

Identifying and developing examples related to different aspects of connectivity

Issues Paper

Objective

- 1 This agenda paper aims to illustrate and get the EFRAG FR and SR TEG members' views on a proposed approach for developing the examples that will be included in the EFRAG research project on connectivity¹ main deliverable (i.e., Discussion Paper).
- 2 As previously outlined, to support reporting practice and help operationalise connectivity, the deliverables of Phase 1 of the EFRAG research project on connectivity will include both real-world and mock-up examples. The latter will be necessary as entities' reports prepared under the mandatory ESRS and IFRS Sustainability Disclosure Standards will only be publicly available from 2025 onwards. On the other hand, the EFRAG Discussion Paper is targeted for issuance in 2024 in order to timeously contribute to the fast-evolving thinking around the subject of connectivity. That said, as noted at the October 2023 EFRAG CAP meeting, we should be cognisant of the limitations of mock-up examples including the risk of stakeholders misinterpreting these examples as being part of the authoritative ESRS literature or even being perceived as changing the intent of the ESRS (e.g., Under the final ESRS text², disclosure of reconciliations was worded as being voluntary. Hence, an example may be construed as implying these reconciliations are mandatory). In addition, mock-up examples may fail to reflect entity-specific nuances and complexities.
- 3 We also note several EFRAG CAP members expressed support for examples including mock-up examples as a way of supporting practice and also as an integral part of refining the articulation and demonstrating what connectivity means in practice and why it is important. During the EFRAG CAP discussion and from members' written feedback, it has been suggested that, in addition to examples, it will be useful to provide some overall considerations to safeguard connectivity as this will help make the disclosures more entity specific. And that a framework of what connections can be expected over and beyond those articulated in the ESRS and IFRS Sustainability requirements will be useful.
- 4 The rest of the paper outlines the following:
 - (a) Suggested approach for developing examples in the Discussion Paper
 - (b) Different aspects of connectivity under ESRS requirements and related examples (i.e., only to illustrate the suggested approach)
 - (c) Questions for discussion

¹ As communicated at the July EFRAG CAP meeting, Phase 1 will focus on operationalising connectivity under the existing reporting frameworks. Phase 2 scope will be more precisely defined later but it may go beyond the confines of existing reporting frameworks.

² ESRS 1 par. 125 was amended and the requirement to reconcile was changed into 'where appropriate, a reconciliation may be provided and it may be presented in tabular form'.

- (d) Appendix- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* connection requirements

Suggested approach for developing examples in the Discussion Paper

- 5 As intended to be done for the Discussion Paper, the process of developing examples applied to this paper is underpinned by an assessment of data and/or qualitative or quantitative information (required under the ESRS and IFRS Sustainability (general and topical) disclosure standards which would be expected to be connected to information in the financial statements and/or management commentary. The aforementioned data and/or quantitative or qualitative information were also referred to as 'anchor points' in the 2021 EFRAG European Lab PTF-NFRS report³. There are several reasons for starting with identifying information from ESRS and IFRS Sustainability requirements as a basis for establishing connections that can be made across information within the financial statements, management commentary, and the financial statement, including:
- (a) it has been observed⁴ that it is easier to systematically identify sustainability reporting information that should be linked to the financial statements information than it is the other way around. Of note, there are explicit connection requirements under ESRS and IFRS Sustainability requirements, but IFRS Accounting Standards do not have any explicit connection requirements. An EFRAG CAP member has also suggested that it will be necessary to review the IFRS Accounting literature where connectivity is certainly embedded, even though there may not be explicit references to the management report. For example, every time an accounting standard refers to management best estimate or management expectations, etc. the reader will expect this to align with the statements of management in the management report.
 - (b) we are cognizant that the IASB project on 'Climate-related Risks and Other Uncertainties in the Financial Statements' is addressing information that is perceived to be missing in the Financial Statements related to risks and other uncertainties disclosed outside the financial statements. The IASB project is complemented by several other initiatives⁵ focused on thematically identifying connection gaps within the financial statements (e.g., on asset recognition including impairments, recognition and disclosures of provisions, segment reporting, accounting for carbon offsets etc.).
 - (c) considering the sustainability reporting requirements as a starting point for identifying the information that should be connected to the financial statements would facilitate an approach that underpins the connected

³ The 2021 PTF-NFRS report, [Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting](#). This report was a precursor/preparatory work for the development of ESRS and it suggested the identification of anchor points. However, the term 'anchor points' is not included in the final ESRS text's connection requirements.

⁴ Alfred Wagenhofer (2023): *Sustainability Reporting: A Financial Reporting Perspective*, Accounting in Europe.

⁵ September 2023 [EFRAG Secretariat Briefing: Climate-related Risks in Financial Statements](#). The briefing summarises reviews of EU companies' reporting by AMF- France, ESMA, Mazars, MAB (Netherlands Paper), and the Norwegian regulator.

ESMA is expected to issue a report with examples on climate-related risks in the financial statements

reporting of impacts, risks and opportunities linked to an entity's (undertaking's) strategy and business model. At the October EFRAG CAP meeting, the importance of incorporating the business model into the illustration of connectivity was underscored.

- 6 To categorise different aspects of connectivity, we have also considered the requirements for connected information under ESRS. Based on this analytical process, five examples (a mix of proforma and real-world-based examples) are presented in this paper to illustrate the connections that can be made between financial and sustainability reporting. **The examples in this paper are only meant to aid discussion and illustrate different aspects of connectivity for the EFRAG FR TEG and SR TEG members. They are neither exhaustive nor intended to be depictions of best practices/the most relevant information to be connected.** The EFRAG Secretariat is still in the process of seeking advice on which broad aspects of connectivity (i.e., direct connectivity, indirect connectivity, or consistency as defined under ESRS requirements- see below) should be prioritised. At the October CAP meeting, some members suggested that the indirect connectivity and consistency aspects of connectivity as per ESRS requirements should be prioritised relative to illustrations/examples of direct connectivity. Several EFRAG CAP members suggested prioritisation of illustration/examples on connectivity related to anticipated financial effects and information that may be financial material under the lens of ESRS requirement but not included in the financial statements under IFRS Accounting requirements. From the perspective of the financial statements' connection to sustainability reporting, it was suggested the priorities should be residual live and residual value, impairment testing, decommissioning, and litigation provisions and liquidity disclosures.
- 7 Hence, we are also seeking the views of EFRAG FR TEG and SR TEG members on EFRAG CAP suggestions for prioritisation noted in the above paragraph. We will also seek views from users on which specific information within either the sustainability disclosures, financial statements or management report should be prioritised whilst developing examples of connections that can be made across different reporting domains. In addition, to complement the described process of developing and/or identifying examples of connected information, we anticipate the EFRAG CAP members will share actual examples of connectivity drawing on their areas of functional focus.
- 8 *Climate first approach:* As noted in July, the scope of the project will potentially cover the full range of sustainability topics (i.e., environmental, social and governance). However, to illustrate the identification or development of examples, we propose to start with those that connections related to climate change. Hence, the illustration of developing examples in this paper focuses on the connectivity between financial statements prepared under IFRS Accounting requirements and the information that will be disclosed in the sustainability statement under ESRS E1 *Climate Change* (included in [Delegated regulation C\(2023\)5303⁶](#)). In light of the extensive efforts to ensure the interoperability between ESRS and IFRS Sustainability Disclosure Standards, the ESRS E1 requirements aim to be largely aligned with those of IFRS S2 *Climate-related Disclosures*.

