Beyond the GAAP

Mazars’ monthly newsletter on financial and sustainability reporting

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Editorial

With the Corporate Sustainability Reporting Directive (CSRD) coming into effect on 5 January 2023, EU countries can now begin the work of transposing it into national law. In practice, the member states have until 6 July 2024 to transpose the CSRD and to specify certain requirements of the new directive, which some large companies will have to apply from 1 January 2024.

The due process set out in the CSRD for adoption of the first set of European Sustainability Reporting Standards by the EC is also under way: the EC has recently received opinions from the ECB and the various European supervisory agencies, including ESMA. While these opinions are generally positive, there are a few points that ideally need to be clarified in the final standards. The EC is expected to launch a four-week public consultation on the draft Delegated Acts at the start of April, with adoption of the standards scheduled for end-June.

IFRS Highlights

Redeliberations continue on Primary Financial Statements project

At its January 2023 meeting, the International Accounting Standards Board (IASB) discussed the feedback from roundtable meetings held between September and November 2022 to gather stakeholder opinions on a number of tentative decisions.

The Board also redeliberated some of the proposals in the December 2019 General Presentation and Disclosures exposure draft, relating to the following topics:

- the requirements for aggregation and disaggregation of information;
- other comprehensive income;
- the statement of cash flows.

Below, we present the key (though still tentative) decisions taken by the IASB this month:

Feedback from roundtable discussions and next steps

Last autumn, the IASB held roundtable discussions with a range of stakeholders, including EFRAG (see Beyond the GAAP no. 172, December 2022). Based on the feedback from these discussions, the IASB has added four new topics to its redeliberation agenda:

- whether it should reconfirm its decision to classify income and expense from associates and joint ventures accounted for using the equity method in the "investing" category;
- whether it should develop application guidance for classifying income and expense from off-balance-sheet items in the statement of profit or loss;
- whether interest on IFRS 16 lease liabilities should be classified in the "operating" category rather than the "financing" category if the entity subleases assets as its "main business activity"[1];

[1] see Beyond the GAAP no. 164, March 2022, for more details on this.

- whether it should develop application guidance for situations where it could be appropriate to rebut the presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance and is therefore a management performance measure (MPM).

Requirements for aggregation and disaggregation of information

Readers will remember that the exposure draft set out the requirements for aggregation and disaggregation of information in the primary financial statements and the notes.

Following its redeliberations, the Board made the following (tentative) decisions:

- an entity is required to:
  - describe disaggregated amounts in a clear and understandable way that would not mislead users of financial statements;
  - be transparent about the meaning of the terms it has used and the methods it has applied to the disaggregation;
- the future standard will specify that each line item in an entity's income statement(s) and statement of financial position must be recognised and measured in accordance with IFRS Accounting Standards, although it will permit an entity to disaggregate income and expenses into components not recognised or measured in accordance with IFRSs in the notes;
- the label "other" may only be used if the entity has not been able to find a more informative label. Furthermore:
  - if a line item labelled "other" includes an aggregation of varied **material** items, the entity must specify the type of items as clearly as possible, for example, "other operating expenses" or "other finance expenses";
  - if a line item labelled "other" includes an aggregation of varied **immaterial** items, the entity must consider whether the aggregated amount is large enough that users of financial statements might question what it includes. If so, further information must be provided, as this would be material to users of financial statements. For example, the entity could (i) explain that the aggregated amount does not include any material items or (ii) explain that the amount consists of several unrelated immaterial items and give an indication of the nature and amount of the largest item.

The Board also discussed whether to introduce an exemption to the general requirement to disaggregate material information, and tentatively decided to add an exemption that would apply to disclosures in the notes about the nature of operating expenses included in a function line item in the statement of profit or loss.

Other comprehensive income

The IASB has ultimately decided not to relabel the two categories of other comprehensive income, and to retain the current labels:

- items of other comprehensive income that will not be reclassified subsequently to profit or loss; and
- items of other comprehensive income that will be reclassified subsequently to

profit or loss when specific conditions are met.

