Connectivity Principles

Issues Paper

Objective

1 This paper on connectivity-related principles has been developed based on initial discussions by the EFRAG CAP Principles subgroup in December 2023 and it has also taken into account the feedback from meetings with the EFRAG FR and SR pillar governance bodies (EFRAG FR and SR TEGs and Boards), the EFRAG CAP meetings, and insights gleaned from the review of related literature including the connectivity requirements in ESRS *General Requirements* and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

2 After getting input from FR and SR TEGs, and the FRB and SRB; the content of this paper will be incorporated into the conceptual scene-setting chapters of the connectivity project Discussion Paper. It should also be considered whether the paper can be issued as educational material as part of the EFRAG research project interim deliverables.

3 The remainder of this paper is structured as follows:

(a) What is connectivity and what is being connected?

(b) Why connectivity is important

(c) Connectivity-related categories and principles

(d) Role of technology in connectivity

What is connectivity and what is being connected in the EFRAG research project?

What is connectivity?

4 The term connectivity has multiple connotations, and it has no commonly accepted definition. Hence, to avoid confusion whilst applying the term, it is important to delineate

the associations made with the term and to clarify the specific meaning ascribed to the term within the EFRAG research project.

5 Connectivity is a nascent yet familiar concept. It is nascent as it has only just been incorporated into the mandatory requirements (ESRS) and IFRS Sustainability Standards that will be effective from 2024 (with the first year of reporting available in 2025). The term is not explicitly included or defined in either the mandated IFRS Accounting requirements or any other legal requirements that are applicable in 2023. In contrast, consistency is referred to in the Transparency Directive. Similarly, the auditor guidance (ISA 720) requires auditors to consider the consistency between information in the financial statements and that outside the financial statements.

6 But connectivity is also a familiar principle as it is one of the seven guiding principles of the 2013 International Integrated Reporting Council ('IIRC')- integrated reporting (IR) framework and the updated 2021 IR framework. Thus, the principle of connectivity has at least been considered by companies that have applied the IR framework (including EU companies[1] as shown in Table 1 below).

Table 1. Total number of integrated reports in the EU in 2013–2017

Source: Own research.

Year	Total number of reports	Reports with independent assurance statement
2013	4,015	836, 20.82% of the total
2014	4,152	907, 21.84% of the total
2015	4,401	917, 20.84% of the total
2016	4,485	952, 21.23% of the total
2017	4,318	915, 21.19% of the total

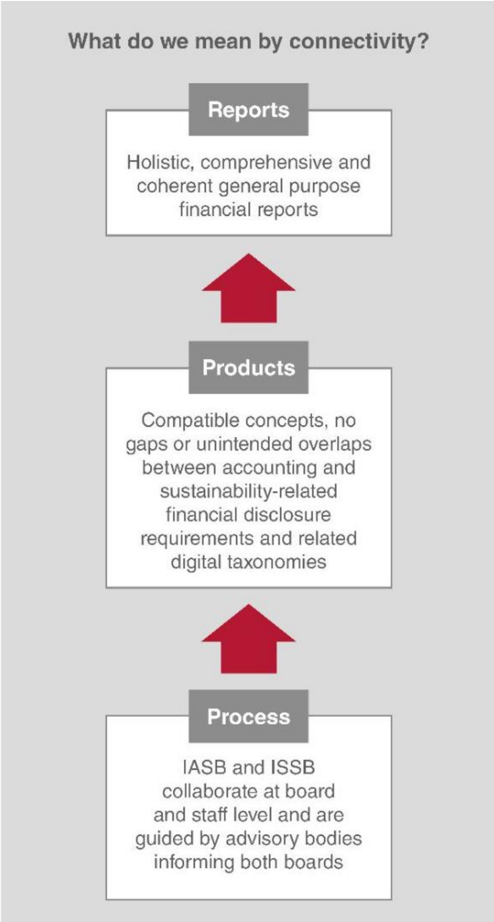
7 As shown in Figure 2 below, an IFRS Foundation article[2] makes a helpful distinction between connectivity in reports (information), connectivity in standard-setting products (reporting requirements), and connectivity in process. This distinction can inform the use of the term in the EFRAG research project.

[1] Magdalena Bochenek (2020). Analysis of the integrated reporting use in EU countries. Problems and Perspectives in Management, 18(3), 106-117. https://www.businessperspectives.org/index.php/journals/problems-and-perspectives-in-management/issue-359/analysis-of-the-integrated-reporting-use-in-eu-countries

[2] https://www.ifrs.org/news-and-events/news/2023/03/connectivity-what-is-it-and-what-does-it-deliver/

The article make a distinction between connectivity in reports, connectivity in product and connectivity in process.

