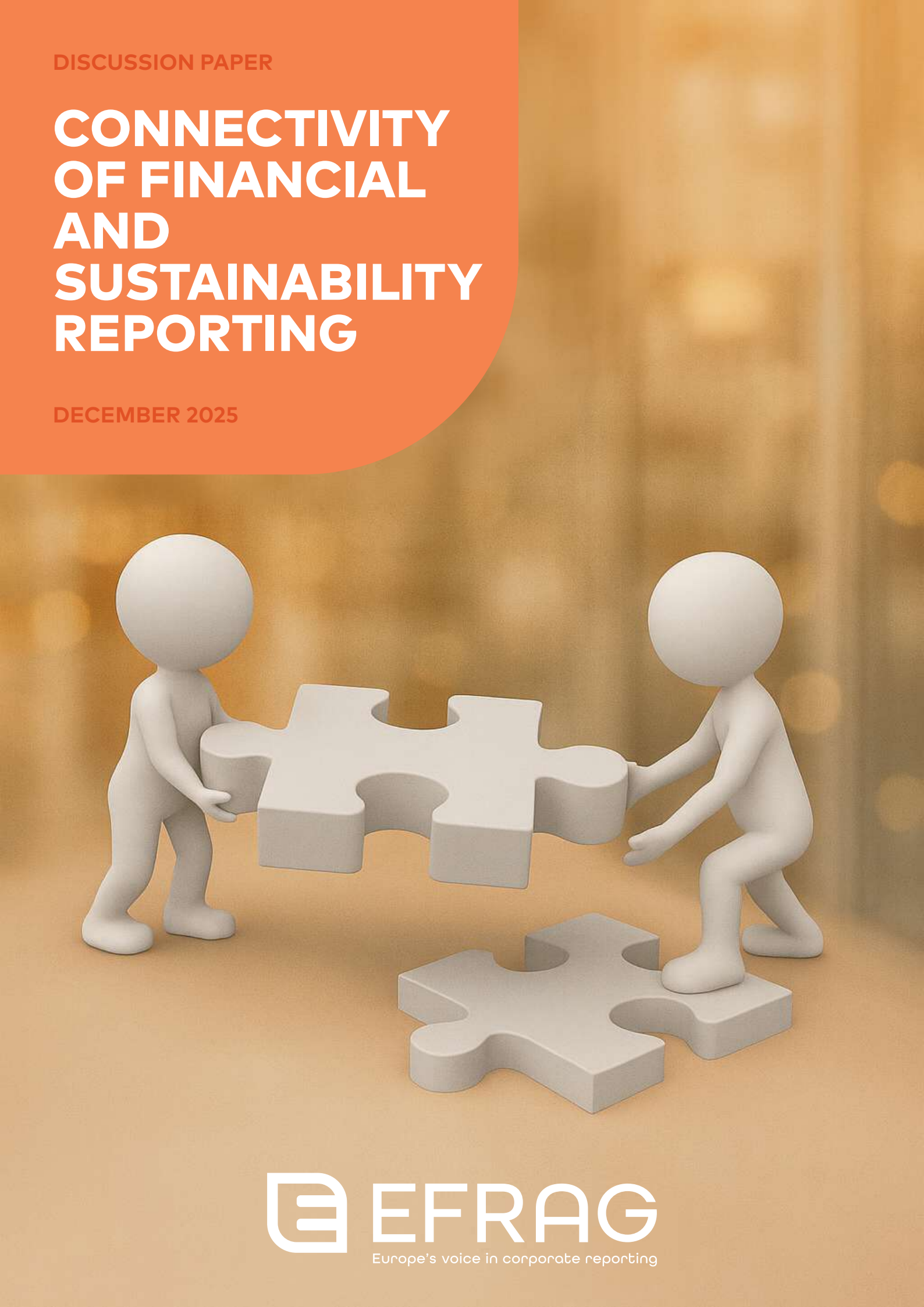
DISCUSSION PAPER

CONNECTIVITY OF FINANCIAL AND SUSTAINABILITY REPORTING

DECEMBER 2025



EFRAG

Europe's voice in corporate reporting

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DISCLAIMER

This Discussion Paper, which should be read in conjunction with its Supplemental Document, is a deliverable of EFRAG's research project on connectivity between financial reporting and sustainability reporting (EFRAG connectivity project), which is part of EFRAG's proactive research workplan under the financial reporting pillar. The purpose of this Discussion Paper is to provide thought leadership on the concepts and practical application of connectivity and to suggest considerations for enhancing connectivity and the related aspect of clarifying the borders of different annual report sections.

The Discussion Paper is non-authoritative, and its development is neither part of EFRAG's European sustainability reporting standard-setting activity nor should its content be read as ESRS implementation guidance. EFRAG is issuing this Discussion Paper as part of its proactive research activities, whereby the objective is to stimulate public debate on aspects of reporting that are of interest to stakeholders and to thereafter influence corporate reporting (including standard setting) developments.

Both this Discussion Paper and the 2024 EFRAG publication (Initial Paper- Connectivity Considerations and Boundaries of Different Annual Report Sections- hereafter referred to as the 2024 EFRAG connectivity project initial paper) have been developed under the guidance of EFRAG's financial reporting pillar and sustainability reporting pillar technical governance bodies (EFRAG Financial Reporting Technical Expert Group-EFRAG FR TEG, the EFRAG Financial Reporting Board-EFRAG FRB, EFRAG Sustainability Reporting Technical Expert Group-EFRAG SR TEG, and the EFRAG Sustainability Reporting Board-SRB). The strategic importance of the topic of connectivity for EFRAG also led to the constitution of a dedicated EFRAG advisory working group, i.e. a 20-plus person multi-stakeholder connectivity advisory panel (EFRAG CAP[1]), which has diverse functional expertise. The EFRAG CAP has been active since 2023 and has guided and made a pivotal contribution to the development of both the 2024 EFRAG connectivity project initial paper and this Discussion Paper.

EFRAG welcomes comments on the content of this Discussion Paper and its Supplemental Document, particularly on the questions included in the 'Questions to Constituents' section. Such comments should be submitted through the EFRAG website by clicking Submit your comment

Comments should arrive no later than 30 June 2026. EFRAG will place all comments received on the public record unless confidentiality is requested.

1 The EFRAG CAP is a 21-person multi-stakeholder advisory group (consisting of preparers, users, academics, auditors, enforcers and consultants) with financial reporting, sustainability reporting and cross-sectoral expertise. Its remit is to provide input to the EFRAG Secretariat and technical bodies supervising the EFRAG connectivity project (EFRAG Technical Expert Groups and the EFRAG FRB) and actively contribute to the development of the EFRAG connectivity project deliverables.

EFRAG RESEARCH ACTIVITIES IN EUROPE

This Discussion Paper, along with its Supplemental Document, is part of EFRAG's research work. EFRAG aims to influence the future standard-setting workplan. Four strategic aims underpin proactive work:

- engaging with European constituents to understand their issues and how corporate reporting affects them
- influencing the development of reporting standards, including through engaging with international constituents;
- providing thought leadership in developing the principles and practices that underpin corporate reporting; and
- promoting solutions that improve the quality of information, are practical, and enhance transparency and accountability.

More detailed information about our research work and current projects is available on EFRAG's website.

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POINT OF NOTE: KEY TERMINOLOGY AND APPLICABLE REQUIREMENTS

The focus of this Discussion Paper (hereafter referred to as the 'DP'), along with its Supplemental Document, is on the analysis and illustration of the connectivity of information across different annual report sections. It is acknowledged that what is referred to as an 'annual report' varies across jurisdictions. As per the EU Transparency Directive, the Annual Financial Report comprises the audited financial statements, the management report and statements related to the information made by the responsible issuing persons.

Across the DP, the annual report sections are sometimes referred to as

- *'different reports' in the EU context. These different reports include the financial statements, the sustainability statement within the management report, and other sections of the management report; or*
- *'general purpose financial reports' in an IFRS reporting context. General purpose financial reports, as defined in the IASB and ISSB literature[2], consist of IFRS financial statements, the IFRS sustainability-related financial disclosures and the management commentary.*

'Sustainability report' refers to 'the sustainability statement' as required under the EU Corporate Sustainability Reporting Directive (CSRD)/ESRS, or sustainability-related financial disclosures under the ISSB Standards, or sustainability disclosures under other reporting frameworks. In the DP, these different forms of a sustainability report are collectively referred to as 'the sustainability statement/disclosures'.

In the DP, the border of an annual report section refers to the differentiating or distinctive features of the information included or excluded in an annual report section. For example, the recognition criteria for financial statements.

The border of an annual report section has a different meaning from the 'boundary of the reporting entity', which is sometimes referred to as the 'reporting boundary'. The latter refers to the entities, assets, sites or operations reported in a particular annual report section. The reporting boundary is considered while preparing the consolidated financial statements, including the consolidated statement of financial position (assets, liabilities, and equity) and consolidated statement of financial performance (income, expenses). For the consolidated sustainability statement, the reporting boundary is considered for the consolidation of sustainability metrics (e.g. Greenhouse Gas (GHG) emission metrics). As explained in Chapter 5, the reporting boundary is one of the elements of the 'border of an annual report section'.

Reporting companies, reporting entities, reporting undertakings in an ESRS context, and issuers in an enforcer's context are used interchangeably across the DP.

A detailed glossary of terms is included in Appendix 2.

In the DP, ESRS references include the requirements of ESRS Set 1 (i.e. the delegated act published by the EC in July 2023) and the Draft Amended ESRS (based on EFRAG's technical advice submitted to the European Commission on 3 December 2025). The requirements of ESRS Set 1 are still applicable at the time of publication of this DP, and most of the illustrations in the Supplemental Document have been excerpted from 'wave one' ESRS adopters (i.e. companies that were required to or voluntarily[3] prepared a sustainability statement under ESRS for the 2024 reporting period).

