Connectivity between Financial and Sustainability Reporting Information

Scoping EFRAG Research project

Objective

1 The objective of the session is to discuss the scope and approach to EFRAG's research project on Connectivity between Financial and Sustainability reporting and agree on the level of coordination of EFRAG's Financial and Sustainability pillars for that project.

Background

2 At its June 2022 meeting, the EFRAG FRB agreed to add to its proactive research agenda a project on the connectivity between financial and sustainability reporting information as recommended by EFRAG FR TEG. The project had been identified as a high priority in the feedback received by EFRAG to its May 2021 agenda consultation.

3 The EFRAG FRB supported the broad lines suggested by the EFRAG SR TEG at its May 2022 meeting regarding the possible scoping and approach of the project which are further described below.

4 EFRAG FR TEG first noted that the appropriate timing and phasing of the project was a key question. It was observed that neither the ESRS nor ISSB standards were applicable yet and it would be necessary, at a later stage, to observe the first sustainability statements produced by entities, in order to be able to properly discuss all the practical challenges of connectivity. Some noted that discussing the topic before the first set of standards of the ESRS and ISSB are finalised could lead to questioning some of the disclosure requirements in those standards.

5 However, this was not considered a reason to defer the project and a proper phasing of the project was suggested considering the importance of the matter, the long-term nature of the project and its complexity.

Phased approach

6 EFRAG FR TEG suggested developing the project in two successive phases:

(a) First, a project on 'narrow connectivity', aiming at identifying stakeholders' needs and exploring the operational techniques in terms of cohesiveness and linked information between sustainability statements and financial statements (and other parts of the Management Commentary when relevant); and

(b) In a subsequent step, a project on 'broader connectivity' could consider the conceptual boundaries between sustainability and financial information, exploring the different natures and roles of sustainability and financial information, the advantages and disadvantages of integrated reporting, and the role of the management commentary.

7 In considering the scope of EFRAG's first phase, different objectives and 'ambitions' could be considered from narrower to larger:

(a) Limiting the project to the connectivity between information in the Financial Statements and the information arising from the forthcoming ESRS;

(b) Broadening the project to connectivity with all sustainability information in the Management Commentary (e.g., also covering Article 8 disclosures …);

(c) Broadening the project to connectivity between Financial statements and Management Commentary (for both financial and non-financial information);

(d) Broadening the project to connectivity for information across all the Annual Report (comprising the management commentary, financial statements and other regulated information and reports)

(e) Connectivity across wider corporate reporting (i.e., beyond the annual report).

8 To keep the project manageable, it could be envisaged in the first stage to focus the project on scope (a).

9 The research on 'broader connectivity' (see below) could consider more broadly the connectivity across the annual report as it would explore the benefits of integrated reporting, exploring the different natures and roles of sustainability of financial information, the advantages and disadvantages of integrated reporting and the role of the management commentary.

Phase 1 – Project on 'narrow connectivity'

10 In July 2022, EFRAG FR TEG members discussed suitable initial steps of the research and suggested that in order to define the scope of the project, EFRAG should:

(a) Investigate the users' needs for connectivity, starting from concrete examples (such as GHG emissions and Turnover/Capex/Opex taxonomy indicators); and

(b) Develop a tentative definition of connectivity that would inform the subsequent steps of the project;

(c) Reach out to users to ascertain the forms of connectivity that will address their information needs;

(d) Identify connectivity examples with prioritisation of climate-related reporting and taking account of work done by the EFRAG European Lab and other thematic studies (e.g., Carbon tracker- Flying Blind report); and

(e) Develop a discussion paper containing a systematic illustration of the possible connections that preparers may create between financial and sustainability statements stemming from the different ESRS.

11 As noted in (a), one key aspect of the project will be to understand the information needs of users of financial and sustainability statements. Some EFRAG FR TEG members noted that there are a number of 'anchor points' between current financial statements and management commentary, but nobody has clearly raised the need

to develop connectivity between these two reports so far. It would be necessary to understand why there is a need for connectivity and what is the difference with the management commentary today.

12 It is proposed that the initial focus could be on operational techniques to foster cohesiveness between financial and sustainability information taking account of the content of the 12 draft ESRS released by EFRAG to the EC in November 2022 (the final ESRS to be enacted by Delegated Act are expected in June 2023) and the practical need for connectivity arising from their application.

