

EFRAG

Research Project: Connectivity between financial and sustainability reporting information-

Agenda Paper 05-02- EFRAG SR TEG Update

EFRAG SR TEG— 23 May 2023



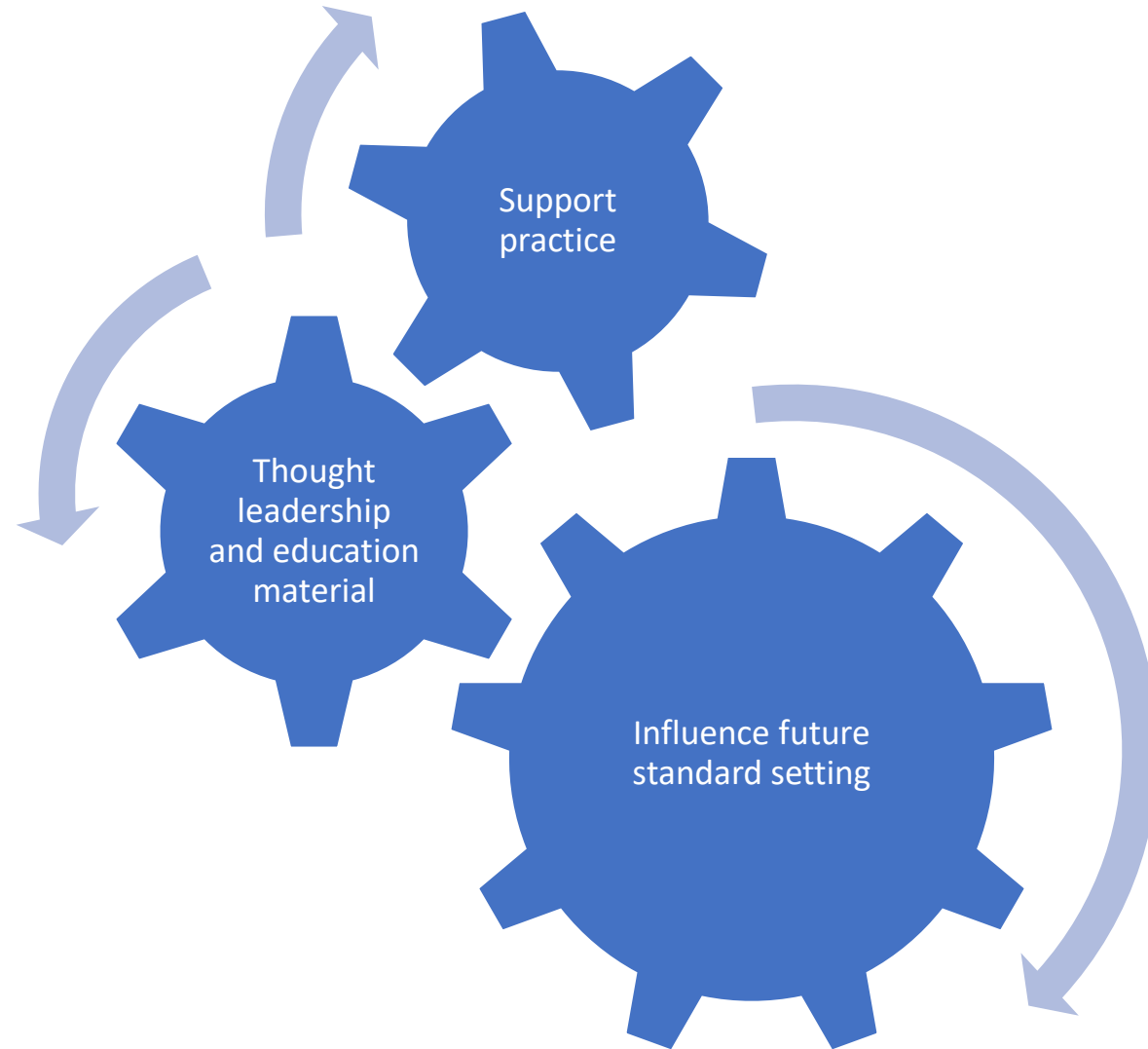
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Timeline

