EFRAG research project on connectivity - Discussion Paper Draft content

DRAFT APPENDICES

APPENDIX A: PROFILE OF REVIEWED COMPANIES AND OUTREACH OVERVIEW

Profile of 72 companies reviewed

1 Below is a profile of the reviewed companies, covering their country, sector and application of ESRS and ISSB Standards.

Figure 1: Breakdown of companies per country:

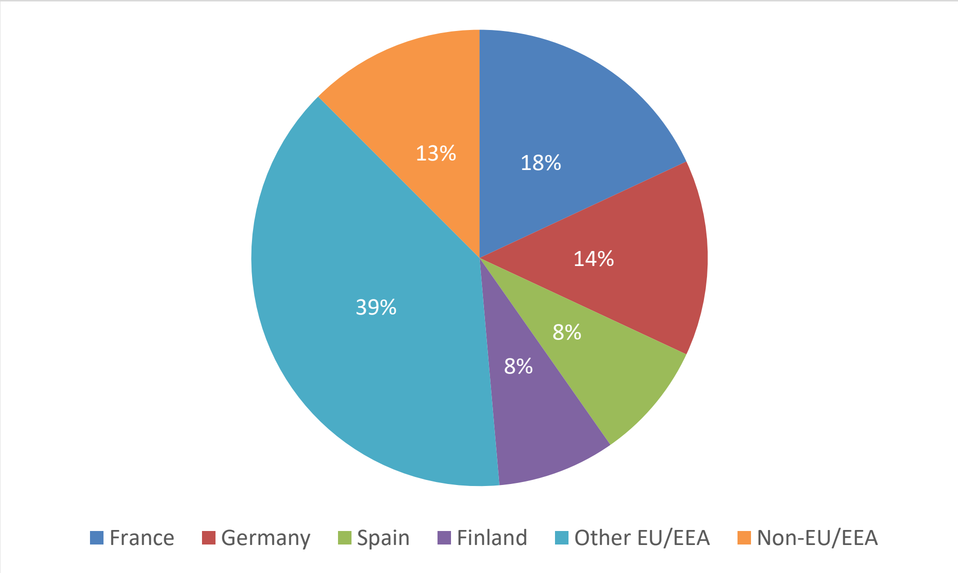
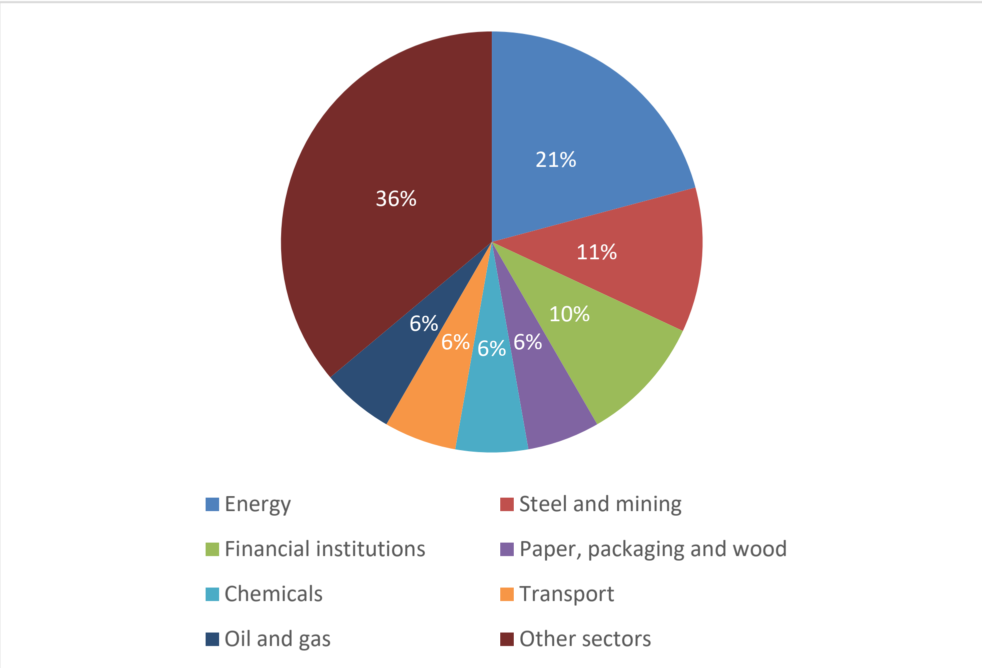
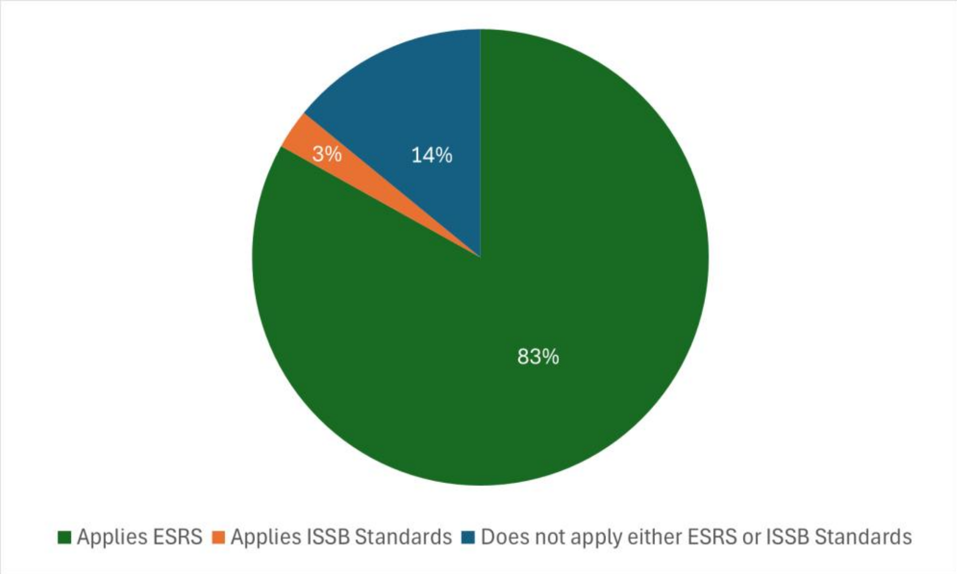


