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August 28, 2023

International Sustainability Standards Board (ISSB)
Emmanuel Faber, ISSB Chair
Jingdong Hua, ISSB Vice-Chair
Sue Lloyd, ISSB Vice-Chair

RE: ISSB Request for Information on Agenda Priorities

Dear Chair Faber and Vice-Chairs Hua and Lloyd:

IFAC welcomes the opportunity to comment on the International Sustainability Standards Board's (ISSB) Request for Information *Consultation on Agenda Priorities* (the "Consultation"). As the global voice of the accountancy profession, IFAC represents over 180 Professional Accountancy Organizations in 135 jurisdictions, thereby representing millions of professional accountants, worldwide. As such, our perspective on this consultation—like that of the ISSB—is global in scope, while also taking into consideration important jurisdictional activities (i.e., such as that in the United States and the European Union, among others) that must align with and compliment the requirements for a comprehensive global baseline of disclosure requirements that will be the focus of the ISSB's work. We applaud the ISSB for completing its first two standards—IFRS S1 and IFRS S2—and for moving forward towards new work with this Consultation.

IFAC supports including a broader range of information in corporate reporting so that organizations can communicate more effectively with primary users the entity's prospects for value creation in the short-, medium- and long-term—aligned with IFRS S1, Paragraph 2 of page 6 which references the close relationship between an entity's ability to create value for itself and the value it creates, preserves, or erodes for other parties. We believe that companies that adopt an "integrated mindset"—management and those charged with governance gaining insight from *both* financial and sustainability information—will make better business decisions as well as take account of value that is created, preserved, or eroded for customers, employees, suppliers, and societal interests.

IFAC's various relevant positions related to sustainability are presented in our policy paper on *Enhancing Corporate Reporting*, our call-to-action for the establishment of the new ISSB—*The Way Forward*, our response to the IFRS Foundation Consultation on Sustainability Reporting, our guidance that specifically addresses the Sustainability Building Blocks Approach and How Global [ISSB] Standards Become Local Reporting Requirements, in addition to IFAC's Vision for High-Quality Assurance of Sustainability Information and our thought leadership on Championing an Integrated Mindset to Drive Sustainable Value Creation.

Finally, working over the past three years in partnership with AICPA-CIMA, we have conducted extensive research on the reporting practices (as well as assurance practice) of 1400 of the largest stock exchange listed companies from twenty-two jurisdictions. Our latest review (based on 2021 fiscal year reporting) was published in February 2023 and helps inform our responses to this consultation, particularly with respect to trends in connectivity between financial and sustainability-related information. Further, this research provides a sample set of over two hundred integrated reports that we have examined in detail to support our observations and recommendations in Question 7 of this response.[1] Appendix B summarizes our integrated report analysis.

IFAC strongly supports next steps towards a harmonized, global system based on the ISSB's comprehensive global baseline. In this context, IFAC highlights four key considerations intended to inform the ISSB's work during the next two years and beyond as it focuses on the adoption and implementation of its requirements for high-quality, decision-useful sustainability-related disclosures around the world.

1. **Adoption and implementation: *IFAC supports the ISSB's focus on high-quality implementation of IFRS S1 and IFRS S2 so that jurisdictions will more readily adopt ISSB requirements.***

   IFAC believes that the credibility of the ISSB and the success of its mission to establish a global baseline of investor-focused sustainability disclosure requirements that serve capital markets depends on this "foundational" implementation work. Securing adoption of IFRS S1 and IFRS S2 by regulators around the world must be a priority for the ISSB, especially given IOSCO's recent endorsement of the ISSBs standards. In this context, we also support the ISSB's efforts to review and consider amendments to SASB Standards metrics to ensure they are suitable for application by stakeholders internationally who want to adopt S1 and S2, in advance of new research and standard-setting work related to other sustainability topics.

2. **Integration in Reporting: *IFAC believes that now is the time for the ISSB and IASB to jointly develop the global baseline for a holistic, narrative analysis of how reporting entities create, preserve or erode value over time, including how sustainability disclosures are connected to financial position and performance. This framework should combine key <IR> Framework principles, concepts and content elements with the IASB's work on Management Commentary.***

   Based on our analysis, companies need guidance on how best to provide such narrative information in a concise, comparable and consistent manner that reinforces connectivity with the financial statements —all part of a coherent and comprehensive system of investor-focused, general purpose financial reporting that includes both sustainability-related financial information and financial statements, and addresses the drivers of value creation in the context of the external business environment, purpose, strategy, governance, business model and performance. Inconsistencies in current market practice (i.e., especially in the assessment of materiality in applying the <IR> Framework) must be addressed. See Appendix B for an analysis of over two hundred Integrated Reports selected from our 2021 State of Play research.

