

EFRAG

Research Project: Connectivity between financial and sustainability reporting information

Update on project

EFRAG FRB-SRB joint Meeting – 3 May 2023



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Timeline



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)

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

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

Explore integration of reporting

Align to work of IASB-ISSB

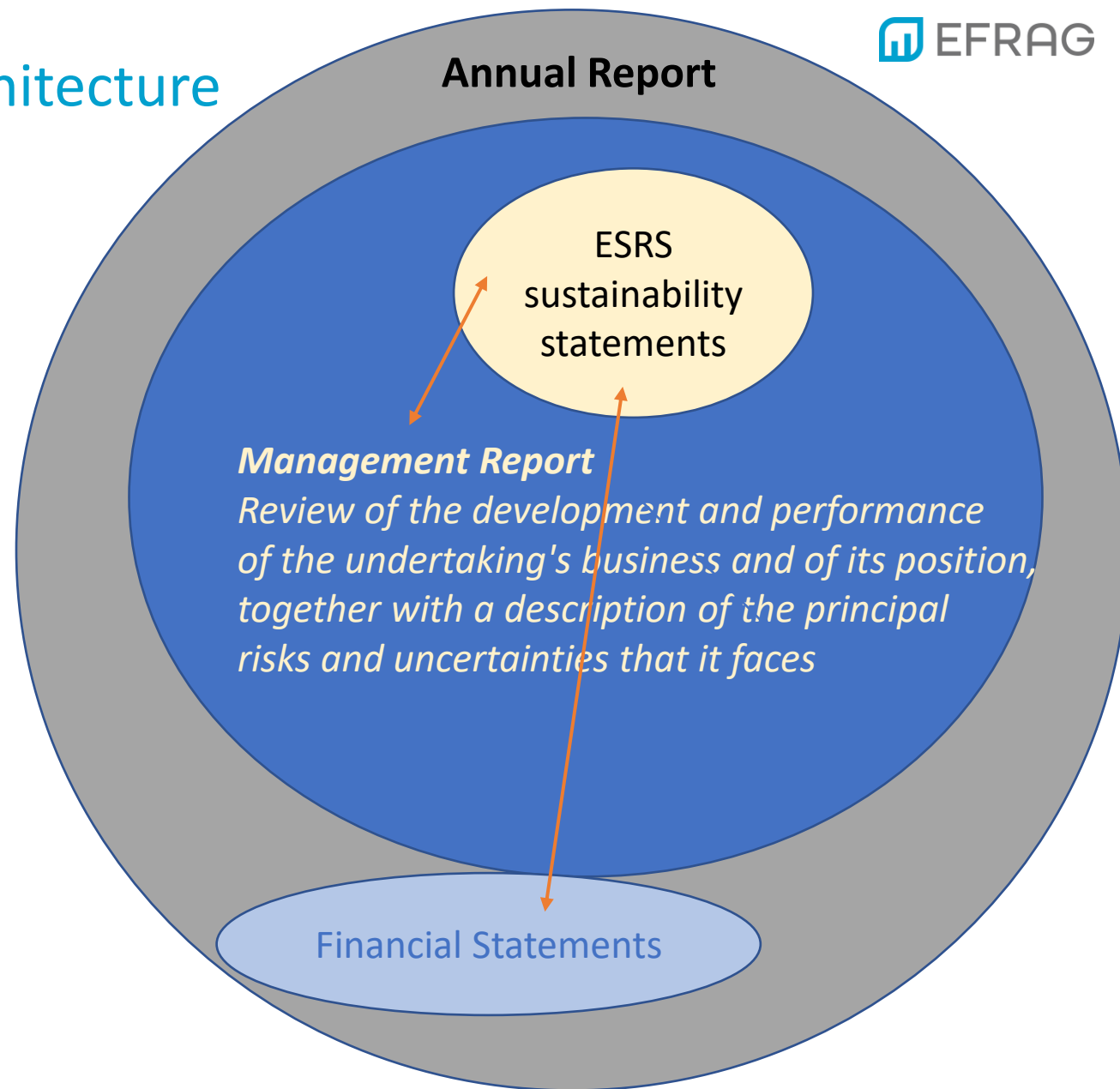
Scope to be defined once directions of ISSB project are clear

Scope of SR: ESRS and ISSB SR

Scope of FR: IFRS requirements

Connecting what? EU FR and SR 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)
- General principles in ESRS 1 of **connected information** are aligned with IFRS S1
- Entities in scope: large undertakings (not only IFRS applicants but also national GAAP applicants)



Setting the scene: conceptual borders of FR and SR

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

Elements of connectivity (Discussed at EFRAG FR TEG)

- Showing how information in FR is linked to SR and vice versa
- Showing future financial reporting effects of SR
- Considering where it would be relevant to apply the same assumptions in FR and SR
- Making use of the same underlying data
- Ensuring the basis of preparation of SR is consistent with FR
- Explaining differences in the scope of FR and SR

Approaches to establish connectivity outlined in ESRS (ESRS 1 par. 119-130)

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

Questions for EFRAG FRB and SRB

Q1: Do EFRAG FRB and SRB members have any comments on any aspects of the above update?

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