup> The [IRCC](#) is an advisory body of the IFRS Foundation providing guidance on how reporting requirements of the IASB and ISSB could be integrated, and how the two Boards could consider applying principles and concepts from the Integrated Reporting Framework to their projects.

- (c) Agenda consultation feedback summary (paragraphs 7-8);
- (d) Key messages from the IASB-ISSB joint meeting (paragraphs 9-18);
- (e) Key messages from the IRCC meeting (paragraph 19); and
- (f) Next steps (paragraph 20).

### **Background information on the ISSB Agenda Consultation**

- 3 In May 2023 ISSB published a request for information ([RFI](#)) related to its work plan for the period 2024-2026. The purpose of the RFI was to collect the views on the strategic direction, the balance of ISSB activities, and four potential new research and standard-setting projects including a project on integration in reporting and three sustainability-related topics.
- 4 Moreover, following the publication and consultation on the 2021 IASB Exposure Draft *Management Commentary*, and in response to constituents' feedback, the IASB put the project on hold in light of the creation of ISSB in November 2021 and potential interactions between the IASB management commentary project and the ISSB's work.
- 5 The RFI sought feedback on a potential project on integration in reporting, specifically:
- (a) what the relative priority of advancing that project as part of the ISSB's next two-year workplan should be compared to the three sustainability-related topics described in the ISSB's Consultation;
  - (b) whether, if prioritised, the project 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); and
  - (c) whether, in pursuing the project, the ISSB should build on and incorporate concepts from the *Management Commentary* Exposure Draft, the Integrated Reporting Framework and other sources.

### **EFRAG's response to the RFI**

- 6 EFRAG's response to the RFI highlighted that, based on feedback from its constituents, a project on connectivity (not integration in reporting) should be given higher priority. EFRAG suggested that such a project could consider initiating the development of a conceptual framework for sustainability reporting. Therefore, EFRAG viewed integration in reporting more as a long-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 considered that it should be a formal joint project of the

IASB and the ISSB, incorporating concepts from the Management Commentary project and the Integrated Reporting Framework.

#### **Agenda consultation feedback summary**

7 Though not explicitly posed as an RFI question, many respondents' feedback on the questions related to the overall strategic direction and a possible project on integration in reporting included their views on connectivity (see joint IASB-ISSB agenda papers [AP2A](#) and [AP2B](#)).

8 Below is a summary of the main points from the feedback to the RFI:

- (a) Most respondents considered that the Management Commentary Project should be jointly developed by the IASB and ISSB.
- (b) A wide range of views were expressed regarding the notions of integration in reporting and connectivity and their interrelation. Some respondents considered that connectivity is the first step towards achieving integration in reporting, while others that integration is the first step towards ensuring connectivity.
- (c) Some respondents focused on the aspect of connectivity related to the interaction between the Boards and processes, while other comments were on connectivity in information (i.e., sustainability-related financial disclosures and financial statements).
- (d) Approximately three-quarters of respondents (including two-thirds of users) considered that integration in reporting, while important, was not as much an immediate priority as the rest of the proposed RFI projects.
- (e) Some respondents were of the view that connectivity was a more immediate priority and could be addressed in a shorter timeframe, paving the way for integration in reporting in the longer term. This view was expressed in EFRAG's FCL.
- (f) Overall, calls were made for the development, over time, of a holistic "corporate reporting" and the development of a conceptual framework that would encompass both financial and sustainability reporting.

#### **Key messages from the IASB-ISSB joint meeting**

9 At the joint IASB-ISSB meeting, in response to the feedback to the RFI, the need for both Boards to communicate on connectivity was emphasised. In addition, it was clarified that integration in reporting is a possible project with a deliverable whereas the connectivity concept is a way to achieve integrated reporting (including through both connectivity of

the information within corporate reporting as well as connectivity in processes between the Boards).

*Other points of note*

Connectivity in reports (information)

- 10 Emphasis was placed on connectivity in reports, and not only in reporting standards, since connectivity would facilitate the emergence of a coherent story from annual reports, which is paramount for users.
- 11 There was a call for further reflection on practical ways through which the IASB and ISSB could work together on non-joint projects.

Connectivity in products (standards/requirements)

- 12 Mixed views were expressed regarding educational material. Some members signalled its usefulness, while others expressed caution due to the potential knock-on effects on the other Board's respective work, and the fact that educational material is interpreted as authoritative guidance contrary to their intent.
- 13 Many members of the IASB and ISSB noted that the Management Commentary project could inspire future work on integration in reporting. It was mentioned that the IASB would further reflect on the project direction based on the ISSB's decision regarding its agenda.
- 14 It was agreed that the Boards could collaborate on several IASB projects (e.g., Climate-related and other uncertainties in the financial statements, Provisions – Targeted improvements and Intangible assets).
- 15 IFRIC's role in fostering connectivity through its interpretative function was raised. A case in point is the discussion on whether an entity's net-zero commitments constitute constructive obligations, in its [November](#) meeting. It was observed that both IAS 37 and ISSB standards alone cannot address such issues and connectivity is best poised to bridge this gap in reporting.
- 16 As an example of connectivity already being embedded in standards, it was noted that materiality in IFRS S1 and S2 was developed from the perspective of primary users of financial statements aligning with the materiality concept defined by IFRS. Furthermore, the project on Power Purchase Agreements was cited as the increased prevalence of those arrangements stemmed from requirements to disclose scope 2 emissions, included in both IFRS S1 and S2, and ESRS.
- 17 A suggestion was made to include connectivity requirements in IFRS Accounting Standards, akin to the requirements already included in IFRS Sustainability Disclosure Standards.

Connectivity in process

- 18 The need for better communication on how the two Boards are working together was underscored, including illustrating already existing connectivity in their processes.

**Key messages from the IRCC meeting**

- 19 As noted, the IRCC meeting reflected on the joint IASB-ISSB meeting. The following were the key messages:
- (a) The overall importance and urgency of integration in reporting and of the integrated reporting framework were highlighted. However, an IFRS Foundation representative conveyed that, before moving forward with further integration, more time was deemed necessary for its stakeholder base to build capacity related to the newly introduced requirements.
  - (b) Mixed views were also expressed regarding the Management Commentary project, with calls for deprioritising the project to allocate resources to integration in reporting. However, an IASB representative stated that as a “management report” was required in many jurisdictions, it should still be catered for through standard setting;
  - (c) Emphasis was placed on the fact that existing requirements in IFRS S1 could be leveraged to promote integration in reporting and focus on entities’ value creation;

**Next steps**

- 20 The IASB is expected to decide on the Management Commentary project direction (i.e., including whether it will be stopped or progressed, whether it will be done jointly, and the form of guidance that might be developed) in Q2 2024 after the ISSB decides on its agenda. It is noted that some possible courses of action for the management commentary project had also been discussed at the December 2023 IASB meeting. The EFRAG Secretariat will monitor the developments of the management commentary and integration in reporting projects to the extent that the IASB- ISSB next steps have a bearing on the connectivity project.

**Questions for EFRAG FRB and SRB members**

- 21 Do you have comments on the feedback to the RFI, the discussions at the joint IASB-ISSB meeting and the IRCC meeting?