3. **Other Research and Standard-Setting Activities: *We urge the ISSB and the IFRS Foundation to secure the resources necessary (e.g., funding, staff, volunteer expertise, etc.) to continue to move with pace in new research and standard-setting activities related to the sustainability topic areas identified in this consultation.***

   We acknowledge that appropriate due process is the hallmark of IFRS standard-setting and that new activities across a broader range of specific sustainability-related topics will take time. Therefore, the application of IFRS S1 addressing topics beyond climate should be an important component of the ISSB's implementation activities. However, the ambition and momentum demonstrated by the ISSB since it was announced less than two years ago at COP 26 must continue, and we urge the Board to elaborate on the architecture of its standards, including the new topics included in this Consultation. The ISSB must also monitor emerging sustainability initiatives (e.g., jurisdiction-specific climate-related disclosures in the U.S. or topic-specific initiatives such as the Taskforce on Nature-related Financial

[1] See The State of Play in Sustainability Disclosure & Assurance: 2019 – 2021 Trends &Analysis.

Disclosures) with a focus on identifying priority topic areas for new ISSB research and standard-setting activities.

4. **Interoperability and Leveraging Existing Initiatives:** ***In our view, interoperability with GRI, ESRS of the European Union, climate disclosures in the U.S.—as well as any additional disclosure requirements necessary to fulfil jurisdiction-specific priorities (especially those that can serve as transitional initiatives towards ISSB adoption)—is an important starting point for a truly global system that is built upon the ISSB's global baseline.***

   We urge the ISSB to continue to pursue interoperability as part of its future standard-setting activities. This issue is particularly important to companies, including Small and Medium-Sized Entities (SMEs), who may face divergent requests for information because of supply chain or capital provider requirements. Further, working with and leveraging the expertise and disclosure requirements of leading initiatives (i.e., CDP, CDSB, GRI, IIRC, SASB, WEF metrics, and TCFD) allowed the ISSB to move with pace to meet global demand for investor-focused sustainability disclosure standards with IFRS S1 and S2. We urge the ISSB to continue to leverage the work of other important sustainability initiatives in the development of future topic-specific ISSB Standards so that the Board can move as quickly as practical beyond research and on to standard-setting work, hopefully within the two-year period covered by this plan.

A harmonized, global system for reporting sustainability information will help accelerate sustainability—by providing reporting that addresses the climate crisis, by helping companies and their stakeholders measure and assess progress towards sustainability objectives, and by promoting more sustainable companies that will create long-term value for investors and society. IFAC—through engagement with its Professional Accountancy Organizations and Network Partners around the world, the Forum of Firms (comprised of the largest global accounting firm networks), IOSCO, the B20, G20 and other international bodies—supports the mission and activities of the ISSB and stands ready to assist the ISSB, the IASB, and IFRS Foundation Trustees in any way that we can.

Yours sincerely,

Kevin Dancey,
Chief Executive Officer, IFAC

APPENDIX A: IFAC RESPONSE
Request for Information Consultation on Agenda Priorities—Survey

Question 1 - Strategic direction and balance of the ISSB's activities

(a) From highest to lowest priority, how would you rank the following activities?

___3___beginning new research and standard-setting projects

___1___supporting the implementation of ISSB Standards (IFRS S1 and IFRS S2)

___4___researching targeted enhancements to the ISSB Standards

___2___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 prioritize within each activity.

1. **Implementation:** First and foremost, IFAC strongly supports the ISSB's focus on the successful implementation of IFRS S1 and IFRS S2 to assist jurisdictions with the adoption of ISSB requirements.

   IFAC believes that the success of the ISSB mission to establish a global baseline of investor-focused sustainability disclosure requirements that serve capital markets depends on adoption and high-quality implementation of its initial standards, IFRS S1 and IFRS S2 ("S1 and S2"). Therefore, we appreciate the constraint on new research and standard-setting work as a result of the Board's commitment to the "foundational" work and activities necessary in the nearer term to build upon S1 and S2, which may include guidance and other supporting materials, the establishment of a transitional implementation group, helping to deliver education and awareness building in partnership with others, and steps to deliver an IFRS Sustainability Disclosure Taxonomy.

   Working to secure adoption of IFRS 1 and IFRS2 by regulators around the world is part of this implementation priority, especially given IOSCO's recent endorsement of the ISSB's standards. Therefore, given the timeline for new research and standard-setting work that the ISSB has outlined in this Consultation, the application of IFRS S1—in the overall context of the future architecture of IFRS Sustainability Disclosure Standards—must also be an important component of the ISSB's implementation activities.

2. **SASB enhancements:** Next, IFAC supports the ISSB's work to enhance Sustainability Accounting Standards Board (SASB) Standards.
   In the current ISSB standards architecture, sustainability topics other than climate (i.e., addressed by IFRS S2) will be addressed by IFRS S1 well beyond the term of this agenda consultation period. S1 relies on the use of SASB Standards for metrics and targets, in addition to other sources detailed in paragraph 58 of IFRS S1. Therefore, IFAC supports the ISSB's efforts to review and consider amendments to SASB Standards metrics to ensure they are suitable for application by stakeholders internationally who want to adopt S1 and S2. However, we believe that the international applicability of the SASB Standards is the priority, not advancing industry-based research and standard-work inherited from the SASB, nor maintaining the SASB Standards through research, consultation, outreach, and revisions to the SASB Standards.