Statement of cash flows

In the General Presentation and Disclosures exposure draft, the IASB proposed to amend IAS 7 – *Statement of Cash Flows* to standardise the presentation of interest and dividend cash flows. IAS 7 currently permits entities (other than financial institutions) to recognise these cash flows as operating, financing or investing cash flows.

The IASB proposed that entities with “specified main business activities”, such as financial institutions, should classify dividends received (other than those from associates and joint ventures accounted for using the equity method) and interest received or paid in a single category of the statement of cash flows (either as operating, investing or financing activities).

The Board decided this month to confirm these proposals.

For entities that do not have “specified main business activities”, the exposure draft proposed that interest (and dividends) received should be classified as cash flows arising from investing activities, and interest (and dividends) paid should be classified as cash flows from financing activities.

In January, the IASB confirmed its original proposal to classify interest received in the investing category.

The IASB Update for the January 2023 meeting is available here.

OECD Pillar Two: IASB publishes proposed amendments to IAS 12

As announced in our previous issue (cf. Beyond the GAAP no. 171, November 2022), in January the IASB published an exposure draft to amend IAS 12. The amendments would introduce a temporary exception to the recognition of deferred taxes resulting from the implementation of the OECD Pillar Two rules.

The comment period runs until 10 March 2023.

The exposure draft can be downloaded here.

ISSB continues discussions on draft IFRS Sustainability Standards

At its January 2023 meeting, the International Sustainability Standards Board (ISSB) continued its redeliberations on the content of the future standards IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 – *Climate-related Disclosures.* The discussions build on the (tentative) decisions already reached over the preceding months (cf. previous issues of Beyond the GAAP).

In this issue, we present the major decisions made by the ISSB, which will remain tentative until the final vote on the two standards.

The ISSB Update for the January 2023 meeting is available here.

Decisions affecting both draft standards

Following discussions on cross-cutting issues affecting both standards, the Board tentatively reached the following decisions:

- to clarify that disclosures on **metrics** and **targets** must enable users to understand how the entity measures, monitors and manages sustainability-related risks and opportunities (R&Os), regardless of whether these metrics and targets are required by IFRS or implemented voluntarily by the entity;
- to introduce the concept of “reasonable and supportable information that is available at the reporting date without

undue cost or effort" to help entities to apply requirements that involve a lot of measurements or uncertainty, particularly as regards:

- identifying climate-related R&Os;
- complying with value chain requirements (notably the scope and measurement of Scope 3 greenhouse gas (GHG) emissions);
- determining anticipated financial effects on the entity's financial performance, financial position and cash flows;
- carrying out climate-related scenario analysis;
- calculating particular metrics, such as the amount and percentage of assets or business activities that are (i) vulnerable to physical or transition risks, and/or (ii) aligned with the climate-related opportunities identified by the entity.

As regards the **connections** between sustainability reporting and financial reporting, the ISSB members (tentatively) agreed to add a requirement:

- to explain any connections between sustainability-related R&Os and their current or anticipated financial effects (information from the financial statements may be incorporated by reference, provided certain conditions are met); and
- to provide quantitative and qualitative information on these effects, with entities required to consider certain criteria to assess their capacity to provide quantitative data on a given risk or opportunity.

  If they are unable to provide this, they must instead present qualitative information on the financial effects of the sustainability-related risk or opportunity, including the line items in the financial statements that are likely to be affected. Quantitative information on R&Os (including on that particular risk or opportunity) must still be provided at the lowest possible level of aggregation at which the entity is able to do so.

  On this topic, the ISSB tentatively decided to amend the draft IFRS S1 and S2 to (i) ensure consistency of terminology between sustainability disclosures and financial statements (e.g. when referring to the reporting period) and (ii) clarify the relationship between the requirement to provide information on sustainability-related R&Os and the requirement to assess the entity's climate resilience (which can shed light on current and anticipated financial effects).