2 Appendix A of IFRS 18 Presentation and Disclosure in the Financial Statements, Appendix A of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, and Appendix A of the June 2025 IFRS 1: Management Commentary Practice Statement.

3 Including those that reported under ESRS irrespective of whether EU member state had transposed the CSRD.

EXECUTIVE SUMMARY

WHY CONNECTIVITY?

Below is an assortment of comments from stakeholders, which convey why connectivity is pivotal for enhancing corporate reporting.

'Failing to ensure connectivity between accounting and sustainability standards can have negative effects on the quality of information disclosed to capital markets, with potentially system-wide consequences.' – 2024 European Systemic Risk Board (ESRB) Report about climate-related risks and accounting[4]

'When sustainability and financial data align, companies present a clearer, more consistent narrative to the market, enabling stakeholders to make effective and sustainable decisions. Statutory auditors are also well placed to provide assurance on sustainability reporting to support information's connectivity.'— CEO of Accountancy Europe

'There should be no contradictions between what is said in the sustainability report and what is said in the financial statements. Few things can undermine the trustworthiness of an annual report, and thus the company's reputation, more than speaking with a forked tongue.' – Speaker at the April 2025 EFRAG connectivity roundtable.

ES1 To start, it is acknowledged that, due to the distinctive objectives of the financial statements and the sustainability statement/disclosures[5], there are differences in the nature of their reported information. Inter alia, as detailed in Chapter 5, financial statements have recognition criteria that preclude[6] the reporting of certain information. Also, the sustainability statement/disclosures have more forward-looking information than the financial statements[7]. And non-financial metrics, targets, impacts, risks, opportunities, along with the contextualising description of an entity's strategy and business model are disclosed outside the financial statements.

ES2 Concurrently, the adoption of sustainability reporting requirements[8] lays the ground for sustainability statement/disclosures with a well-defined body of content that further complements the information in the financial statements. However, having distinctive reports could result in possible unnecessary duplication of information. Another challenge is the sometimes-observed inconsistency across the management report (including the sustainability statement/disclosures) and the financial statements in the portrayal of a company's sustainability-related risks and prospects. In some cases, this is because the company may have omitted[9] material information within a particular annual report section. Therefore, as shown in this DP, **enhancing the connectivity of reported information and clarifying the border of the financial statements can lessen the aforementioned challenges and contribute to a coherent annual report made up of complementary sections.**

4 ESRB, 2024, Climate-related risks and accounting.

5 Across the DP, sustainability statement/disclosures refers to the sustainability statement under ESRS/CSRD; sustainability-related financial disclosures under ISSB Standards, and sustainability disclosures under other reporting frameworks (e.g., for companies that applied the TCFD recommendations in their 2024 annual reports).

6 For example, unlike in the financial statements, in its sustainability statement/disclosures an entity can disclose the following:
- impacts, including its indirect impacts across the value chain (e.g. GHG Scope 3 emissions);
- commitments and possible obligations before the occurrence of 'past events' / actions by the entity. A 'past event' is necessary for the recognition of a provision or disclosure of contingent liability in the financial statements;
- its available, uncontrolled resources and relationships;
- any items with high existence and measurement uncertainty that would not qualify to be recognised or disclosed in the financial statements.

7 As discussed in Chapter 5, forward-looking information is sometimes incorporated into the measurement of assets, liabilities, income, and expenses in the financial statements. Forward-looking information can be disclosed in the notes to the financial statements when related to defined elements (recognised and unrecognised assets and liabilities) and if useful to users.

8 The rollout of sustainability reporting requirements is occurring within the EU (under the CSRD and ESRS), and outside the EU it is occurring for jurisdictions that have adopted or will adopt ISSB Standards (as per the IFRS Foundation website, in June 2025 36 jurisdictions had adopted, used or were taking steps to adopt ISSB Standards) and those that were adopting jurisdictional-specific requirements. The 2022-5 EFRAG SRB Chair has often observed that **'sustainability reporting starts where financial reporting stops.'**

9 **Though not pervasive, the occurrence of inconsistencies was seen in the 2023 and 2022 European Securities and Markets Authority (ESMA) Corporate reporting enforcement and regulatory activities reports as well as in several other published thematic reviews.** In its review of 2023 (2022) reporting, ESMA found inconsistencies in 6% (8%) of the reviewed sample of issuers. These inconsistencies arise when information, which is reasonably expected to be material is not reported in financial statements even though related information is disclosed in the sustainability statement/disclosures or other sections of the management report. As noted in Chapter 4, the converse occurs (i.e., sustainability matters in financial statements without corresponding contextual information in the sustainability statement/disclosures). Suggestions for lessening such inconsistencies are provided in Chapter 5.

BACKGROUND

ES3 This DP and its Supplemental Document aim to contribute to the thought leadership on the concepts of connectivity in reporting (outlined in Chapters 1, 2 and 5) and to illustrate its practical application as done in Chapters 3, 4 and the Supplemental Document. Suggestions and considerations (or points of attention) for enhancing the connectivity of reported information are included in Chapters 2, 4 and 5.

ES4 The notion of connectivity, as an explicit reporting principle, is relatively new, and it has been encompassed within different corporate reporting guidance. There are connectivity and connection requirements in ESRS, connection requirements in International Sustainability Standards Board (ISSB) Standards, and coherence requirements in the 2025 IFRS 1 Practice Statement-*Management Commentary* (2025 IFRS MCPS). Connectivity is also one of the principles of the voluntary Integrated Reporting (IR) framework[10]. However, there is no explicit mention of the term in IFRS accounting requirements. Moreover, it does not have a commonly applied definition. Hence, for this DP, a high-level definition[11] of the connectivity of reported information is that it is *'the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different annual report sections'*. This definition builds on the Basis for Conclusions of ESRS Set 1's statement that *'Connected information establishes clear links between the management report, sustainability statements and financial statements and provides a holistic view between all the factors that affect value creation.'*

ES5 Putting meat on the bone, Chapter 2 details the types and mechanisms (i.e., techniques or approaches of applying the types) of connectivity of reported information. These include the following:

a) providing explanations (telling a story/integration of information across the annual report);

b) coherence of the reported information, including by providing a complete picture of matters and explaining any significant inconsistencies across reports;

c) establishing connections via cross-referencing or reconciliation of related quantitative information in the sustainability statement/disclosures to the related amounts in the financial statements; and

d) consistency of data, narrative and assumptions.

ES6 It is also suggested that the connectivity of reported information is enabled by:

a) a 'connectivity in organisational processes' (including interdepartmental coordination within companies and an 'integrated thinking' mindset), and

b) a 'connectivity in reporting requirements', including having a similar basis of preparation of the financial statements and the sustainability statement/disclosures.

ES7 Chapter 1 outlines the scope of the DP. Specifically, it is the connectivity of information across[12] and within different annual report sections with different reporting requirements and voluntary reporting guidance being covered, albeit with a focus on the sustainability statement under ESRS and financial statements under IFRS Accounting Standards. To that effect, all 15 companies whose disclosure excerpts are included in the Supplemental Document have IFRS-based financial statements, and 12 of the 15 companies are ESRS reporters.

10 The IR framework, which was developed by the International Integrated Reporting Council (IIRC), became part of the IFRS Foundation's intellectual property after the formation of the ISSB, which involved the consolidation of various bodies, including the Value Reporting Foundation (VRF). The IIRC was a part of the VRF. Under both the 2013 and updated 2021 IR framework, connectivity is one of the principles for preparing an integrated report.

11 The same definition was applied the 2024 EFRAG connectivity project initial paper.

12 The focus of the DP is on connectivity across the Annual Report. That said, it is acknowledged that connectivity could be applicable to information outside the annual report (i.e. the company's other communications including management presentations and other reports including sustainability reports outside the annual report).

ES8 The content in the DP and the Supplemental Document was informed by the discussions of EFRAG's technical governance and advisory groups, including the EFRAG CAP; a review of the publications of different stakeholders; EFRAG's review of reporting practices; and the feedback from EFRAG's outreach to multiple stakeholders (see Chapter 1 and Appendix 1 for more details).

KEY MESSAGES

ES9 Below are the key messages made in the DP.

a) ***Connectivity of reported information is relevant regardless of the underlying reporting requirements/ framework.*** The connectivity of reported information is important and can be attained regardless of the underlying reporting requirements or related voluntary guidance (i.e., its importance is framework-agnostic). This is seen from the range of reporting requirements and voluntary frameworks applied by the companies whose disclosures are included in the illustrations of connectivity in the Supplemental Document (i.e., ESRS, ISSB Standards, and TCFD recommendations). That said, as suggested in Chapter 1, it will be useful to observe if there are any differences in the application of connectivity concepts under different[13] jurisdictional reporting frameworks.

b) ***Connectivity concepts are applicable across multiple reports and can be extended beyond sustainability-related matters.*** The primary focus of the DP is the connectivity between the information in the sustainability statement/ disclosures and the financial statements. However, the usefulness of connectivity extends to the information on a company's risk and prospects in other annual report sections (e.g. the risk report, the governance report, etc). Of note, illustration 5 in the Supplemental Document connects the information about an entity's sustainability-related performance conditions (on gender diversity) in the governance report to the share-based payment disclosure in the financial statements. For some illustrations, sustainability information is in the risk section of the management report.

c) Chapter 1 highlights that the need for connectivity within the financial statements could arise. For instance, it has been identified for the disclosures[14] of non-cash transactions and non-cash changes in the balances of assets and liabilities. Some stakeholders have argued that the need for connections ought to primarily be from information outside the financial statements to the information in the financial statements. This is because financial statements are intended to be self-sufficient based on their objectives. However, reciprocal connectivity (two-way) connectivity can be seen in the illustrations of connectivity in the Supplemental Document and was suggested in the 2024 EFRAG connectivity project initial paper. Hence, as noted in Chapter 2, the International Accounting Standards Board (IASB) could consider including explicit requirements in the IFRS Accounting Standards for the connections of information within and outside the financial statements. Doing so would be akin to the inclusion of connectivity requirements in ESRS, connection requirements in ISSB Standards, and coherence requirements in the 2025 IFRS MCPS. In the 2024 EFRAG connectivity project initial paper and EFRAG's comment letter to the IASB ED related to the 'Disclosures about Uncertainties in the Financial Statements' project, EFRAG called for connectivity requirements within IFRS Accounting Standards.

d) Furthermore, Chapter 5 refers to information that is not sustainability-related (i.e. synergies realised during business combinations). This is done in the context of clarifying the border of the financial statements with respect to disclosures, which affects what is reported and, thereafter, what can be connected across different reports.