3. **Integration in reporting:** The ISSB has addressed "climate first" with IFRS S2, as well as IFRS S1 requirements for broader disclosure of information about sustainability-related risks and opportunities. Next, companies need a principles-based, global baseline for providing up-front,

narrative information—as part of a coherent and comprehensive system of general purpose financial reporting that includes sustainability-related financial information—and addresses the drivers of value creation in the context of external business environment, purpose, strategy, governance, business model and performance. This view is consistent with our 2022 response to the ISSB's Exposure Draft consultations on IFRS S1 and IFRS S2.[2]

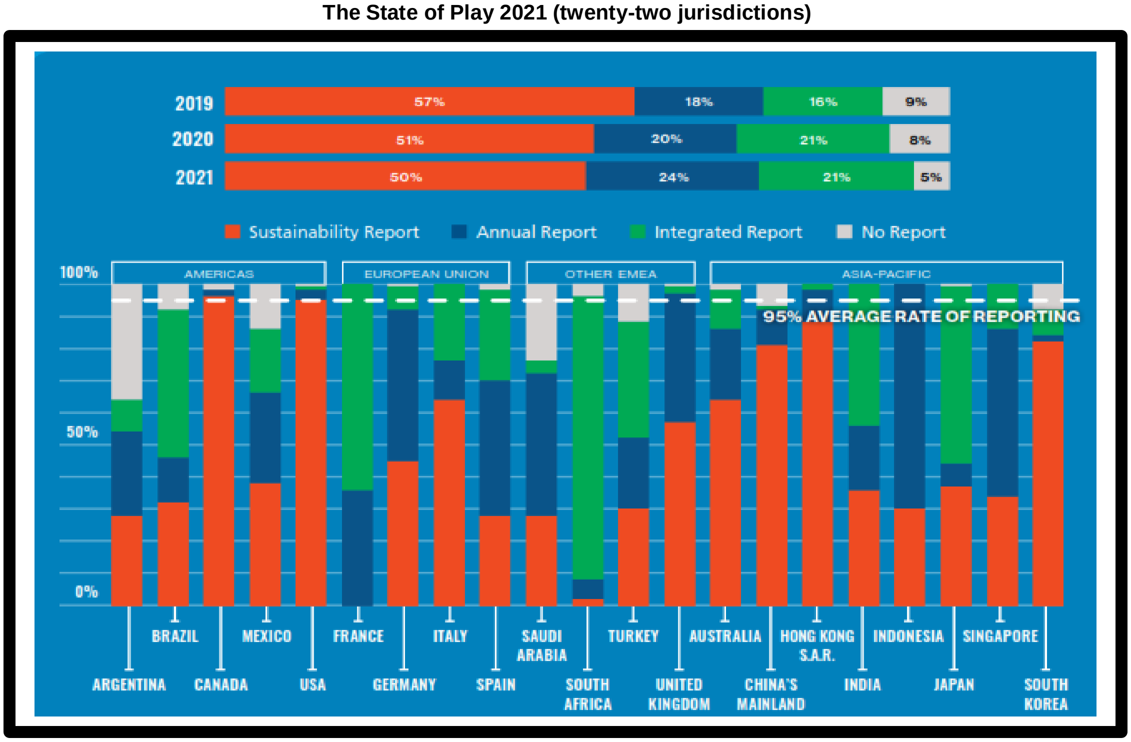
Our latest State of Play research, conducted in partnership with AICPA-CIMA, demonstrates that companies are moving away from stand-alone sustainability reports towards reporting practices that better connect financial and sustainability-related and other relevant disclosures—relying on both integrated reports and annual reports. Examining sustainability reporting and assurance practices for 1400 stock exchange-listed companies from the G20 countries plus Singapore and Hong Kong S.A.R. over the three-year period 2019 – 2021, we observed a 7% net decline in the use of stand-alone sustainability reports.

1. *In six jurisdictions, we observed significant reliance on reports consistent with the Integrated Reporting Framework: Brazil, France, India, Japan, South Africa, and Turkey.*
2. *In seven jurisdictions, we observed a significant increase in the use of annual reports for reporting on ESG: Argentina, Germany, India, Mexico, Saudi Arabia, Singapore, and Spain.*

Noting an overall 4% increase in companies who reported on ESG (2021 vs 2019), integrated reports increased 5% while the percentage of companies who reported on ESG in their annual report increased by 6%. Combined, there has been a total 11% increase in the use of integrated and annual reports for reporting on sustainability information—demonstrating that companies, globally, are taking steps to better align and integrate their financial and sustainability disclosure.