Draft IFRS S1 on general sustainability disclosure requirements

Discussions within the Board have resulted in the following main decisions (which remain tentative at this stage):

- regarding the disclosures required on **judgements, assumptions and estimates** made by the entity when preparing and publishing sustainability information:
  - to add a requirement to disclose (i) significant judgements made, in addition to the disclosures already required in the draft standard on sources of uncertainty related to estimates; and (ii) sources of guidance used in the absence of IFRS Sustainability Standards, particularly any industry-based framework used (i.e. either the guidance provided in IFRS S2, or standards published by the

Sustainability Accounting Standards Board (SASB), or another source);

  - to clarify that the disclosure requirements on estimation uncertainties relating to metrics also cover the current and anticipated financial effects of sustainability-related R&Os (including uncertainty that has a high risk of resulting in a material adjustment in the next financial year to the carrying amount of an asset and/or a liability recognised over the period);
  - to clarify that an entity is required to disclose information about significant differences between the financial data and assumptions used to prepare sustainability disclosures and the financial statements. The entity's sustainability reporting and financial reporting must be consistent "to the extent possible" considering the requirements of IFRS accounting standards (or any other relevant framework).

  The ISSB has also decided to provide guidance on the disclosures required on judgements, assumptions and estimates made by the entity (initially through illustrative examples, and subsequently by publishing educational materials);

- to introduce an **exemption** that, in specific and limited circumstances, would permit an entity to **exclude information on sustainability-related opportunities** if it is commercially sensitive (subject to conditions). The entity would have to disclose that it had applied this exemption and reassess whether it still applies at each reporting date.

Draft IFRS S2 on climate disclosure requirements

January's redeliberations resulted in the following (tentative) decisions on an entity's **assessment of its resilience** to climate-related changes and uncertainties:

- to add a requirement for entities to use a method of climate-related scenario analysis that is appropriate for its specific circumstances and that takes account of all current and forward-looking information that is reasonably available at the reporting date, without incurring undue cost or effort (cf. the new concept mentioned earlier);
- to require entities to consider, when selecting this method, (i) their degree of exposure to climate-related risks and opportunities; and (ii) the means available to them (skills, capabilities and resources) to carry out the scenario analysis;

The ISSB will provide guidance on this, building on the work of the Task Force on Climate-related Financial Disclosures (TCFD).

Regarding the disclosure requirements on **GHG emissions**, the ISSB members (tentatively) agreed to permit entities to measure GHG emissions using information from entities in the value chain whose reporting periods are different from an entity's own (subject to certain conditions). The ISSB will look at whether this relief could be extended to non-climate-related disclosures.

Finally, the Board (tentatively) decided to supplement the requirement for entities to disclose the extent to which their climate-related targets **have been informed by the latest international agreement on climate change**, by adding any jurisdictional commitments arising from it.

Redeliberations will continue at the ISSB's next meeting in February, with a view to reaching final decisions on the content of the two standards (including their effective date) and preparing to start the Board's balloting process.

The final versions of the two standards are now scheduled for publication by the end of the second quarter of 2023.

European Highlights

European supervisory authorities and the ECB publish opinions on ESRS Set 1

On 24 and 26 January, as part of the consultation launched by the European Commission (EC), in accordance with the due process laid down by the Corporate Sustainability Reporting Directive (CSRD),

- the **European Central Bank** (ECB),
- the **Committee of European Auditing Oversight Bodies** (CEAOB), which brings together the European regulators responsible for audit oversight, and
- the three European supervisory authorities, namely:
  - the **European Banking Authority** (EBA),
  - the **European Insurance and Occupational Pensions Authority** (EIOPA),
  - and the **European Securities and Markets Authority** (ESMA),

published their opinions[2], each within its own remit, on the Set 1 of draft European Sustainability Reporting Standards (ESRS) which were submitted by the European Financial Reporting Advisory Group (EFRAG) to the EC on 22 November (see last Beyond the GAAP no.171).