13 There are different materiality perspectives (double materiality versus single materiality) and different requirements for the location of dedicated sustainability reporting information applied in different jurisdictions.

14 Under the IASB project on the statement of cash flows, it has been identified that the disclosures of non-cash transactions and non-cash changes in balances are scattered, disconnected and insufficiently disaggregated. Thus, it has been proposed that the IASB develop requirements that would improve connections across related disclosures of non-cash transactions and non-cash changes in assets and liabilities.

e) ***Connectivity is an evolving concept.*** There are distinctive and overlapping notions associated with the term connectivity, including those laid out in **paragraph ES5.** Thus, it is expected that the practical application of connectivity will help foster a common understanding of what this term ought to mean, and it will also clarify the types and mechanisms of connectivity that should be prioritised.[15] And to help in the practical application of this concept, preparers have called for illustrative examples such as those presented in the DP's Supplemental Document.

f) The types and mechanisms of connectivity of reported information considered in this DP are drawn from ESRS, ISSB Standards, the 2025 IFRS MCPS and other publications. The feedback to EFRAG's outreach, discussed in Chapter 4, provided an initial indication of the relative priority of different types and mechanisms of connectivity. Specifically, several stakeholders have emphasised the importance of 'integration of information/telling a story', coherence where the parts build a more complete picture, cross-referencing to make connections, and the consistency of related information across different reports. Similarly, this DP further seeks constituents' views on the relative priority of the different types and mechanisms of connectivity.

g) ***Connectivity of reported information is improving, although companies are in the early stages of applying this concept.*** As detailed in Chapter 4, companies are progressing in preparing connected reports, but they are still in the early stages of the journey. This point was made by stakeholders during EFRAG's outreach, it was seen in EFRAG's review of a sample of 70-plus annual reports from different companies, and conveyed by several publications based on thematic reviews of climate-related reporting. On the positive side, it was easy to identify the cross-referencing of information in the sustainability statement and the disclosures of reconciliation of taxonomy investment amounts to related asset or expense amounts in the financial statements. Several thematic reviews show that sustainability-related topics, albeit predominantly climate matters, are increasingly reported in the financial statements. Multiple IFRS Accounting Standards are applied for reporting these topics. However, the following points of attention were also observed.

   (i) There is still some way to go before readers of annual reports can readily link the sustainability-related strategy, impacts, risks and opportunities (IROs), the reporting company's actions in response to these IROs, and the effects on financial position, financial performance and cash flows. For some companies, it was challenging to identify their material IROs and the financial implications of these IROs. That said, it is also discernible that the ESRS requirements are leading to increasingly consistent terminology and to a better and more consistent structure of sustainability information within the sustainability statement.

   (ii) The disclosure of anticipated financial effects, which is related to the connectivity of information across reporting periods, also referred to as intertemporal connectivity, is considered useful by investors and other users who, at the same time, are aware of the nascent nature and other limitations of this information. Concurrently, preparers have conveyed their concerns about the absence of established calculation methodologies, the commercial sensitivity, and lack of standardised information in this disclosure. To this effect, as detailed in Chapters 2 and 5, the ISSB has published related educational material, and the Draft Amended ESRS and ISSB Standards have proportionality mechanisms, including transition reliefs and a specification of circumstances under which companies do not have to disclose quantitative information.

   (iii) There is inconsistent terminology across different reports. Sometimes, the same term is used for different concepts. For example, the reference to a 'commitment' in the disclosures outside the financial statements may mean a company's aspiration, while in the financial statements, such a reference is made towards binding arrangements. Conversely, different terms are sometimes applied for the same concept (e.g. financial effects and financial impacts were similarly applied across the reviewed disclosures of anticipated financial effects). During EFRAG's outreach, stakeholders expected that connectivity will enable effective communication, and the application of connectivity-related concepts will result in the harmonisation of terminology for related items applied across different reports.

15 Due to its multiple associated notions, one stakeholder described connectivity as a *'Porte Manteau'* term (i.e., a hanger on which one can place any coat). Some terms (e.g. coherence, consistency) are sometimes used as synonyms for connectivity. Yet at other times, these same terms are applied as being distinctive elements of connectivity. And still, at other times, some terms (complementarity, coherence, integration in reporting) are described as being distinct notions from connectivity. Other stakeholders have also suggested the statistical correlation of information across different reports ought to be a part of connectivity.

h) ***Usefulness of connectivity of reported information ascertained.*** As detailed in Chapter 4, during EFRAG's outreach, users and other stakeholders (auditors, securities regulators and academics) underscored connectivity as an aspect of high-quality reporting. They viewed connectivity as a way of facilitating the credibility and effectiveness of companies' communication through the annual report. Users considered the reporting quality to be the company's 'body language'. In their view, high-quality reporting occurs when a company has a connected and coherent annual report whose information reflects the qualitative characteristics of useful information.

i) Users conveyed the connectivity mechanisms they consider most important, including the coherence of information and the disclosure of anticipated financial effects. They emphasised that the disclosure of anticipated business impacts should precede the disclosure of anticipated financial effects. Some academic studies have also presented initial evidence showing that connectivity reduces the information asymmetry[16] between companies' management and investors, which in academic literature is measured by the bid-ask spread[17] of companies' stock prices. Lower information asymmetry leads to better capital allocation decisions and enhances users' ability to ask companies' management the right questions about a company's risks and prospects.

j) ***Addressing information across different reports that some expect to be (but is not) reported and connected.*** As noted in paragraph ES2, inconsistencies and a disconnect of information reported across different reports are sometimes observed. In this regard, the following is noted in Chapter 5.

   (i) Sometimes, observed inconsistencies are perceived rather than real inconsistencies, and they stem from an expectation gap on what information can be reported and thereafter connected across different reports. For example, contrary to the recognition criteria of assets or liabilities under IFRS accounting requirements, some stakeholders expect that a company's externalities[18] and its 'available but not controlled' resources, such as nature-based resources, should be reported in its financial statements. In order to address this expectation gap, standard setters and other interested parties could develop educational material that reiterates the objectives and reporting requirements of the different sections of the annual report.

   (ii) There are instances of some companies not disclosing material information. For example, due to not disclosing quantitative and/or qualitatively material information about exposures[19], which then leads to an inconsistent portrayal of a company's overall risk across different sections of the annual report. Such inconsistencies could be remedied by educational material and illustrative examples, such as those in the November 2025 IASB *Amendments to Illustrative Examples on IFRSs (7 and 18) and IASs (1, 8, 36 and 37), Disclosures about Uncertainties in the Financial Statements* (hereafter referred to as the 'IASB Illustrative examples on Disclosures about Uncertainties in the Financial Statements'). The omission of material information in companies' financial statements could also stem from a misinterpretation of existing IFRS accounting requirements, which in turn could warrant standard-setting clarifications. In its response to the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project, EFRAG suggested that such a clarification could be made for the IAS 36 *Impairment of Assets* requirements for the value in use calculation and the applicable time horizon for climate-related fact patterns.

16 Information asymmetry means that insiders/management within companies have much more information about the company, including its prospects, than outsiders including investors. It is assumed that the quality of a company's report (information content, understandability and connectedness of information) reduces the noted information asymmetry.

17 The more that is known about a company by investors, the more liquid will be the company's stock/shares, and the corresponding bid-ask spread is indicative of a stock's liquidity.

18 Externalities are positive or negative impacts on people, society and the planet.

19 For example, the effects of a sustainability-related risk on financial statement line items may not be quantitatively material, yet users (investors and other stakeholders) would have reasonably expected otherwise based on the information reported in other annual report sections and users' expert knowledge of the companies' business model/sector. In such a case, an explanation of why there are no financial statement effects could be deemed qualitatively material information.

k) ***Clarification of the border[20] of financial statements with respect to the disclosure of information (including forward-looking information) will enhance connectivity.*** The clarification of the border of the financial statements with respect to disclosures can help ensure that stakeholders have a common understanding of what information can be reported and thereafter connected across different reports. As detailed in Chapter 5, the need to address this aspect has arisen for a set of identified, specific grey areas (i.e. where there is a debate on the appropriate location and what should be reported on certain matters). These grey areas include sustainability-related intangibles (e.g. own workforce) that are not recognised as intangible assets in the financial statements and commitments related to future sustainability-related investments. In this regard, the following key points are made in Chapter 5.

   (i) The chapter has suggestions for when information on sustainability-related intangibles should be disclosed in the financial statements. For example, if such information meets the needs of users in the analysis of financial statements' line items (e.g. revenue).