Figure 2: The IFRS Foundation's articulation of connectivity



* In the above diagram, "reports" refers to IFRS general purpose financial reports which consist of IFRS financial statements (i.e. primary financial statements and notes to the accounts), management commentary and IFRS sustainability-related financial disclosures.

8 **Connectivity in information (reports):** The focus of the EFRAG research project in Phase 1 is primarily on connectivity in information. A review of the related literature shows that there are multiple connotations that stakeholders currently associate with the connectivity of reported information that can be encompassed within the use of the term in EFRAG's research project. As detailed later these **include** the **connection of information on strategy, business model, risks and opportunities to metrics and targets and financial statements information** via adhering to the principles of **coherence**; and **complementarity**; **consistency** of data, assumptions, and qualitative information. Furthermore, ESRS requirements outline the notion of **direct connectivity** and **indirect connectivity** pertaining to the linkage of quantitative and monetary data using cross-referencing and reconciliations to the financial statements.

9 **Connectivity in reporting requirements (standard-setting products):** This refers to consistency in the basis of preparation of reported information within the financial statements and sustainability reports. For instance, both the ESRS and IFRS Sustainability

Disclosures require the same reporting entity and reporting period as the financial statements. The two sets of requirements also have similar approaches for the treatment of events after the reporting date, changes in estimates, and changes in preparation and presentation practices as the financial statements. Both IFRS S1 and ESRS requirements were influenced by IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requirements, and IAS 10 *Events After the Reporting Period* requirements. Furthermore, the qualitative characteristics of information of IFRS Accounting Standards, IFRS Sustainability Standards and ESRS are based on the Conceptual Framework for Financial Reporting. The imperative of ensuring connectivity in standard-setting products falls upon standard-setting bodies (e.g. IASB. ISSB, EFRAG SR Pillar/EC, and other National Standard Setters). That said, based on developing practical illustrations of connectivity in reports, the EFRAG research project may identify where connectivity in standard-setting requirements may be enhanced.

10 **Connectivity in process**: The term connectivity is also applied in the context of processes of providing guidance and preparing reporting information. Hence it captures institutional connectivity within and across the organisations responsible for financial reporting and sustainability reporting standard setting (e.g. IFRS Foundation[3] and other jurisdictional standard setters). It also captures integrated thinking within organisations. It is beyond the scope of the EFRAG research project to assess or illustrate connectivity in process. Nonetheless, the development of the EFRAG research project deliverables with input from a multi-stakeholder advisory panel and with collaboration between the EFRAG FR and SR pillars is itself an embodiment and recognition of the value of connectivity in process.

Connectivity versus integration in reporting

11 The May 2023 ISSB Request For Information (RFI) *Consultation on Agenda Priorities* framed 'connectivity or connection in reporting' as being a distinct and narrower notion than 'integration of reporting'. Paragraphs A40 and A41 of the ISSB RFI state that "Integration in reporting takes the concept of connectivity a step further. Integration in reporting not only encompasses where, what and how information on value creation can be connected through conceptual and operational linkages (for example, in terms of compatibility of

[3] The importance of connectivity in the work of the IASB and ISSB is further highlighted in the feedback summary on connectivity (paragraph 9 page 3). In paragraph 11 of page 4, stakeholders' calls for "interconnected standards" instead of simply "compatibility and avoiding potential conflicts". Other relevant suggestions are being made in paragraphs 22-24 (pages 8-9) of the same document. https://www.ifrs.org/content/dam/ifrs/meetings/2024/january/iasb-issb-joint/ap2b-feedback-summary-connectivity.pdf

language and assumptions), but also includes the collective consideration of the interdependencies, synergies and trade-offs between:

(a) *the various resources and relationships reported on in general purpose financial reports; and*

(b) *how the value that an entity creates for itself and for its investors is inextricably linked to the value the entity creates for other stakeholders, society and the natural environment.*

12 Of note, EFRAG's August 2023 comment letter response[4] to the ISSB agenda consultation conveyed that the immediate priority for the ISSB and IASB should be connectivity rather than integration in reporting. Of note, three-quarters of the respondents to the consultation either considered integration a lower priority than other projects or did not rank it higher or lower in priority.

What is being connected under the EFRAG research project?