13 The draft ESRS 1 (Paragraphs 119-130) outline approaches to establish connection and connectivity with financial statements. These include:

(a) *Description of relationships between different pieces of information:* The undertaking 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 might need to explain the effect or likely effect of its sustainability strategy on its financial statements or financial plans, or on metrics and targets used to measure progress against performance. Furthermore, the undertaking 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 effect(s) on its production costs, its strategic response to mitigate such impacts or risks and 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.

(b) *Cross referencing:* ESRS 1.120-3 require the incorporation by cross-reference. ESRS1.125 states that when the sustainability statements include monetary amounts or other quantitative data points that are above a threshold for material information and are directly presented in financial statements, the undertaking shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.

(c) *Reconciliation to financial statements information*: In some cases, sustainability statements may include monetary amounts or other quantitative datapoints above a threshold for material information that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking's financial statements. If this is the case, the undertaking shall explain how these relate to the most relevant amount(s) presented in the financial statements. This disclosure shall include a reference to the line item and/or to the relevant paragraph(s) of its financial statements where the corresponding information can be found. For material amounts, a reconciliation shall be provided, and it may be presented in a tabular form.

(d) *State consistency of underpinning assumptions, data and qualitative information*: When there is no direct or indirect link, the undertaking shall state (based on a threshold for material information) the consistency of data, assumptions used, and qualitative information included in its sustainability statements with the corresponding data, assumptions and qualitative information included in the financial statements. This may occur when the sustainability statements include:

(i) monetary amounts or other quantitative data linked or interdependent with monetary amounts or other quantitative data presented in financial statements, but a direct reconciliation is not possible; or

(ii) qualitative information linked or interdependent on qualitative information presented in financial statements.

(e) *When significant data, assumptions and qualitative information are not consistent, the undertaking shall state that fact and explain the reason. Examples of items of when undertakings are required to state the consistency of assumptions, data and qualitative information include:*

(i) when the same metric is presented as of the reporting date in financial statements and in forecast for future periods in the sustainability statements; and

(ii) when macroeconomic or business projections are used to develop metrics in the sustainability statements and they are also relevant in estimating the recoverable amount of assets, the amount of liabilities or provisions in financial statements.

14 We note that the ISSB IFRS S1 requirements[1] for the connection between sustainability-related risks and opportunities and general-purpose financial reporting information are quite similar to those of the ESRS.

15 Phase 1 will also delineate the ESRS requirements that establish a connection with financial statements requirements. Appendix 1 of this paper provides as an example, an overview of ESRS E1 metrics for which links with Financial Statements are identified.

16 The concepts above in ESRS 1 are consistent with the terms ‘direct connectivity’ and ‘indirect connectivity’. As defined in the PTF-NSRS report,

(a) The direct connectivity concept aims at directly reconciling sustainability information with information in the financial statements or the general ledger. An example of direct connectivity can be the disclosure of ‘training costs’ as part of sustainability reporting that can be reconciled to a financial statements account or the reporting of the proportion of ‘green’ revenues, where revenues can be reconciled to IFRS revenue.

(b) The indirect connectivity concept aims at identifying links to financial reporting information, for disclosure that cannot be directly reconciled to the financial statements or accounting estimates in the current period. An example of indirect connectivity is the use of scenario analysis to quantify climate-related risks and opportunities that would entail the calculation of the potential financial impact (on revenues, expenditures, assets, liabilities, investments) under various climate scenarios. For this category, connectivity cannot be directly established but rather is attained through consistency in assumptions and basis for preparation.

Advisory Panel

17 To obtain the benefits of practical experience and insights, it could be envisaged to launch an Advisory Panel consisting of users, preparers, and other stakeholders to

[1] IFRS S1.42. states that an entity shall provide information that enables users of general-purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general purpose financial statements.

IFRS S1. 43 states that an 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 of general purpose financial reporting to assess connections in information, an 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 entity might need to explain how its use of natural resources and changes within its supply chain could amplify, change or reduce its significant sustainability-related risks and opportunities. The entity may need to link this information to the potential or actual effect on its production costs, its strategic response to mitigate such risks and 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.

act as a sounding board to help identify connectivity issues and suggest how to address them. This Panel could play a similar role to the one played by EFRAG's Advisory Panel on Intangibles for the related project.