   (ii) The chapter also highlights stakeholders' mixed views on whether forward-looking information on sustainability-related commitments (e.g. on future climate-related investments), which is not related to the defined elements of the financial statements, should be disclosed in the financial statements. On this matter, some stakeholders have observed that qualitatively material information is not always considered by companies, and they have called for application guidance for the disclosure of qualitatively material disclosures in the financial statements as required by paragraph 31 of IAS 1 *Presentation of Financial Statements* (paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*). In this regard, Example IV-1 of the 'IASB Illustrative examples on Disclosures about Uncertainties in the Financial Statements' describes the circumstances for applying the mentioned IAS 1/ IFRS 18 paragraph. For example, it should only be done after stepping back and considering the materiality of the financial statements' information taken as a whole. However, it can also be argued that the clarification of IFRS accounting requirements should not be exclusively done through illustrative examples. Hence, the IASB could also consider developing application guidance for the mentioned IAS 1/IFRS 18 paragraph.

   (iii) Finally, the chapter discusses the intertemporal (across reporting periods) relationship between items disclosed in the annual report outside the financial statements and information reported in future-period financial statements. This can be due to a change in nature or level of measurement certainty associated with the items disclosed outside the financial statements, such that they can be recognised or disclosed in future period financial statements. It is suggested that identifying and disclosing indicators (including event triggers) of any such change in the nature and level of measurement certainty of items disclosed outside the financial statements can contribute to intertemporal (across reporting periods) connectivity.

l) ***Standard setters may need to explore reasons for the perceived underreporting of sustainability matters in the segment disclosures in the financial statements.*** As discussed in chapters 4 and 5, there are observed differences in the levels of aggregation across the financial statements and the sustainability statement/disclosures. Such differences in levels of aggregation are to be expected as they likely reflect material information in the context of the distinctive objectives of different reports. Nonetheless, such differences may limit the ability to connect information in certain situations.

m) From EFRAG's review of 70-plus companies' annual reports and the results of a large-sample academic study, it appears that sustainability matters may have been underreported in the segment disclosures of the financial statements. There is often no link between the information on business activities in the sustainability statement and the segment disclosures in the financial statements. Thus, in Chapter 5, it is concluded that there may be an issue with IFRS 8 *Operating Segments* requirements, whereby reported segments are identified based on the management approach and the perspective of the Chief Operating Decision Maker, which could lead to a focus on the near-term factors to manage the business, and exclude sustainability-related matters that are longer-term in nature. An alternative explanation is that the reviewed companies were in the early stages of ESRS application, or they may have classified their business activities using a classification system that differs from IFRS 8's identified business segments (e.g. GRI, SASB, NACE classification systems).

20 These are the differentiating features of different reports in the annual report, for example, the recognition criteria for the elements of the financial statements. In effect, it is the dividing line which distinguishes between information included and excluded within these different reports.

n) ***No specific connectivity-related issues identified on the boundary of the reporting entity/reporting boundary (i.e. the entities, assets and sites/operations reported on).*** Chapters 2 and 5 highlight that the IFRS accounting requirements, ESRS, and the ISSB Standards apply the same definition for the reporting entity/undertaking (i.e. parent undertaking/entity and its subsidiaries), but there can be differences in the reporting boundary and consolidation approaches used for the measurement of information across different reports. In this regard, it is noted that the Draft Amended ESRS aligns the reporting boundary of the sustainability statement to that of the financial statements. Notably, Draft Amended ESRS E1 *Climate change* requires an undertaking to apply the scope (perimeter) of the consolidated financial statements and the financial control consolidation approach for the measurement of GHG emissions. In some circumstances, however, an undertaking is required to additionally provide a supplementary GHG emissions metric, which is measured based on the operational control consolidation approach. The latter is one of the consolidation approaches of the 2004 Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol Standard), and it is among the permissible approaches for the measurement of GHG emissions under IFRS S2 *Climate-related Disclosures*.

o) During EFRAG's outreach for this DP, stakeholders highlighted some implementation questions[21] and interpretation issues related to reporting boundaries and consolidation approaches, which are outside the scope of this DP. These could be considered and, where necessary, addressed in future implementation support material developed by the standard setters. Related to connectivity, a few stakeholders called for transparency on differences in the reporting boundary considered for the calculation of the numerator and denominator of the GHG intensity and energy intensity metrics based on revenue. However, these metrics were required under ESRS Set 1, and they are no longer mandatory under the Draft Amended ESRS. No other specific connectivity-related issues based on reported information were identified.

p) ***Connectivity in organisational processes, including integrated thinking, is an important consideration.*** As discussed in Chapters 2 and 5, the connectivity of reported information has to be underpinned by connectivity in process (via unified data sets and an integrated organisational structure) and integrated thinking in how companies manage their business. Connectivity of reported information is seen by some stakeholders as a step on a broader trajectory towards integrated thinking. That said, though desirable, enhancing 'integrated thinking' lies beyond the scope of mandated external reporting requirements, which primarily focus on ensuring information transparency.

q) ***Full benefits of XBRL-generated structured data for connectivity in the provision and consumption of reported information are yet to be realised.*** As discussed in Chapter 5, structured digital data enables the use of technology to enhance connectivity. For instance, digital tagging with XBRL allows the connection of financial statement line items to the anticipated financial effects disclosed in the sustainability statement based on a dedicated and direct technical relationship. It is also noted that the use of Artificial Intelligence (AI) for enhancing connectivity in the consumption of reported information is currently problematic, in particular due to the problem of hallucinations, which reduces the accuracy and reliability of AI-generated results. Further research could help to explore the possibilities and issues at hand.

SUGGESTED WAY FORWARD

ES10 As noted above, companies are in the early stages of the journey of providing connected and coherent annual reports. Going forward, their progress in this journey, via the application of the mechanisms of connectivity discussed in this DP and illustrated in the Supplemental Document, should be monitored. For this purpose, the considerations or points of attention for stakeholders highlighted in Chapter 4 provide a reference point to help enhance the connectivity of reported information under current reporting requirements. These considerations can be addressed by preparers, auditors, and enforcers in the coming reporting periods.

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21 For example, if a company own 60% of a joint venture, does it include 60% of their emissions, or 100%, or nothing? What if one subsidiary uses operational control and another uses the equity share method under the GHG protocol, how does the company merge that into one single number at group level?

During the April 2025 EFRAG roundtable webinar for multiple stakeholders (see page 13 of the webinar report), one of the speakers highlighted the challenge of interpreting some of the metrics when the financial statements consolidation approach is applied for social metrics. In the stakeholder's view, it is challenging to interpret a reported 0.2 fatalities or 1.3 incidents of corruption.

ES11 The considerations for enhancing the connectivity of reporting included in Chapter 5 have a longer-term orientation. Some of them are aimed at standard setters and reflected in the key messages above. For example, developing educational material reiterating the objectives and distinctive reporting requirements of different reports, clarifying the border of the financial statements with respect to disclosure of information (including forward-looking information), developing application guidance for qualitative materiality assessment in the financial statements, and assessing the root causes for the differences in the level of aggregation across different reports in relation to segment reporting, and if needed revising the related requirements. Additionally, in Chapter 2, it is suggested that the IASB could consider including explicit requirements in IFRS Accounting Standards for the connection of information within and outside the financial statements.

ES12 Hence, for their forthcoming agenda consultations and in their ongoing workstreams, the IASB and ISSB could consider the matters and suggestions raised within the DP along with the feedback that will be received from stakeholders during the consultation period, which will be conveyed in a feedback statement to be issued in 2026. Other key actors in the reporting ecosystem, including national standard setters, also have a role to play in doing further research and possibly suggesting solutions for enhancing reporting requirements in the highlighted areas.

ES13 Finally, in Chapter 5, it is noted that the outlined concepts for the connectivity of reported information have generally been formulated in the context of current reporting channels (which include information reported in PDF documents). With the evolving digitisation tools, it remains to be seen if the thinking about connectivity may similarly evolve should a world of fully digitised provision and consumption of reported information become a reality.

QUESTIONS TO CONSTITUENTS

EFRAG invites comments on all matters in this Discussion Paper and its Supplemental Document, particularly in relation to the questions set out below. Comments are more helpful if they:

- address the question as stated;
- indicate the specific paragraph reference to which the comments relate; and/or
- describe any alternative suggestions that should be considered.

All comments should be received by 30 June 2026.

QUESTION 1 – CHAPTER 2: UNDERPINNING CONCEPTS

a) **What is your view on Chapter 2's description of different types and mechanisms of connectivity of information across different reports (based on ESRS, ISSB Standards, the IFRS MCPS, and other publications), which include providing explanations that tell a story/integration of information; coherence via giving a more complete picture or explaining inconsistencies; consistency of data, assumptions, and narrative; connection of quantitative information via cross referencing and reconciliation; disclosure of current financial effects, and intertemporal (across reporting periods) connectivity via the disclosure of anticipated financial effects)?**

b) **If any, what other types or mechanisms of connectivity can be applied or are applied by companies that you consider useful but are not included in Chapter 2?**

c) **In paragraph 2.24 of Chapter 2, it is suggested that, as done under ESRS, ISSB Standards, and the 2025 IFRS MCPS, the IASB should develop explicit connectivity-related requirements for information within and outside the financial statements. If you either agree or disagree with this suggestion, please explain why.**

QUESTION 2 – CHAPTER 3: OVERVIEW OF ILLUSTRATIONS, AND ILLUSTRATIONS IN THE SUPPLEMENTAL DOCUMENT

a) Do you have any comments on the practical usefulness of the 17 illustrations on connectivity in the Supplemental Document? **Are you aware of any obstacles that your company or other companies you are familiar with may face in applying the mechanisms of connectivity illustrated in the Supplemental Document?**

b) **Table 3.1** in Chapter 3 outlines the types and mechanisms of connectivity of reported information for the different illustrations in the Supplemental Document. Which of these do you consider most useful and why? If you have a view on this, please indicate under what circumstances it would be suitable or unsuitable to apply any of the mechanisms of connectivity shown in the illustrations.