⁶ The [Delegated regulation C\(2023\)5303](#) approved by the European Commission on the 31st of July 2023 is still subjected to the scrutiny period that runs for two months (end on 21 October 2023), extendable by a further two months (end of 21 December 2023). The European Parliament or the Council may reject the delegated act, but they may not amend it.

- 9 *Other topics and suggested prioritised information:* Further to **climate change**, we propose, depending on the progress made, to focus on examples related to **environmental** topics rather than only climate, **own workforce** under the social topics, and **business conduct** under governance. Experts from the EFRAG SR pillar have identified these topics as having datapoints that would be expected to have connectivity to the financial statements. Furthermore, suggestions have been made for consideration of the following aspects for connections between information that is either in sustainability reporting, management report/commentary or the financial statements.
- (a) Financial effects not yet recognised in the balance sheet (e.g., environmental liabilities disclosed in sustainability reports not meeting the 'more likely than not' recognition threshold for financial statements (IAS 37.15) and the disclosure of stranded assets in sustainability reports without any related impairments of assets held in the financial statements). An illustration of the consistency aspect of connectivity could be a statement depicting whether the impairment assumptions and scenario analysis assumptions are consistent.
 - (b) Definitions and reconciliations related to Operating expenditure (Opex) and Capital expenditure (Capex) in respect of policies, actions and resources as reported under ESRS.
 - (c) Connections related to narrative information on strategy, time horizon, business model and governance (at the corporate level) that are reported in the management report/management commentary and sustainability reports. These could include consideration of incentive schemes for directors whereby the connectivity could be attained through possible incorporation by cross reference. As noted, at the October EFRAG CAP meeting, the importance of incorporating the business model into illustrations/examples of connectivity was underscored.
 - (d) Own workforce. An assessment of the linkages and interrelationships of own workforce metrics and financial statement performance.
 - (e) Potential liabilities for governance/business conduct incidents. It may be worth assessing their eligibility for recognition under IAS 37 requirements or potential disclosure as a contingent liability.

We seek the views of the EFRAG FR TEG and SR TEG members on the development of examples and illustrations of connectivity related to the highlighted broad sustainability topics (environmental rather than only climate, own workforce and business conduct) and the specific information in a) to e) above. We seek feedback on whether these are part of the most critical sustainability reporting information that could be connected to the financial statements information.

- 10 We are also seeking views on how to ensure that the examples that would be included in the EFRAG research project deliverable would provide incremental insight and build on (rather than duplicate) the numerous available and forthcoming reports⁷ describing the state-of-play in the reporting of climate-

⁷ September 2023 [EFRAG Secretariat Briefing: Climate-related Risks in Financial Statements](#). The briefing summarises reviews of EU companies' reporting by AMF, ESMA, Mazars, MAB, and the Norwegian regulator. ESMA is expected to issue a report with examples on climate-related risks in the financial statements

UKEB, September 2023, [A Study in Connectivity: Analysis of UK Company 2022 Annual Reports](#)

related risks within and outside the financial statements. Of note, many reports also include illustrative examples.

Different aspects of connectivity under ESRS requirements and related examples (i.e., only to illustrate the suggested approach)

- 11 As noted, our assessment of examples on different aspects of connectivity is informed by the requirements for the connection of information under ESRS⁸ requirements, which distinguish between 'direct connectivity' and 'indirect connectivity'. In addition, ESRS 1.126-129 states that *in the cases not covered by direct and indirect connectivity, an entity "shall explain, based on a threshold of materiality, the consistency of significant data, assumptions, and qualitative information included in its sustainability statement with the corresponding data, assumptions and qualitative information included in the financial statements."* We further subcategorise the connections referred to as 'consistency of significant data, assumptions, and qualitative information' in ESRS 1.126-129.
- 12 ESRS 1.117 states that the entity *"shall provide information that enables users of its sustainability statement to assess the connections between various information about impacts, risks and opportunities in the statement and related information in other parts of its corporate reporting."*
- 13 ESRS 1.122 states that the entity *"shall describe the relationships between different pieces of information. Doing so **could require connecting narrative information on governance, strategy and risk management to related metrics and targets**. For example, to allow users to assess connections in information, the undertaking [entity] might need to explain the effect or likely effect of its strategy on its financial statements or financial plans, or on metrics and targets used to measure progress against performance. Furthermore, the undertaking [entity] might need to explain how its use of natural resources and changes within its supply chain could amplify, change or reduce its material impacts, risks and opportunities. It may need to link this information to the potential or actual effects on its production costs, to its strategic response to mitigate such impacts or risks, and to its related investment in new assets. **This information may also need to be linked to information in the financial statements and to specific metrics and targets**. Information that describes connections shall be clear and concise.*
- 14 The examples are related to the following aspects of connectivity:
 - (a) Direct connectivity (see par. 16-20 below).
 - (b) Indirect connectivity (see par. 22-26 below).
 - (c) Consistency (of significant data, assumptions and qualitative information)
 - (i) Relating forecasts to information of the past/present (see par. 27-33 below).
 - (ii) Use of the same (or different) assumptions (see par. 34-41).
 - (iii) Other relationships (see par. 42-47).
- 15 These different types of connectivity are considered separately below.

⁸ In the Appendix, we have included IFRS S1 requirements for connection of information. Unlike ESRS, IFRS S1 requirements do not make a distinction between direct connectivity, indirect connectivity and consistency. However, prima facie, for the EFRAG Secretariat, there seems to be an overlap in the underlying elements of both requirements.