13 Connectivity in corporate reporting ought to focus on documents that have a well-identified nature, purpose, and established stature. Accordingly, as shown in Figure 3 below, the EFRAG research project focuses on the connection of information across the financial statements (i.e., as defined in IAS 1.10 consisting of the primary financial statements[5] and notes to the accounts), sustainability disclosures/statements in the management report in an EU context, and rest of information in the management report in an EU context. The project will also focus on IFRS general purpose financial reports (applicable for some non-EU jurisdictions), which consist of financial statements (i.e. primary financial statements and notes to the accounts), management commentary and

[4] - https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/EFRAG%2520response%2520ISSB%2520agenda%2520consultation%2520230830.pdf

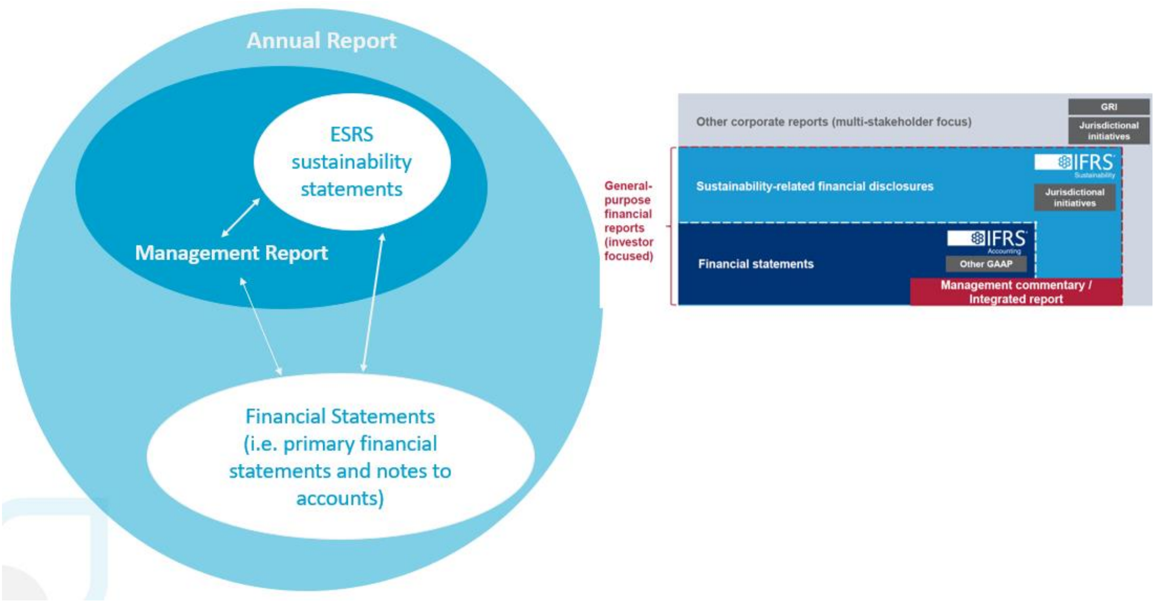
[5] A complete set of financial statements comprises: (a) a statement of financial position as at the end of the period; (b) a statement of profit or loss and other comprehensive income for the period; (c) a statement of changes in equity for the period; (d) a statement of cash flows for the period; (e) notes, comprising material accounting policy information and other explanatory information; (ea) comparative information in respect of the preceding period as specified in …; and (f) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with ...

sustainability financial disclosures albeit that, unlike ESRS, sustainability-related financial disclosures under IFRS general purpose financial reports do not have specified placement requirements for sustainability-related financial disclosures. However, individual non-EU countries would likely have specific placement requirements.

14 A focus on the aforementioned connections is aligned with the view in the Basis for Conclusions for Draft ESRS 1 (BC 42): "*Connected information establishes clear links between the management report, sustainability statements and financial statements and* ***provides a holistic view between all the factors that affect value creation****. This allows information to be more useful, relevant, and cohesive and the management report to be viewed as a single, balanced and coherent set of information properly linked with financial reporting […]. This concept is also aligned with the corresponding content of IFRS S1.* "

15 However, the EFRAG research project is also considering connectivity based on nature rather than the placement of information. Hence, relevant information within other sections of the reporting package (e.g., remuneration report) will be in scope (e.g., to the extent that such information has been included in the sustainability statements through cross-referencing as allowed by ESRS 1).

Figure 3: EFRAG research project- what is being connected?



