

CONNECTIVITY PROJECT

EFRAG FR TEG AND SR TEG

15 February 2024



PROCESS SO FAR

- Including EFRAG CAP steps so far, next steps

POINTS OF NOTE

- Including principles, priorities, documentation of examples

Agenda papers

EFRAG CAP MEETINGS SO FAR

- July 2023
 - Updated the CAP on the scope of the project and the approved two-phase approach.
 - Had scene-setting presentations covering functional perspectives (EnBW preparer-Isabel Widmer, Equity analyst- Jeremy Stuber)
- October 2023
 - Had scene-setting presentations covering functional perspectives (Enforcer-Sirrku, Auditor- Leo; Academic-Thorsten)
 - Discussed an approach of identifying and developing examples
 - Agreed structure for Discussion Paper
 - Agreed priority topics for illustrating connections

EFRAG CAP MEETINGS SO FAR- cont

- November-December 2023
 - Principles and examples development subgroups formed in November. Principles subgroup is led by **Leo van der Tas** and Examples subgroup is led by **Cedric Tonnerre**. The work of the subgroups will be iterative
 - Principles subgroup led by Leo van der Tas had two meetings in December 2023 and January 2024
 - Subgroup leaders and CAP Chairman had a coordination meeting in December 2023
 - The Examples subgroup had a meeting in January
- February 2024
 - Agreed on examples development roadmap (*Discussion Paper should have 30+ examples, agreed on documentation for each example*)
 - Agreed on interim deliverables
 - Presented two papers guided by input from Principles subgroup
 - **Connectivity principles** (*what is connectivity, why connectivity is important, connectivity principles, role of technology*)
 - **Objectives and Boundaries of different sections of annual report** (*objectives and audiences of financial statements, management report, sustainability statements; application of materiality; overlapping and distinguishing features; why sustainability information sometimes cannot be reflected in financial statements*)

SUGGESTED INTERIM DELIVERABLES

An IFASS presentation that will highlight connectivity description, importance, principles and 10 examples

After refinement, the papers on connectivity-related principles and objective and boundaries can be distributed as an interim deliverables /educational materials to reduce the often-referred expectation gap

NEXT STEPS

FR and SR TEG update on 15 February 2024; FRB and SRB update on 29 February 2024

EFRAG Secretariat will partner with CAP in developing 10 examples (deadline of 31 March 2024)

- EFRAG Secretariat is using Alphasense and a sample of 50+ EEA companies to identify examples
- EFRAG CAP have been requested to forward examples in February
- Across ten prioritized topics- Groups of three CAP members including an examples subgroup member will select and justify the 10 examples
- EFRAG CAP examples subgroups will have two further meetings in February and March 2024 to discuss the 10 examples for IFASS presentation

Written comments on examples for IFASS examples will be sought from EFRAG FR and SR TEG; EFRAG FRB and SRB by April 7 2024

NEXT STEPS- Cont

FR and SR TEG; FRB and SRB updates

30+ Examples by 30 June 2024

Discussion Paper in H2 2024 (More detailed plan to be developed after IFASS meeting)

POINTS OF NOTE

EFRAG research project approach

Phase 1: Operationalisation of connectivity under current reporting requirements- **Discussion**
Paper expected in 2024

Conceptual scene setting

Why connectivity is important

Set common definitions (**what connectivity means for EFRAG project**)

Articulate distinctive objective roles of Financial statements, management report and SR

Identify differences between FR and SR (**what cannot be connected**)

Identify user and other stakeholder needs and expectations

Identify disclosures that can be linked (**what can be connected**)