Direct connectivity

Explanation of direct connectivity

- 16 Direct connectivity as explained in ESRS 1, par. 124, relates to the cases when the sustainability reporting includes monetary amounts or other quantitative datapoints that exceed a threshold of materiality and that are presented in the financial statements. In these cases, the entity shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.



ESRS requirements related to direct connectivity

Figure 1 Illustration of direct connectivity

- 17 It is the assessment of the EFRAG Secretariat that examples of explicit requirements included in ESRS E1 on direct connectivity include:
- (a) **ESRS E1-5, Energy consumption and mix** par. 40 requires an entity to provide information on the energy intensity (total energy consumption per net revenue) associated with activities in high climate impact sectors. The objective of this requirement is to meet in particular the information needs of financial market participants subject to the SFDR as it allows an understanding of the energy intensity in high climate impact sectors. In addition, the usefulness of energy intensity per revenue is to allow users to compare companies from one year to another, eliminating perimeter effects (potential acquisitions/divestments in assets for instance that could increase/reduce absolute GHG emissions), enabling comparability between organisations in the same sector.

The formula to be used is the following:

$$\frac{\text{Total energy consumption from activities in high climate impact sectors (MWh)}}{\text{Net revenue from activities in high climate impact sectors (Monetary unit)}}$$

Par. 43 requires the entity to disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amount from activities in high climate impact sectors. That is, if net revenue from activities in high climate impact sectors appears from a line item or disclosures in the financial statements, the entity should make a cross-reference to the related line item or disclosure in the financial statements.

Par. AR 46 explains that net revenue should be calculated in line with the accounting standards requirements applicable for the financial statements, i.e., IFRS 15 *Revenue from Contracts with Customers* or local GAAP requirements.

- (b) **ESRS E1-6, Gross Scopes 1, 2, 3 and Total GHG emissions**, par. 53 requires an entity to provide information on the GHG emissions intensity (total GHG emissions per net revenue). Like the previous requirement, the objective is to meet the information needs of financial market participants subject to the SFDR. It allows an understanding of the GHG intensity normalised by revenue. In addition, the usefulness of GHG intensity per revenue is to allow users to compare entities from one year to another, normalising GHG emissions by a comparable denominator (potential

acquisitions/divestments in assets for instance that could increase/reduce absolute GHG emissions). It also enables comparability between organisations in the same sector.

The GHG intensity ratio shall be calculated using the following formula:

$$\frac{\text{Total GHG emissions (t CO}_2\text{eq)}}{\text{Net revenue (Monetary unit)}}$$

Par. 5 requires the entity to disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amounts. That is, if net revenue appears from a line item or disclosures in the financial statements, the entity should make a cross-reference to the related line item or disclosure in the financial statements.

- (c) **ESRS E1-9, Anticipated financial effects from material physical and transition risks and potential climate-related** opportunities, par. 68 (a) requires significant amounts of the assets and net revenue at material physical risk to be reconciled to the relevant line items or notes in the financial statements (par. 68 (a)). According to AR 77 (a), this may be presented as a cross-reference to the related line item or disclosure in the financial statements if these amounts are identifiable in the financial statements. A similar requirement exists for significant amounts of assets, liabilities, and net revenue at material transition risk (par. 68 (b) and AR 77 (a)). In relation to liabilities, AR 79 specifies that for potential future effects on liabilities, if applicable, the entity shall cross-reference the description of the emission trading schemes in the financial statements.

- 18 The requirement to include references to the financial statements included in ESRS 1, par. 124, may also, for example, be triggered from the information provided following the requirements in ESRS 2 on disclosure related to material impacts, risks and opportunities and their interaction with strategy and business model.

- (a) According to ESRS 2, **Disclosure Requirement SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model**, par. 48 (d) (see also IFRS S1 par. 34-35), an entity shall disclose “the current financial effects of its material risks and opportunities on its financial position, financial performance and cash flows and the material risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements”.

According to ESRS 2, par. 48 (e) (see also IFRS S1 par. 34-35), an entity shall disclose “the anticipated financial effects of its material risks and opportunities on its financial position, financial performance and cash flows over the short-, medium- and long-term, including the reasonably expected time horizons for those effects. This shall include how the entity expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks and opportunities [...]”.

Relevant IFRS Accounting requirements

- 19 IFRS Accounting Standards do not (yet) include specific connection requirements to include references to sustainability reporting information.

- 20 Several requirements in ESRS E1 refer to the revenue figure in the statement of financial performance (generally determined in accordance with IFRS 15 *Revenue from Contracts with Customers*). References to other information, for example, the entity's assets, and also to its liabilities, are made in ESRS E1.

Example 1- Direct connectivity

- 21 Example 1 is a mock-up example showing how a reference to the revenue figure used to calculate total GHG emission intensity can be found in the statement of financial performance.

Statement of Financial Performance of EFRAGCAP1 Co.

(EFRAGCAP1 Co. Annual Report p. 46)

€ million, unless otherwise stated

	20x3	20x2
...
Total revenue	12 600	11 364

Overview of EFRAGCAP1 Co.'s GHG Emissions 20x3

Related Greenhouse Gas (GHG) emissions in totals and by scope in metric tons CO_{2e}

Scope 1 Direct carbon emission (from sources owned or controlled by the organisation)	metric tons CO ₂		% from regulated emission trading schemes
The consolidated accounting group	42 000		0
Associates and joint ventures	2 000		0
Scope 1 Gross GHG emission	44 000		0
Scope 2 Emissions from the consumptions of purchased elec [..]			
...
Scope 2 Gross GHG emission	71 000		0
Scope 3 Emissions as a consequence of operating the organisation, but not directly owned or controlled by the organisation.	Upstream		Downstream
	Business travel	Employee commuting	Use of sold products
...
Scope 3 Gross GHG emission	4 246 000		
Total GHG emissions (metric tons CO _{2e})			4 361 000
Total revenue as per the statement of financial performance for 20x3 (p. 46) (€)			12 600 000
Total GHG emission intensity 20x3 (metric tons CO _{2e} / €)			0.35

Indirect connectivity

Explanation of indirect connectivity

22 Indirect connectivity as explained in ESRS 1, par. 125 relates to the cases when the sustainability reporting includes monetary amounts or other quantitative datapoints that exceed a threshold of materiality and that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the entity's financial statements. In these cases, the entity shall explain how these amounts or datapoints in the sustainability reporting relate to the most relevant amounts presented in the financial statements. This disclosure shall include a reference to the line item and/or to the relevant paragraphs of its financial statements where the corresponding information can be found. Where appropriate, a reconciliation may be provided, and it may be presented in a tabular form.