Figure 2: Breakdown of companies per sector[1]:



[1] Other sectors includes various other sectors such as hospitality, telecommunications, consulting and food and retail.

Figure 3: Extent of application of ESRS and ISSB Standards[2]



Profile of stakeholders who provided feedback

2 During EFRAG's outreach, input was obtained from

(a) ***Preparers (Eight preparers):*** Seven preparers were interviewed based on a pre-meeting questionnaire, and one preparer provided written responses to the questionnaire. These preparers represented European entities with a global presence of which six were non-financial institutions operating in the energy, pharmaceuticals, and fashion sectors and two were financial institutions.

(b) ***Auditors:*** Representatives of three of the largest audit firms were interviewed, including those focusing on auditing financial statements and providing assurance on sustainability reporting

(c) **Five users representing key user institutions** were interviewed, representing

(i) two global asset managers employing multiple investment strategies across asset classes (i.e. equities, public and private fixed income, real estate, multi-asset investments), with one being primarily technology-driven/algorithmic (managing approximately 561 and 165 billion euros of assets, respectively),

(ii) one long-only equity investment firm (managing approximately 5 billion pounds of assets) focusing on stewardship and engagement with management,

(iii) an investor organisation for responsible investment, and

(iv) the ESG rating agency arm of one of the largest rating agency firms.

[2] Of the entities not applying either the ESRS or ISSB Standards, some report under NFRD, some report in line with TCFD and one reports under the GRI and SASB Standards.

3 Users', preparers', auditors', securities regulators', national standard setters', and academics' views were also gathered from discussions during a) meetings of the EFRAG FR and SR technical governance bodies, EFRAG CAP, EFRAG TEG-CFSS, EFRAG user panel, EFRAG academic panel, EFRAG FIWG and IAWG; and b) across several EFRAG-hosted or co-hosted connectivity events or those where EFRAG participated, including

(a) 2025 EFRAG multi-stakeholder webinar report (*Practical considerations for connecting financial and sustainability reporting*)

(b) 2024 OIC-EFRAG event

(c) April and September 2024 IFASS meetings

(d) 2023 EFRAG EAA

(e) 2022 and 2023 EFRAG conferences

APPENDIX B: REPORTING REQUIREMENTS AND MATERIALITY PERSPECTIVES UNDER THE EU REPORTING FRAMEWORK & IFRS GENERAL PURPOSE FINANCIAL REPORTS

Requirements for reporting information in the financial statements, management report, and sustainability statement/disclosures

1 *Financial statements*: As stated in paragraph 3.2 of the Conceptual Framework for Financial Reporting (Conceptual Framework), the objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

Primary financial statements

2 The recognition[3] of elements of primary financial statements (assets, liabilities, equity, income, and expenses) is guided by the requirements of accounting standards (e.g. IFRS Accounting Standards, local GAAP). Unlike the management report and sustainability statement/disclosures, which consider all resources and relationships available to the reporting entity, financial statements only depict resources owned/controlled by the reporting entity and claims on these resources.

3 IFRS 18.16 states that the role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for:

(a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

[3] In the conceptual framework, recognition is defined as the process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements—an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items—in words and by a monetary amount, and including that amount in one or more totals in that statement.

Disclosures in the notes to the accounts

4 IFRS 18.17 states that the role of the notes is to provide material information necessary:

(a) to enable users of financial statements to understand the line items presented in the primary financial statements; and

(b) to supplement the primary financial statements with additional information to achieve the objective of financial statements.

5 Relatedly, paragraph 3.6 of the Conceptual Framework states that information about possible future transactions and other possible future events (forward-looking information) is included in financial statements if it: (a) relates to the entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and (b) is useful to users of financial statements. For example, if an asset or liability is measured by estimating future cash flows, information about those estimated future cash flows may help users of financial statements to understand the reported measures. Financial statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting entity.

6 And paragraph 3.7 of the Conceptual Framework states that financial statements include information about transactions and other events that have occurred after the end of the reporting period if providing that information is necessary to meet the objective of financial statements.

7 For IFRS reporting entities (including EU-listed entities), the disclosures in the financial statements result from the general and specific IFRS Accounting requirements. In general, the following can be considered the guiding principles for the disclosures of information in the financial statements.

(a) Disclosures should only relate to defined assets and liabilities (including contingent liabilities) and thus should be guided by specific IFRS Accounting Standards.

(b) Disclosures are provided if deemed material for financial statements by users and are done based on general requirements under paragraph 31 of IAS 1 (paragraph 20 of IFRS 18), which relates to qualitatively material exposures, and paragraph 125 of IAS 1 (paragraph 31A of IAS 8). The latter would relate to information about the assumptions a reporting entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

8 The guidance for developing and drafting disclosure requirements (developed after the completion of the *Disclosure Initiative – Targeted Standards Level Review of Disclosures* project) indicated that disclosures can include information about unrecognised assets and unrecognised liabilities including information about their nature and the risks arising from them.