Why connectivity is important

Distinctive and similar objectives of different corporate reports

16 Corporate reporting in the EU consists of different information sets across different locations within the annual report. These include IFRS or local GAAP financial statements,

the management report prepared based on the EU Accounting Directive and individual Member State mandatory requirements, and the forthcoming sustainability statements prepared under ESRS/CSRD. Depending on an individual country's legislative requirements, the annual report may also include other reports such as the remuneration report. These different reports have multiple audiences (investors and other stakeholders). Below is an analysis of the objectives and audiences of these reports.

17 **Similar and complementary objectives:** Notwithstanding the differing information content of financial statements, sustainability statements/disclosures within the management report, and the rest of the management report in the EU; these reports all include information that is financially material and primarily targeted at financial capital providers. The same can be said of the investor-focused IFRS general purpose financial reports, which are applicable within some non-EU countries and where reporting consists of financial statements based on IFRS Accounting Standards, sustainability disclosures under IFRS Sustainability Standards, and management commentary based on either the IASB Management Commentary Practice Statement or local requirements for the management report/MD&A.

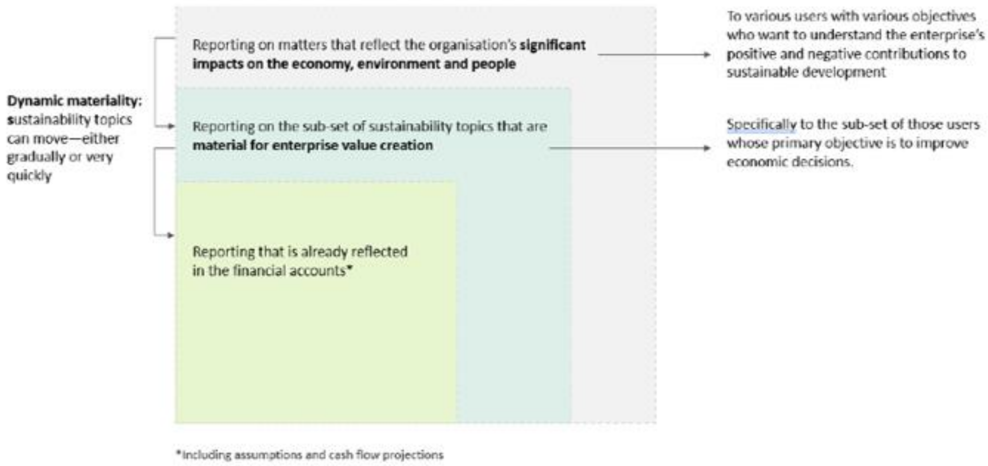
18 The financial statements, sustainability disclosures, and the rest of the management report include information that can collectively inform on the effects of an entity's strategy, business model, risks and opportunities on its financial position, financial performance, and future cash flows. As a result, these reports collectively facilitate financial capital allocation and the assessment of management's stewardship of an entity's resources.

19 It is for this reason that the information within both the financial statements under IFRS Accounting Standards and sustainability disclosures under ESRS and IFRS Sustainability Standards are/will be prepared based on the qualitative characteristics of the Financial Reporting Conceptual Framework (i.e., similar principles), same reporting entity, and sustainability reports will allow the same consolidation.

20 **Distinctive objectives**: The information in financial statements focuses on reflecting an entity's present rights to future economic benefits (assets) and present obligations to transfer economic resources (liabilities) predicated on the occurrence of a past event and with the entity having control over the assets (i.e., power to direct). Financial statements reflect the financial position and financial performance at the reporting date. This differs from sustainability disclosures whose delineation of risks and opportunities could include information related to the entity's potential/future financial position and financial performance. Sustainability reporting has gone beyond concepts applied for financial

statements (e.g., allowing the application of the notion of operational control for consolidation of metrics).

21 Moreover, based on the underpinning double-materiality perspective and the broader set of users of sustainability statements (i.e., not only financial capital providers), apart from including financially material information, the EU sustainability statements under ESRS will also include information that is material from an impact materiality perspective. Such information facilitates broader stakeholders' assessment of an entity's impacts on people and the planet. However, information that is material from an impact materiality lens may become financially material at a future date (i.e., also described as dynamic materiality[6] by some stakeholders or rebound effects by the EFRAG 2021 PTF-NFRS report).