Envisaged timeline

18 Phase 1 of the EFRAG research will commence after the approval of the scope by the EFRAG FR and EFRAG FRB. A Discussion Paper containing a systematic illustration of the possible connections between financial and sustainability statements could be expected in early 2024.

Questions for EFRAG FR TEG/SR TEG

19 Do members have comments or suggestions on the objective and phasing of the project as described in paragraphs 6 to 16?

20 Do you support the setting of an Advisory Panel, as described in paragraph 17 combining users, preparers, and other stakeholders to act as a sounding board to help identify connectivity issues and suggest how to address them?

21 The project is in the workplan of the EFRAG financial reporting pillar, under the responsibility of the FR TEG and FRB. How do EFRAG SR TEG members suggest structuring the involvement of the SR TEG and SRB in the project?

22 Do members have recommendations on the timeline for the first phase of the project?

Phase 2 - Broader connectivity project

23 The second phase (broader connectivity) will conceptualise how to enhance the integration between financial information and sustainability information. The project could:

(a) Conceptualise the boundaries of financial information and sustainability information and how to deal with possible overlaps;

(b) Analysis of the similarities and differences in the underlying assumptions and bases of preparation of financial and sustainability reporting information;

(c) Explore the advantages and disadvantages of integrated reporting (i.e., holistically explaining how the enterprise is creating value) and the role of management commentary.

24 One of the key purposes of EFRAG proactive research is to influence the activity of the IASB. In the context of this project, the IASB-ISSB project on connectivity between management commentary and integrated reporting would be considered.

Analysis of similarities/differences in the underlying assumptions and bases of preparation of financial and sustainability reporting information

25 The concept of cohesiveness of the assumptions used in the financial and sustainability statements could be considered as a possible concept for connectivity. Consideration will be given in this phase to the different roles and data quality of sustainability and financial reporting, as well as the use of different 'conceptual frameworks'.

26 This phase of the project could consider the following aspects:

(a) Implications of a double-materiality perspective and the continuum of what can be monetised (see figure below of "ESG to financial materiality 'monetary line'" excerpted from the PTF-NFRS report);

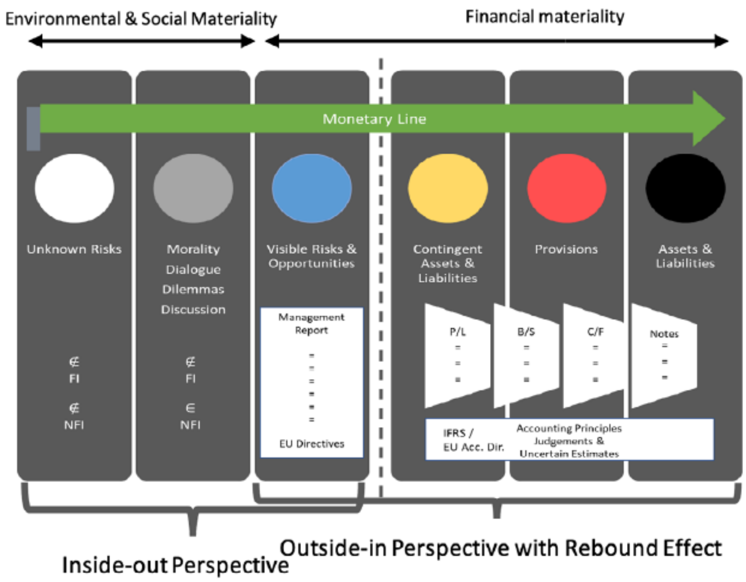
(b) reporting boundary (the definition of the reporting undertaking and value chain and aggregation/consolidation of related metrics);

(c) applicable time horizons;

(d) the limits of recognition criteria of liabilities, provisions and contingent liabilities; and

(e) the limits of recognition and measurement of intangible assets and other ESG-related assets.

Figure 4: The 'Monetary Line'



Source: PTF-NFRS Report- Appendix 4- Page 13

27 The collation of examples in Phase 1 and the identification of areas where there are differences in assumptions between the financial and sustainability reporting practices could further inform the conceptualisation of the areas and reasons for differences between these two sets of information.