These opinions are generally positive despite the fact that they contain numerous recommendations to improve EFRAG's drafts, and include (notably) the following points:

- overall achievement of the CSRD's objectives in terms of the quality, comparability and transparency of disclosures. EFRAG's proposals generally ensure that investors are protected (in particular by being consistent with the Sustainable Finance Disclosure Regulation or SFDR) and that financial stability is not compromised;
- significant improvements to the draft standards compared with the documents published at the end of April 2022 during EFRAG's public consultation, in particular in terms of consistency with other European regulations and international initiatives (including the Global Reporting Initiative's (GRI) standards and the ISSB's draft standards). The opinions clarify that (i) this alignment could be further strengthened (a number of proposals are made in this respect) and (ii) it should be pursued in light of future developments and updates;
- the need to establish a mechanism for interpreting ESRS and to prioritise the financial sector in the preparation of future sector-specific standards;
- the need to provide guidance on the implementation of certain provisions, in particular on the identification of significant impacts in the value chain of financial entities.

[2] Accessible via the following links: ECB, CEAOB, EBA, EIOPA and ESMA

The CEAOB also highlights certain practical difficulties for auditors relating in particular to (i) the nature and scope (extended to the value chain) of the information to be verified (due to their technical and/or prospective nature), (ii) the conduct of the double materiality analysis as required by the ESRS and (iii) the lack of experience among preparers, and the limited maturity of the processes, controls and systems underpinning the provision of these information in the early years.

It is now expected that the EC will take this feedback into account in the preparation of the draft delegated acts for Set 1, alongside the responses that will come from the EU Member States. These drafts should be published in April 2023, followed by a four-week consultation period. Readers will recall that the delegated acts for the ESRS within this Set 1 will be adopted by 30 June 2023 at the latest, taking into account the timetable foreseen by the CSRD.

Continuation of EFRAG discussions on ESRS Set 2

Deliberations within EFRAG's Sustainability Reporting Board (SRB) and the Technical Expert Group (SR TEG) on the Set 2 of ESRS continued at the beginning of the year, following on from the discussions that began the previous month (cf. 'European Highlights' in Beyond the GAAP no.172).

January's discussions focused on the methodological approach, structure and content of (i) the ESRS for listed SMEs[3] falling within the scope of the CSRD[4] and (ii) sector-specific standards, based on a pilot in the mining sector, which should ultimately be integrated into a single standard that also covers coal mining. Oil and gas were also discussed.

The key points presented below reflect our best understanding of the discussions to date, which remain to be confirmed by the finalised drafts which should be published by EFRAG and submitted for feedback in the spring (see below).

Standard applicable to listed SMEs

The following main issues were considered and remain under discussion:

- the scope of the information to be covered considering the "simplified" list of topics applicable to listed SMEs, as identified by the CSRD, to which could be added certain adapted provisions on other key topics (in particular the role of governance bodies with regard to sustainability matters and the alignment of the entity's due diligence processes with the relevant international instruments[5]) applicable to large entities (which will have to use the general standards in Set 1);
- the architecture and the disclosure requirements to be incorporated, largely deriving from the Set 1 standards, while being adapted to take account of the characteristics and the more limited capacities and resources of listed SMEs;
- the scope of the information to be disclosed on a mandatory basis or that is subject to a materiality analysis (several possible approaches were considered), in respect of (i) the concept of "proportionality" applicable to listed SMEs and (ii) the "cap" for the

[3] I.e. small and medium-sized entities as per the Accounting Directive

[4] These standards will also apply to small and non-complex credit institutions as well as captive insurance and reinsurance entities.

[5] UN Guiding Principles on Business and Human Rights and OECD Guidelines for multinational enterprises

information that large entities can collect from SMEs in their value chain, as provided for in the CSRD;

- how listed SMEs assess their sustainability-related impacts, risks and opportunities and the disclosure requirements for these aspects;
- the approach to select disclosures to be provided by listed SMEs on their own value chain.