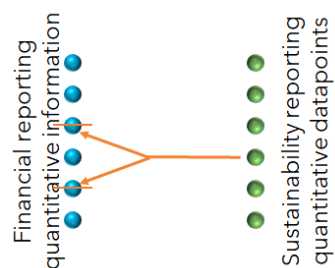


Figure 2 Illustration of indirect connectivity

23 Under indirect connectivity, information (e.g., a reconciliation) is thus necessary in order for users to understand how the sustainability reporting information can be related to the financial reporting information.

Requirements related to indirect connectivity

24 It is the assessment of the EFRAG Secretariat that examples of requirements included in ESRS E1 on indirect connectivity include:

- (a) **ESRS E1-5, Energy consumption and mix (section: Metrics and targets)** par. 40 requires an entity to provide information on the energy intensity (total energy consumption per net revenue) associated with activities in high climate impact sectors. Par. 43 requires the entity to disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amount from activities in high climate impact sectors. That is, if net revenue from activities in high climate impact sectors does not appear from a line item or disclosures in the financial statements, the entity is required to present a quantitative reconciliation following the tabular format presented in AR 38 (b):

Net revenue from activities in high climate impact sectors used to calculate energy intensity	
Net revenue (other)	
Total net revenue (Financial statements)	

- (b) **ESRS E1-6 Gross Scopes 1, 2, 3 and Total GHG emissions, par. 53 (section: Metrics and targets)** requires an entity to provide information on the GHG emissions intensity (total GHG emissions per net revenue). Par. 55 requires the entity to disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amounts. That is, if net revenue does not appear from a line item or disclosures in the financial statements, the entity is required to present a quantitative reconciliation following the tabular format presented in AR 55 (b):

Net revenue used to calculate GHG intensity	
---	--

Net revenue (other)	
Total net revenue (in financial statements)	

- (c) **ESRS 2 - Section 4.2 (Minimum disclosure requirements on policies and actions)** requires a set of minimum disclosure requirements to be included when the entity discloses information on its policies and actions to prevent, mitigate and remediate actual and potential material impacts, to address material risks and/or to pursue material opportunities. The objective of this Minimum Disclosure Requirement is to provide an understanding of the key actions taken and/or planned to prevent, mitigate and remediate actual and potential impacts, and to address risks and opportunities, and where applicable achieve the objectives and *targets* of related *policies*. These requirements are applicable across all sustainability matters and are not limited to climate change.

In particular, par. 66 and 69 (b) explain that where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex) the entity shall (among other things) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements.

- (d) **ESRS E1 par. 64 (Section: Metrics and Targets)** requires an entity to disclose anticipated financial effects from material physical and transition risks and potential climate-related opportunities. Significant amounts of the assets and net revenue at material physical risk shall be reconciled to the relevant line items or notes in the financial statements (par. 68 (a)). Likewise, significant amounts of the assets, liabilities and net revenue at material transition risk shall be reconciled to the relevant line items or notes in the financial statements (par. 68 (b)). It follows from par. AR 77 (b) that if these amounts cannot be directly cross-referenced, a quantitative reconciliation to the relevant line item or disclosure in the financial statement should be presented using the below tabular format:

Carrying amount of assets or liabilities or net revenue vulnerable to either material physical or transition risks	
Adjusting items	
Assets or liabilities or net revenue in the financial statements	

Relevant IFRS Accounting requirements

- 25 Several requirements in ESRS E1 refer to the revenue figure in the statement of financial performance (generally determined in accordance with IFRS 15 *Revenue from Contracts with Customers*). References to the entity's assets, and also to its liabilities, are also made in ESRS E1.

Example 2 - Indirect connectivity

- 26 The following mock-up example is constructed to illustrate how net revenue from activities in high climate impact sectors can be related (by means of a reconciliation) to revenue reported in the financial statements.

Statement of Financial Performance EFRAG CAP2 Co.

(EFRAGCAP2 Co. Annual Report p. 88)

€ million, unless otherwise stated

	20x3	20x2
Revenue	33 277	25 219
Operating costs	...	...
...		

Energy consumption (MWh)

	Total	High climate impact sectors
Total energy consumption from fossil sources	50 070 710	
Fuel consumption from crude oil and petroleum products		47 988 408
Fuel consumption from natural gas	...	...
...
Total energy consumption	50 719 170	50 689 560

Energy intensity in high climate impact sectors (total energy consumption per net revenue)

Total energy consumption in high climate impact sectors		50 689 560 MWh
Net revenue from activities in high climate impact sectors used to calculate energy intensity	29 840 554 000 €	
Energy intensity (total energy consumption per net revenue) high-impact sectors		0.0017 MWh/€ (1.7 KWh/€)
Net revenue (other)	3 436 446 000 €	
Total net revenue as per statement of financial performance (p. 88)	33 277 000 000 €	

Consistency - Relating forecasts to the present/past

Explanation of consistency relating forecasts to the present/past reporting periods

- 27 In addition to the two types of connectivity, ESRS 1 (par. 126) requires an entity to explain, based on a threshold of materiality, the consistency of significant data, assumptions, and qualitative information included in its sustainability reporting with the corresponding data, assumptions and qualitative information included in the financial statements.
- 28 The consistency shall be at the level of a single datapoint and shall include a reference to the relevant line item or paragraph of notes to the financial statements. When significant data, assumptions and qualitative information are not consistent, the entity shall state that fact and explain the reason.
- 29 ESRS 1, par. 128 mentions as an example for which the explanation of consistency is required when the same metric is presented as of the reporting date in financial statements and as a forecast for future periods in sustainability reporting.