28 In the analysis of the implications of double materiality as outlined in Paragraph 24-a, there will be a need to consider both impact materiality[2] and financial materiality[3]

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[2] ESRS 1.46 states that a sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term time horizons. Impacts include those caused or contributed to by the undertaking and those which are directly linked to the undertaking's own operations, products, or services through its business relationships. Business relationships include the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships.

[3] ESRS 1. 52 states that a sustainability matter is material from a financial perspective if it triggers or may trigger significant financial effects on the undertaking's development, performance, and position in the short-, medium- or long-term. This is the case, in particular, when it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows. Future cash flows with other critical factors such as business model, strategy, access to finance and cost of capital, in turn are likely to influence the financial position and financial performance of the undertaking in the short-, medium- or long-term, including affecting the enterprise value. Risks and opportunities may derive from past events or future events and may have effects in relation to:

(a) assets and liabilities already recognised in financial reporting or that may be recognised as a result of future events; or

(b) factors of enterprise value creation that do not meet the financial accounting definition of assets and liabilities and/or the related recognition criteria but contribute to the generation of cash flows and creation/maintenance of enterprise value. The latter factors are generally referred to as 'capitals' in frameworks promoting a multi-capital approach.

of sustainability matters as defined in ESRS 1, and to thereafter analyse if/how and the extent to which information from the double materiality perspective ultimately translates to effects that are captured in financial statements. Several of the ESRS topical standards (E1-E5) have requirements for potential financial effects and the ESRS requirements have impact metrics. Hence, after the adoption of ESRS, an analysis of the relationship between impacts metrics, potential financial effects data and reported financial statements information (e.g., whether reported potential liabilities transform into recognised liabilities) can inform on the extent to which there is a connection or correlation between information derived from a double materiality perspective and that derived from a financial statements' materiality perspective.

29 In the analysis of the reporting undertaking and the consolidation/aggregation of metrics as outlined in Paragraph 24-b, an important consideration is the need for consistency in the respective consolidation requirements applied for financial statements and sustainability reporting information and the application of the notion of control. In this regard, phase 2 of the project could explore and provide proposals for the greater alignment of GHG Protocol carbon accounting consolidation requirements with IFRS requirements for accounting for investee entities. The GHG Protocol aims for consistency of its consolidation approaches with accounting requirements, but it was last updated several years ago. For instance, proportional consolidation of GHG emissions under the equity market share approach is allowed under the GHG protocol whereas IFRS requirements no longer allow proportional consolidation for joint arrangements.

30 Consistent with the expectation that an ISSB/IASB project on connectivity and integrated reporting (arising from the upcoming ISSB agenda consultation) could be conducted over the next two years (2024-2025), EFRAG could consider a similar timeframe for its work.

Questions for EFRAG FR TEG / SR TEG

31 Do members have comments on the proposed scope of phase 2 of the project and/or any alternative suggestions?

32 How could EFRAG be influential in the future activities of the IASB in the context of this project?

Other related initiatives

Interaction with the IASB and ISSB activities

IASB activities

33 The IASB has no active project on connectivity between Financial and Sustainability Reporting. Following its agenda consultation for the period 2022-2026, the IASB has added a narrow scope project on Climate-related Risks in the Financial Statements to its project pipeline. The IASB intends to run a maintenance and consistent application project on climate-related risks that aims to investigate the underlying causes of deficiencies (if any) raised by stakeholders in reporting on climate-related financial implications in current financial statements and to decide if any narrow-scope amendments to the Accounting Standards are needed.

34 The IASB indicated that it will coordinate the work on this topic with the International Sustainability Standards Board (ISSB) given the importance of connectivity between the requirements of the accounting standards and that of sustainability reporting, for example to develop consistent terminology and compatible requirements.

35 EFRAG will follow developments in this project as part of its reactive work. However, the exact timing of the IASB project is uncertain and subject to the future availability of resources.