9 *Management report, sustainability statement/disclosures*: For EU entities, the sustainability statement within the management report is prepared based on ESRS requirements and the management report is prepared based on the EU Accounting Directive and country-specific requirements. Figure 4.3 outlines other key differences between the financial statements, the management report, and the sustainability statement under the EU reporting architecture.

Financial statements (FS) (Source: Conceptual Framework)	**Management report** (Source: EU Accounting Directive)	**Sustainability statement** (Source: EU Accounting Directive and ESRS)
Reflects financial position, financial performance at reporting date (present assets and liabilities)	Reflects entity's performance, position and development; it is traditionally a part of general purpose financial reporting with financial materiality perspective	It is a section of the management report
Primary audience of financial capital providers	Under CSRD, management report can be deemed to be part of general purpose sustainability reporting	Discloses entities' sustainability impacts, risks and opportunities
Includes information material to FS users	Provides description of principal risks and uncertainties	Discloses financial effects of IROs in short, medium and long term
Recognition depends on financial control, separability of items, existence/occurrence and measurement uncertainty considered	Primary audience is knowledgeable user	Audience of stakeholders including investors and other users with interest in entity's impacts on planet and economy
Reporting entity- entities in scope of consolidation depend on financial control	Implicit that it has same reporting entity as FS	Financially and/or impactfully material information included
		Same reporting entity as FS, consideration operational control in calculation of environmental metrics

Observations
- Materiality is interrelated with objectives and audience; similarity in the definition of financial materiality and difference of information in different AR sections stems from differences in their objectives
- **Similarities:** overlaps in information related to current financial performance and financial position; same reporting entity, informs financial capital allocation decisions and users' assessment of management's stewardship of entity's own resources
- **Differences**: FS does not focus on representing information related to future financial performance and financial position. Application of operational control in only SR extends the related reporting boundary beyond that of FS; sustainability statement informs on externalities, CSR (stewardship of planetary and societal resources)

Source: 2024 EFRAG Connectivity Considerations and Boundaries of Different Annual Report Sections

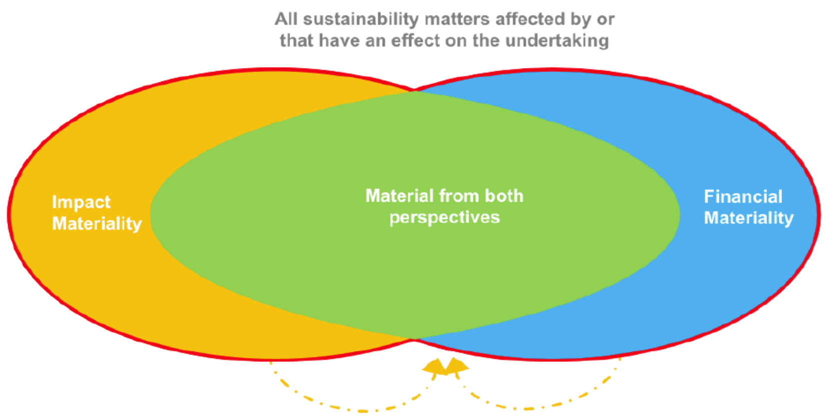
Materiality Perspectives (EU and IFRS General Purpose Financial Reports)

10 As noted in Chapter 1, both the EU reporting framework and IFRS general purpose financial reports are in the scope of this Discussion Paper. Thus, a recap of the application of the materiality concept is done with respect to both these reporting frameworks, including the similarities and differences in the objectives and materiality definitions of these different reports.

Materiality definition of SR versus financial statements under the EU reporting framework

11 Due to the broad set of users of the sustainability statement (primary users of financial statements, affected stakeholders (proposed to be referred to as users of general purpose sustainability statement under the Revised ESRS ED proposals), and other users), as depicted in the diagram below and detailed in ESRS 1 of ESRS Set 1 and the May 2024 EFRAG IG1: ESRS Materiality Assessment Implementation Guidance (EFRAG MAIG), the sustainability statement is prepared from both a financial materiality and impact materiality perspective (i.e. double materiality).

Excerpt from the May 2024 EFRAG ESRS Materiality Assessment Implementation Guidance



Caveat: for illustration only – the dimensions in the graph do not necessarily represent the expected overlap (green) between financial and impact materiality nor the relative perimeters of impact materiality (orange) versus financial materiality (blue). For most material impacts, a risk or opportunity related to that impact may emerge over time.

12 *ESRS Set 1 materiality definitions*: Under ESRS Set 1, a sustainability matter is 'material' when it is either impactfully material or financially material or both (ESRS 1. 28). A sustainability matter is material from a financial perspective (financially material) '*if it triggers or could reasonably be expected to trigger material financial effects on the undertaking*' (ESRS 1. 49). Financial materiality is assessed from the perspective of the primary users of general-purpose financial reports in making decisions relating to providing resources to the entity (ESRS 1. 48). A matter is impact material when it '*… pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term. Impacts include those connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Business relationships include those in the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships.' (ESRS 1. 43).* EFRAG ESRS MAIG