Practical application

Real world and proforma examples

Iterative process of example versus guiding principles development

Phase 2: Scope to be determined based on Phase 1

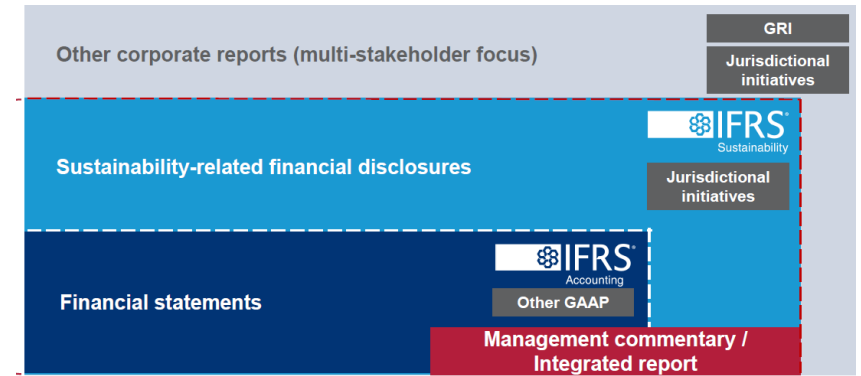
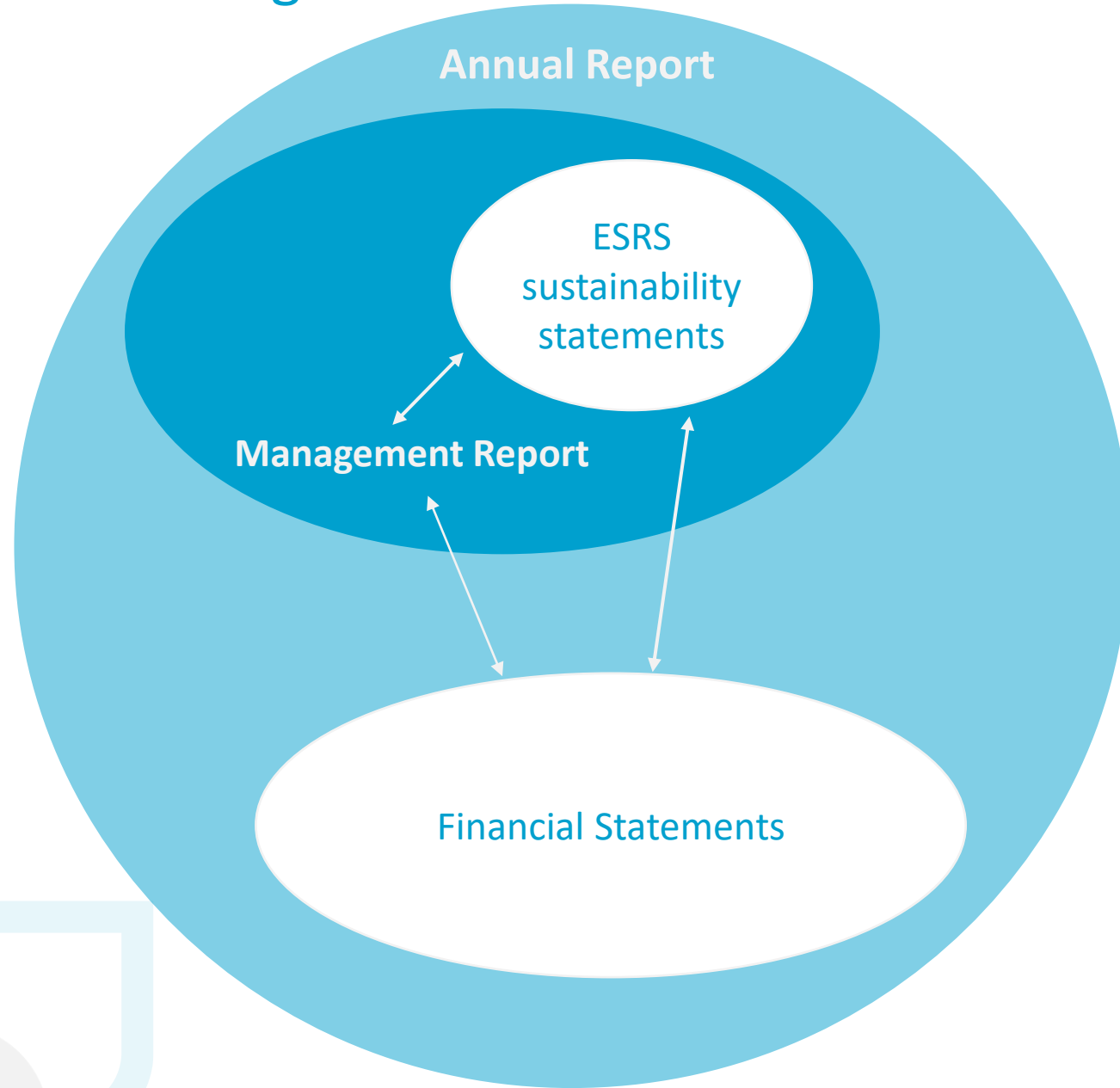
Monitor IASB management commentary, ISSB, other National Standard Setter and regulator connectivity initiative