Requirements on consistency relating forecasts to the present/past reporting periods

- 30 When providing some of the disclosures required by ESRS E1, it is the assessment of the EFRAG Secretariat that the requirement to disclose the consistency with past/present information may be triggered. This could, for example, be the case when complying with the following requirements:
- (a) **ESRS E1-3 Actions and resources in relation to climate change policies, par. 26 (Section: Impact, risk and opportunity management)** requires an entity to disclose "its climate change mitigation and adaptation actions and the resources allocated for their implementation". This includes par. 29 (c)(i) which states that the entity shall relate "significant monetary amounts of CapEx and OpEx required to implement the actions taken or planned" to the relevant line items or notes in the financial statements. It is explained in AR 20 that when disclosing the information, the entity "shall only disclose the significant OpEx and CapEx amounts required for the implementation of the actions as the purpose of this information is to demonstrate the credibility of its actions rather than to reconcile the disclosed amounts to the financial statements. The disclosed CapEx and OpEx amounts shall be the additions made to both tangible and intangible assets during the current financial year as well as the planned additions for future periods of implementing the actions. The disclosed amounts shall only be the incremental financial investments directly contributing to the achievement of" the entity's targets.
 - (b) The requirements to disclose, as part of the disclosure of anticipated financial effects from material transition risks, liabilities that may have to be recognised in financial statements over the short-, medium and long-term (see 24(d) above paragraph).
 - (c) The requirements to disclose anticipated financial effects (other than liabilities that may have to be recognised) from material physical risks and transition risks (see 24(d) above paragraph).

Relevant IFRS Accounting requirements

- 31 IFRS Accounting Standards do not include explicit requirements to include references to forecasts included in sustainability reporting.
- 32 Several requirements in ESRS E1 refer to the revenue amount in the statement of financial performance, to assets and liabilities included on the statement of financial position and additions to fixed assets disclosed in the notes to the financial statements.

Example 3 - Consistency relating forecasts to the present/past

- 33 The example on the next page is a mock-up to illustrate how forecasts on assets and revenue at risk can be related to assets and revenue presented as of the reporting date in financial statements.

Statement of financial performance EFRAGCAP3 Co.

(EFRAGCAP3 Co. Annual Report p. 188)

€ million, unless otherwise stated

	20x3	20x2
Revenue	33 277	25 219
...

Statement of financial position

Assets	20x3	20x2
Intangible assets (31)	...	...
Property, plant and equipment (32)	10 691	9 511
...

Sustainability report

Climate-related risk disclosures

... In October 20X3, EFRAGCAP3 Co. performed an onsite evaluation to assess and develop climate change impact scenarios related to our Activity in CostCity. A climate risk analysis was completed to assess how the Activity is influenced by climate change, including in relation to exposures and climate hazards. This analysis showed that the highest physical risks at this location are related to flooding caused by storms...

Business activities/assets at material physical risks before climate change adaptation efforts.

	20x3		20x4	20x5-20y0	After 20y0
	Total	At risk (%)	At risk (%)	At risk (%)	At risk (%)
Revenue	33 277 ¹	7 521 (23%)	7 521 (23%)	...	...
Assets	10 691 ²	2 887 (27%)	2 887 (27%)	...	...

1: As per the statement of financial performance.

2: As per the line item: Property, plant and equipment in the statement of financial position.

Consistency - Use of the same (or different) assumptions

Explanation of consistency related to the use of the same assumptions

- 34 ESRS 1 (par. 126) requires an entity to explain, based on a threshold of materiality, the consistency of significant assumptions included in its sustainability reporting with the corresponding assumptions included in the financial statements.
- 35 The consistency shall be at the level of a single datapoint and shall include a reference to the relevant line item or paragraph of notes to the financial statements. When significant assumptions are not consistent, the undertaking [entity] shall state that fact and explain the reason.
- 36 ESRS 1, par. 128 mentions as an example that an explanation on consistency is required when macroeconomic or business projections are used to develop metrics in the sustainability reporting and they are also relevant in estimating the recoverable amount of assets, the amount of liabilities or provisions in financial statements.

Requirements on use of the same (or different) assumptions

- 37 An example of a requirement that, in the view of the EFRAG Secretariat, directly refers to the assumptions made in the financial statements **is ESRS E1-8 Internal carbon pricing (section: Metrics and targets). par. 62** requires an entity to disclose whether it applies internal carbon pricing schemes, and if so, how these support its decision-making and incentivise the implementation of climate-related policies and targets. AR 65 specifies that when disclosing the information, if applicable, the entity shall briefly explain whether and how the carbon prices used in internal carbon pricing schemes are consistent with those used in financial statements. This shall be done in respect of the internal carbon prices used for:
- (a) the assessment of the useful life and residual value of its assets (intangibles, property, plant and equipment);
 - (b) the impairment of assets; and
 - (c) the fair value measurement of assets acquired through business acquisitions.

AR 66 explains that the information may be presented by using the following table:

Types of internal carbon prices	Volume at stake (tCO ₂ eq)	Prices applied (€/tCO ₂ eq)	Perimeter description
CapEx shadow price			
Research and Development (R&D) investment shadow price			
Internal carbon free or fund			
Carbon prices for impairment testing			
Etc.			

- 38 The requirement to explain the consistency of assumptions may also result from other requirements related to sustainability reporting, which require the use of assumptions on areas for which assumptions would also be made in relation to the financial reporting:
- (a) **ESRS E1, Disclosure Requirement related to ESRS 2 SBM-3 Material impacts, risks and opportunities** and their interaction with strategy and business model - section: Strategy par. 19 requires an entity to describe the resilience of its strategy and business model in relation to climate change. It follows from par. AR 7 that this includes explaining:
 - (i) The critical assumptions about how the transition to a lower-carbon and resilient economy will affect the surrounding macroeconomic trends, energy consumption and mix, and technology deployment assumptions.
 - (ii) The time horizons applied and their alignment with the climate and business scenarios considered for determining material physical and transition risks and setting GHG emissions reduction targets.
 - (a) **ESRS E1-2 Policies related to climate change mitigation and adaptation, par. 22 (Section: Impact, risk and opportunity management)** requires an entity to describe its policies adopted to manage its material impacts, risks and opportunities related to climate change mitigation and adaptation. According to par. 24-25, this includes information on the policies the entity has in place to manage its material impacts, risks and opportunities related to climate change mitigation and adaptation in accordance with ESRS 2 MDR-P Policies (see below) adopted to manage material sustainability matters.
 - (b) **ESRS 2, par. 65 (Minimum Disclosure Requirement on Policies - MDR-P)** requires an entity to disclose information about policies adopted to manage material sustainability matters.
 - (c) **ESRS E1-4 Targets related to climate change mitigation and adaptation, par. 30 (Section: Metrics and targets)** requires an entity to disclose the climate-related targets it has set. According to par. 32, the information shall include the information required in ESRS 2 Minimum Disclosure Requirement on Targets (MDR-T). This means the information shall include the methodologies and significant assumptions used to define targets, including where applicable, the selected scenario, data sources, alignment with national, EU or international policy goals and how the targets consider the wider context of sustainable development and/or local situation in which impacts take place (ESRS 2 par. 80 (f)).
 - (d) **ESRS E1-9 Anticipated financial effects from material physical and transition risks and potential climate-related opportunities (Section: Metrics and targets) AR 69** specifies that when disclosing information on anticipated financial effects from material physical risks (see above paragraph 24(d)), the entity shall explain whether and how it assessed the anticipated financial effects for assets and business activities at material physical risk, including, among other things, critical assumptions and parameters and limitations of the assessment (par. AR 69 (a)).
 - (e) **ESRS E1-9 Anticipated financial effects from material physical and transition risks and potential climate-related opportunities (Section: Metrics and targets), par. AR 78** specifies that an entity shall ensure the consistency of data and assumptions to assess and report the anticipated