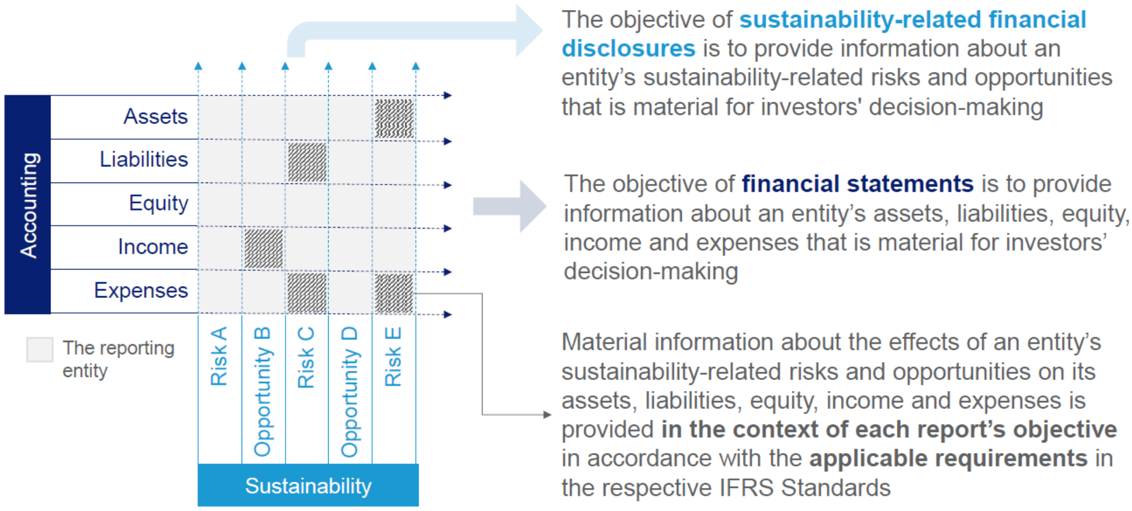
Paragraph 37 notes that '*For most material impacts, a material risk and/or opportunity may emerge over time*[4]*…*

Objectives and materiality definitions of IFRS general purpose financial reports

13 Different pieces of guiding literature[5] from the IASB and ISSB (i.e. Conceptual Framework for Financial Reporting, Appendix A of IFRS S1 *General Requirements for Disclosures of Sustainability-related Financial Information*, IFRS 18 Presentation and Disclosure in the Financial Statements, and the June 2025 IASB *IFRS Practice Statement 1- Management Commentary* (2025 MCPS), and related staff papers for the finalisation of the 2025 MCPS) provide definitions that convey the objectives, and materiality definitions of the different IFRS general purpose financial reports (i.e. IFRS general-purpose financial statements, sustainability-related financial disclosures, and management commentary). These different reports have a broad overlapping objective (i.e. to provide useful financial information about a reporting entity to primary users-investors related to providing resources to the entity). They also have distinctive objectives (e.g. general purpose financial statements provide information about financial statements' elements, and sustainability-related financial disclosures provide information about sustainability-related risks and opportunities). Consequently, as shown in Figure 4.12 below, the information that is material depends on the context of the respective objectives of each distinctive general purpose financial report.

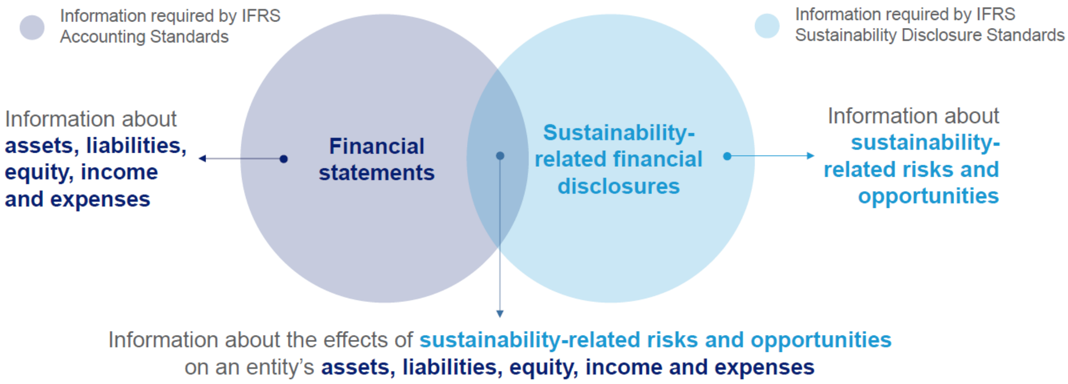
Figure 4.12:

[4] *For example: a) an oil and gas undertaking identifies a material negative impact from not consulting or reaching an agreement with indigenous' people about land use for extraction and relocation of the community. At the reporting date, the undertaking does not expect protests from the indigenous community. However, the community may later protest, halting the site production, causing material costs due to production days lost or the abandonment of the project; b) an undertaking has discriminated based on gender when promoting employees during the current reporting year. At the reporting date, the undertaking does not expect that the employees will pursue legal proceedings. However, the group of employees, individually or as a whole, may sue for financial compensation at a later stage on the grounds of gender discrimination and cause reputational damage to the undertaking*.'



Source- IASB-ISSB slide presentation at the 2024 World Standard Setters Forum

14 The [November 2024 ISSB publication- Sustainability-related risks and opportunities and the disclosure of material information]() (2024 ISSB materiality educational material) notes that the distinct scopes of the reported information—including differences in relevant time horizons and the types of information required to meet the respective objectives of sustainability-related financial disclosures and the related financial statements—mean that distinct materiality judgements are necessary for those disclosures and the related financial statements. It is also noted that, as depicted in the figure below, sustainability-related financial disclosures that provide information about sustainability-related risks and opportunities are not limited to information about whether those risks and opportunities have affected or relate to an entity's assets, liabilities, equity, income or expenses.