EFRAG work should be synergistic with work done by others

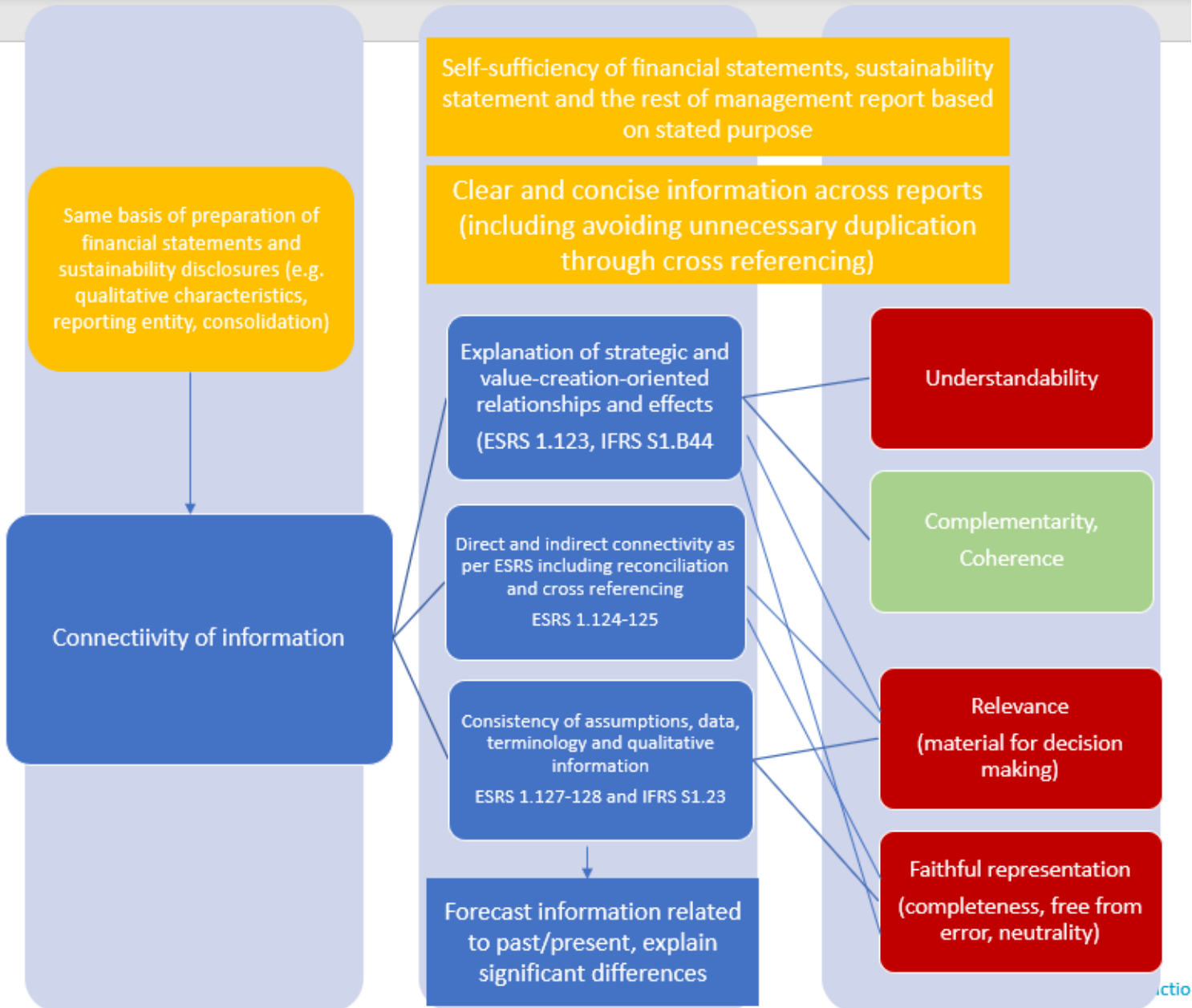
Scope of SR: ESRS and ISSB SR

Scope of FR: IFRS requirements

What is being connected?