WHERE COMPANIES REPORT ON ESG

The State of Play 2021 (twenty-two jurisdictions)

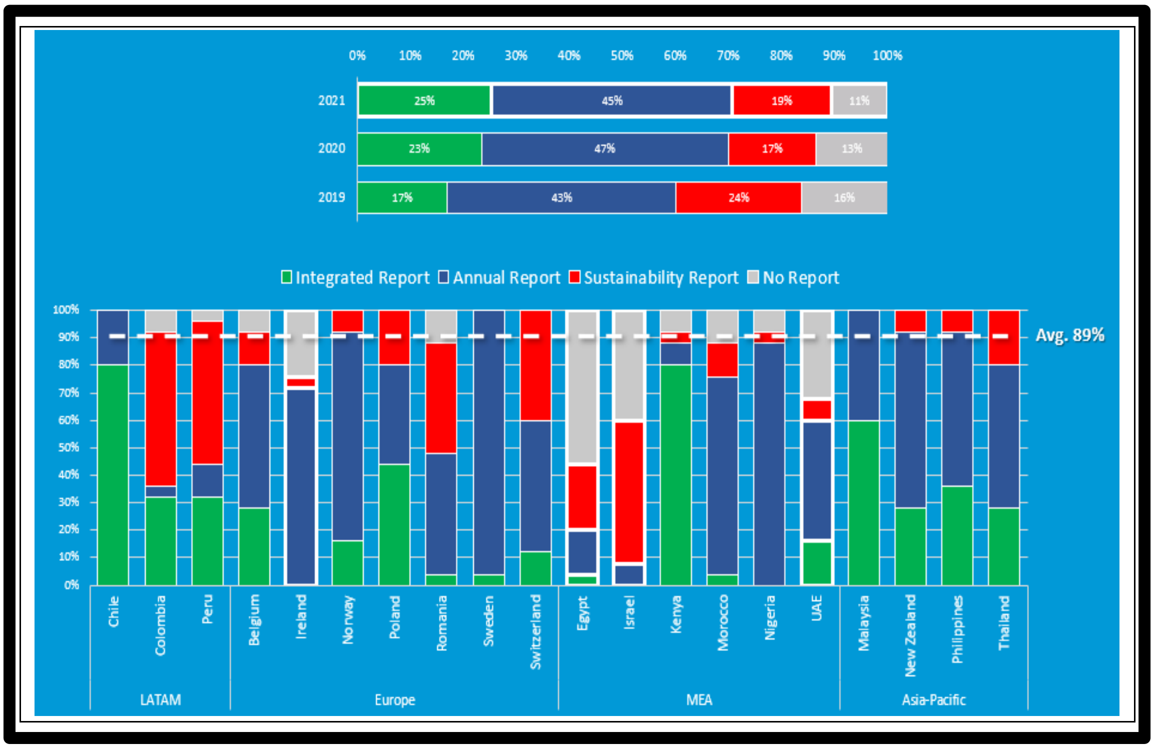


[2] "Sustainability disclosures are most valuable to investors and other stakeholders when they are connected to financial reporting information. This includes improving the timeliness and proximity of location between financial and sustainability information when being made public. Sustainability-related information must be at the same level of quality and decision usefulness as financial information. IFAC supports the use of management commentary or integrated reports for sustainability disclosure and encourages the ISSB and IASB to utilize principles and concepts from the Integrated Reporting Framework in their standard-setting work—seeking opportunities to align and incorporate the concepts of the Framework with similar concepts in the IASB and SASB conceptual frameworks."

Further, IFAC research that will be published later in 2023 examines reporting and assurance practice in an additional 500 companies in twenty jurisdictions, with a focus on the Global South (see specific jurisdictions in graph below). This analysis yields a similar result, with a 5% net decline in the use of stand-alone sustainability reports (2019 – 2021). Integrated reports increased 8% while the percentage of companies who reported on ESG in their annual report increased by 2%. Combined, there has been a total 10% increase in the use of integrated and annual reports for reporting on sustainability.

WHERE COMPANIES REPORT ON ESG

Next 20 Jurisdiction Analysis - The State of Play 2021



In light of these findings, IFAC has examined each of 215 integrated reports included in our 2021 State of Play sample set from the six countries cited above—Brazil, France, India, Japan, South Africa, Turkey. This analysis helps us to better understand how companies are applying the <IR> Framework and their use of the Framework's Guiding Principles and Content Elements. See our response to Question 7 c) in Appendix A and information detailed in Appendix B for additional details of this research.

4. **ISSB enhancements**: Finally, appreciating the potential value of targeted enhancements to existing ISSB Standards (e.g., related to possible guidance for the disclosure of climate-adjacent risks and opportunities related to nature and the "just transition"), we encourage the ISSB to consider such efforts—to the extent possible—in its implementation work related to S1 and S2 or as part of a future Post Implementation Review.

(c) 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.

IFAC response: No. However, we clarify that the development of a digital taxonomy for IFRS S1 and IFRS S2 should continue as part of the ISSB's implementation work.

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

(a) Do you think the ISSB has identified the appropriate criteria? Please explain your response.

IFAC response: YES

The seven criteria detailed by the ISSB are appropriate criteria.

(b) Should the ISSB consider other criteria? If so what criteria and why?

IFAC response: YES

1. **Alignment & Interoperability:** In our July 2023 response to the Draft Delegated Act - European Sustainability Standards, IFAC welcomed regulatory requirements that can serve to harmonize reporting practice and deliver consistent, comparable, assurable, and decision-useful sustainability information—including S1 and S2, the U.S. SEC's proposed climate disclosures, and important jurisdictional or regional initiatives like the ESRS in the European Union. However, these initiatives must align on key concepts, terminologies, and metrics to avoid regulatory fragmentation that creates unproductive cost, confusion, and complexity for all stakeholders. We urge the ISSB to monitor important initiatives, including GRI Standards, focusing on interoperability in requirements and alignment of topic areas for disclosure as an additional criterion for assessing sustainability reporting matters that could be added to the ISSB's work plan. We believe this criterion is consistent with the ISSB's desire to maintain sufficient flexibility and capacity to respond to emerging sustainability-related risks and opportunities as they arise in the work of other major sustainability reporting initiatives.

