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## **EFRAG Connectivity Project Draft Discussion Paper**

### **Draft Chapter 5: Considerations for enhancing connectivity of reported information- Cover note**

#### **Overview**

- 1 The draft Chapter 5 (agenda paper 04-04) provides considerations for enhancing the connectivity of reporting information with a focus on aspects where information might be reasonably expected to be connected across reports but is not. Based on the feedback from EFRAG's outreach and the discussions had with EFRAG CAP, EFRAG FR TEG and EFRAG FRB in May and June 2025, the following six considerations are further analysed in this chapter:
  - (a) Consideration 1: Clarifying the boundaries of financial statements
  - (b) Consideration 2: Application of financial materiality in financial statements and sustainability reporting – looked at in the context of climate-related commitments
  - (c) Consideration 3: Differences in the level of aggregation or disaggregation
  - (d) Consideration 4: Implications for connectivity of the differences in organisational reporting boundaries
  - (e) Consideration 5: Enhancing 'connectivity in process'
  - (f) Consideration 6: Digitisation of reporting
- 2 As noted in the Chapter's drafting, because the ESRS requirements, including connectivity requirements and guidance, are under revision, there are no possible alternatives or suggestions for reviewing sustainability reporting requirements made. The draft Chapter only provides considerations to stimulate further feedback on aspects of possible enhancement to connectivity, which have surfaced during EFRAG's outreach and the discussions held by EFRAG bodies.

- 3 Moreover, the outreach feedback on the ESRS Set 1 required disclosure of anticipated financial effects is not analysed any further in this draft Chapter. This is because the requirement is under review based on the Revised ESRS ED proposals, and the related decisions will be made after the EFRAG SR pillar's governance bodies' redeliberation on constituents' feedback to the ED.

**Questions for EFRAG FR and SR TEG members, and suggested questions to constituents on Chapter 5**

- 1 Do EFRAG FR TEG and SR TEG members have any comments on Chapter 5's content?
- 2 For Chapter 5, the following questions for constituents are suggested:
  - (a) Consideration 1: Clarifying the boundaries of financial statements (Analysed in agenda paper 04-04 paragraphs 8a and 9 to 23)
    - (i) *In Chapter 1, it is noted that clearly defined boundaries of different annual report sections are an enabler of connectivity. Along these lines, in paragraph 8a of agenda paper 04-04, it is observed that there is a need to clarify the boundaries of financial statements as this has been a recurrent point of attention across different financial reporting topics/IASB projects (climate-related reporting, synergies from business combinations, and unrecognised intangibles), some stakeholders are concerned about stretching the boundaries of financial statements, and there is an expectation gap at play for many other stakeholders in terms of what can be reported in the financial statements. Do you agree or disagree with the suggested clarification or enhanced definition of the boundaries of the financial statement? Please explain*
    - (ii) *Paragraphs 20 and 21 of agenda paper 04-04 outline suggestions for principles of placement in the context of unrecognised intangibles that were made during discussions held by EFRAG's technical governance bodies. Do you agree or disagree with these suggested principles for the placement of unrecognised intangibles, particularly in the context of sustainability-related intangibles? Please explain*
    - (iii) *In paragraph 23 of agenda paper 04-04, it is suggested that identifying indicators of the migration of items from other parts of the annual report into the financial statements could be a helpful aspect of understanding the boundaries of the financial statements. Do you agree or disagree with this view? If you agree, do you have any suggestions on what could be considered indicators/triggers of items migrating from other sections of the annual report into the financial statements?*
  - (b) Consideration 2: Application of financial materiality in financial statements and sustainability reporting (Analysed in agenda paper 04-04 paragraphs 8b and 24 to 34)-
    - (i) *Do you agree with view 1 (supporting the disclosure of forward-looking climate-related commitments based on IFRS accounting general disclosure requirements – paragraph 31 (20) of IAS1 (IFRS 18) or view 2 (against the disclosure of these commitments)? Please explain*

	<p>(ii) <i>Based on the analysis of the issue and/or your practical experience, do you agree or disagree with the stakeholders who have called for the development of application guidance for paragraph 31 (20) of IAS1 (IFRS 18)? Please explain</i></p>
	<p>(c) <u>Consideration 3: Differences in level of aggregation or disaggregation</u> (Analysed in agenda paper 04-04 paragraphs 8c and 35 to 42)-</p> <p>(i) <i>The analysis in the DP suggests that the observed differences in the level of aggregation or disaggregation of the financial statements and the sustainability statement/disclosures are mainly a result of differences in what is material in the context of each of these reports, and it should not be seen as a problem. Do you agree or disagree with this view? Please explain</i></p> <p>(ii) <i>The analysis suggests that the observed underrepresentation of sustainability-related revenues and profitability-related metrics in segment disclosures could be a result of the IFRS 8 aggregation being done based on the management approach. Do you agree or disagree with this view? Please explain</i></p>
	<p>(d) <i>Do you agree or disagree with the observations and suggestions made for the following considerations?</i></p> <p>(i) <u>Consideration 4: Implications for connectivity of the differences of organisational reporting boundaries</u> between financial statements and sustainability reporting (analysed in agenda paper 04-04 paragraphs 8d and 43 to 45)</p> <p>(ii) <u>Consideration 5: Enhancing connectivity in process</u> (including governance within organisations) (analysed in agenda paper 04-04 paragraphs 8e, 46 and 47)</p> <p>(iii) <u>Consideration 6: Digitisation</u> of reporting (analysed in agenda paper 04-04 paragraphs 8f and 48 to 53)</p>
3	<p>Do EFRAG FR and SR TEG members agree, disagree, or have any suggested refinements to the above proposed questions to constituents? Do EFRAG FR and SR TEG members have any suggested additional questions to ask the constituents? Please explain.</p>