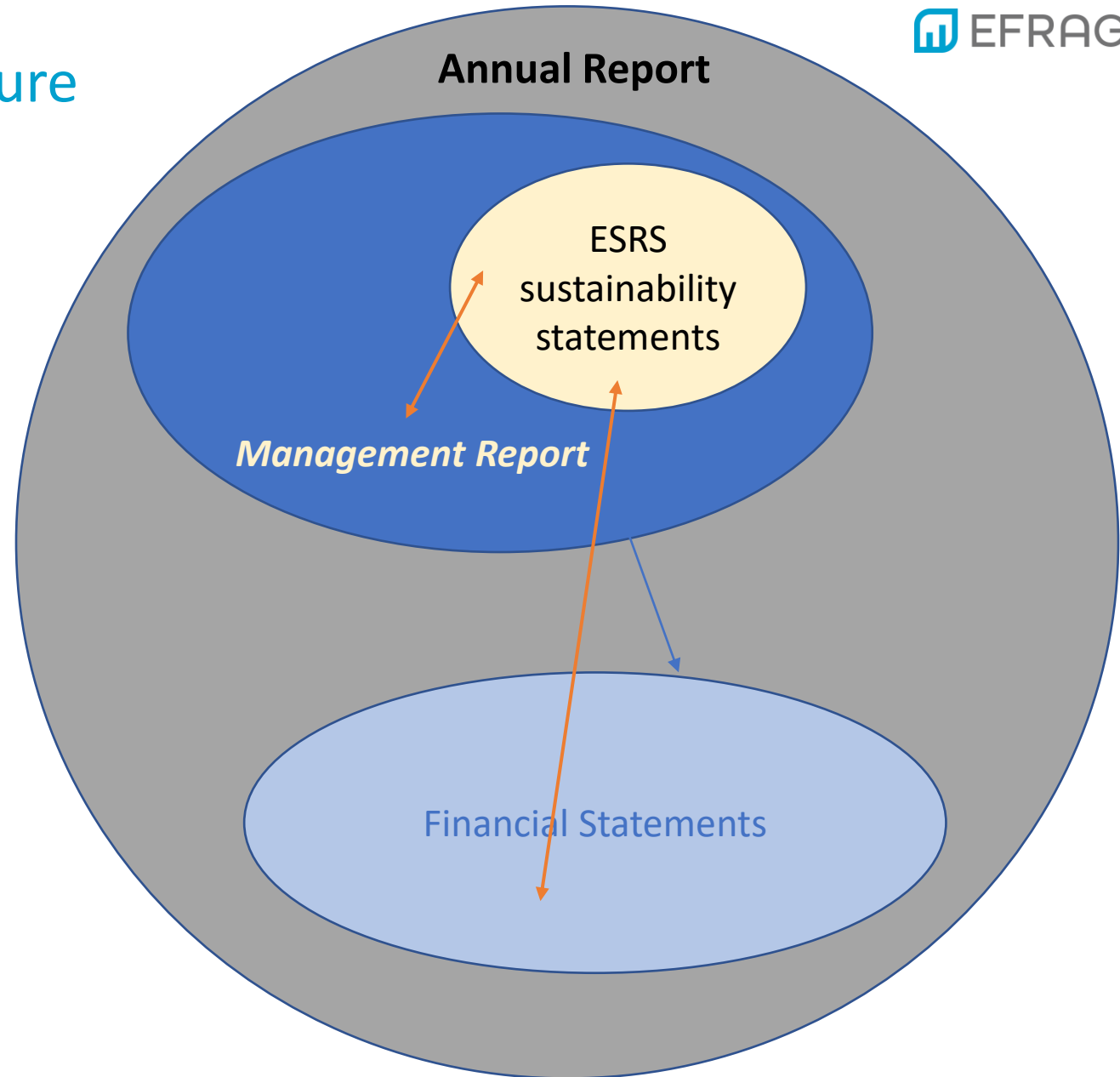


Research objectives

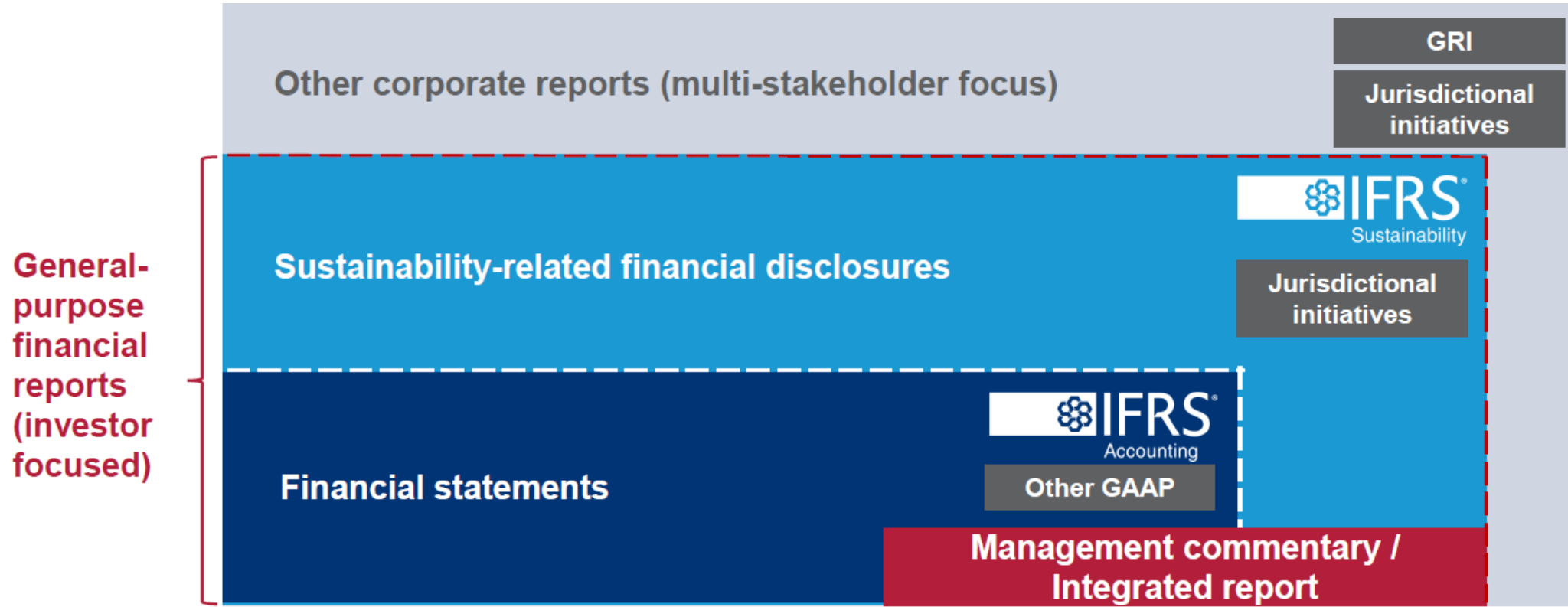


Connections: EU reporting architecture

- Mandatory application of ESRS and location of sustainability information in a dedicated section of the Management Report
- ESRS sustainability statements under ‘double materiality’ lens (impact materiality + financial materiality)
- Entities in scope: large undertakings (IFRS and national GAAP applicants)



Connections/Integration in reporting: Reporting architecture described by IFRS Foundation



Source: Slides used at the April 2023 IFRS Advisory Council Meeting

Two steps approach, start with operationalisation of connectivity

Phase 1: Operationalisation of connectivity under current conceptual FR and SR boundaries (Systematic illustration of the possible connections between FR and SR)

Conceptual scene setting

- Set common definitions
- Identify differences between FR and SR
- Identify user needs
- Identify anchor points

Operational techniques to foster linkage

- Real world and examples
- Pro-forma examples

Phase 2: Conceptualisation not restricted by current FR and SR boundaries

Explore integration of reporting

Align to work of IASB-ISSB

Scope to be defined once directions of ISSB project are clear

Scope of SR: ESRS and ISSB SR

Scope of FR: IFRS requirements

Complementarity of scope, outputs with other connectivity workstreams

- IASB project on climate-related risks in financial statements- **May result in IASB issuing illustrative examples, education material, application guidance and making minor amendments to IFRS Accounting Standards**
- Possible ISSB project on integration in reporting- **May affect scope of Phase 2 of EFRAG project**
- Other National Standard Setters work on connectivity between IASB-ISSB requirements
- ESMA study on climate-related reporting- **May result in illustrative examples**

Setting the scene: conceptual boundaries of FR and SR information

- Reporting entity vs Value chain information
- Investors vs other users
- Financial control vs operational control
- Extent of application of non-monetary units of measurement
- Time horizons
- Extent of incorporation of forward-looking information
- Dynamic materiality (e.g., when sustainability risks translate into contingent liabilities)

Setting the scene: Proposed elements of connectivity for Phase 1

LINKAGE AND RELATIONSHIPS

- Showing the linkage between FR and SR information including by identifying anchor points
- Showing current financial effects (without duplication) and future financial effects of sustainability risks and opportunities