   Interoperability is particularly important to Small and Medium-Sized Entities (SMEs) who may face divergent requests for sustainability information because of supply chain or capital provider requirements. While interoperability enhances efficiency for all stakeholders, SMEs are among those entities least able to allocate resources to fulfill multiple requests for similar, but different, data/disclosures. In the extreme, SMEs could fail to meet all information requests or provide estimates of uncertain reliability that do not support high-quality decision making.

   In our view, interoperability with GRI, ESRS of the European Union, climate disclosures in the U.S.—as well as any additional disclosure requirements necessary to fulfil jurisdiction-specific priorities (especially those that can serve as transitional initiatives towards ISSB adoption)—is an important starting point for a truly global system that is built upon the ISSB's global baseline.

2. **Leveraging existing frameworks:** IFAC's initial statement of support for the creation of the ISSB in September 2020 called on the ISSB to work with and leverage the expertise and disclosure requirements of leading initiatives" (e.g., CDP, CSB, GRI, IIRC, SASB, WEF metrics, and TCFD) so that the ISSB could move with pace to meet global demand for investor-focused sustainability disclosure.

We strongly urge the ISSB to continue to pursue this strategy in prioritizing new research and standard-setting projects. Topics addressed by widely respected disclosure initiatives and frameworks should be prioritized so that the Board can move as quickly as practical beyond research and on to standard-setting work, hopefully within the two-year period covered by this plan.

Question 3 - New research and standard-setting 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?

IFAC response: More than one project.

The ambition and momentum demonstrated by the ISSB since it was announced less than two years ago at COP 26 must continue, and we urge the Board to elaborate on the architecture of its standards, including the new topics included in this Consultation and how IFRS S1 is designed to serve the needs of reporting entities and jurisdictions who wish to adopt IFRS Sustainability Disclosure Standards with respect to all sustainability risks and opportunities, in addition to those specified in IFRS S2. Market participants would benefit from a clear articulation of the ISSB's intentions and timeline for addressing additional standard-setting topics (e.g., biodiversity, ecosystems and ecosystem services; human capital; human rights)—regardless of whether such standard-setting work ultimately results in a new IFRS "SX", new guidance, or new definitions, etc. This would also aid future interoperability (see response to 2 (b) above).

We urge the ISSB and the IFRS Foundation to secure the resources necessary (e.g., funding, staff, volunteer expertise, etc.) to move with pace with respect to standard-setting activities related to all three of these sustainability topic areas, subject to review of stakeholder responses to this consultation.

If more than one project, which projects should be prioritised and what is the relevant level of priority from highest to lowest priority? Please explain your response.

- **Biodiversity, ecosystems and ecosystem services**
- **Human capital**
- **Human rights**
- **Integration in reporting:** Highest priority

As explained in our response to Question 1 above, IFAC urges the ISSB to prioritize integration in reporting. We do not comment on prioritization between the other three projects, but we note, based on our stakeholder engagement in jurisdictions within the Global South, that matters related to human capital may be particularly relevant to government leaders and could help local policy makers garner support for adoption of S1 and S2 in Global South jurisdictions. Further, human capital is a topic area rich in existing content, which could be leveraged by the ISSB in a timely manner.

Questions 4, 5, 6 – New research and standard-setting projects that could be added to the ISSB's work plan: Biodiversity, Human capital, Human rights.

IFAC Response: IFAC does not wish to comment further on the topics of biodiversity, human capital or human rights. However, we note that in our July 2022 response to both the IFRS S1 and IFRS S2 Exposure Drafts, IFAC stated that "incorporating the industry-specific nature of SASB Standards into the work of the IASB can help companies develop, in a cost-effective manner, disclosures that are most relevant to their specific facts and circumstances and that promote decision usefulness and comparability for investors." We continue to support this view and we therefore support the ISSB's recent consultation and subsequent actions to enhance the international applicability of SASB Standards. (See recommendation 1 of this letter.)

Questions 7 – New research and standard-setting projects that could be added to the ISSB's work plan: Integration in reporting

(a) How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related projects (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB's new two-year work plan? Please explain your response.

IFAC response: Integration in reporting project is a **higher priority**.

IFAC Explanation: *The ISSB—working with the IASB—should next jointly develop a global baseline of information for a holistic, narrative analysis of how reporting entities create, maintain, or erode value over time, including how sustainability disclosures are connected to financial performance. This framework should combine key <IR> Framework principles, concepts and content elements with the IASB's work on Management Commentary.*

As explained in our response to Question 1 (b) above, companies need a global baseline for up-front narrative information (or Management Commentary), as part of a coherent and comprehensive system of general-purpose financial reporting, that includes sustainability-related and financial information and addresses purpose, strategy, governance, business model and performance.