Sector-specific standards

Discussions of the general approach focused on:

- the phasing over time of standardisation works and the sectors to be prioritised in the first year (i.e. those for which dedicated standards are due to be adopted by the EC by way of delegated acts by the end of June 2024). Due to insufficient resources, it was decided to reduce the list of 10 sectors initially announced (see the study in last September's issue of [Beyond the GAAP no. 169]) to the following: Agriculture, Farming and Fishing, Coal & Mining, Oil & Gas (upstream and downstream), and Road Transport. Motor Vehicles may also be added, once the other sectors mentioned above are covered, depending on EFRAG's capacity and resources;
- the draft ESRS sector classification standard (SEC 1);
- the methodology to be adopted in order to identify which sector-specific standards an entity should apply. A two-stage process was discussed:
    1. identify the sectors that are relevant to the entity according to the ESRS classification (see the draft standard mentioned above). In practice, if the entity's activities fall under at least one NACE code from the list of codes defined for a given ESRS sector, that sector will be relevant for the entity and therefore to be considered in step 2 below;
    2. apply the approach described in ESRS 2 (see Disclosure Requirement SBM-1, which covers, inter alia, an entity's key information on its market position and strategy) to determine which of the sectors identified in step 1 are material to the entity. Materiality is demonstrated when both of the following criteria are met: (i) the sector represents more than 10 per cent of the total revenue generated by all of the entity's activities, and (ii) the sector is associated with material actual sustainability-related impacts or material potential adverse impacts.

In terms of the content and structure of the sector-specific standards, discussions over the mining industry pilot sector focused on:

- the sources used to prepare the draft standard, including (i) the sector-specific provisions of the GRI and of the SASB, (ii) EFRAG's research and the results of workshops with specialist stakeholders, and (iii) mandatory disclosures required by other EU regulations and relevant to the sector that have not been included in Set 1;
- the need to follow the structure of the standards adopted for Set 1 (in particular by respecting the architecture of four reporting areas: governance, strategy, impact management, risks and opportunities, metrics and targets);
- the need to ensure consistency with the sector-agnostic standards in Set 1 and to distinguish, within this framework, the sector-specific provisions that require

clarifications, amendments or additional disclosure requirements in line with the particularities of the sector;

- the need to streamline the draft sector-specific standard and thus avoid redundancy both within the standard itself and with regard to the provisions already existing in Set 1, as the two “sets” of standards should be applied in a complementary manner.

In addition, some of the issues under discussion have not yet been resolved, in particular the practical application of the materiality assessment at the sectoral level and the level of granularity of the information to be provided.

EFRAG's discussions on Set 2 will continue over the next few weeks before the draft standards are published for public consultation.

To this end, EFRAG organised the first workshops in late January with newly formed communities (preparers, users, researchers, NGO representatives, consultants and specialist accountants, etc.) who will contribute to the development of standards for SMEs, complementing the work of the current expert group within EFRAG.

Announcement of the timetable for public consultations on ESRS Set 2

The following timetable was approved by the EFRAG Administrative Board on 1 February 2023:

- public consultation for a period of 100 days starting at the beginning of April 2023 for:
  - the draft ESRS sector classification system (SEC 1);
  - two draft sector-specific standards: (i) Coal & Mining and (ii) Oil & Gas (upstream and downstream);
- public consultation for a period of 90 days starting at the beginning of May 2023 for:
  - the draft standard for listed SMEs (if possible, the comment period will extend to 100 days);
  - two draft sector-specific standards: (i) Agriculture, Farming & Fishing and (ii) Road Transport.

Key points of Commission's third FAQ on application of the green Taxonomy regulation (Article 8)

On 19 December 2022, the European Commission (EC) published two new documents (available here) responding to frequently asked questions about application of the June 2020 green Taxonomy regulation (see 'European Highlights' in Beyond the GAAP no. 172). These complement the first two FAQs, published in December 2021 and February 2022 respectively (cf. Beyond the GAAP no. 161 and Beyond the GAAP no. 163). Readers will remember that these FAQs must be taken into account by entities as of now (in other words, starting with the 2022 reporting published in 2023).

In this issue of Beyond the GAAP, we review the key points of the document relating to **Article 8 disclosure requirements** and implementation of the June 2021 Delegated Regulation.

Clarification on interactions with CSRD

In question 3, the EC clarifies the relationship between the Taxonomy regulation and the Corporate Sustainability Reporting Directive (CSRD), published in the Official Journal of the EU on 19 December 2022 (see 'European Highlights' in Beyond the GAAP no. 172) and to be phased in from the financial year 2024.