QUESTION 3 – CHAPTER 4: AGGREGATED OBSERVATIONS ON THE CONNECTIVITY OF REPORTED INFORMATION

a) What is your view on the aggregated positive observations, observations on anticipated financial effects, and areas of attention to enhance the connectivity of reported information reflected in **paragraphs 4.12 to 4.35**? If any, what other observations or points of attention for the connectivity of reported information have you noticed with respect to current reporting practices?

b) How can the areas of attention, in **paragraphs 4.27 to 4.35**, related to the connectivity of reported information be addressed? What would be the required efforts to improve the connectivity of reported information?

c) If you are a user of the information in the annual report, if you agree or disagree with the preliminary feedback received on the usefulness of the connectivity of reported information, which is reflected in **paragraphs 4.36 to 4.45**, please explain why. If at all, how does the connectivity of reported information enhance your analysis of companies?

QUESTION 4 – CHAPTER 5: CONSIDERATIONS FOR ENHANCING THE CONNECTIVITY OF REPORTED INFORMATION AND RELATED ASPECTS

Standard setter consideration: Clarifying the borders of the financial statements with respect to disclosures in the notes to the financial statements (analysed in **paragraphs 5.12 to 5.43**)

a) In **paragraphs 5.12 to 5.43**, it is argued that clarifying the borders of financial statements with respect to the disclosure of unrecognised sustainability-related intangibles, sustainability-related commitments for future investments, and synergies from business combinations in the financial statements would be an enabler of connectivity. If you either agree or disagree with this view, please explain why.

b) **Paragraphs 5.20 to 5.22** outline suggestions for determining when information on sustainability-related unrecognised intangibles should be disclosed in the financial statements (i.e. if such information meets the needs of users). If you either agree or disagree with these suggestions, please explain why.

c) **Paragraphs 5.31 to 5.35** outline the mixed views that EFRAG has heard on whether forward-looking information (e.g. climate-related commitments on future Capex), which is not related to the defined elements of the financial statements, should be disclosed in the financial statements. In this regard, some stakeholders have suggested that application guidance for paragraph 31 of IAS 1 (paragraph 20 of IFRS 18), which is related to qualitatively material information about exposures, should be developed in addition to the existing IASB educational material and illustrative examples. What is your view on whether such disclosures should be in the financial statements and on the suggested development of application guidance for paragraph 31 of IAS 1 (paragraph 20 of IFRS 18)?

d) In **paragraphs 5.39 to 5.43**, it is suggested that identifying indicators (including event triggers) of the change in the nature or level of measurement uncertainty of items disclosed in the sustainability statement/ disclosures and the rest of the management report, such that they could qualify to be recognised as assets or liabilities or disclosed as contingent assets or contingent liabilities in future period financial statements, could be helpful for the assessment of intertemporal (across reporting periods) connectivity.

Based on your experience with the information disclosed in annual reports, if you agree with this view, do you have any suggestions for indicators that items disclosed outside the financial statements may change their nature and level of measurement certainty and qualify to be recognised or disclosed in future-period financial statements? If you disagree with this view, please explain why.

QUESTION 5 – CHAPTER 5: STANDARD-SETTER CONSIDERATION: DIFFERENCES IN LEVEL OF DISAGGREGATION

a) Some stakeholders (including users) have observed differences in the level of disaggregation in the financial statements and the sustainability statement/disclosures. The analysis in **paragraphs 5.44 to 5.47** suggests that these are mainly a result of differences in what is material in the context of each of these reports. Thus, it should not be seen as a problem. If you either agree or disagree with this view, please explain why.

b) The analysis in **paragraphs 5.49 to 5.54** 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, and this supports the need for the IASB to review segment reporting requirements. Conversely, the failure by a sample of companies to link the business activities in the sustainability statement to IFRS 8 segments could be because these companies were in early stages of implementing ESRS, including the related ESRS 2 requirements. If you agree or disagree with either or both of these views, please explain why.

QUESTION 6 – CHAPTER 5: CONSIDERATIONS TO BE ADDRESSED BY MULTIPLE STAKEHOLDERS

Do you have any additional suggestions or comments for the following considerations?

a) Assessing differences in reporting boundaries (i.e. the entities, assets and sites/operations reported on) between different reports (analysed in **paragraphs 5.55 to 5.60**)

b) **Enhancing connectivity in organisational processes (analysed in paragraphs 5.61 to 5.63)**

QUESTION 7 – CHAPTER 5: EXPLORING DIGITISATION TO ENHANCE CONNECTIVITY OF REPORTED INFORMATION

In the analysis in **paragraphs 5.64 to 5.74,** it is concluded that the use of structured data has yet to meet its full potential for enhancing connectivity in the provision and consumption of reported information. What is your view on this observation? If you agree, how could this situation be changed?

QUESTION 8 – OTHER

If any, what aspects of connectivity that are not addressed in the DP would you like to raise?

CHAPTER 1: BACKGROUND AND SCOPE

CHAPTER STRUCTURE

INTRODUCTION – IMPORTANCE OF CONNECTIVITY
(Paragraphs 1.1 to 1.7)

OBJECTIVES, APPROACH, AND STRUCTURE OF DP
(Paragraphs 1.8 to 1.11)

SCOPE
(Paragraphs 1.12 to 1.28)

INTRODUCTION – IMPORTANCE OF CONNECTIVITY OF REPORTED INFORMATION

1.1 The connectivity of the information reported in the financial statements and sustainability statement/disclosures enhances preparers' communication of how their strategy and business model are deployed in relation to the entity's material IROs and how that affects the entity's prospects and future cash flows. In essence, connectivity enhances the information content and credibility of companies' Annual Reports.

1.2 During EFRAG's outreach (including during EFRAG's April 2025 multi-stakeholder roundtable), a key message was that the connectivity of reported information contributes to users' decision making as it allows better prediction of reporting companies' future cash flows. It also allows users to understand sustainability-related IROs and how companies are contributing to the transition to net-zero targets with respect to climate-related risk[22]. Users considered the reporting quality to be a company's 'body language'. In their view, high-quality reporting occurs when a company has a connected and coherent annual report whose information reflects the qualitative characteristics of useful information. A further analysis of users' perspectives is in Chapter 4.

1.3 *Connectivity of reported information and the border of the financial statements.* As detailed in Chapter 5, a clearly defined border of the financial statements would contribute to a common understanding of the information that can be reported and thereafter connected across different reports. In this regard, stakeholders, including EFRAG and some International Forum of Accounting Standard Setters (IFASS) members[23], have called for the IASB to clarify the border of the financial statements with respect to disclosures under certain circumstances. For example, if forward-looking information that is not related to recognised or unrecognised assets and liabilities can be disclosed in the financial statements. EFRAG has called for this clarification in its responses to several IASB consultative documents (i.e. the 2024 IASB ED *Business Combinations—Disclosure, Goodwill and Impairment*, and the 2024 IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project).

OTHER INITIATIVES

1.4 Connectivity has also been on the radar of other financial reporting and sustainability reporting standard setters and regulators. The IASB and ISSB (as highlighted in the IFRS Foundation connectivity webpage) have underscored that enhancing the connectivity of information is foundational to their work. This has been evident in the publications of several recent IASB projects, including the IASB Illustrative examples on Disclosures about Uncertainties in the Financial Statements and the 2025 IFRS MCPS.

1.5 As detailed in Chapter 2, there are explicit connectivity/connection/coherence requirements in ESRS, the ISSB Standards, and the 2025 IFRS MCPS. Connectivity was also identified as an essential concept of improving corporate reporting in several publications that were part of the preparatory work for these sustainability reporting standards. That is, the 2021 EFRAG Project Taskforce for Non-Financial Reporting Standards (PTF-NFRS) publications and the 2021 IFRS Foundation Technical Readiness Working Group prototype document. Notably, in the 2021 EFRAG PTF-NFRS publication, it was stated that the absence of a formal interconnection between different sections of the annual report could lead to potential gaps, overlaps (i.e. duplication) and a lack of coherence in reported information. The supplemental 2021 PTF-NFRS report on the interconnection between financial and non-financial information put forward the notions of direct and indirect connectivity (linking monetary amounts and other quantitative data in the sustainability statement to the related financial statements information).

1.6 Connectivity is also embedded within several initiatives that are under the umbrella of the IFRS Foundation. For instance, it was one of the guiding principles in the original (2013) and updated (2021) IR framework published by the International Integrated Reporting Council (IIRC), and it was implicitly included in the 2017 Taskforce for Climate-related Financial

22 Illustratively, the connectivity of climate matters in the financial statements and the sustainability statement/disclosures occurs for information related to (i) investments, such as new decarbonised assets acquired during the year; (ii) impairments, including former carbon-intensive assets whose value may be affected by climate-related risks; and (iii) contractual commitments, such as CapEx, OpEx, asset decommissioning, restructuring, environmental remediation, or those related to GHG reduction targets in transition plans aiming for net zero by 2050.

23 See September 2025 IFASS report – Page 5

Disclosures (TCFD) recommendations[24] via the call for entities to disclose the financial impact of climate-related risks and opportunities on the organisation. Moreover, guidance on coherence is included in the 2025 IFRS MCPS.

1.7 From an EU perspective, the findings in the April 2024 European Systemic Risk Board (ESRB) publication *Climate-risks and accounting*, the October 2023 European Securities and Markets Authority (ESMA) report on Disclosures of Climate-related matters in the Financial Statements, 2024 ESMA Common Enforcement Priorities and several other regulatory and standard-setter publications[25] (from regulators or standard setters in France and Norway) have similarly underscored the importance of enhancing connectivity in reporting. Outside the EU, other national standard setters (from the UK and New Zealand) have also issued publications[26] with illustrations and recommendations to enhance connectivity.