ISSB activities

36 At its 14 December 2022 meeting, the ISSB discussed potential projects to be included in a request for information that will gather stakeholder feedback (expected to be issued in H1 2023) to inform the ISSB's two-year work plan. The ISSB tentatively decided in particular to seek feedback in the request for information regarding a potential joint project with the IASB on connectivity in reporting, building on the IASB's Management Commentary project and the Integrated Reporting Framework.

37 The Request for Information will include a proposal to undertake a joint project with the IASB to develop comprehensive disclosure requirements and guidance that enable entities to report a connected discussion and analysis of their financial statements and sustainability-related financial disclosures.

38 The ISSB request for information is planned for H1 2023, and it will cover the activities over two years after the consultation (2024-2025).

39 The IASB has also already undertaken a project to deliver a comprehensive overhaul of IFRS Practice Statement 1 Management Commentary to enable an entity to bring together, in a single concise and coherent narrative, information about financial, sustainability and other factors that have affected the entity in the reporting period or could affect the entity's prospects. The exposure draft published by the IASB in May 2021, focused on information that investors and other capital market participants need in assessing the entity's ability to create value and generate cash flows, including in the long term.

40 In developing its initial proposals, the IASB sought to consolidate and build on national and international innovations in reporting, including the Integrated Reporting Framework (which is now part of the materials of the IFRS Foundation), and to target shortcomings in practice I

41 In their responses to the public consultation on the exposure draft, many stakeholders (including EFRAG) encouraged the IASB to advance the Management Commentary project in collaboration with the ISSB and asked for clarity on the interaction between management commentary and sustainability-related financial disclosures. The Chairs of the IASB and the ISSB have already committed to considering opportunities to address similarities and differences between the IASB's proposals in the Management Commentary project and the Integrated Reporting Framework.

42 As part of its agenda consultation, the ISSB will seek views on whether and how a project on connectivity could build on the work done on the Management Commentary project, analyse the feedback on the IASB's proposals on this project and explore similarities and differences between those proposals and the Integrated Reporting Framework, seeking to further build on the principles and concepts of the Integrated Reporting Framework. The project would also consider its relationship with IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and findings in other projects.

43 The EFRAG Secretariat observes although clear overlaps exist between the IASB and EFRAG's project, the scope and timing of the IASB work on climate-related risk are uncertain. It also remains unknown at what pace the ISSB, which has published Exposure Drafts on General Requirements for Sustainability-related Financial Disclosures and Climate-related risk (IFRS S1 and S2), might address sustainability issues (ESG) more broadly beyond climate risk in a manner that can allow a holistic assessment of connectivity.

44 EFRAG will consider climate-related disclosure as a starting point, but the aim of its project is to address environmental, social, and governance (ESG) matters comprehensively. This presents an opportunity for EFRAG to take a lead in the

research on the connection between financial and sustainability reporting in a manner that includes but is not limited to the financial implications of climate-related risk.

45 Lastly, it is noted the ISSB agenda consultation is expected to cover the activities on sustainability to be conducted over a time span of two years after the end of the consultation (2024-2025) which corresponds to the period over which EU entities will have to start implementing the ESRS. This has been considered in phasing EFRAG's project.

Interaction with the activities of the International Forum for Accounting Standard Setters (IFASS)

46 At the IFASS meeting on 12 January, the EFRAG Secretariat will provide a presentation of the EFRAG project on connectivity based on the decisions made by the EFRAG SRB so far. An update on the input received will be provided to EFRAG SR TEG and FR TEG members orally.

47 At the same meeting, the staff of the UK Endorsement Board (UKEB) will present an introductory paper regarding the connectivity between sustainability and financial reporting, prepared in consultation with the Canadian Accounting Standards Board (AcSB). The staff paper prepared at the request of the IFASS secretariat aims at starting a conversation amongst the National Standard Setters to better understand d the areas of connectivity between IASB and ISSB standards in order to help develop a common understanding amongst the National Standard Setters (NSS) of the areas of overlap between the work of the two global standard setters; enable consideration of the potential solutions; and help identify common issues across the different jurisdictions that would then need to be referred to the two Boards.

