

CONNECTIVITY PROJECT

**Possible outreach plans and examples
development update**

AGENDA PAPER 08-03

15 May 2024





Examples development update

Priorities for illustrating connectivity (starting from sustainability reporting information)

- **Topics: climate and other environmental topics, own workforce and business conduct**
- **Anchor points:** ESRS [datapoints](#) will be a key reference point ([spreadsheet link](#)).
- Focus on SR connections
 - **Topic 1:** connections between **business model, strategy, risks and opportunities disclosed in SR** and **current financial effects** in the financial statements and **information in the rest of the management report**
 - **Topic 2: Article 8 (EU taxonomy) information** connections to financial statement information
 - **Topic 3:** connection of **anticipated financial effects** disclosed in SR to financial statement information in current and future period (will also consider description of risks and opportunities).
 - **Topic 4: Human rights and employee benefits** in sustainability statements/disclosures and link to financial statements (e.g. provisions)

Priorities for illustrating connectivity – Starting from financial statements

- **Illustration of connectivity** will focus on the following connections
 - **Topic 5:** Whether and how **valuation of non-financial assets** including impairment of non-financial assets, useful lives, residual value is linked to SR information (**R&D investments in sustainability-linked products, stranded assets**)
 - **Topic 6:** Contingent liabilities and provisions (and disclosures that inform on commitments) (**net-zero commitments, environmental liabilities, and workforce-related liabilities**)
 - **Topic 7:** Significant judgments, major **sources of estimation uncertainty** and accounting policies; **Qualitative materiality** disclosures
 - **Topic 8:** Connections of segment reporting and disaggregation of revenue to related SR information (e.g., **IFRS 15 disaggregation of revenue disclosure reflect sustainability-linked revenue streams, whether identified segments reflect sustainability-linked business models**).
 - **Topic 9:** Possibly considering connections related to other **2022 ESMA enforcement priorities** (e.g., **disclosures of carbon credits, share-based compensation**)

Progress per thematic area

Reasonable progress

Topic 1: connections between business model, strategy, risks and opportunities disclosed in SR and current financial effects in the financial statements and information in the rest of the management report

Topic 2: Article 8 (EU taxonomy) information connections to financial statement information

Early stage development

Topic 3: connection of anticipated financial effects disclosed in SR to financial statement information in current and future period.

Topic 5: Whether and how valuation of non-financial assets including impairment of non-financial assets, useful lives, residual value is linked to SR information

Topic 6: Contingent liabilities and provisions (and disclosures that inform on commitments)

Topic 7: Significant judgments, major sources of estimation uncertainty and accounting policies; Qualitative materiality disclosures

Topic 8: Connections of segment reporting and disaggregation of revenue to related SR information

Not started

Topic 4: Human rights and employee benefits in sustainability statements/disclosures

Topic 9: Possibly considering connections related to other 2022 ESMA enforcement priorities (e.g., disclosures of carbon credits, share-based compensation)

Points of emphasis made on 30 April EFRAG CAP meeting

- **Should focus on good practice** instead of best practice;
- **Prioritise real-world examples**, based on identified information;
- **Need for clarity** on sample considered per thematic area;
- **Review overlaps** between thematic areas;
- **Consider ESRS early adopters**: Over 10 companies identified as early adopters (including ABN Amro, Akzo Nobel, Allianz, Cenergy, Komplet, Metsa, Phillips and Orsted);
- **Target timing**: 30 June 2024 set as targeted date for finalising examples development.

Anticipated financial effects disclosure in SR- Points of note/challenges – 1/2

“Financial effects that do not meet the recognition criteria for inclusion in the financial statement line items in the reporting period and that are not captured by the current financial effects.” (ESRS Glossary)

- Lack of clarity on what is meant by anticipated financial effects (to what extent could SR information be included in what is in the notes to the financial statements?).
 - Information in financial statements (e.g., IAS 1.125) could be related to requirements on anticipated financial effects as per ESRS and IFRS S1, S2.

Anticipated financial effects disclosure in SR- Points of note/challenges – 2/2

- The review of early adopters shows that it is rarely reported and mostly qualitative. Hence, good practices will include qualitative disclosures.
- Need to be cognisant that quantified risks including the assets at risk and revenue at risk, under ESRS anticipated effects requirements, may never crystallise in the financial statements in the long run.
- Based on the dialogue with SR TEG members during the update meeting, we will endeavour to reach out to experts including SR TEG members involved in quantifying future financial effects.

Questions for EFRAG FRB and FR TEG members

1) Do you have any comments on the example development progress?



Outreach

Approach reflecting EFRAG CAP recommendation

- **Phased, efficient and targeted** (e.g., focusing on EFRAG working groups), due to stage of project development and resource constraints.
- **Timing:** Too early to start a comprehensive outreach, to be considered at a later stage.
- **Collection of broader-based users and preparers' views** on questions addressed via the project.
- **Specific questions on:**
 1. Content of interim deliverable paper; and
 2. Road-testing stakeholder perspectives on examples.
- **Outreach events and interviews** deemed more helpful than surveys.
- **Leverage** CAP members' networks and national standard setters.
- **Complements rather than substitutes** intended outreach when Discussion Paper issued
→ distinction between respective outreach objectives.

Indicative questions

For users: (i) Do you consider that each report (i.e., management report, sustainability report, financial statements) should be self-sufficient, or should they constitute parts of an overall package?

(ii) Does the specific location of information (that is, whether it is in the financial statements or the sustainability disclosures) matter?

Location of net zero disclosures (i.e., what disclosures should be in the financial statements).

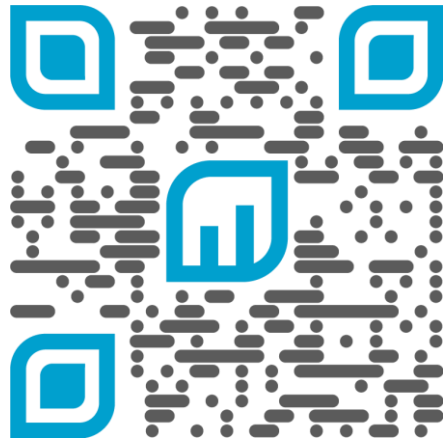
For preparers: What challenges do you encounter in connecting information across different sections of the annual report?

What is the interaction between IAS 1.125, and anticipated financial effects, as captured by the ESRS standards?

Questions for EFRAG FRB and FR TEG members

- 1) Do you agree with the suggestion on if, how and when to do an outreach?

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