15 Moreover, Figure 4.4, which is excerpted from a November IASB staff [Agenda Paper 15B]() related to the 2025 MCPS- Appendix A indicates there has been an alignment in the definitions of materiality for the different IFRS general purpose reports with the differentiating factor being the objective of the report (i.e. primary users use different IFRS general purpose financial reports to assess different aspects of the same purpose while making capital allocation decisions).

Conceptual Framework for financial reporting	**IAS 1** ***Presentation of Financial Statements*** **/ IFRS 18** ***Presentation and Disclosure in Financial Statements***	**IFRS S1** ***General Requirements for Disclosure of Sustainability-related Financial Information***	**Staff recommendation for refinements to the proposal in the Exposure Draft in mark-up**
Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity.	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.	In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.	In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of <u>general purpose financial reports, which include</u> the management commentary and ~~of~~ the related financial statements <u>and which provide information about a specific reporting entity</u>.

Source: IASB staff paper

16 From the above, a salient difference between financial statements and other general purpose financial reports seems to be that the <u>materiality of financial statements' information is made solely on the basis of financial statements</u>. On the other hand, the <u>materiality of information within sustainability-related financial disclosures under ISSB Standards and management commentary developed based on the 2025 MCPS guidance is considered in conjunction with financial statements information</u>.

ESRS Set 1 versus IFRS general purpose financial reports- similarities and differences in the application of the materiality concept

17 As noted above, ESRS encompasses both financial materiality and impact materiality (i.e. double materiality), and its definition of financial materiality is the same as the definition of materiality for IFRS general purpose financial reports (i.e. financial statements, sustainability-related financial disclosures, and management commentary).

18 *<u>Impacts</u>*: Though ISSB Standards do not have the notion of impact materiality (and double materiality), they require the disclosure of information about how an entity's activities impact people and the environment when these impacts give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, and the related information about those impacts is material to primary users. IFRS S1 explains that an entity's dependencies and impacts give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

19 *<u>Materiality determination:</u>* The materiality determination under ESRS Set 1 involves two steps: a) determining which sustainability matters/topics are material and should be covered in a sustainability report; and b) determining which information within such matters/topical standards is material and should be disclosed. In contrast, for sustainability-related financial disclosures under ISSB Standards, entities are required to

decide which of their sustainability-related risks and opportunities could be reasonably expected to affect the entity's prospects and thereafter to decide which information is material for investors.

20 Similarly, related to management commentary, the 2025 MCPS has requirements for entities to ascertain key matters[6] before deciding on the material information. In other words, unlike ESRS, the ISSB Standards and the IASB management commentary guidance only refer to material information with no reference to material matters (i.e. materiality is seen as a property of information).

21 That said, there still seems to be an implicit two-step approach applied to determine material information for management commentary and sustainability-related financial disclosures under IFRS general purpose financial reports. Hence, the difference may be more of a matter of framing than of essence.

[6] Matters would be identified as 'key' if they are 'fundamental to the entity's ability to create value and generate cash flows'.

APPENDIX C: GLOSSARY OF TERMS

TERM	DESCRIPTION
FINANCIAL STATEMENTS TERMS	
Amortisation	IAS 16 *Property, Plant and Equipment* defines amortisation as the systematic allocation of an intangible asset's depreciable amount over its useful life.
Impairment	The Conceptual Framework states that impairment occurs when the carrying amount of an asset exceeds its recoverable amount. In such cases, the carrying amount must be reduced to the recoverable amount, and an impairment loss recognised. Expected credit loss (‘ECL’): IFRS *9 Financial Instruments* defines ECL as the weighted average of credit losses with the respective risks of a default occurring as the weights. An entity shall recognise in profit or loss, as an *impairment gain or loss*, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.
Useful life/lives	IAS 16 *Property, Plant and Equipment* describes it as: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.
Consolidated financial Statements	IFRS *Conceptual Framework for Financial Reporting* (‘hereafter called ‘The Conceptual Framework’) defines it as financial statements of a reporting entity that comprises both the parent and its subsidiaries.
Control	IFRS Conceptual framework states that an entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource.

TERM	DESCRIPTION
Contingent Liability **Contingent Asset** **Provision**	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines it as a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the entity's control. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. The standard defines a provision as liabilities of uncertain timing or amount.
Elements of Financial Statements	The Conceptual Framework defines the elements of financial statements as follows: Asset: A present economic resource controlled by the entity as a result of past events. Liability: A present obligation of the entity to transfer an economic resource as a result of past events. Equity: The residual interest in the assets of the entity after deducting all its liabilities. Income: Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims. Expenses: Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.
Equity Method of Accounting	IAS 28 *Investments in Associates and Joint Venture* describes defines the equity method which is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive

TERM	DESCRIPTION
	income includes its share of the investee's other comprehensive income.
Financial assets	IAS 32 *Financial Instruments* states that financial assets are cash, equity instruments of another entity, or contractual rights to receive cash or another financial asset from another entity.
Goodwill	IFRS 3 *Business Combinations* defines goodwill as an intangible asset arising in a business combination, representing future economic benefits from the acquisition that are not individually identifiable or separately recognised. Goodwill is recorded when the purchase price exceeds the fair value of identifiable net assets acquired.
Material Information for financial statements	The Conceptual Framework states that information in the IFRS financial statements is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of **general-purpose financial reports** make on the basis. The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.
Measurement Basis	IFRS *Conceptual Framework for Financial Reporting* describes it as an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. This measurement basis determines how assets, liabilities, income, and expenses are quantified. A financial reporting standard may also need to explain how to apply the chosen measurement basis. This could involve: • Specifying estimation techniques, • Offering simplified approaches that yield similar results, • Or modifying the basis, such as adjusting fulfilment value to exclude own credit risk.

