

ISSB Agenda Consultation

EFRAG comments: initial directions

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Objective

- 1 This paper supports the initial exchange of views on possible directions for the EFRAG comment letter on the ISSB consultation on Agenda Priorities.

Background

- 2 The ISSB will seek feedback on:
 - (a) strategic direction and balance of the ISSB's activities to build upon the foundation created by S1 and S2
 - (b) criteria for assessing the priority of new projects and
 - (c) priority, scope and structure of new research and standard-setting projects that could be added to the ISSB's work plan.

Strategic direction and balance of ISSB activities

- 3 The mission of the ISSB is develop a comprehensive global baseline of sustainability - related disclosure standards.
- 4 The ISSB will consider feedback to provide directional information on how to prioritise its activities. Next to beginning new research and standard setting, the ISSB has already in place ongoing committed work activities, in particular:
 - (a) Supporting the implementation of ISSB Standards. This includes:
 - (i) Developing or strengthening guidance and materials to support application of IFRS S1 and IFRS S2
 - (ii) Engaging with and educating partners among jurisdictions worldwide, including emerging economies
 - (iii) Publishing exposure draft of IFRS Sustainability Disclosure Taxonomy and supporting guidance to facilitate the digital consumption of reports prepared in accordance with ISSB Standards.
 - (b) Enhancing SASB standards. This includes:
 - (i) Enhancing the international applicability of SASB Standards
 - (ii) Advancing SASB standard-setting projects, with initial focus on projects with published recommended changes.
 - (c) Researching targeted amendments to ISSB standards. This includes continuing research and outreach to assess IFRS S2 for targeted enhancements for the



disclosure of climate-adjacent risks and opportunities related to nature and the **'just transition'** to a lower-carbon economy.

- (d) Core activities: engagement with stakeholders to support its activities, work on interoperability with other jurisdictional standards, ensure connectivity between IASB and ISSB work and products.

Criteria for assessing new projects to be added

- 5 The criteria are based on those used by the IASB:
 - (a) the importance of the matter to investors;
 - (b) whether there are any deficiencies in the way companies disclose information on the matter;
 - (c) the type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others;
 - (d) how pervasive or acute the matter is likely to be for companies;
 - (e) the potential project's interaction with other projects on the ISSB's work plan (or on the IASB's work plan);
 - (f) the complexity and feasibility of the potential project and its solutions; and
 - (g) the capacity of the ISSB and its stakeholders to make timely progress on the potential project.
- 6 **While not a separate criteria, the ISSB also considers the work streams of other jurisdictional and voluntary sustainability standard setters and framework providers.**

New research and standard setting projects

- 7 The RFI will include description of and seek feedback on the following four projects, but commenters may suggest other projects:
 - (a) research projects on the sustainability-related risks and opportunities associated with:
 - (i) biodiversity, ecosystems and ecosystem services;
 - (ii) human capital¹;
 - (iii) human rights; and
 - (b) a research project on integration in reporting to support integrated disclosures beyond the requirements on connected information in the financial statements and sustainability-related financial disclosures, that are included in S1 and S2.
- 8 All four new projects are considered to be larger, resource intensive projects; **only one or two new projects can be added** to the work plan. The other projects could still be on the workplan in the future.
- 9 ISSB will leverage and build upon materials of the ISSB and other standard setters and framework providers to expedite the work, as appropriate.

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

Biodiversity, ecosystems and ecosystem services (BEES)

- 10 Definition of the topic²: Biodiversity is a foundational characteristic of natural systems and it is a proxy for functional, productive and resilient ecosystems which are then able to provide the ecosystem services upon which life on earth relies.
- 11 Relevance of the topic for the ISSB global baseline:
 - (a) Human activities directly and indirectly contributed to changes in BEES
 - (b) Biodiversity loses a threat to financial stability
 - (c) Companies can contribute to and benefit from preservation, conservation and restoration
 - (d) Effective disclosure could increase business resilience due to stability of raw material supply and pricing
- 12 Potential subtopics include: land-use and land use change, invasive non-native species, but also **water, pollution, resource exploitation**.