Corporate Governance Academy

Complementary and distinctive objectives- implications for connectivity

22 Due to the differing information content, objectives and audiences of financial statements and sustainability statements/disclosures, the 2021 EFRAG PTF-NFRS report and several commentators have emphasised the importance of clear boundaries between the different types of reports (i.e., **sustainability reporting should start where financial reporting has stopped**). This viewpoint underscores the distinctive nature of the different reports. In this regard, as alluded to by the October 2023 ESMA publication on climate-related matters in the financial statements, **financial statements along with other distinctive reports are expected to be self-sufficient in providing information related to their stated objectives. In other words, repetition of certain information is sometimes necessary in so far as such**

[6] Dynamic materiality recognises that whilst a company may have many positive and negative impacts on people, planet and social prosperity, a subset of those impacts can, in turn, positively or negatively affect the company's business model and therefore create or erode its enterprise value and financial returns to providers of capital.

information is presented with a different flavour (and suffused with incremental insight). For instance, many flavours of IFRS profit are found in management commentary, remuneration reports etc.

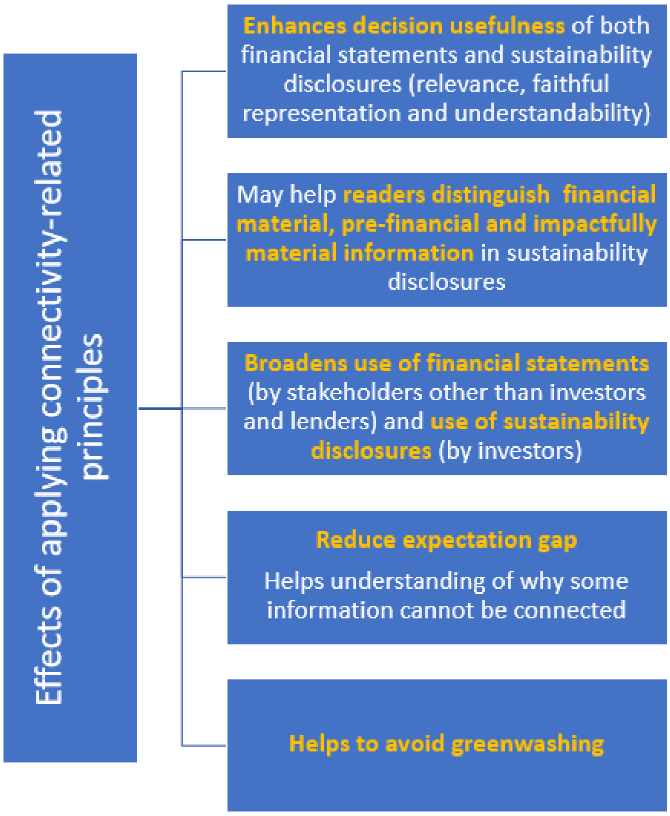
23 At the same time, due to the overlapping purpose of facilitating capital allocation and providing financially material information, these **different corporate reports can be seen as parts of a single composite report that informs on the value-creation story** of the reporting entity. This view can be drawn from the Basis for Conclusions for Draft ESRS 1 (BC 42): "*Connected information establishes clear links between the management report, sustainability statements and financial statements and* ***provides a holistic view between all the factors that affect value creation****. This allows information to be more useful, relevant, and cohesive and the management report to be viewed as a single, balanced and coherent set of information properly linked with financial reporting*

24 The application of the connectivity-related principles that are later discussed in this paper (e.g., consistency of assumptions, data and qualitative information; linkage through cross-referencing or reconciliation, and narrative explanations of interrelated value-creation-oriented relationships) can enhance the decision usefulness (i.e., relevance, faithful representation, and understandability) of financial statements, sustainability statement/report and the rest of the management report regardless of whether these reports are deemed to be distinctive reports or parts of a single composite.

25 The complementary nature of these different corporate reports underscores the importance of connectivity-related principles such as complementarity (i.e., jointly telling a full story of how an entity's strategy and business model, risks and opportunities, have an effect on its financial position, financial performance and future cash flows) and coherence (i.e., placement of information to allow users to make connections).

26 Figure 5 below sums up the expected benefits of applying connectivity-related principles that different stakeholders have conveyed.

Figure 5: benefits of connectivity



Developed by EFRAG based on engagement with stakeholders including EFRAG CAP

Connectivity-related categories and principles

27 Below is a summary of the connectivity-related categories and principles that are encompassed across the different guiding literature (e.g. ESRS, IFRS S1 and several regulatory publications including ESMA, Norwegian Finanstilsynet) that can be similarly applied in the connectivity project's illustrative examples.

Overarching principles

28 **Same basis of preparation contributes to the connectivity of information**: Both the ESRS and IFRS Sustainability Disclosures require reporting of information with the same qualitative characteristics of the conceptual framework. These standards also require the same reporting entity and reporting period as the financial statements. And they also have similar approaches for the treatment of events after the reporting date, changes in estimates, and changes in preparation and presentation practices as the financial statements. They were influenced by IAS 1 Presentation of Financial Statements, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requirements, and IAS 10 Events After the Reporting Period requirements. The same basis of preparation contributes to the connectivity of information.