TERM	DESCRIPTION
Primary Financial Statements and Financial Statements	IFRS 18 *Presentation and Disclosure in Financial Statements* describes the ***financial statements*** as a complete set of financial statements which comprises: a) a statement (or statements) of financial performance for the reporting period (see paragraph 12 of the standard); b) a statement of financial position as at the end of the reporting period; c) a statement of changes in equity for the reporting period; d) a statement of cash flows for the reporting period; e) notes for the reporting period; f) comparative information in respect of the preceding period as specified in paragraph 31-32 of the standard; g) a statement of financial position as at the beginning of the preceding period if required by paragraph 37 of the standard. The statements listed from (a) to (d) (and their comparative information) are referred to as ***the primary financial statements***
Primary users (of general-purpose financial reports)	IFRS *Conceptual Framework for Financial Reporting* defines them as existing and potential investors, lenders and other creditors.
Recognition	IFRS *Conceptual Framework for Financial Reporting* describes recognition as the process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements—an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items— in words and by a monetary amount, and including that amount in one or more totals in that statement. Recognition links the elements, the statement of financial position and the statement(s) of financial performance.

TERM	DESCRIPTION
Reporting Entity	IFRS *Conceptual Framework for Financial Reporting* describes defines it as an entity that is required, or chooses, to prepare general purpose financial statements
Research and Development	Are activities undertaken with the objective of innovating or improving existing products, processes or services. IAS 38 *Intangible Assets* states: **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. **Research** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. The research and development expenditure is recognised as an expense during the period.
Residual Value	IAS 16 defines it as an estimated amount that an entity would currently obtain from disposal of an asset at the end of its useful life, after deducting estimated disposal costs.
Share-based Payments	IFRS 2 *Shared Based Payment* refers to transactions in which an entity receives goods or services as consideration for its own equity instruments (e.g. shares or share options), or incurs liabilities based on the price of such instruments.
Tangible and Intangible Assets	***Tangible assets:*** Resources with physical substance, controlled by an entity as a result of past events, from which future economic benefits are expected to flow. ***Intangible assets:*** According to IAS 38 *Intangible Assets*, it is an identifiable non-monetary asset without physical substance. It is an intangible resource and is recognised if it is identifiable, the entity has control over the resource, and there are future economic benefits. An asset is identifiable if it either:

TERM	DESCRIPTION
	(a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
SUSTAINABILITY REPORTING RELATED TERMS	
Anticipated Financial Effects	The ESRS glossary defines anticipated financial effects as the 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. As defined by IFRS S1 'The anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how sustainability-related risks and opportunities are included in the entity's financial planning.'
Climate change adaptation and mitigation	As per ESRS, **climate change adaptation** is the process of adjustment to actual and expected climate change and its impacts. **Climate change mitigation** is the process of reducing GHG emissions and holding the increase in the global average temperature to 1.5 °C above pre-industrial levels, in line with the Paris Agreement.
Climate Related Physical Risk	ESRS defines it as risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. Acute physical risks arise from particular hazards, especially weather-related events such as storms, floods, fires or heatwaves. Chronic physical risks arise from longer-term changes in the climate, such as temperature changes, and their effects on rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.

TERM	DESCRIPTION
Climate Related Transition Risk	ESRS defines it as risks that arise from the transition to a low-carbon and climate-resilient economy. They typically include policy risks, legal risks, technology risks, market risks and reputational risks.
Operational Control and Own Operations	ESRS defines operational control as the situation in which the undertaking has the ability to direct the operational activities and relationships of the entity, site, operation or asset. The draft revised ESRS Exposure Draft (ED) proposals state that own operations include the assets, liabilities, income, and expenses of the parent company and its subsidiaries, whether based inside or outside the EU.
Current Financial Effects	As defined in the ESRS glossary, financial effects for the current reporting period that are recognised in the primary financial statements. As defined by IFRS S1, the effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period.'
Dependencies	As defined by the ESRS dependencies relate to the situation of an undertaking being dependent on natural, human and/or social resources for its business processes As per the ISSB educational, material dependencies refer to how an entity directly or indirectly depends on resources and relationships to generate future cash flows.
Digital XRBL Taxonomy	Digital XBRL Taxonomy tagging was developed by EFRAG under the mandate of the European Commission. The ESRS XBRL Taxonomy is a digital transposition of the human-readable ESRS. Preparers can use the ESRS XBRL Taxonomy to better structure their sustainability statements and Users benefit from the digital tagging as they will be able to use ESRS data more easily.
EU Taxonomy	European commission defines EU taxonomy as a cornerstone of the EU's sustainable finance framework and an important market transparency tool. It provides a common classification system that