financial effects from material physical risks and transition risks in the sustainability statement with the corresponding data and assumptions used for the financial statements (e.g., carbon prices used for assessing impairment of assets, the useful life of assets, estimates and provisions). The entity shall explain the reasons for any inconsistencies (e.g., if the full financial implications of climate-related risks are still under assessment or are not deemed material in the financial statements).

- (f) **ESRS E1-9 Anticipated financial effects from material physical and transition risks and potential climate-related opportunities (Section: Metrics and targets) par. 64 (c)** requires that an entity disclose its potential to benefit from material climate-related opportunities. Par. 69 (b) requires that an entity in that regard considers the potential market size or expected changes to net revenue from low-carbon products and services or adaptation solutions to which the entity has or may have access. AR 81 specifies that this involves explaining how the entity has assessed the market size or any expected changes to net revenue from low-carbon products and services or adaptation solutions including the scope of the assessment, the time horizon, critical assumptions, and limitations and to what extent this market is accessible to the entity.

Relevant IFRS Accounting requirements

- 39 IFRS Accounting Standards require the use of assumptions in many instances. Assumptions made in relation to climate change, could thus have an effect on many different aspects of financial reporting, for example (there are many other potential effects):
- (a) The going concern assessment (IAS 1 *Presentation of Financial Statements*).
 - (b) Measurement of inventory at net realisable value (or at fair value less costs to sell for commodity broker/traders) (IAS 2 *Inventories*).
 - (c) Whether a deferred tax asset can be recognised (i.e., whether it is probable that taxable profits will be available against which the deductible temporary differences can be utilised (IAS 12 *Income taxes*)).
 - (d) Assessment of costs of property, plant and equipment (when it includes costs related to dismantling and removing it), its useful life and its residual value (IAS 16 *Property, Plant and Equipment*).
 - (e) When applying actuarial assumptions when estimating liabilities related to defined benefit plans and when measuring other long-term employee benefits (such as bonuses) (IAS 19 *Employee Benefits*).
 - (f) Whether there is an indication of impairment/an impairment loss (IAS 36 *Impairment of Assets*).
 - (g) The recognition of provisions (including for onerous contracts) or disclosure of contingent assets and contingent liabilities (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).
 - (h) When measuring cash-settled share-based payment liabilities (IFRS 2 *Share-based Payment*).
 - (i) When determining the fair value of assets and liabilities acquired in a business combination (IFRS 3 *Business Combinations*).

- (j) Whether credit risk has increased significantly due to significant changes in the value of collaterals (and whether expected credit losses has changed) (IFRS 9 *Financial Instruments*).
 - (k) The expected cost of fulfilling a contract with a customer (IFRS 15 *Revenue from Contracts with Customers*).
- 40 Assumptions used for financial reporting, may not always appear explicitly from the financial statements. For example, IAS 36 only requires an entity to disclose the assumptions used for the impairment test - when there is no impairment - for cash-generating units containing goodwill or intangible assets with indefinite useful lives. However, IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) requires an entity to disclose "the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact". Also, IAS 1 requires disclosure about assumptions made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Example 4 Consistency related to the use of the same assumptions

- 41 Below is an example of how an entity is currently disclosing information about risks related to its operations in the management report (i.e., the information is not based on ESRS requirements and not placed in a sustainability report/sustainability statement) and information in its consolidated financial statements regarding its impairment test of goodwill.

Management report p. x-y	Notes to consolidated financial statements p. z
<p>II. Risks related to EFRAGCAP4 Co.'s operations</p> <p>...To achieve its 2030 global carbon emissions intensity reduction target of 25% covering the Scope 1 and 2 emissions attributable to the Company's operations measured in accordance with the Greenhouse Gas ("GHG") Protocol, EFRAGCAP4 Co. has estimated the gross capital cost required to be approximately \$10 billion, with the expectation that 35% of these capital expenditures will be deployed up to 2025 and the remainder in the second part of the decade. In addition, the Company's decarbonization strategy includes the objective of carbon neutrality by 2050; since 2021, this has also been a legal obligation for its operations in the EU and Canada following the endorsement of Regulation (EU) 2021/1119 of the European Parliament and of the Council of June 30, 2021 (the "European Climate Law") and the Canadian Net-Zero Emissions Accountability Act, respectively. These targets and estimates are based on numerous assumptions, including the costs of green hydrogen (meaning hydrogen produced exclusively from renewable sources) and its evolution over time, the construction of DRI and EAF facilities, the development of carbon capture, utilization and storage ("CCUS") infrastructure and the timing of the introduction of GHG reduction requirements and supportive policies in applicable jurisdictions. The Company expects that low emissions technologies will become more competitive over time as more stringent GHG reduction requirements and/or carbon prices are introduced and increased in each jurisdiction, alongside the introduction of effective policies to secure a level playing field, and the decarbonization technologies themselves become more mature and efficient. However, in the transition period (and through at least 2030), its investments in decarbonization will require support from host countries, first and foremost from the European Union and its member states, through supportive policies designed to avoid "carbon leakage" and provide compensation for the significantly higher costs, while at the same time maintaining a fair and competitive landscape. [...]</p>	<p>Impairment test of goodwill</p> <p>... The recoverable amounts of the GCGUs are mainly determined based on their value in use. The value in use of each GCGU is determined by estimating future cash flows. [...] The Company considered its exposure to certain climate-related risks which could affect its estimates of future cash flow projections applied for the determination of the recoverable amount of its GCGUs and CGUs. [...] The Company is committed to the objectives of the Paris Agreement and announced its ambition to reduce carbon emissions by 35% in Europe and 25% group-wide by 2030 and achieve group-wide carbon neutrality by 2050. These announced goals will require significant long-term investments which require a global level playing field, access to abundant and affordable clean energy, facilitating necessary energy infrastructure, access to sustainable finance for low-emissions steelmaking and accelerated transition to a circular economy. In addition, the Company considered the legal obligation of carbon neutrality by 2050 effective within the EU and in Canada following the adoption of the Climate Law and the Net Zero Emission Accountability Act, respectively. Accordingly, with respect to its flat steel operations in the EU and Canada, EFRAGCAP4 Co. concluded that future decarbonization capital expenditures, which correspond essentially to the construction of DRI-EAF facilities [i.e. direct reduced iron-electric arc furnace], are necessary to maintain the level of economic benefits expected to arise from the assets in their current condition and should therefore be included in the Company's assumptions for future cash flows of the recoverable amount of the respective GCGUs and CGUs. [...] They may also not yet be subject to a legal obligation of carbon neutrality, as a result of which future decarbonization capital expenditures may not be included in their value-in-use calculations. Accordingly, the Company increased risk premiums included in their discount rates until they are able to accelerate their decarbonization strategy to meet the 2050 carbon neutrality objective and a legal obligation arises in the relevant jurisdiction. [...]</p>