OBJECTIVES, APPROACH AND STRUCTURE OF DP

1.8 Following its proactive research agenda consultation in 2021, whereby connectivity was the top-ranked topic for EU stakeholders, EFRAG initiated a research project on the connectivity between financial reporting and sustainability reporting.

1.9 This DP and its Supplemental Document aim to enhance stakeholders' understanding of the concepts and the practical application of the connectivity of reported information.

1.10 The conceptual and practical content in the DP, along with its Supplemental Document, has been informed by:

a) discussions held by the EFRAG CAP, EFRAG's financial reporting and sustainability reporting pillars' technical governance bodies and several EFRAG working groups (see details in Appendix 1);

b) the interim deliverable of the EFRAG connectivity project (initial paper – Connectivity Considerations and Boundaries of Different Annual Report Sections, ESRS, ISSB Standards, the IFRS Conceptual Framework for Financial Reporting (hereafter referred to as IFRS Conceptual Framework), IFRS Accounting Standards, the 2025 IFRS MCPS, the 2021 EFRAG PTF-NFRS publications (Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting and Appendix A4 *Interconnection between Financial and Non-Financial Information*), and other related regulator, national standard setter, audit firm and academic publications;

c) EFRAG's review of the 2024 and 2023 annual reports of a sample of 72 companies. The 17 illustrations (included in the Supplemental Document) were excerpted from the 2024 annual reports of 15 of these companies. The sustainability reporting for these illustrations was done under the currently applicable ESRS Set 1, ISSB Standards and other voluntary reporting frameworks (e.g. TCFD recommendations), with most of them being ESRS reporters. The financial statements of the illustrations were under IFRS accounting requirements. Though the local GAAP of EU member states could have been considered, it is assumed that the principles of IFRS accounting requirements and EU member states' local GAAP are broadly similar;

d) EFRAG's dialogue with stakeholders through targeted outreach meetings and a series of EFRAG-hosted events (details are in Appendix 1).

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24 With the formation of the ISSB in 2021, both the IIRC (and its IR framework) and the TCFD recommendations fell under the umbrella of the IFRS Foundation.

25 a) ESMA, March 2023, *Report – 2022 Corporate reporting enforcement and regulatory activities*.
b) Finanstilsynet, March 2023, Report on Information on climate-related matters in annual financial reports.
c) Autorité des Marchés Financiers – AMF, 2022, *Overview of the information provided in the 2021 financial statements on the effects of climate change and the commitments made by companies*.
d) Autorité des Normes Comptables – ANC, 2025, Enjeux climatiques : Quels liens entre les états financiers et l'état de durabilité? Contribution à la réflexion.

26 UK Financial Reporting Council (FRC UK), July 2023, CRR Thematic review of climate-related metrics and targets;
UK Endorsement Board (UKEB), September 2023, A Study in Connectivity: Analysis of UK Company 2022 Annual Reports;
New Zealand External Reporting Board (NZ XRB) staff guidance, November 2023, Climate-related matters in Financial Statements.

1.11 The rest of the DP is structured as follows:

a) Chapter 2 outlines the underpinning concepts, including the different types and mechanisms of connectivity, as well as the anchor points to develop illustrations of connectivity.

b) Chapter 3 gives an overview of the 17 illustrations in the Supplemental Document.

c) Chapter 4 provides aggregated observations on connectivity under current reporting practices.

d) Chapter 5 provides considerations for enhancing the connectivity of reported information and related aspects.

SCOPE OF THIS DP: WHAT INFORMATION IS BEING CONNECTED?

CONNECTIVITY ACROSS REPORTS – EU CONTEXT

1.12 **Figure 1.1** below outlines the scope of the DP's analysis and illustrations of the connectivity of reported information. Given the EU context, there is a focus on the connections between the financial statements of EEA companies prepared under IFRS accounting requirements, the sustainability statement in the management report under ESRS, and other sections of the management report guided by the Accounting Directive. As noted in **paragraphs 1.10-c and 1.24**, reporting under EU member states' local GAAP is not analysed in the DP because, among other factors, these local GAAP principles are considered to be broadly similar to those of IFRS Accounting Standards.

1.13 The connectivity of relevant information within other annual report sections (e.g. remuneration report, corporate governance report) is also in the DP's scope. For instance, when such information has been incorporated into the sustainability statement by reference to other annual report sections, as allowed by ESRS 1 *General requirements* under certain conditions (e.g. when having at least the same level of assurance as the sustainability statement). It could also be in scope when information in these other annual report sections can be connected to the financial statements. For example, illustration 5 in the Supplemental Document connects the information about an entity's sustainability-related performance conditions (related to gender diversity) disclosed in the governance report to the share-based payment disclosure in the financial statements.

Figure 1.1: What is being connected under the EU reporting framework

Source: EFRAG

1.14 Though the focus of the DP is on connectivity across different reports, connectivity within the management report is also considered and included in illustration 11 in the Supplemental Document. In this regard, it is noted that Chapter 2 has requirements for connectivity within a report under the ESRS and ISSB Standards. **Furthermore, the need to convey the connections of information within financial statements has been identified for some areas, such as for the disclosures[27] of non-cash transactions and non-cash changes in the balances of assets and liabilities.**

IMPLICATIONS OF ESRS SIMPLIFICATION

1.15 Given the EFRAG connectivity research project's time horizon[28], the illustrations of connectivity in the Supplemental Document are prepared based on companies' 2024 annual reports. These are the latest available set of annual reports at the time of this DP's publication, with reporting done under the currently applicable ESRS Set 1, ISSB Standards and some[29] of the voluntary reporting frameworks (e.g. TCFD recommendations).

1.16 Reporting under the Amended ESRS will likely only be available in early 2027. Hence, given the mentioned benefits of connectivity, stakeholders have emphasised the usefulness of EFRAG publishing a Discussion Paper at this moment instead of waiting possibly until 2027 to assess the Amended ESRS reports. Moreover, as shown in the illustrations in the Supplemental Document and Chapter 4's observations, connectivity is demonstrable, and it enhances the relevance and understandability of the information in the annual report, irrespective of the prevailing accounting or sustainability reporting requirements.

1.17 Chapters 2 and 5 highlight the connectivity-related requirements under the Draft Amended ESRS.

27 As detailed in the October 2025 IASB staff paper for the IASB project on the statement of cash flows, the disclosures of non-cash transactions and non-cash changes in balances are scattered, disconnected and insufficiently disaggregated. Thus, it has been proposed that the IASB develop requirements that would improve connections across related disclosures of non-cash transactions and non-cash changes in assets and liabilities.

28 The project was initiated in 2022.

29 The frameworks covered were those where there were observable related disclosures.

CONNECTIVITY IN THE CONTEXT OF GENERAL PURPOSE FINANCIAL REPORTS BASED ON IFRS REQUIREMENTS

1.18 With the importance accorded to the interoperability of ESRS and ISSB Standards, and to draw insights from reporting practices from jurisdictions outside the EU that apply ISSB Standards, the DP also considers connectivity in the context of general purpose financial reports based on IFRS requirements. That is, financial statements under IFRS Accounting Standards, and the sustainability-related financial disclosures under ISSB Standards. Notably, illustration 12 in the Supplemental Document is on the disclosure of anticipated financial effects under ISSB Standards.

1.19 Besides the connection of information reported under IFRS Accounting Standards and ISSB Standards, as highlighted in **paragraph 1.12** above, in an EU context, financial statements under IFRS Accounting Standards can be connected to the sustainability statement/disclosures under jurisdictional sustainability reporting requirements (e.g. ESRS). Similarly, sustainability-related financial disclosures under ISSB Standards can be connected to financial statements prepared under local GAAP.

1.20 *Location-agnostic sustainability-related financial disclosures.* Unlike the CSRD and ESRS' clear placement[30] requirements for the sustainability statement within the management report, the ISSB Standards' sustainability-related financial disclosures are location-agnostic. Paragraph 60 of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* states that an entity is required to provide disclosures required by ISSB Standards as part of its general purpose financial reports. Beyond that, IFRS S1 does not specify a required location. Paragraph 61 of IFRS S1 conveys that *"subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose sustainability-related financial information. Sustainability-related financial disclosures* ***could be*** *included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports."*

1.21 Paragraph 63 of IFRS S1 conveys that information required by ISSB Standards may be included in sustainability-related financial disclosures by cross-reference to another report published by the entity, subject to specified conditions. Hence, a disclosure under ISSB Standards could be located in the notes within the financial statements and included into the sustainability-related financial disclosures by cross-reference. That said, a few stakeholders have opined that such a disclosure in the financial statements is likely to be rare.

1.22 *Management commentary:* The 2025 IFRS MCPS and other IFRS Foundation documents describe management commentary as a general purpose financial report for which the MCPS provides guidance. That said, several jurisdictions, including the EU, tend to have their own local requirements for management commentary, which is also known as the management report in the EU, management discussion and analysis (MD&A) in the US, and the strategic report in the UK. Hence, the 2025 IFRS MCPS is voluntary guidance, which serves as a reference document and inspiration for the enhancement of jurisdictional requirements for management commentary. Moreover, wherever needed, the IFRS MCPS can be applied as guidance for the management commentary regardless of the jurisdiction's underlying accounting requirements applied for the financial statements or sustainability reporting requirements or voluntary guidance applied for the sustainability report.