TERM	DESCRIPTION
	defines criteria for economic activities aligned with a net zero trajectory by 2050 and broader environmental goals beyond climate. By offering a clear and shared definition of 'sustainable,' the taxonomy helps direct investments toward the activities most needed for the transition, supporting the objectives of the European Green Deal. This clarity also builds investor confidence, prevents greenwashing, and reduces market fragmentation.
Financial Effects	ESRS defines this as effects from risks and opportunities that affect the undertaking's financial position, financial performance and cash flows over the short, medium or long term.
Impacts	In the ESRS glossary, impacts are defined as the effect the undertaking has or could have on the environment and people, including effects on their human rights, connected with its own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. The impacts can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible. They can arise over the short-, medium-, or long-term. Impacts indicate the undertaking's contribution, negative or positive, to sustainable development.
Impacts, Risks and Opportunities (IROs)	ESRS requirement define it as a/or process(es) by which the undertaking identifies impacts, risks and opportunities and assesses their materiality and manages material sustainability matters through policies and actions.
Materiality from a Sustainability Perspective	**Double Materiality:** Per the ESRS, double materiality involves two dimensions: impact materiality and materiality. A sustainability topic meets the criterion of double materiality if it is material from the impact perspective or the financial perspective or both. **Financial Materiality:** ESRS glossary defines it as a sustainability topic that is material from a financial perspective if it generates risks or opportunities that affect (or could reasonably be expected to affect)

TERM	DESCRIPTION
	the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term. **Impact Materiality:** ESRS describes it as a sustainability topic that 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. A material sustainability topic from an impact perspective includes impacts connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. **Material Information:** IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information outlines that information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.
Non-Financial Reporting	Non-financial reporting is defined as disclosing information that goes beyond the usual financial figures, but which nevertheless gives your stakeholders an understanding of the essential areas of value creation in your business that goes way beyond your financial statements
Physical risks	ESRS describes it as all global economic enterprise depends on the functioning of earth systems, such as a stable climate and on ecosystem services, such as the provision of biomass (raw materials). Nature related physical risks are a direct result of an organisation's dependence on nature. Physical risks arise when natural systems are compromised, due to the impact of climatic events (e.g., extremes of weather such as a drought), geologic events (e.g., seismic events such as an earthquake) events or changes in ecosystem equilibria, such as soil quality or marine ecology, which affect the ecosystem services

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	organisations depend on. These can be acute, chronic, or both. Nature-related physical risks arise as a result of changes in the biotic (living) and abiotic (non-living) conditions that support healthy, functioning ecosystems. Physical risks are usually location-specific. Nature-related physical risks are often associated with climate related physical risks
Scenario	ESRS glossary refers to a plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces (e.g., rate of technological change, prices) and relationships. Note that scenarios are neither
Scenario Analysis	ESRS glossary defines it as process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty.
Sensitivity Analysis	Investopia describes sensitivity analysis as showing how different values of an independent variable affect a dependent variable under a given set of assumptions. Companies use sensitivity analysis to identify opportunities, mitigate risk, and communicate decisions to upper management. Sensitivity analysis is deployed in business and economics by financial analysts and economists and is also known as a "what-if" analysis. The task force standard indicates that organisations that are undertaking scenario analysis may consider to conduct various sensitivity analyses around key climate factors as a precursor to scenario analysis, recognising that sensitivity analysis and scenario analysis are different, but complementary, processes.
Sustainability Statement	ESRS describes it as the dedicated section of the undertaking's management report where the information about sustainability matters.
Transition Risks	ESRS defines it as risks that result from a misalignment between an organisations or investor's strategy and management and the changing regulatory, policy or societal landscape in which it operates. Developments aimed at halting or reversing damage to the climate

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	or to nature, such as government measures, technological breakthroughs, market changes, litigation and changing consumer preferences can all create or change transition risks.
User of Sustainability statements	ESRS defines users of sustainability statements are primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.
Value Chain	ESRS defines a value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include: - those in the undertaking's own operations, such as human resources; - those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and - the financing, geographical, geopolitical and regulatory environments in which the undertaking operates. Value chain includes actors upstream and downstream from the undertaking. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking. ESRS use the term 'value chain' in the singular, although it is recognised that undertakings may have multiple value chains.
CONNECTIVITY RELATED AND CROSS CUTTING TERMS	
Anchor Point	Refers to data and/or information that intersects sustainability reporting and financial statements information and, as a result, can

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	allow the connection or conjunctive evaluation of these two reporting domains. The anchor points were identified based on the discussions of the EFRAG advisory and technical governance bodies. The list of anchor points is not defined in a fixed or exhaustive manner; rather, it can be interpreted more broadly or narrowly depending on the context or purpose.
Annual report	Annual Report which, depending on jurisdiction, is also referred to as the Integrated Annual Report, Universal Registration Document, etc. Paragraph 2 of Article 4 of the Transparency Directive (Directive 2004/109/EC) indicates that the Annual Financial Report comprises the audited financial statements, the management report; and statements related to the information made by the responsible issuing persons. The International Standards of Auditing (ISA) 720 (Revised) defines it as 'a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.
Borders of Different Reports and Organisational Reporting Boundaries	Borders/differentiating features of different reports is the dividing line between information included and excluded within different corporate reports (i.e., financial statements, management report, the sustainability statement/disclosures, and other reporting sections in the AR). For example, the recognition criteria for the elements of the financial statements.