48 The paper aims at identifying key connectivity and alignment themes, and proposed solutions for consideration. Following discussion at IFASS and consultation with the Board, the UKEB Secretariat may develop further papers, in collaboration with other NSS, on the key themes identified in this paper or during the discussion with IFASS. The paper examines comments made by IFASS members in relation to connectivity and alignment between sustainability disclosures and financial reporting in their Comment Letters to the ISSB on draft IFRS S1 and draft IFRS S2. These comments were based on both stakeholder outreach within their jurisdictions and their extensive endorsement experience with IASB Accounting Standards. The paper also considers the potential implications for connectivity arising from the articles published by an IASB member (Nick Anderson) in 2019 and 2022 on the effects of climate-related matters on financial statements identified and illustrated how companies should consider climate-related matters through the application of IFRS Accounting Standards.

49 The paper identifies several themes to be explored by the IASB and ISSB to foster connectivity (including the conceptual, guidance and materiality and identified areas of inconsistencies between IFRS Standards and IFRS S1/S2) that are further described in Appendix 2.

50 The EFRAG Secretariat notes that, although the paper is focused on connectivity within IFRS financial and sustainability standards, overlaps with the EFRAG research exist in particular with regards to the conceptual guidance (IFRS S1 versus ESRS 1 and ESRS 2) and the standard on climate (ESRS E1 versus IFRS S2). Therefore, EFRAG's research could benefit from and contribute to the work undertaken by the IFASS

Questions for EFRAG FR TEG/SR TEG

51 Do members have comments on the interactions between EFRAG's research and the related IASB/ISSB and IFASS activities as described above?

Appendix 1: Examples of ESRS metrics with links to Financial Statements ESRS E1 *Climate Change*

ESRS E1 Climate Change Metrics Disclosure Requirements	**Financial statement items link**
Energy intensity based on net revenue	Revenue in financial statements, segment reporting.
GHG intensity based on net revenue	Revenue in financial statements, segment reporting.
Internal carbon prices	Consistency with carbon prices used in carbon pricing schemes with useful life and impairment of assets and fair value of acquired assets.
Climate risks- Assets at material physical and transition risk including stranded assets	IFRS PPE; segment reporting information
Climate risks- Net revenue vulnerable to material physical and transition risk	IFRS 15 revenue; segment reporting information
Climate risks- Potential liabilities (e.g., due to failure to meet emissions targets)	Unrecognised liabilities; contingent liabilities
Climate opportunities-Cost savings	Cost savings are undefined under IFRS requirements

Net revenue used to calculate GHG intensity/Energy Intensity	xxxx
Net revenue (other)	yyyy
Total net revenue (in financial statements)	zzzz

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

Appendix 2: Summary of UKEB paper for IFASS 12 January 2022

1 The UKEB paper identifies several themes to be explored by the IASB and ISSB to foster connectivity that are further described in the paragraphs below.

Conceptual Framework

2 It is noted that IFRS S1 includes proposals for definitions and requirements that are generally consistent with the IASB's Conceptual Framework for Financial Reporting which defines the boundaries for financial information and articulates concepts for users, materiality, the reporting entity, time horizons, monetary items. Some standard setters suggested that the ISSB should consider separating the conceptual elements of draft IFRS S1 into a general requirement standard and seek to develop a separate sustainability conceptual framework. Others suggested that the existing IFRS Conceptual Framework be revised to encompass sustainability matters.

Materiality

3 Following the ISSB decision to strictly align its definition of materiality with the IASB's consider the need to develop application guidance akin to the IFRS Practice Statement 2 Making Materiality Judgements to clarify the application guidance for IFRS Sustainability Disclosure Standard

Assets recognition; and measurement:

4 Consider the need for additional guidance to the relevant IFRS standards to assist entities to consider (a) Information on whether costs incurred relating to climate-related risks and/or opportunities meets the definition of an asset as well as the criteria for recognition, (b) Information about the changes in the residual values and/or useful lives of its assets arising from sustainability matters and (c) How to reconcile the 'time horizon' in IFRS S1 with the current/ non-current classification in IFRS standards.

Risk disclosures relating to financial assets

5 Climate-related matters may expose an entity to risks relating to financial instruments e.g., the effect on expected credit losses. The IASB/ISSB may consider the need for additional guidance to assist entities to fully disclose the connectivity between information on the risk management process related to climate (and other sustainability issues) and financial risk disclosures required by IFRS 7. Furthermore, it is noted that the IASB has already a project to assess whether financial assets with ESG-linked features have SPPI cash flows

Identifying impairment indicators

6 Consider the need for additional guidance to the relevant standards may be required to assist entities to fully consider the potential impact climate-related matters may have on the recoverable amount of an asset.

