
ISSB Meeting

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Project	ISSB Consultation on Agenda Priorities
Topic	Update on Consultation on Agenda Priorities
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Objective

1. The objective of this meeting is to update the International Sustainability Standards Board (ISSB) on matters related to its upcoming consultation on agenda priorities and discuss the staff's recommendation to revise the scope and description of one of the four projects to be included in the associated Request for Information. The Request for Information will solicit stakeholder feedback to inform the ISSB's initial two-year work plan and will be published in Q2 2023.
2. The purpose of this paper is to:
 - (a) summarise the staff's recommendations and rationale to revise the scope and description of one of the four projects to be included in the Request for Information; and
 - (b) ask whether the ISSB agrees with the staff's recommendations.

Structure of the paper

3. This paper is structured as follows:
 - (a) Background (paragraphs 4–9)
 - (b) S1 and S2 connected information requirements (paragraphs 10–14)
 - (c) Staff recommendation on revised scope (paragraphs 15–22)
 - (d) Questions for the ISSB (paragraph 23)

Background

4. During its meeting in December 2022, the ISSB decided to seek feedback in the Request for Information regarding:
 - (a) research projects on:
 - (i) biodiversity, ecosystems and ecosystem services;
 - (ii) human capital;
 - (iii) human rights; and

- (b) a joint project with the International Accounting Standards Board (IASB) on connectivity in reporting, building on the IASB's Management Commentary project and the Integrated Reporting Framework (the '**connectivity project**').
5. Paragraphs 39–42 of [Agenda Paper 2](#) for the ISSB's December 2022 meeting included the following short description of the connectivity project:
- (a) The staff recommends that the Request for Information include a proposal to undertake a joint project with the IASB to develop comprehensive disclosure requirements and guidance that enable entities to report connected discussion and analysis of their financial statements and sustainability-related financial disclosures. This project would also aim to provide clarity about how the components of general purpose financial reports fit together.
- (b) The IASB is undertaking a project to deliver a comprehensive overhaul of IFRS Practice Statement 1 *Management Commentary* to enable an entity to bring together, in a single concise and coherent narrative, information about financial, sustainability and other factors that have affected the entity in the reporting period or could affect the entity's prospects. The IASB's project focusses on information that investors and other capital market participants need in assessing the entity's ability to create value and generate cash flows, including in the long term. In developing its proposals, the IASB sought to consolidate and build on national and international innovations in reporting, including the Integrated Reporting Framework, and to target shortcomings in practice. In addition, the Integrated Reporting Framework is now part of the materials of the IFRS Foundation. The Integrated Reporting Framework aims to enable an entity to explain primarily to investors and other capital market participants how the entity creates, preserves or erodes value over time by taking into consideration how the entity is affected and affects different resources of financial, tangible and intangible nature.
- (c) The joint project would analyse the feedback on the IASB's proposals on management commentary and explore similarities and differences between those proposals and the Integrated Reporting Framework, seeking to further build on the principles and concepts of the Integrated Reporting Framework. The project would also consider its relationship with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and findings in other projects.
- (d) Many of the IASB's stakeholders encouraged the IASB to advance the Management Commentary project in collaboration with the ISSB and asked for clarity on the interaction between management commentary and sustainability-related financial disclosures. Furthermore, the Chairs of the IASB and the ISSB have committed to consider opportunities to address similarities and differences between the IASB's proposals on management commentary and the Integrated Reporting Framework. The staff believes that the Request for Information is an important opportunity for the ISSB to receive information from its stakeholders about the prioritisation of this work.
6. Since the December ISSB meeting, the staff has been drafting the Request for Information in preparation for its upcoming publication. At the same time, the ISSB has continued its redeliberations of the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) and Exposure Draft IFRS S2 *Climate-related Disclosures* (S2). It is noted that at its October ISSB meeting, the ISSB agreed that the publication of the Request for Information should be deferred to the first half of 2023 in order to allow for final decisions on the requirements contained in S1 and S2 (see [Agenda Paper 2](#) for that meeting).