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	Organisational reporting boundary: entities, operations, and assets reported on)
Coherence	As detailed in Chapter 2, Coherence (a term included in the 2025 MCPS) is deemed to be an aspect of (rather than a synonym) to connectivity. It entails the presentation and disclosure of information by a reporting entity in a manner that gives a more complete picture of value creation and shows the interrelatedness of its overall reported information), and this includes explaining inconsistencies across different reports. It amounts to providing complementary and/or supplemental information to the information in a corporate report in a manner that users can readily identify the interrelatedness of the overall reported information.
Complementarity versus Supplemental Reported Information	Based on the dictionary definition of the words complementary and supplementary, in a reporting context we infer that complementary information to a particular information is information that is likely to be of a different nature relative to the particular information, and when taken together with the particular information helps to depict a more complete and holistic aggregate picture of the reporting entity's prospects, financial condition and impacts. Supplementary information is additive/enhancing to the particular information but not necessarily part of the portrayal of a holistic picture of the reporting entity.
Connectivity	Connectivity can be described as the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different corporate reports. Different dimensions of connectivity of reported information including overarching aspect such as consistency, coherence, and integration of information across different reports in strategic oriented communication. Multiple terms are associated with or sometimes used synonymously in relation to connectivity. These include complementarity,

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	coherence, and consistency. In this Discussion paper, these terms are deemed to be elements of connectivity.
Consistency	Refers to the consistency of data, assumptions, units of measurement (e.g., presentation currency) and narrative information. It also entails disclosing information about significant differences between the data and assumptions used across reports.
Distinction between: Disclosure, Reporting, and Information	***Information*** is the broadest concept, encompassing both data and narrative that provide context, support understanding, and aid decision-making. ***Disclosures*** represent a specific subset of reported information, typically provided in a structured, regulated format. ***Reporting*** refers to the overall process of delivering information, including disclosures, to stakeholders.
Entity's External environment	IFRS *Practice Statement 1 on Management Commentary* defines it as an environment that encompasses: - its direct environment—the industries and markets in which the entity interacts with its customers, suppliers, and competitors; and - the wider environment including the legal, regulatory and economic environment; the political, technological, social and cultural landscape; and the natural environment.
Forward-looking information	IFRS *Practice Statement Management Commentary* defines it as information relating to possible future transactions, other events or conditions. Forward-looking information includes: a) management forecasts or targets; and b) other information that helps users assess the entity's prospects—for example, information about management's strategy for sustaining and developing the entity's business model.
Forward-looking information as	Securities regulators define it as disclosure regarding possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action and includes

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defined by securities regulators	future-oriented financial information with respect to prospective financial performance, financial position or cash flows that is presented either as a forecast or a projection. IFRS practice statement 1 on Management Commentary defines it as information relating to possible future transactions, other events or conditions. Forward-looking information includes: a) management forecasts or targets; and b) other information that helps users assess the entity's prospects—for example, information about management's strategy for sustaining and developing the entity's business model.
IFRS General Purpose Financial Reports	IFRS *Conceptual Framework for Financial Reporting* defines it as a report that provides financial information about the reporting entity's economic resources, claims against the entity and changes in those economic resources and claims that is useful to primary users in making decisions relating to providing resources to the entity. General purpose financial reports include - but are not restricted to - an entity's management commentary, general purpose financial statements and sustainability-related financial disclosures (Management Commentary Practice Statement).
Intangible resources	These are broader than intangible assets and are, for example, know-how or other intellectual capital, customer information, brands or reputation. (Management Commentary IFRS Practice Statement)
Integration in Reporting	According to the ISSB 2023 agenda consultation, integration in reporting is a broader notion than connectivity. It 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 language and assumptions).

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	It also includes the collective consideration of the interdependencies, synergies and trade-offs between: - the various resources and relationships reported on in general purpose financial reports; and - 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.
Integrated Reporting	According to the 2021 *Integrated Reporting framework* the purpose is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report and to explain the fundamental concepts that underpin them. The IR framework defines an integrated report as a concise communication about how an organization's strategy, governance and performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short-, medium- and long-term.
Integration of Information	Chapter 2 of EFRAG's DP outlines it as an aspect of connectivity (i.e., linking an entity's strategic responses/other actions in response to IROs and reporting effects).
Interoperability of Reporting Requirements	Is a standard-setting terminology, which finds its use in specific reporting domains (e.g., sustainability reporting requirements) to ensure the compatibility of their respective requirements to help reduce the reporting burden faced by entities eligible to apply these requirements. Interoperability should not be seen as a synonym for connectivity.
Management Commentary	A narrative report that relates to financial statements that have been prepared in accordance with IFRSs. Management commentary provides users with historical explanations of the amounts presented in the financial statements, specifically the entity's financial position, financial performance and cash flows. It also provides commentary on an entity's prospects and other information not presented in the

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	financial statements. Management commentary also serves as a basis for understanding management's objectives and its strategies for achieving those objectives.
Materiality of information across different reports	When viewed as a cross-cutting term, materiality—or material information—depends on the specific objectives of each type of general-purpose financial report. (see Appendix B)
Power Purchase Agreement (PPA)	A long-term contractual arrangement in which an energy buyer agrees to purchase electricity from a seller, typically a renewable energy project developer, at a predetermined price and for a defined period. The buyer typically assumes the volume risk associated with potential mismatches between electricity supply and its own demand. (Big Four Manuals)
Primary users of IFRS General Purpose Financial Reports	IFRS *Conceptual Framework* primary users as existing and potential investors, lenders and other creditors
Resources and Relationships	Resources include but are not restricted to, those recognised as assets in the entity's financial statements, e.g., intangible resources and human resources. Relationships include relationships with parties directly involved in the entity's cycle of creating value and generating cash flows—for example, with suppliers; and wider relationships—for example, with governments or regulators. (Management Commentary IFRS Practice Statement)
Use of financial and non-financial metrics	IFRS Practice Statement 1 on Management Commentary defines these metrics as a measure used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position.