Disclosure about impairment testing:

7 To address the disconnect about the disclosure requirement by IAS 36 (e.g., use of value in use on an individual asset or cash generating unit for impairment testing) whereas the IFRS S1 refer to the disclosure of a range of scenarios

Intangibles assets

8 Recommend that IASB research project on Intangibles address the increased scrutiny on disclosures about accounting for climate-related 'intangibles assets' such as carbon credit and human-capital related resources.

Confidential and commercially sensitive information

9 Consider how the existing provision in IAS 37 to not disclose about provisions for litigation if that would seriously prejudice an entity's position in a legal dispute

interact with the requirement in IFRS S1 In addition, the requirement to disclose sources of funding to implement a sustainability strategy goes beyond that required by accounting standards and could also be considered commercially sensitive by an entity.

Recognition of liability

10 Consider possible conflict between paragraph 14 of in IFRS S2 to disclose “climate-related risks and opportunities […] for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year’ with the requirements in IFRS Standards to recognize a liability in the current financial reporting period if there is knowledge of a possible impairment within the next financial year.

Fair value measurement

11 Consider the need additional guidance to the relevant standards may be required to assist entities to fully consider the potential impact climate-related matters may have on the fair value measurement of assets and/or liabilities under IFRS 13.

Estimation uncertainty

12 Consider aligning the guidance in IFRS S2 when measurement uncertainties exist for metrics with the guidance in IAS 1. To improve connectivity and provide clearer signalling on the certainty of sustainability disclosures, a NSS suggested that a “hierarchy of disclosures” approach could be considered. Possibly based on the approach in IFRS 13 Fair Value Measurement.

Objectives of sustainability disclosures

13 Consider incorporating the Introduction section in draft IFRS S1 into the Purpose section of the final standard and to create specific objectives for the detailed disclosures, in addition to the core content objectives.

Disclosure about accounting policies

14 Lack of disclosure in relation to policies used in the preparation of sustainability disclosures in draft IFRS S1.

Reporting of outcomes against previously disclosed plans

15 Unlike IFRS S1, accounting standards do not require do not require the disclosure of outcomes against previously made plans. Where uncertainty exists in relation to financial risks, a more common accounting standards approach is to use sensitivity testing. The ISSB may wish to assess if sensitivity testing would be adequate to illustrate a range of potential outcomes of sustainability risks and opportunities.

Internal Pricing

16 Disconnect between the requirements in IFRS S2 to disclose internal carbon with the IASB approach on internal transfer pricing (elimination upon consolidation).

Scope and control

17 Consider aligning Potential inconsistent definition of control used by the IASB and ISSB (e.g., apparent inconsistency in approach for the proposed requirement to disclose Scope 1 and 2 Greenhouse Gas (GHG) emissions. for associates, joint ventures, and affiliates on the basis of ‘control’.)

Management Commentary

18 Consider interaction of proposed IFRS S1/S2 standards with other elements of narrative reporting, including the areas of content in Practice Statement 1 *Management Commentary*. Consider disclosure on significant judgement and assumptions on sustainability information on the basis if the requirements contained in IAS 1 for financial information.

Inability to comply with requirements

19 Consider aligning guidance in IFRS S1 with the one in IFRS Standards in situation where an entity is unable to comply with a requirement (in particular in situation covered in IAS 1 and IFRS 8).

Appendix 3: Links to existing EFRAG material on connectivity

1. ESRS PTF Report of Workstream 4

2. Appendix available at page 21 of the draft European Sustainability Reporting Guidelines 1 Double materiality conceptual guidelines for standard-setting

3. Draft ESRS Set 1 focus on ESRS 1 chapters 3 and chapter 9 + ESRS 2 SBM 3 + the topical standards: focus on disclosure requirement on financial effects)

4. EFRAG FRB discussion on scope and approach to the connectivity project : June 2022 ISSB meeting agenda paper

Other material (Non-EFRAG)

5. ISSB Agenda Paper meeting 13-15 December Project to be included in the Request for Information