Thus, it clarifies that undertakings in the scope of the CSRD will be required to present Taxonomy information for future financial periods in accordance with the following schedule (the same as the schedule for implementation of the CSRD):

- **2024** (reports published in early 2025) for large[1] public-interest entities (PIEs)[1] with more than 500 employees that are already subject to the Non-Financial Reporting Directive (NFRD): in practice, European companies in this category are already subject to the Taxonomy regulation, but this will be the first year of CSRD reporting (and *de facto* Taxonomy reporting) for third-country undertakings that are listed on an EU regulated market[2];
- **2025** (reports published in early 2026) for large undertakings that are newly subject to the CSRD (i.e. that were not subject to the NFRD);
- **2026**[3] (reports published in early 2027) for listed SMEs[1] (unless they elect to make use of the two-year opt-out that is permitted subject to justification)[4];
- **2028** (reports published in early 2029) for non-European undertakings that meet certain criteria specified under the CSRD. However, it is not yet clear what the scope of Taxonomy reporting will be for the non-EU groups (i.e. only the consolidated activities that are based in the EU, or the entire consolidated scope including activities outside the EU, as this is the case for sustainability

[1] As per the Directive 2013/34/EU (the so-called "Accounting Directive").

[2] The schedule for implementation of the CSRD for non-European entities listed on an EU regulated market is the same as for European listed companies (taking into account the amendments also made to the Transparency Directive).

[3] It will also be the first year of CSRD/Taxonomy reporting for small and non-complex credit institutions and captive insurance or reinsurance undertakings.

[4] In this case, the first reporting would be published in early 2029, for the financial year 2028.

reporting under the CSRD). This should be clarified in the near future.

In addition, Taxonomy information will have to be verified by an independent third party (question 4) and this verification will form part of the opinion expressed on the compliance of the reporting with the requirements of the CSRD (initially based on a limited assurance engagement, and ultimately on a reasonable assurance engagement). An entity's assessment of the extent to which its activities are aligned with the technical screening criteria (TSC) set out in the Climate Delegated Act will be also subject to compliance verification by an independent third party.

Finally, the **publication** of Taxonomy information must comply with the requirements of the CSRD, i.e. it must be presented within the sustainability statements, which themselves must be presented in a dedicated section of the management report. Taxonomy information must also be tagged in accordance with the ESEF electronic reporting format (question 9).

Clarifications on calculating the three KPIs and related information

Cross-cutting requirements applicable to all three KPIs

The clarifications primarily relate to:

- the principles that apply to **voluntary reporting**[6], notably the importance of (i) distinguishing it from mandatory reporting; (ii) transparency regarding its basis of preparation; and (iii) not giving it more importance or prominence than the mandatory reporting[7] (question 6);
- the fact that the requirement for non-financial undertakings to publish data for the **comparative period** only applies from the reporting published in 2024 for the financial year 2023 (question 7)[8], as 2022 is the first year in which entities are required to assess alignment with the TSC;
- the methods for assessing each activity's contribution to the two climate-related objectives, to avoid **"double counting"** (question 8);
- the requirement to **report the three KPIs** (there is no materiality threshold) and the specific disclosures required, except where the OpEx is deemed to be not material (question 13). However, the tables presented in Annex II of the Delegated Regulation must still be used in all cases;
- the fact that data from joint ventures **accounted for using the equity method** are not included when calculating the three KPIs, unless the entity voluntarily elects to disclose additional KPIs that include these data (question 14);
- the methods for (i) **assessing Taxonomy-eligibility** of economic activities with regard to climate change adaptation (question 18) and (ii) calculating their contribution to the three KPIs (question 19).

Clarifications on the CapEx and turnover KPIs

Question 16 addresses the specific situation where a non-financial undertaking has issued **environmentally sustainable**

[6] For example, reporting by entities not subject to the Taxonomy regulation.

[7] In line with ESMA's guidelines on Alternative Performance Measures (APMs) and the associated FAQ .