29 **Clear and concise** disclosures as required by both IFRS S1 and ESRS contribute to the connectivity of information (i.e., understandability). The ESMA report also considered "simple and clear" and "organised and well formatted" as principles for selecting examples. **Avoiding unnecessary duplication** including through the use of cross-referencing is part of clear and concise communication.

30 **Self-sufficiency of each type of corporate report per its stated purpose**: As noted earlier, these different corporate reports have both distinctive[7] objectives and complementary objectives (i.e., the reports capture different versions of an entity's reality and a user needs different reports to build the mosaic of the company's story). Despite the aforementioned complementary nature, as alluded to by the October 2023 ESMA report, these reports are expected to be self-sufficient in providing information related to their distinctive objectives. Consequently, this may either necessitate repetition (albeit this should be done with tailoring/giving a flavour suited for the objective of the report) or incorporation by cross reference. That said, there are restrictions in incorporating information by cross reference. For instance, there could be legal risk associated with incorporating (by cross-reference) forward-looking information into the financial statements. A workaround could be for entities to have a disclosure in the financial statements of the component of sustainability disclosure that is material for the financial statements (i.e. pertinent to the financial position and financial performance at the reporting date).

Connectivity categories and principles

31 Type of connectivity**- explanation of strategic and value-creation-oriented relationships and effects** between financial statements, sustainability reporting and the rest of the management report information. As noted in ESRS1.123, this includes the linkage between strategy, business model and an entity's financial performance, financial position and other metrics and targets. IFRS S1.B44 states that connection can 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; 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.

[7] For example, if company Y does a tax transparency report for NGOs particularly interested in tax transparency and establishing whether companies pay there fair share of tax. This report is an independent report and whilst it may pull numbers and narrative from other reports is stands on its own for these users.

32 Below are several principles related to the explanation of strategic and value-creation-oriented relationships and effects:

(a) **Complementarity of narrative and quantitative information** – As noted earlier on why connectivity is important, these different corporate reports can be seen as complementary and parts of a unified whole especially as they inform on the value creation and include financially material information. The ESMA report refers to complementarity without defining the term. However, the EFRAG Secretariat interprets it to mean companies telling a complete value-creation story and being encompassed within ESRS 1.123 and IFRS S1.B44. These requirements provide the following examples:

(i) *ESRS 1.123 example: to allow users to assess connections in information, the undertaking 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 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.*

(ii) *IFRS S1. B44 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.*

(iii) *IFRS S1. B44 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.*

(b) Another example could be disclosing the correlations and causal links of information in the different reports. This was the case when *SAP outlined the correlated links between financial and non-financial information in its 2021 Integrated report. The interactive chart showed the effect of changes in employee engagement on profitability*.

(c) **Coherence:** The ESMA and Norwegian Finanstilsynet publications refer to coherence but without defining the term. However, this term was one of the attributes of useful information in the 2021 EFRAG PTF-RNFRO report where it is stated that the term connotes clear links between reports. The 2021 IFRS Practice Statement Exposure Draft for Management Commentary (ED) notes that coherence contributes to the completeness, clarity and comparability of information. The ED convey that if a matter discussed for one area of content has implications for other areas of content, information is included to allow investors and creditors to understand the implications. Similarly, the November 2023 New Zealand XRB[8] staff paper notes coherence requires entities to present disclosures in a way that explains the context and relationships with other disclosures so that users can make connections between the two sets of information. The XRB report provides the following example showing the connection between climate-related disclosures and the financial statements:

> *Current financial impact and cross-referencing to financial statements Our storage warehouse was damaged by a flood, impacting all inventory supplies stored there. Those inventories were written down to net realisable value, as disclosed in Note X of the financial statements.*

33 Type of connectivity- **Direct and indirect connectivity (linkage of monetary and other quantitative data points)**: ESRS connection requirements also specify ***direct and indirect connectivity*** that could be construed as linkage of quantitative datapoints done through cross-referencing and reconciliation for indirect connectivity. Examples

(a) *revenue amount in GHG intensity metric can be directly linked to IFRS 15 revenue through cross-reference in the sustainability statement.*

(b) *reconciliation of revenue amount in GHG intensity metric to IFRS 15 revenue amount when it cannot be directly linked. This reconciliation will be in the sustainability statement.*

34 It is expected the overarching principle of clear and concise communication will be applied in disclosures of direct or indirect connectivity. That said, <u>direct and indirect connectivity may be more applicable for linking sustainability reporting information to financial statements than the other way around</u>.