1.23 Finally, it is noted that the IFRS S1 connection requirements (paragraph 21 of IFRS S1) and the 2025 IFRS MCPS's guidance on coherence emphasise the importance of connections within and across IFRS general purpose financial reports. This is further discussed in Chapter 2.

PRIORITISATION OF THE SUSTAINABILITY STATEMENT UNDER ESRS AND THE FINANCIAL STATEMENTS UNDER IFRS ACCOUNTING REQUIREMENTS

1.24 Though a reporting requirements / framework-agnostic approach is taken, as noted in **paragraph 1.12,** the DP's primary focus is on the connectivity between the sustainability statement under ESRS and financial statements prepared under IFRS accounting requirements (applied by EU-listed companies).

30 Another key difference between the ISSB Standards and ESRS is the lack of a mandatory assurance requirement under ISSB Standards within the EU.

1.25 The focus on financial statements under IFRS accounting requirements is for practical reasons (e.g. ease of access to English versions of annual reports), and it is consistent with EFRAG's financial reporting mandate. Moreover, as noted earlier, it is assumed that the principles of IFRS accounting requirements and local GAAP are broadly similar. Thus, it is unlikely that there would be significant differences in the connectivity considerations related to financial statements prepared under local GAAP versus those prepared under IFRS Accounting requirements.

IMPLICATIONS OF THE LOCATION-SPECIFIC SUSTAINABILITY STATEMENT UNDER ESRS VERSUS LOCATION-AGNOSTIC SUSTAINABILITY DISCLOSURES UNDER ISSB STANDARDS

1.26 Some stakeholders have suggested that the connectivity to the financial statements of a separate sustainability statement under ESRS may differ from connectivity in the context of the location-agnostic ISSB sustainability-related financial disclosures. Whether this is true in practice remains to be seen. Thus, this aspect could be monitored as reporting practices applying connectivity mechanisms become more established.

INFORMATION THAT IS EXPECTED TO BE (BUT IS NOT) CONNECTED ACROSS DIFFERENT REPORTS

1.27 The circumstances whereby information is not connected across different reports, even when reasonably expected (e.g. due to underreporting of material information in different reports), and considerations for enhancing the connectivity of reported information are addressed in Chapter 5.

CONNECTIVITY IN ORGANISATIONAL PROCESSES AND REPORTING REQUIREMENTS

1.28 Although the focus of this DP is connectivity of reported information, other aspects of connectivity (i.e. connectivity in organisational processes, including governance and connectivity in assurance) are briefly touched on in Chapter 5 as part of the considerations related to enhancing the connectivity of reported information. Connectivity in reporting requirements, including the basis of preparation of different reports (i.e. scope of consolidation, reporting entity, qualitative characteristics of information, etc.), is covered in Chapter 2.

CHAPTER 2: UNDERPINNING CONCEPTS

CHAPTER STRUCTURE

ENABLING ATTRIBUTES FOR THE CONNECTIVITY OF REPORTED INFORMATION
(Paragraphs 2.1 to 2.9)

CONNECTED INFORMATION UNDER ESRS AND IFRS LITERATURE
(Paragraphs 2.10 to 2.13)

TYPES AND MECHANISMS OF CONNECTIVITY OF REPORTED
(Paragraphs 2.14 to 2.30)

ANCHOR POINTS
(Paragraphs 2.31 to 2.36 and Table 2.1)

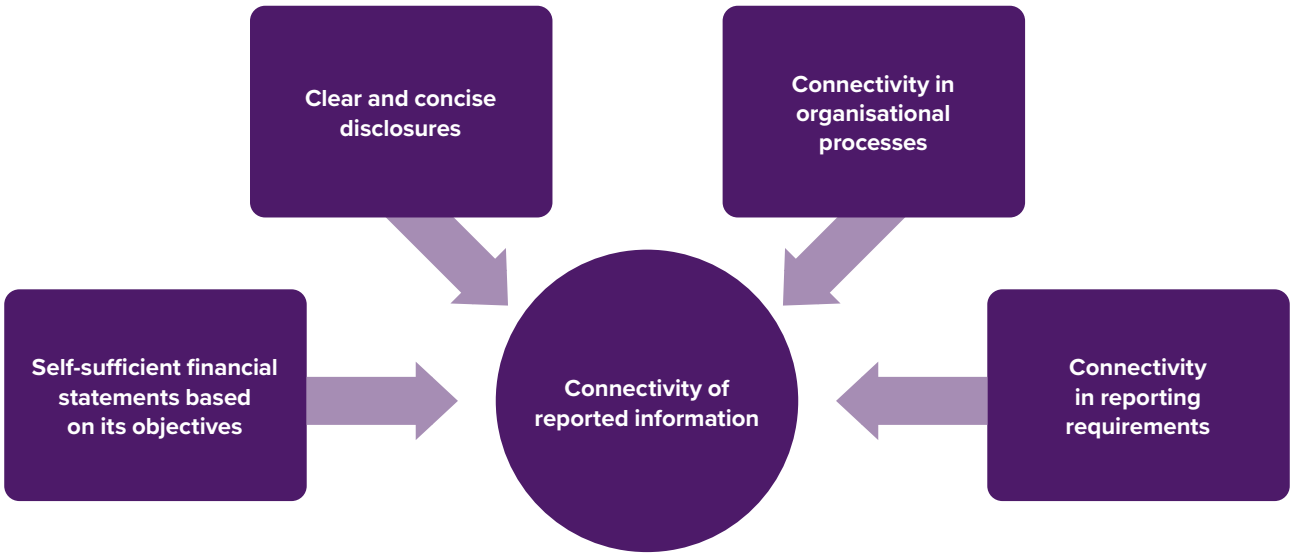
With the multiple meanings associated with the notion of connectivity, a stakeholder labelled it as a 'Porte Manteau' term (i.e. a hanger on which any coat can hang). That said, there is ample guidance and descriptions of the term in several publications issued by standard setters and regulators. For this DP, a high-level definition[31] of the connectivity of reported information is that it is ***'the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different annual report sections (such as the financial statements, sustainability statement/disclosures and other parts of the management report)'.*** *And to put meat on the bone, this chapter lays out the concepts (enabling attributes and different types and mechanisms of connectivity of reported information) that inform the illustrations of connectivity in the Supplemental Document. These concepts have been drawn from the 2024 EFRAG connectivity connectivity project initial paper, ESRS Set 1 and Draft Amended ESRS, ISSB Standards, the 2025 IFRS MCPS, and a selection of regulator, auditor, national standard setter and academic publications.*

Another essential aspect for developing the illustrations of connectivity is the identification of anchor points (defined by the 2021 PTF-NFRS EFRAG report[32] as data and/or qualitative or quantitative information that allows the connection of sustainability disclosures and financial statements information). Said differently, an anchor point is information (narrative and data) within the sustainability statement/disclosures and/or financial statements that allows the connection of information across these different reports. The anchor points were identified based on the discussions of the EFRAG advisory and technical governance bodies (EFRAG CAP, EFRAG FR TEG and EFRAG SR TEG) and the findings from several thematic reviews of reporting practices.

ENABLING ATTRIBUTES FOR THE CONNECTIVITY OF REPORTED INFORMATION

2.1 Enabling attributes for the connectivity of reported information are the characteristics of the reporting process or the information in the annual report sections, which make it easier for readers to connect information. Addressed below and depicted in **Figure 2.1** are four enabling attributes, namely: self-sufficiency of the financial statements based on their objectives, clear and concise disclosures, connectivity in organisational processes, and connectivity in reporting requirements (basis of preparation).

Figure 2.1: Overview of enabling attributes of connectivity of reported information



Source: EFRAG

31 The same definition was applied in the 2024 EFRAG connectivity project initial paper.

32 EFRAG, PTF— NFRS, February 2021, Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard-Setting.

ENABLING ATTRIBUTE: SELF-SUFFICIENCY OF FINANCIAL STATEMENTS INFORMATION BASED ON THE OBJECTIVES OF FINANCIAL STATEMENTS

2.2 The October 2023 ESMA report emphasised that financial statements are expected to be self-sufficient[33] in providing information related to their distinctive objective, as this contributes to a coherent annual reporting package comprised of distinctive but complementary sections. And the primary purpose of connectivity is to ensure the overall coherence and connectedness of the information across the annual report.

2.3 Self-sufficient financial statements may necessitate:

a) repetition, e.g., for relevant aspects of an entity's strategy that affect an accounting policy choice. Such repetition could reinforce the understandability of the information reported in the financial statements. In such cases, stakeholders (including EFRAG CAP members) have indicated that repeated narrative from other reports should be tailored to be suitable for the context of the related financial statements information. That is, in the financial statements, entities should not just repeat the exact wording that was disclosed in another report outside the financial statements.

b) incorporation of information from another report by cross-reference in specific cases where such reference is explicitly permitted. However, except for some risk disclosures under IFRS 7 *Financial Instruments: Disclosures*, the IFRS Accounting Standards do not have explicit requirements on the incorporation of information into the financial statements by cross-reference to another report. Moreover, relative to the information in the management report or the sustainability statement/disclosures, there are particular obstacles towards incorporating that information into the financial statements by cross-reference[34], including:

(i) legal risk on forward-looking information;

(ii) it could impair the understandability of information in the financial statements. Specifically, if done excessively, it could result in fragmented information and difficulties in users accessing or readily having a full picture (as similarly noted in paragraph BC 100[35] of the 2025 IFRS MCPS and paragraph 121 of Draft Amended ESRS 1); and

(iii) differences between the level of assurance provided for financial statements and other reports. A condition for including information by cross-referencing in the financial statements is that the information has the same level of assurance as other information in the financial statements (i.e. reasonable assurance). Currently, there is only limited assurance for the sustainability statement, and the recent EU Omnibus proposals for the CSRD revision no longer refer to possible reasonable assurance of the sustainability statement prepared under ESRS. Reasonable assurance is and remains possible, but will possibly not be required in the future.