Such narrative information and analysis is consistent with IFAC's framework for Championing an Integrated Mindset to Drive Sustainability and Value Creation—calling on businesses to integrate financial and sustainability information to make better-informed decisions that deliver long-term value creation—financial returns to investors while taking account of value to customers, employees, suppliers, and societal interests.

As IFAC CEO Kevin Dancey said in response to the IFRS Foundation Trustees announcement in November 2021 to create the ISSB, "This positions the ISSB to build upon the high-quality work of existing sustainability-related initiatives and harmonize the standard-setting landscape—delivering a comprehensive global baseline of sustainability information material to enterprise value, connected to financial reporting through the fundamental concepts and guiding principles of integrated reporting" (underlining added for emphasis).

The resulting framework should provide reporting entities with a template for—and sufficient detail to promote—consistency and comparability in how sustainability information is presented (regardless of industry or jurisdiction), concurrent with and connected to the financial statements as required in IFRS S1 and IFRS S2, and without "disclosure clutter.". Flexibility is necessary to accommodate jurisdiction-specific requirements—be they regulatory (e.g., ESRS in the European Union), corporate governance related (e.g., King Code IV), or company specific (e.g., companies who provide disclosures consistent with GRI Standards). The framework should support jurisdictions and reporting entities who adopt a building blocks approach to reporting both ISSB sustainability-related financial disclosures as well as impact-focused disclosures (e.g., GRI Standards).

This said, our analysis highlights inconsistencies in how companies currently apply the <IR> Framework, especially with respect to i) materiality assessments, ii) addressing connectivity, iii) incorporating sustainability matters into their explanation of company outlook, and iv) providing risk assessments without also addressing company opportunities. (See Appendix B for details.) Further, few companies (13%) were observed to "adopt" or report "in accordance with" the <IR> Framework. Noting the best practices nature of the IASB's current Management Commentary Practice Statement and the voluntary nature of <IR> Framework application in most jurisdictions (except for South Africa and Brazil), we believe that a joint project of the IASB and ISSB will enhance and inspire greater application of IASB/ISSB best practice disclosure in jurisdictions adopting IFRS Accounting Standards and/or IFRS Sustainability Disclosure Standards.

This new framework should be consistent with key aspects of IFRS S1, including:

- Providing such narrative disclosure as part of the reporting entity's general purpose financial reports;
- Ensuring that the length or complexity of narrative disclosures do not obscure decision-useful sustainability-related financial disclosures required under IFSR S1 or IFRS S2;
- Allowing for cross-referencing to other reports published by the reporting entity on a voluntary basis or as a result of local requirements; and
- Providing sustainability-related disclosures (under ISSB requirements or others) at the same time as financial statements and covering the same reporting period.

Key concepts that should remain from the <IR> Framework include:

- Business model
- Strategy and resource allocation
- Risks and opportunities
- Organizational overview and external environment
- Performance
- Outlook
- Governance (may cross reference to existing, jurisdiction-specific regulatory disclosures requirements)
- Basis of preparation

Further, terminology from the <IR> Framework should be better aligned with concepts already incorporated into IFRS S1 and employing integrated thinking with a focus on value creation should be retained.

(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 form the IASB as needed without being a formal joint project)?

IFAC response: Formal joint project

Please explain how you think this should be conducted and why.

IFAC Explanation: *Now is the time—with the vital work of IFRS S1 and IFRS S2 completed—for the IASB and ISSB to jointly resume work on a project that draws on the expertise and resources of both boards—aligning integrated reporting principles, concepts, and content elements with Management Commentary of the IASB.*

In our analysis, both the IASB's Management Commentary and the <IR> Framework have similar objectives—to provide an understanding of a company's ability to create and maintain value.[3] As we stated in our Point of View on Enhancing Corporate Reporting, "the management report ("MD&A" or equivalent) might be the most appropriate channel for including integrated and supplementary narratives and metrics" that allow a company to provide a more complete picture of enterprise value. Further, "integrated thinking" and forward-looking reporting enable[s] organizations to communicate effectively—and stakeholders to understand—prospects for longer-term value creation." Finally, in IFAC's November 2021 response to the IASB Exposure Draft of the revised IFRS Practice Statement 1 *Management Commentary*, we urged "the IASB to pause its work on the Practice Statement and resume efforts once a majority of the new ISSB has been seated and is able to collaborate with the IASB."

We believe that a joint project allows the ISSB to leverage existing IASB staff and intellectual property so that the ISSB would be better positioned to also address the other potential areas for new research and standard-setting projects identified in this agenda consultation (i.e., biodiversity, human capital, and human rights). This said, the pace with which the ISSB has developed IFRS S1 and IFRS S2 should serve as a benchmark for both boards in this joint project on integration in reporting and be an opportunity to leverage the intellectual property and resources brought into the IFRS Foundation from the Value Reporting Foundation.

(c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:

- **The IASB's Exposure Draft Management Commentary?**
  IFAC Response: YES
- **The Integrated Reporting Framework?**
  IFAC Response: YES

[3] IFRS May 2021 Management Commentary Exposure Draft: "Management commentary shall provide information that enables investors and creditors to understand how the entity's business model creates value and generates cash flows."