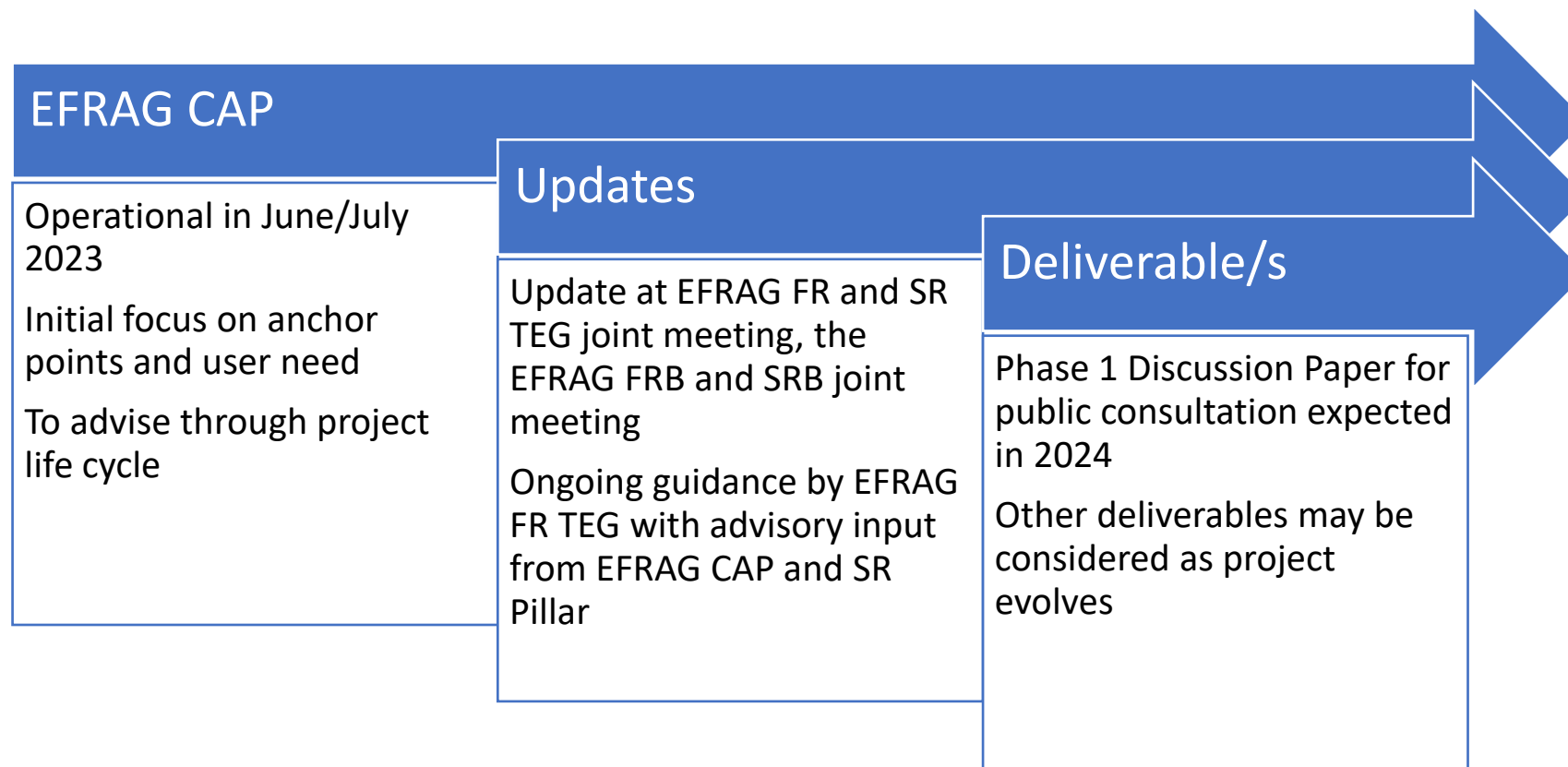
CONSISTENCY

- where relevant, the same assumptions for FR and SR information are applied
- SR and FR make use of the same underlying data
- Basis of preparation of SR is consistent with FR
- Differences in the scope of FR and SR information are explained

Approaches to establish connection outlined in ESRS and IFRS

- Description of relationships between different pieces of information
- Cross-referencing or incorporation by reference
- Reconciliation to financial statements information
- State consistency of underpinning assumptions

Next Steps



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