Other relationships

Explanation of other relationships

- 42 ESRS 1 (par. 126) requires an entity to explain, based on a threshold of materiality, the consistency of significant data, assumptions and qualitative information included in its sustainability reporting with the corresponding data, assumptions and qualitative information included in the financial statements.
- 43 The consistency shall be at the level of a single datapoint and shall include a reference to the relevant line item or paragraph of notes to the financial statements. When significant data, assumptions and qualitative information are not consistent, the entity shall state that fact and explain the reason.
- 44 Some types of consistencies that need to be explained are already covered by consistency relating to quantitative forecasts in the sustainability reporting to information of the present/past presented in the financial statements and consistency related to the use of the same assumptions. However, to the extent this is not the case, the consistency is described as 'other consistency' in this paper.

Requirements on other consistency

- 45 Many of the requirements in ESRS E1 may result in information that is also referred to in the financial statements. ESRS E1 requires, for example, certain metrics to be disclosed (for example on energy consumption ESRS E1 par. 35-45). These, or similar metrics, may also be disclosed in the financial statements.

Relevant IFRS requirements

- 46 IFRS Accounting Standards do not require references to similar information in sustainability reporting. However, similar information as that reported in sustainability reporting may be provided.

Example 5 Other relationships

- 47 The example below illustrates how it is explained that a metric referred to as GHG emission intensity is not the same in the financial statement and the sustainability reporting. The example is a continuation of Example 1 presented in paragraph 21

Financial statements

Note 31 Share-based payment plans

Since 20W9, the Group has granted share-based compensation plans to the members of the Group Executive Board and certain other members of management on an annual basis. The number of granted shares is determined by [...] The number of shares that vest depends on:

- Continuous employment through to the vesting date.
- Achievement of two non-market performance conditions:
 - GHG emission intensity of less than 0.008 metric tons CO₂e / € (realised in 20X3: 0.007 metric tons CO₂e / €).

...

Sustainability report

Overview of EFRAGCAP1 Co.'s GHG Emissions

Related Greenhouse Gas (GHG) emissions in totals and by scope in metric tons CO₂e

...

Total GHG emissions (metric tons CO ₂ e)	4 361 000
Total revenue as per statement of financial performance (p. 46) (€)	12 600 000
Total GHG emission intensity (metric tons CO ₂ e / €) ¹	0.35

1: Total GHG emission intensity is different from the GHG emission intensity considered in the vesting conditions under the Group's share-based compensation plans to the members of the Group Executive Board and certain other members of management (see Note 31 to the financial statements). The GHG emission intensity considered for the share-based compensation plan only considers Scope 1 and Scope 2 net emissions.

Questions for EFRAG FR TEG and SR TEG members

- 48 Do you have any comments on the proposed process of identifying or constructing mock-up examples starting from identifying the information including datapoints under the ESRS that would be expected to have direct connectivity, indirect connectivity, and consistency with information in the financial statements?
- 49 If 'consistency' were to be considered as a separate category of connections, do you agree that it would be useful to sub-divide it into:
- (a) consistency relating forecasts to information of the past/present;
 - (b) use of the same (or different) assumptions; and
 - (c) other relationships.
- 50 Do you have any other comments on the ESRS E1 requirements and related IFRS Accounting requirements for the datapoints identified in this paper?
- 51 Do you have any comments on the appropriateness and suitability of the illustrative examples of the direct connectivity, indirect connectivity, and consistency between sustainability reporting and financial statements?
- 52 Taking account users' needs, which aspects of connectivity should be prioritised whilst identifying or constructing mock-up examples?
- 53 From your practical experience, what specific information including datapoints within the sustainability disclosures do you suggest being prioritised to illustrate connectivity to the financial statements? Conversely, what information within the financial statements would you suggest should be prioritised to illustrate connectivity?
- 54 As noted in paragraph 6, at the October CAP meeting, some members suggested that the indirect connectivity and consistency aspects of connectivity as per ESRS requirements should be prioritised relative to illustrations/examples of direct connectivity. Several EFRAG CAP members suggested prioritisation of illustration/examples on connectivity related to anticipated financial effects and information that may be financial material under the lens of ESRS requirement but not included in the financial statements under IFRS Accounting requirements. From the perspective of the financial statements' connection to sustainability reporting, it was suggested the priorities should be residual live and residual value, impairment testing, decommissioning, and litigation provisions and liquidity disclosures. Do you agree with these suggestions?
- 55 Do you agree with the proposed prioritisation of climate, pollution, biodiversity or water resources, own workforce, and business conduct for purposes of developing examples as described in paragraph 9 and on the possible prioritisation of the information outlined in 9a-e? Do you have suggestions to ensure the examples are distinctive and add incremental insight to the examples highlighted in several other publications?
- 56 Do you have any suggestions to avoid the examples presented in the EFRAG research deliverables being misconstrued as part of the authoritative ESRS

literature or creating a perception that voluntary guidance (i.e., may statements) are construed as mandatory due to EFRAG publishing examples?