January 2021 International <IR> Framework: "The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates, preserves, or erodes value over time."

- **Other Sources?**

  IFAC Response: Not unless included to address a fatal flaw that cannot otherwise be addressed by the IASB's Management Commentary or the <IR> Framework.

Please explain:

IFAC Explanation: In order to move with pace, the IASB's proposals for Management Commentary and the <IR> Framework should be the primary sources relied upon for this joint IASB/ISSB project.

Questions 8 – Other comments

IFAC Response: N/A

APPENDIX B: IFAC State of Play Analysis of Integrated Reporting

IFAC has examined 216 sustainability disclosure reports prepared consistent with the Integrated Reporting Framework. These reports were selected from 400 of the largest stock exchange-listed companies domiciled in six jurisdictions where integrated reporting use is prominent based on our most recent 2021 State of Play Analysis (see Methodology p. 45-47 of The State of Play: Sustainability Disclosure & Assurance). We examined these reports to determine how companies are applying the seven guiding principles, eight content elements, and three Fundamental Concepts of the Integrated Reporting Framework.

This analysis identified common best practices being employed by companies, opportunities for improvement in the application of Integrated Reporting Content Elements and Guiding Principles, as well as areas of alignment between Management Commentary and Integrated Reporting.

Summary Findings

1. **The Integrated Reporting Framework is most commonly used to present management's narrative view** of how the reporting entity creates value, its business model/strategy and risks/opportunities—typically preceding the presentation of the financial statements.
2. **Companies are selective when using the Integrated Reporting Framework.** Only [13%] of reports we reviewed represented that the <IR> Framework was "adopted" or that the report was compiled "in accordance with" the <IR> Framework.
3. **Compliance with <IR> Framework** Content Elements was observed to be high (with the exception of "outlook" – see details below), but application of the Framework's Guiding Principles was more variable (see details below, especially with respect to materiality).

Content Elements

Almost all reports address the Content Elements of the IR Framework, except for outlook[4]:

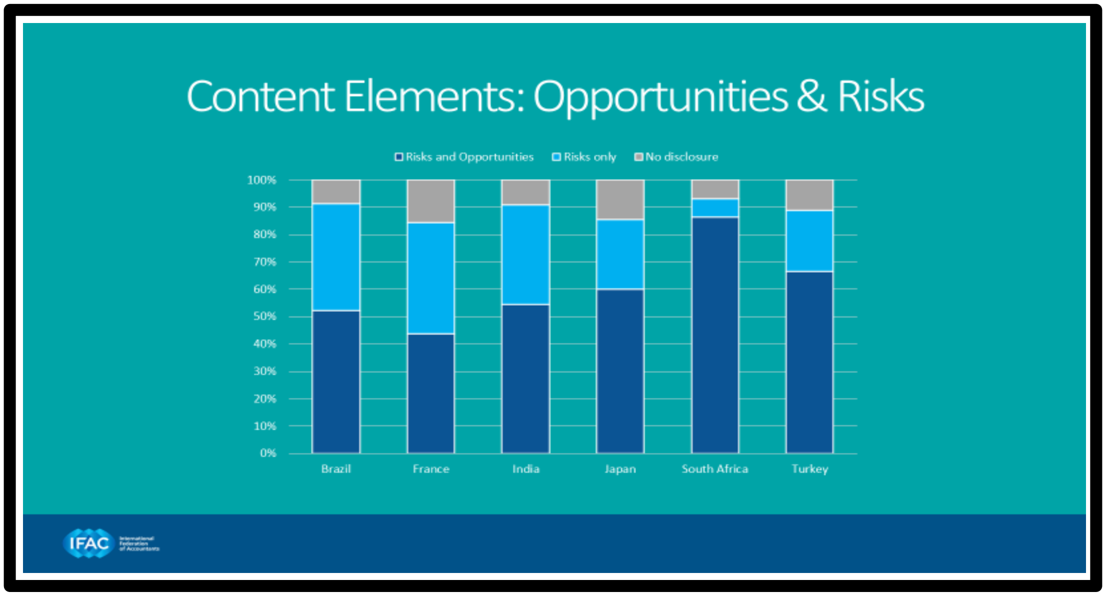
- Organizational Overview [99%]
- Governance [100%]
- Business Model [97%]
- Risks & Opportunities [89%]
- Strategy and Resource Allocation [95%]
- Performance [99%]
- Outlook [21%]

Outlook: Importantly, the outlook companies provided did not specifically take into account sustainability factors. Half of the reports reviewed from South Africa addressed outlook while sustainability factors were rarely addressed in reports from the other five jurisdictions in our review. *IFAC believes that identifying specific sustainability-related matters that the reporting entity is likely to encounter in pursuing its strategy (i.e., "outlook") would be of value to investors and other stakeholders and should be explicitly included in future IASB/ISSB guidance or requirements for how reporting entities provide investors and other providers of capital with an understanding of the company's ability to create and maintain value.*

Risks & Opportunities: Our review also uncovers that while almost all companies (89%) addressed risks and opportunities, an assessment of "opportunities" is typically missing (except for in South Africa). Only

[4] WE DID NOT LOOK AT BASIS OF PRESENTATION

about half of reports reviewed from Brazil, France, India, Japan and Turkey included opportunities in addition to risks.