7. At its February 2023 meeting, the ISSB made its final decisions on the technical content of S1 and S2 and has now entered the drafting and balloting process of the Standards, ahead of their expected issuance at the end of Q2 2023. After considering the final decisions on the requirements of S1 and S2, the staff believes a revised approach to the connectivity project will elicit feedback that is more useful to the ISSB in prioritising elements of its work plan and ensure that its future projects are appropriately additive to S1 and S2.
8. Therefore, the staff recommends that, within the Request for Information:
 - (a) the scope of the connectivity project be expanded to be more broadly focused on ‘integration in reporting’ such that this project would support the pursuit of integrated disclosures beyond the requirements on connected information contained in S1 and S2;
 - (b) the requirements of S1 and S2 related to connected information be articulated in order to provide necessary context when considering the project on ‘integration in reporting’;
 - (c) the project be rearticulated as an ISSB project that *could* be pursued jointly with the IASB, rather than presenting it only as a formal ‘joint project’; and
 - (d) the questions asked are framed in a manner that elicits input about how this project should be pursued (for example, whether the project should be pursued jointly with the IASB and the extent to which the basis should be the Integrated Reporting Framework or Management Commentary).
9. This will enable the ISSB (and the IASB) to obtain feedback not only on a specific joint project on ‘connectivity’, but also to obtain a broader and more timely understanding of stakeholder views on the objectives of the project and the best approach to pursuing it.

S1 and S2 connected information requirements

10. Based on the decisions at the ISSB’s February 2023 meeting, as summarised in [Agenda Paper 3C & 4B](#) for that meeting, S1 and S2 will include requirements that establish connections between sustainability-related financial disclosures and the financial statements. Those requirements for connected information build on concepts from the Integrated Reporting Framework.
11. S1 will include particular requirements that provide connections between sustainability-related financial disclosures prepared in accordance with the ISSB Standards and financial statements. This connection is established irrespective of the generally accepted accounting principles (GAAP) used to prepare the financial statements. Specifically, S1 will require that sustainability-related financial disclosures prepared in accordance with the ISSB Standards:
 - (a) be prepared for the same reporting entity and reporting period as the related financial statements;
 - (b) be provided at the same time as the financial statements and within the general purpose financial report (which also includes the financial statements);
 - (c) include financial data and assumptions that are consistent with the corresponding financial data and assumptions in the financial statements, to the extent possible, considering the requirements of IFRS Accounting Standards or other relevant GAAP; and

- (d) discuss significant differences between financial data and assumptions the entity uses to prepare its sustainability-related financial disclosures and the financial data and assumptions the entity uses to prepare its financial statements.
12. Both S1 and S2 will require information within the sustainability-related financial disclosures to be linked to information in the financial statements by requiring disclosure of the current and anticipated effects on the entity's financial statements due to sustainability-related (S1) and climate-related (S2) risks and opportunities;
13. S1 will also incorporate requirements that build on concepts from the Integrated Reporting Framework. This includes the requirement to provide information about the governance of sustainability-related risks and opportunities and the connections created between the sustainability-related financial disclosures and the financial statements as described in paragraphs 11–12. The objective of S1 is based on concepts of capital included in the Integrated Reporting Framework and will include a description of how the value an entity creates, preserves or erodes for itself and for its investors and creditors is inextricably linked to the value the entity creates for other stakeholders, society and the natural environment.
14. When considering the connectivity project in the light of the requirements of S1 and S2 that support connected information between sustainability-related financial disclosures and the financial statements, the staff believes much of the contemplated work in the original connectivity project description has already been met. The staff believes that the Request for Information should describe the requirements on connected information contained in S1 and S2. Further, the staff believes the scope of the project included in the Request for Information should be rearticulated to highlight how this project is intended to be additive to the requirements for connected information achieved by the ISSB to date.