[8] For financial undertakings, the requirement applies from the reporting published in 2025 for the 2024 financial period.

bonds or debt securities issued to finance specific Taxonomy-aligned activities. If this financing has been used to invest in Taxonomy-aligned CapEx, the FAQ explains that the disclosed CapEx KPI must be adjusted to avoid “double counting” at the level of the financial undertaking, *via* their own ratios (Green Asset Ratio/Green Investment Ratio). Similarly, the sustainable portion of turnover (i.e. resulting from the sale of goods and services produced using the sustainable CapEx) must be adjusted when presenting the turnover KPI. Such adjustments are required under the Delegated Regulation. The FAQ explains the reasoning behind these adjustments (with the same reasoning applying to OpEx where relevant).

Question 17 addresses the potential impacts of **IFRS 5 classification**:

- classification of non-current assets or disposal groups as “held for sale” in the statement of financial position: CapEx that are included in a disposal group and classified as held for sale must be taken into account when calculating the Taxonomy KPI, regardless of whether or not the investments were made prior to the reclassification under IFRS 5 (i.e. reclassification has no impact on the calculation of the CapEx KPI);
- classification as discontinued operations in the statement of profit or loss (P&L): the turnover generated by these activities is not included in the “Revenue” line item under IAS 1.82(a) (as it is presented as a separate line item “net result from discontinued operations” at the bottom of the P&L) and thus it is also not included in the turnover KPI for Taxonomy purposes.

Clarifications on the turnover KPI

The FAQ (questions 20 to 22) provides the following clarifications:

- **activities performed by a subcontractor** should be taken into account when calculating the turnover KPI if they generate revenue that is deemed to be the reporting entity’s own revenue under IFRS 15 (applying the agent/principal distinction) and is recognised as such under IAS 1.82(a);
- entities are permitted to provide contextual information on revenue arising from **activities whose output is used or consumed internally**, even though it would *de facto* be eliminated at the consolidated level and thus excluded from the KPI;
- the criteria set out in IFRS 15 should be used to **allocate** the turnover to different activities (i.e. on the basis of the various performance obligations identified).

Clarifications on the CapEx KPI

The FAQ (questions 23 to 31) provides the following clarifications:

- the need to consider all the CapEx, regardless of the **source of financing** (i.e. public or private, internal or external, or a combination);
- the conditions that must be met for CapEx that is part of an **investment plan** to be considered as eligible, notably:
    - a five to ten year period starting from the date of its approval by the relevant management body;
    - a description of all the measures planned to ensure compliance of the activities with the TSC, including the related expenditures and their implementation timing;
- the fact that the 18-month period for the completion of individual measures starts

from the date of recognition of the associated CapEx;

- the fact that the CapEx must be presented in an aggregated way at the level of each activity, regardless of the "category"[9] of the Taxonomy regulation into which it fall;
- the need to (i) allocate CapEx to an entity's activities (i.e. aligned vs. non-aligned activities) once their outputs could be used for various different projects; (ii) base this allocation on verifiable evidence; and (iii) provide appropriate contextual information;
- the fact that CapEx may only include costs that are recognised under the appropriate accounting principles, and prepayments thus cannot be included.

Clarifications on the OpEx KPI

The FAQ (questions 32 to 34) provides the following clarifications:

- R&D costs may only be included in the numerator if they are associated with Taxonomy-aligned activities (they may be included pro rata if they are associated with both aligned and non-aligned activities);
- OpEx categories[10] that are included in the numerator should also be included in the denominator;
- the maintenance and repair costs included in the denominator are not necessarily limited to physical assets, and could also relate to intangible assets (e.g. softwares or IFRS 16 right-of-use assets).

The new FAQs have raised a number of questions and are currently under scrutiny with a view to discussions with the EC.

[9] I.e. the categories described in points (a), (b) and (c) of section 1.1.2.2 of Annex I.

[10] I.e. the categories described in points (a), (b) and (c) of section 1.1.3.2 of Annex I.

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[1] Where permitted under applicable country laws

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