Guiding Principles

Our analysis also focused on four of the seven Guiding Principles of the IR Framework. A degree of variability was observed with respect to the information companies provided:

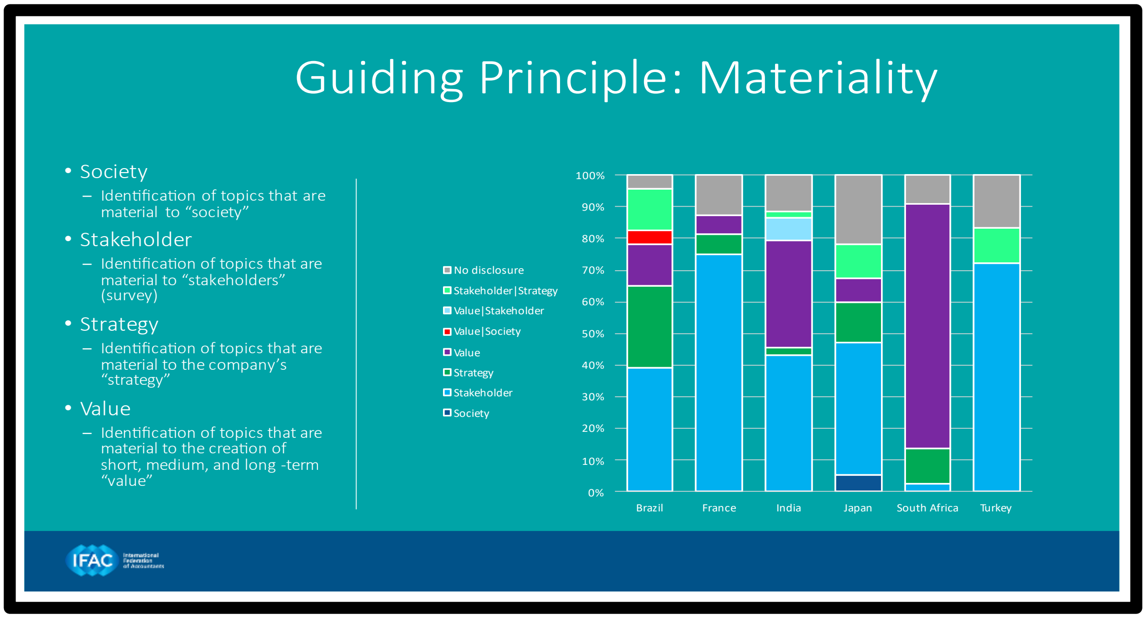
- Strategic Focus & Future Orientation [95%]
- Connectivity of information [46%]
- Stakeholder Relationships [74%]
- Materiality [88%]

<u>Connectivity</u>: *Connectivity was only addressed by about 20% of companies we reviewed from Japan and approximately half of companies reviewed in Brazil, France, and India.* We observed significantly more narrative information addressing the combination, interrelatedness and dependencies between the factors that affect an organization's ability to create value from companies in South Africa—governed by King Code IV. Elsewhere, connectivity was most frequently addressed in relations to the value created by <u>capital</u>, value created for <u>stakeholders</u>, and <u>financial impacts</u> of sustainability/ESG matters.

<u>Relationships</u>: *Only about half of companies reviewed in Brazil and Japan addressed stakeholder relationships in their IR narrative disclosures*. In contrast, almost all South African company reports reviewed (i.e., again subject to King Code IV) addressed this Guiding Principle.

<u>Materiality</u>: *How companies explain their assessment (in Management Commentary or in accordance with the Integrated Reporting Framework) of significant factors that affect their ability to create value over time (both financial/operational factors and sustainability-related factors) should align with the definition of materiality in IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.*

In our review, we observed inconsistencies in how materiality was assessed. For example, we noted seven different materiality approaches (i.e., society, stakeholder, strategy, value, value & society, value & stakeholders, strategy & stakeholders) that companies used—with the impact on <u>strategy</u>, <u>stakeholders</u>, and <u>value</u> being most frequent. We infer that some companies may be leveraging results from multistakeholder materiality assessments they undertake for purposes of impact-related sustainability factors (e.g., reporting using GRI Standards) and applying them to determine what information to address in the integrated report portion of their corporate disclosures.



Fundamental Concepts

One of the features of the <IR> Framework is its six Capitals—the stocks of value that are increased, decreased, or transformed through the activities and outputs of the organization. While compliance with the Fundamental Concepts of reporting on *value creation* and the *process* through which value is created is high (both 97%), about two-thirds of companies we reviewed addressed the capitals—noting jurisdiction-specific practices. We note that the <IR> Framework does not require an integrated report to adopt the six capitals, but their inconsistent use may suggest that the evolution of integration in reporting should ensure the inclusion of sustainability-related factors and refer to an entity's dependencies and impacts on resources and relationships through the value chain (as in S1).