APPENDIX

IFRS S1 requirements on connected information

- 1 IFRS S1.21; "An entity shall provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:
 - (a) *the connections between the items to which the information relates—such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and*
 - (b) *the connections between disclosures provided by the entity:*
 - (i) *within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and*
 - (ii) *across its sustainability-related financial disclosures and other general purpose financial reports published by the entity—such as its related financial statements (see paragraphs B39-B44)."*
- 2 IFRS S1.22; "An entity shall identify the financial statements to which the sustainability-related financial disclosures relate."
- 3 IFRS S1.23; "Data and assumptions used in preparing the sustainability-related financial disclosures shall be consistent—to the extent possible considering the requirements of IFRS Accounting Standards or other applicable GAAP with the corresponding data and assumptions used in preparing the related financial statements (see paragraph B42)."
- 4 IFRS S1.24; "When currency is specified as the unit of measure in the sustainability related financial disclosures, the entity shall use the presentation currency of its related financial statements."
- 5 IFRS S1.B39; "Paragraph 21 requires an entity to provide information in a manner that enables users of general purpose financial reports to understand connections both between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports."
- 6 IFRS S1.B40; "Connected information provides insight into connections between the items to which the information relates. For example:
 - (a) *if an entity pursued a particular sustainability-related opportunity and that resulted in an increase in the entity's revenue, connected information will depict that relationship between the entity's strategy and its financial performance;*
 - (b) *if an entity identified a trade-off between two sustainability-related risks it is exposed to and took action on the basis of its assessment of that trade-off,*

Identifying and developing examples related to different aspects of connectivity -
Issues Paper

connected information will depict the relationship between those risks and the entity's strategy; and

- (c) *if an entity committed to a particular sustainability-related target, but that commitment has not yet affected the entity's financial position or financial performance because the applicable recognition criteria have not been met, connected information will depict that relationship."*

7 IFRS S1.B41; "Connected information includes:

- (a) *connections between various types of information about a particular sustainability-related risk or opportunity, such as:*
 - (i) *between disclosures on governance, strategy and risk management; and*
 - (ii) *between narrative information and quantitative information (including related metrics and targets and information in the related financial statements).*
- (b) *connections between disclosures about various sustainability-related risks and opportunities. For example, if an entity integrates its oversight of sustainability-related risks and opportunities, the entity shall integrate the disclosures on governance instead of providing separate disclosures on governance for each sustainability-related risk and opportunity."*

8 IFRS S1.B 42; "Drawing connections between disclosures involves, but is not limited to, providing necessary explanations and cross-references and using consistent data, assumptions, and units of measure. In providing connected information, an entity shall:

- (a) *explain connections between disclosures in a clear and concise manner;*
- (b) *avoid unnecessary duplication if IFRS Sustainability Disclosure Standards require the disclosure of common items of information; and*
- (c) *disclose information about significant differences between the data and assumptions used in preparing the entity's sustainability-related financial disclosures and the data and assumptions used in preparing the related financial statements."*

9 IFRS S1.B43, "For example, in providing connected information an entity might need to explain the effect or likely effect of its strategy on its financial statements and financial planning, or explain how that strategy relates to the metrics the entity uses to measure progress against targets. Another entity might need to explain how its use of natural resources or changes within its supply chain could amplify or, in contrast, reduce its sustainability-related risks and opportunities. The entity might need to link the information about its use of natural resources or changes within its supply chain to information about current or anticipated financial effects on the entity's production costs, its strategic response to mitigate those risks and its related investment in new assets. The entity might need to link narrative information to the related metrics and targets and to information in the related financial statements."

10 IFRS S1.B44, "Other examples of connected information include:

- (a) *an explanation of the combined effects of the entity's sustainability related risks and opportunities and its strategy on its financial position, financial performance and cash flows over the short, medium and long term. For*

example, an entity might face decreasing demand for its products because of consumer preferences for lower-carbon alternatives. The entity might need to explain how its strategic response, such as closing a major factory, could affect its workforce and local communities, and the effect of such a closure on the useful lives of its assets and on impairment assessments.

- (b) a description of the alternatives that an entity evaluated in setting its strategy in response to its sustainability-related risks and opportunities, including a description of the trade-offs between those risks and opportunities that the entity considered (see paragraph 33(c)). For example, an entity might need to explain the potential effects of its decision to restructure its operations in response to a sustainability related risk on the future size and composition of the entity's workforce."

IFRS requirements for Information included by cross reference

- 11 IFRS S1.63; "Information required by an IFRS Sustainability Disclosure Standard may be included in sustainability-related financial disclosures by cross-reference to another report published by the entity. If an entity includes information by cross-reference, the entity shall apply the requirements in paragraphs B45-B47."
- 12 IFRS S1.B45; "Information required by an IFRS Sustainability Disclosure Standard might be available in another report published by the entity. For example, the required information could be disclosed in the related financial statements. Material information can be included in an entity's sustainability-related financial disclosures by cross-reference, provided that:
- (a) the cross-referenced information is available on the same terms and at the same time as the sustainability-related financial disclosures; and
- (b) the complete set of sustainability-related financial disclosures is not made less understandable by including information by cross-reference."
- 13 IFRS S1.B46; "Information included by cross-reference becomes part of the complete set of sustainability-related financial disclosures and shall comply with the requirements of IFRS Sustainability Disclosure Standards. For example, it needs to be relevant, representationally faithful, comparable, verifiable, timely and understandable. The body(s) or individual(s) that authorises the general purpose financial reports takes the same responsibility for the information included by cross-reference as it does for the information included directly."
- 14 IFRS S1.B47; "If information required by an IFRS Sustainability Disclosure Standard is included by cross-reference:
- (a) the sustainability-related financial disclosures shall clearly identify the report within which that information is located and explain how to access that report; and
- (b) the cross-reference shall be to a precisely specified part of that report."

IFRS S1 current and anticipated financial effects requirements

- 15 IFRS S1.34; "An entity shall disclose information that enables users of general purpose financial reports to understand:
- (a) the effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and
- (b) the anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how sustainability-

related risks and opportunities are included in the entity's financial planning (anticipated financial effects)."

- 16 IFRS S1.35; *"Specifically, an entity shall disclose quantitative and qualitative information about:*
- (a) how sustainability-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;*
 - (b) the sustainability-related risks and opportunities identified in paragraph 35(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;*
 - (c) how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities, taking into consideration:*
 - (i) its investment and disposal plans (for example, plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements), including plans the entity is not contractually committed to; and*
 - (ii) its planned sources of funding to implement its strategy; and*
 - (d) how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities."*