Human Capital

- 13 Definition of the topic: Human capital refers to the people who make up a company's own workforce, and the workforce's respective competencies, capabilities and experience, and motivations to innovate.
- 14 Relevance of the topic for the ISSB global baseline: human capital considerations can affect value by enhancing a company's ability to:
 - (a) attract and retain talent
 - (b) design, market and deliver products and services
 - (c) strengthen community relations
 - (d) innovate
 - (e) identify risks
 - (f) increase productivity
 - (g) make cost savings.
- 15 Potential subtopics include;
 - (a) worker wellbeing
 - (b) diversity, equity and inclusion
 - (c) employee engagement
 - (d) workforce investment
 - (e) the alternative workforce (e.g. contractors, freelancers, outsourced workers, temporary/flex workers, etc.)
 - (f) labour conditions in the value chain

² ESRS E4 definition of the topic biodiversity: the undertaking's relationship to terrestrial, freshwater and marine habitats, ecosystems and populations of related fauna and flora species, including diversity within species, between species and of ecosystems and their interrelation with indigenous and affected communities. The sustainability matter 'biological diversity' covers the variability among living organisms from all sources including, inter alia, terrestrial, freshwater, marine and other aquatic ecosystems and the ecological complexes of which they are part.

- (g) workforce composition and costs.

Human Rights

- 16 Definition of the topic: Human rights are the basic rights and freedoms that belong to every person by virtue of being a human being. These universal rights range from the most fundamental, eg the right to life, to those that make life worth living, such as the rights to food, education, work, health, and liberty.
- 17 Relevance of the topic for the ISSB global baseline: human rights matters can affect:
 - (a) risks and opportunities
 - (b) value and reputation
 - (c) license to operate.
- 18 Research to cover:
 - (a) how human rights lead to sustainability-related risks and opportunities, including how they vary by jurisdiction or business model
 - (b) research to understand existing practices, tools and metrics
 - (c) the overlap between human rights and human capital.

Integration in reporting

- 19 Please refer to Agenda Paper 04.01 for the joint FRB SRB 3 May 2023.

Questions in the RFI

- 20 The RFI will seek stakeholders' views relative priority of the potential projects to inform ISSB's resource allocation. In particular, for the sustainability-related subject matters (biodiversity, ecosystems and ecosystem services; human capital; and human rights):
 - (a) relative priority of subtopics, industries or sectors;
 - (b) priority of related materials and standards of other jurisdictional and voluntary standard-setters and framework providers.

Initial observations of the EFRAG Secretariat

- 21 The perspective of this agenda consultation is the development of the ISSB global baseline to serve investors needs. EFRAG should focus in its comment letter on such perspective.
- 22 From a European point of view, a key objective when looking at the future ISSB workplan is the commitment to interoperability with ESRS, in order to reduce the risk of double reporting. EFRAG should recommend the ISSB to leverage on content of the ESRS and stand ready to support, as done for climate, the achievement of a satisfactory correspondence between the two sets of standards. However, differently from climate, for which the ISSB and EFRAG developed its respective standards in the same period³, now the ISSB has the possibility to leverage from a stable version of the standards.
- 23 The proposed scope of the topic 'biodiversity' encompasses not only sub-topics currently covered by ESRS E4 *Biodiversity*, but also by ESRS E3 *Water and marine resources*

³ IFRS TRWG draft released in November 2021, IFRS S2 ED released in June 2022, final standard expected for June 2023; EFRAG PTF working paper Climate released in January 2022, ESRS E1 ED released at the end of April 2022, final draft released in November 2022.



and E5 *Resource use and circular economy*. This means that it may be difficult to replicate the ESRS Architecture. Nevertheless, to the extent that appropriate correspondence with ESRS equivalent content is built at level of disclosure requirements, this should not be an impediment to interoperability.

Timeline and due process

- 24 The ISSB is expected to issue the request for information in first week of May for a consultation period of 120 days.
- 25 The EFRAG Secretariat proposes the following timeline:
 - (a) EFRAG SRB to approve a draft comment letter on the 24 May 2023;
 - (b) Consultation period 60/70 days;
 - (c) EFRAG SRB to approve the final comment letter on the 22 August 2023.
- 26 One or more outreach event in June/first half of July.

Question to the members and observers

- 27 Do EFRAG SRB members and observers have initial directions for SR TEG in discussing the criteria for the selection of new ISSB projects (para. 5 and 6 above)?
- 28 Do EFRAG SRB members and observers have initial reactions on the ISSB staff proposed topic description for biodiversity, human capital and human rights (para. 10/18 above)?
- 29 Considering that only one or two new projects (including integrated reporting) can be added to the ISSB 2024/25 workplan, should EFRAG express a priority between biodiversity (including water, resource exploitation and pollution), human rights and human capital? Which should be the priority?
- 30 Do EFRAG members and observers have other directions to provide to SR TEG?
- 31 Does the EFRAG SRB think that EFRAG should suggest other topics?