[8] NZ XRB staff guidance, November 2023, Climate-related matters in Financial Statements

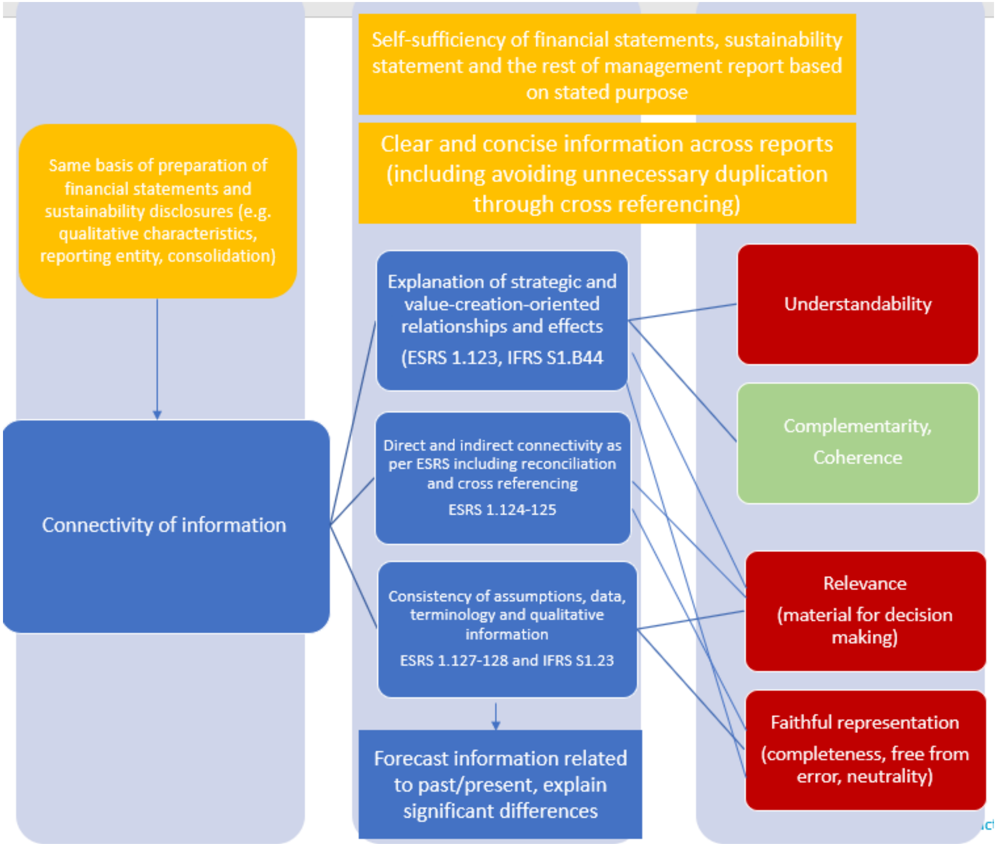
35 Type of connectivity**- Consistency**[9] **of data, assumptions, and narrative information** (as reflected in ESRS 1.127-128 and IFRS S1.23). This includes relating forecasts to information of past and present and disclosing information about **significant differences between data and assumptions used**. Connectivity as articulated under ESRS 1 and IFRS S1 goes beyond consistency as understood under audit guidance and the enforcers' thematic reviews of consistency of reporting.

36 **Intertemporal connectivity**: Connectivity has a static dimension (i.e., connectivity of information located in different reports at a particular reporting date). In addition, there can be intertemporal connectivity with a dynamic dimension where there is a change in the reporting location of impacts, risks, or opportunities across different reporting periods (i.e., migration of items across different reports over time). For instance, this could be due to the change in nature, quantifiability, magnitude/severity, or probability of occurrence of a particular risk or opportunity. It can also be due to impacts disclosed in one period becoming financially material at a future period (i.e., dynamic materiality). Enabling the understanding and monitoring of the noted migration of information across reporting periods is a key element of connectivity as it explains and highlights the evolving nature of the related information. Under ESRS requirements, intertemporal connectivity is captured by forecast information being related to past/present.

37 Figure 6 below visually depicts the principles of connectivity that will be illustrated through examples and how these principles contribute to the qualitative characteristics of the conceptual framework.