TENTATIVE CONNECTIVITY PRINCIPLES & WHY CONNECTIVITY IS IMPORTANT

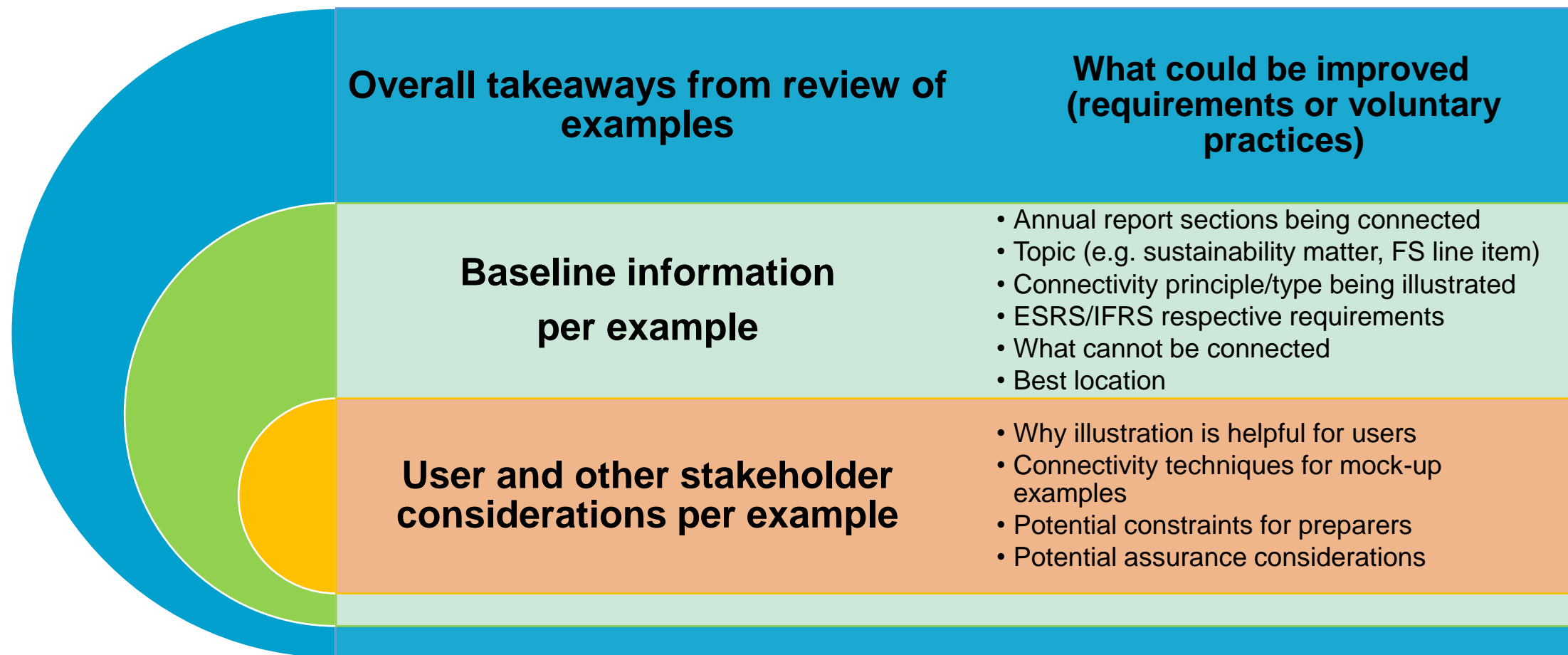


Priorities for illustrating connectivity

- Illustrations of explanation of value creation, consistency (of assumptions, data, qualitative information) and indirect connectivity should be prioritised over illustrations of direct connectivity (e.g., via use of cross referencing). The latter is a less challenging aspect of connectivity
- **Illustrations of SR information connections to financial statements** will focus on **environmental (climate, and other environmental topics), own workforce and business conduct** datapoints. **ESRS datapoints** will be a key reference point (spreadsheet link <https://bit.ly/49cRxRK>). Use of current reporting that has ESRS data points. A high priority will be accorded to
 - connections between **business model, strategy, risks and opportunities** disclosed in SR and the information in the financial statements and the management report
 - connection of anticipated financial effects disclosed in SR to financial statement information. Illustrations of information that is financially material in SR but not in the financial statements
 - Article 8 (EU taxonomy) information connections to financial statement information
 - Human rights and employee benefits in sustainability statements/disclosures
 - Other financially material information besides anticipated financial effects in sustainability statements/disclosures

- **Illustration of connectivity of financial statements** information to that outside the financial statements with a prioritised focus on the following connections
 - Whether and how valuation of non-financial assets including impairment of non-financial assets, residual lives, residual value is linked to SR information (**R&D investments in sustainability-linked products, stranded assets**)
 - Contingent liabilities and provisions (and disclosures that inform on commitments) (**net-zero commitments, environmental liabilities, and workforce-related liabilities**)
 - Qualitative materiality assessments (**climate-related risks**)
 - Connections of segment reporting and disaggregation of revenue to related SR information (e.g., **IFRS 15 disaggregation of revenue disclosure reflect non-green versus green revenue in SR, whether identified segments reflect green-oriented business models**).
 - Possibly considering connections related to other 2022 ESMA enforcement priorities (e.g., **measurement of investment properties**)

SUGGESTED DOCUMENTATION OF EXAMPLES



AGENDA PAPERS

Agenda Papers for the session

- Paper 02-02 Examples Development-related considerations – Updated Roadmap
- Paper 02-03 Illustrating connectivity
- Paper 02-04 Connectivity principles
- Paper 02-05 Objectives and Boundaries of different sections of the annual report