Staff recommendation on revised scope

15. The staff recommends that, within the Request for Information:
- (a) the scope of the connectivity project be expanded to be more broadly focused on 'integration in reporting' such that this project would support the pursuit of integrated disclosures beyond the requirements on connected information contained in S1 and S2;
 - (b) the requirements of S1 and S2 related to connected information be included in order to provide necessary context when considering the project on 'integration in reporting';
 - (c) the project be rearticulated as an ISSB project that *could* be pursued jointly with the IASB, rather than presenting it only as a formal 'joint project'; and
 - (d) the questions asked are framed in a manner that elicits input about how this project should be pursued (for example, whether the project should be pursued jointly with the IASB and the extent to which the basis should be the Integrated Reporting Framework or Management Commentary).
16. In making this recommendation, the staff draws a distinction between the concepts of 'connectivity' and 'integration'. The term 'integration in reporting' can be used to describe the mechanism for bringing together different sources of decision-useful information in general purpose financial reports and combining them to produce a coherent set of disclosures that minimises duplication and demonstrates the interdependencies, synergies and trade-offs that exist between them. The process

of integration goes a step further than connecting information with the potential for unlocking additional layers of value achieved through the practice of integrated thinking and breaking down internal silos. The concept of ‘connectivity of information’ creates the conditions for integration by supporting the process of bringing together information that is relevant to value creation. While integration in reporting would go beyond what is currently in IFRS Standards, the broad concepts that enable integration in reporting, such as enhanced coherence and identifying linkages between different types of information in the reporting package, are already featured in various requirements and frameworks, including the requirements for connected information set out in S1 and S2, the Integrated Reporting Framework and the IASB’s Exposure Draft *Management Commentary*.

17. The rearticulated ‘integration in reporting’ project would seek to develop guidance to bring together sustainability-related financial information and other qualitative and quantitative financial information into a new set of integrated information through which investors and other users of an entity’s reporting have a comprehensive, coherent and concise view of how an entity creates, preserves or erodes value. Such a project would extend beyond simply creating ‘connections’ between financial statements and the sustainability-related financial disclosures established by S1 and S2.
18. This project could also encompass establishing a corporate reporting framework that integrates disclosure across one or more documents.
19. The ‘integration in reporting’ project would be a larger project, relative to the connectivity project previously discussed, and would require more of the ISSB’s resources. The staff also notes that if a project is undertaken formally as a joint project (as opposed to an ISSB project where the IASB could be consulted as needed), this would be more complex and thus more resource-intensive for the ISSB. Thus, there is an inherent trade-off between advancing the ‘integration in reporting’ project and building out the ISSB’s suite of sustainability related standards (ie, proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights). The staff believes that this trade-off should be highlighted to stakeholders, particularly given the progress in connected information achieved in S1 and S2.
20. The ‘integration in reporting’ project *could* be pursued jointly with the IASB and *could* incorporate and build upon concepts from the IASB’s Management Commentary project. However, any ISSB Standards resulting from the ‘integration in reporting’ project must be able to be applied regardless of whether an entity prepares its financial statements under IFRS Accounting Standards or other relevant GAAP. Similarly, entities applying IFRS Accounting Standards may or may not apply the ISSB’s Standards.
21. The staff recommends seeking specific feedback on the ‘integration in reporting’ project via the Request for Information on:
 - (a) the relative priority of the ‘integration in reporting’ project and the three sustainability-related topics (ie, proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights), highlighting the key consideration of advancing the ‘integration in reporting’ project relative to the pace at which the suite of ISSB sustainability-related financial disclosure standards is built out;
 - (b) whether the ‘integration in reporting’ 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 without being a formal joint project); and

- (c) whether the ‘integration in reporting’ project should build upon and incorporate concepts from the IASB’s Management Commentary project, the Integrated Reporting Framework, both documents or from other sources.
22. The staff notes that the IASB received feedback both in response to its Exposure Draft *Management Commentary* and its Third Agenda Consultation, both of which were published prior to the establishment of the ISSB, indicating that the IASB should continue its Management Commentary project jointly with the ISSB. The staff recommends that this feedback be noted in the Request for Information. As a result of the Request for Information, the ISSB (and the IASB) will benefit from understanding how the *ISSB’s stakeholders* view the priority of a project on ‘integration in reporting’ taking into consideration the requirements on connected information contained in S1 and S2 and other potential ISSB projects. This stakeholder feedback will complement the feedback received to date by the IASB.

Questions for the ISSB

23. The staff presents the following questions for the ISSB.

Questions for the ISSB

1. Do you have any comments or questions on the staff’s recommendations summarised in paragraph 15 and paragraph 21?
2. Do ISSB members agree with the staff’s recommendations summarised in paragraph 15 and paragraph 21?