Figure 6: Principles of Connectivity of information that will be applied for illustrations/examples (Colour code- Blue-Types of connectivity identified in ESRS and IFRS Sustainability requirements; Orange- Overarching principles that contribute to connectivity of information; Green- Principles that specifically enhance connectivity of information, Outcomes of applying connectivity principles)

[9] The notion of consistency is included in existing auditor guidance, and it is also the transparency directive. Furthermore, this notion has been the focus of different regulators (AMF, ESMA, Finanstilsynet and UK FRC) in their thematic reviews of trends in the reporting of climate-related risks in the financial statements (including whether there is a disconnect with versus the information outside the financial statements).



38 ***Outcomes- the application of connectivity principles contributes to information adherent to the qualitative characteristics of the conceptual framework***. Connectivity-related principles are consonant with several qualitative characteristics of the conceptual framework (i.e., relevance, faithful representation, and understandability) as noted below:

(a) *Relevance*: Connectivity via an explanation of linkage between strategy and business aims to tell a more complete story of the entity's value creation and in so doing provides relevant information.

(b) *Faithful representation*: Consistent assumptions across different reports, linkage of narrative information to current financial effects, and reconciliation of interrelated amounts could ensure faithful representation and lessen greenwashing.

(c) *Understandability*: Connectivity by applying consistent assumptions contributes to understandability because any inconsistency between the two reports would confuse the reader. Cross-referencing between the various sections of the annual report helps ensure the ease of navigation through the information provided in the annual report. And avoiding unnecessary duplication avoids the obscuring of material information.

Role of technology in fostering connectivity

39 Technology has a role in fostering connectivity albeit it needs to be seen as primarily a tool of reflecting the underlying principles of connectivity. The 2021 EFRAG European Lab publication on Good Practices in Business Model, Risks and Opportunities Reporting in the EU (hereafter referred to as the 2021 PTF-RNFRO report[10]) included findings from a survey to preparers, which show they consider technology as having a role in creating links within and between different reports. The report also highlights:

(a) the use of interactive technology (visualisation and hyperlinks) to facilitate the connection of information. The report provides an illustrative company example;

(b) the use of natural language processing to identify the co-occurrence of information; and

(c) the use of XBRL to tag financial and non-financial information as a way of attaining connectivity.

Similarly, at the 2023 EFRAG Conference, the Head of ESMA, Verena Ross underscored the use of digital tools as a mechanism of connectivity.

40 As noted above, XBRL technology and tagging of both financial statements and non-financial information presents an opportunity to attain connectivity at a grassroots level. Specifically, XBRL/digital reporting is a required deliverable under the CSRD and the availability of the three taxonomies [IFRS Accounting Taxonomy, ESRS and Article 8 XRBL Taxonomy] embedded into the ESEF Regulation will create an ecosystem of data accessible from digital reports from EU companies through the European Single Access Point (ESAP). In this context, digital technology plays an important role in the connectivity of information. Some potential aspects to be focused on are:

(a) the creation of individual elements or even their specific data type classification [i.e. monetary elements such as "assets at physical risk"] within the sustainability taxonomy will facilitate the usability of the data related to the point of connectivity with the financial statements.

(b) potential creation of interoperability between the three taxonomies [i.e. reusing of elements of accounting taxonomy into sustainability taxonomy, e.g. Revenue/Turnover and Assets].

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[10] Towards Sustainable Business: Good Practices in Business Model, Sustainability Risks and Opportunities Reporting in the EU. Examples are in the Supplementary Document: Good Reporting Practices.

(c) The presentation of anticipated financial effects of sustainability matters (ESRS), which could be disclosed based on financial statement line items combined with an ESRS dimension (e.g. "Anticipated financial effect through climate-change Long/Medium/Short-Term").

(d) The reconciliation between financial statement items and operating segments with ESRS Sectors and related data points (e.g. Revenue in ESRS SBM-1).

41 Moreover, at the May 2023 EFRAG-hosted EAA symposium, it was noted that in the context of the IFRS Foundation's work on connectivity, the digital taxonomy of the Sustainability Disclosure Standards would be informed by the taxonomy used for the Accounting Standards to help achieve connectivity in the Standards.

42 XBRL could provide connection points as the need to tag information requires the use of shared terminology, such as on the definitions of revenue, provisions, segments and entity and it enables the use of consistent terminology.

43 From an analysis of information standpoint, XBRL and tagging in tandem with the use of AI to retrieve and consume information could help users to process both financial and sustainability information. However, it was noted that though useful, AI can sometimes lead to the loss of the context surrounding the information. Therefore, humans are still needed to perform the tags to ensure all material information is captured.