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33 Financial accounting has a long-established history running for hundreds of years and it primarily provides information to facilitate capital allocation and the assessment of the stewardship of reporting entities. In contrast, sustainability reporting is a relatively nascent form of reporting that complements financial statements by providing information (including an entity's impacts, non-financial metrics and forward-looking sustainability-related risks and opportunities) that cannot be encompassed within the financial statements based on the latter's objectives and materiality yardsticks. In some jurisdictions such as the EU, sustainability reporting is also a mechanism contributing to the pursuit of public policy objectives (e.g. the EU Green Deal goals).

34 Paragraph 120 of ESRS 1 Set 1 (paragraph 119 of Draft Amended ESRS 1) also explain the conditions under which information may be incorporated into the sustainability statement by reference: 'The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 119 of Draft Amended ESRS, provided that the disclosures incorporated by reference:

a) constitute a separate element of information and are clearly identified in the document concerned as addressing the relevant Disclosure Requirement, or the relevant specific datapoint prescribed by a Disclosure Requirement;

b) are published before or at the same time as the management report;

c) are in the same language as the sustainability statement;

d) either: (i) include in the scope of information in the sustainability statement for the performance of the related assurance engagement (i.e., it is not required that the entire document containing the information is subject to assurance); or (ii) the entire document containing the information is already subject to the same level of assurance; and

e) meet the same technical digitalisation requirements as the sustainability statement.'

35 Paragraph BC 100 of 2025 IFRS MCPS states that "Permitting the inclusion of information in management commentary by cross-reference could give rise to concerns about: (a) fragmentation, especially if many cross-references are included, causing users to look elsewhere for much of the material information, which could make management commentary less clear; and (b) the status of information included by cross-reference, its availability and whether that information is current."

ENABLING ATTRIBUTE: CLEAR AND CONCISE DISCLOSURES

2.4 As required by both ESRS and IFRS S1 and emphasised in the October 2023 ESMA report, clear and concise disclosures contribute to the understandability and, in turn, the connectivity of information. **Avoiding unnecessary duplication** is an essential part of clear and concise communication. This can be attained through the use of cross-referencing (which encompasses the incorporation of information from another report by reference) and signposting information, i.e., referring to information from the same or another report to aid the reader's navigation through the report. That said, excessive cross-referencing can lead to confusing information, as noted in **paragraph 2.3-b-ii.**

ENABLING ATTRIBUTE: CONNECTIVITY IN ORGANISATIONAL PROCESSES

2.5 For this DP, connectivity in organisational processes refers to the integration of companies' organisational structure, functional departments, processes, and mindset (integrated thinking) for external financial and sustainability reporting. This can be done while gathering and processing the required reporting data. Connectivity in organisational processes facilitates the connectivity of reported information, and it is further addressed in Chapter 5.

ENABLING ATTRIBUTE: CONNECTIVITY IN REPORTING REQUIREMENTS (BASIS OF PREPARATION)

2.6 As described below, there is alignment in the basis of preparation of the financial statements, the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards across several aspects.

a) ESRS Set 1 and ISSB Standards require reporting of information with **qualitative characteristics** consistent with those of the IFRS Conceptual Framework and the CSRD (i.e. relevance, faithful representation, comparability, verifiability and understandability).

b) Moreover, in alignment with the IFRS Accounting Standards and ISSB Standards, paragraphs 19 to 21 of Draft Amended ESRS 1 include **the fair presentation principle**, whereby an undertaking is required to disclose relevant information on its material IROs from a double materiality perspective and to faithfully represent such information according to ESRS requirements. To achieve faithful representation, the undertaking shall provide a complete, neutral and accurate depiction of its material IROs. Fair presentatio also requires the undertaking to disclose entity-specific information when applying ESRS is not sufficient to enable users to understand the undertaking's material IROs and how the undertaking manages them. This requirement is similar to the fair presentation principle stated in paragraphs 13 to 16 of IFRS S1[36].

c) ESRS 1 Set 1, Draft Amended ESRS 1, and the ISSB Standards have the **same definition of the reporting entity** as the financial statements (i.e. parent entity/undertaking and its subsidiaries). However, there can be differences in the consolidation approaches applied across different reports for the measurement of the reported information (as further discussed in **paragraphs 2.8 and 2.9** below).

d) The **same reporting period** (paragraph 73 of ESRS 1 and paragraph 77 of Draft Amended ESRS 1) is applied for the sustainability statement and the financial statements, albeit there are differences in the typical time horizon[37] covered across these reports, as described in Chapter 5.

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36 Under ISSB Standards, fair presentation requires disclosure of relevant information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, and their faithful representation in accordance with the principles set out in IFRS S1. To achieve faithful representation, an entity shall provide a complete, neutral and accurate depiction of those sustainability-related risks and opportunities.

Fair presentation also requires an entity: (a) to disclose information that is comparable, verifiable, timely and understandable; and (b) to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards is insufficient to enable *users of general purpose financial reports* to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

37 The reporting period of the sustainability statement is consistent with that of its financial statements. That said, as detailed in Chapter 5 the sustainability statement is largely based on forward-looking elements, notably through the use of scenarios, as it reflects future rights and obligations that may not exist at the reporting date. In contrast, even though the recognised amounts in the financial statements consider forward-looking information (e.g. fair value of assets and liabilities, assets impairment, goodwill), they require the occurrence of a past event and consider reporting rights and obligations that exist at a given date. Similar to how financial statements are not just about the past, the sustainability statement or sustainability-related financial disclosures under ISSB Standards are not just about the future. For example, the disclosed current financial effects relate to the reporting period and are an important item of information that needs to be connected to the financial statements.

e) The financial statements, the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards also have similar approaches for the **treatment of events after the reporting date and changes in preparation and presentation practices.** ESRS and ISSB Standards were influenced by IAS 1, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 10 *Events after the Reporting Period*. Nonetheless, due to the different nature of the financial statements and sustainability reporting information, the basis for preparation of the sustainability statement under ESRS allows for greater flexibility to reflect uncertainties associated with future sustainability IROs.

2.7 Similar to presentation and disclosures requirements under IAS 1 and IFRS 18 for the financial statements, ESRS 1 Set 1, Draft Amended ESRS 1, and the ISSB Standards also include requirements for the presentation of comparative information for all quantitative metrics (as per ESRS) and amounts (paragraph 70 of IFRS S1) disclosed in the current period, as well as for narrative disclosures when relevant. An entity shall also present comparative information in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target, unless a relevant Disclosure Requirement already defines how to report progress (paragraph 76 of ESRS 1 Set 1 and paragraph 79 of Draft Amended ESRS 1).

2.8 ***Boundary of reporting entity/reporting boundary.*** The reporting boundary consists of the entities, assets, and operations/sites reported on. It is related to the scope of consolidation and the consolidation approach applied in the measurement of the reported information. The following is noted for the financial statements under IFRS Accounting Standards, the sustainability statement under ESRS, and sustainability-related financial disclosures under ISSB Standards.

a) Under financial accounting requirements (IFRS 10 *Consolidated Financial Statements*), the consolidation of information occurs when the investor controls[38] the investee entity. And the equity method of accounting (under IAS 28 *Investments in Associates and Joint Ventures*) is applied when the investor has significant influence[39] or joint control and the reporting entity's/investor's share of the net assets of its equity-accounted investees (joint venturers or associates) is included in the financial statements of the investor.

b) **ESRS sustainability statement:** As mentioned in **paragraph 2.6c,** reporting under the IFRS Accounting Standard and ESRS occurs for the same reporting undertaking (parent undertaking and its subsidiaries). Moreover, under the Draft Amended ESRS 1, the same reporting boundary/scope of consolidation is applied for both the sustainability statement and the financial statements. Notably, under ESRS E1 *Climate Change*, the consolidation and measurement of GHG emissions is done using the financial control approach, one of the consolidation approaches under the GHG Protocol[40] Standard, which is consistent with the consolidation approach of the financial statements. Under some circumstances, however, undertakings will also be required to disclose a supplementary GHG emissions metric measured based on the operational control consolidation approach[41].

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38 Under IFRS 10, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power is defined as existing rights (voting rights or embedded in contractual arrangements) that give the current ability to direct the relevant activities.

39 According to IAS 28, the existence of significant influence by an entity is usually evidenced in one or more of the following ways: a) representation on the board of directors or equivalent governing body of the investee; b) participation in policy-making processes, including participation in decisions about dividends or other distributions; c) material transactions between the entity and its investee; d) interchange of managerial personnel; or e) provision of essential technical information. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence.

40 The GHG Protocol enables companies to measure and report their direct and indirect emissions (i.e. Scope 1 and Scope 2 emissions), as well as both their upstream and downstream Scope 3 emissions. In the application of the notion of financial control (i.e. there is 100% consolidation of the GHG emissions of the entities whose financial statement line items are fully consolidated). However, there are differences, including:

a) the GHG Protocol also allows consolidation based on whether the reporting undertaking has operational control but no financial control of an investee (i.e. 100% consolidation when the reporting undertaking has the power to direct operational policies of an entity that is not part of the consolidated accounting group);

b) the GHG Protocol also allows an equity market share approach (de facto proportionate consolidation) whereas IFRS requirements no longer allow proportional consolidation for joint arrangements; and

c) IFRS accounting requirements have the notion of significant influence over investees (i.e. for associates and joint ventures) and the application of the equity method of accounting, but the GHG Protocol does not have the notion of significant influence nor does it have the equivalent of equity method accounting.

As a result of the above differences, there may be inconsistency between financial statements treatment and GHG protocol consolidation approaches on investee entities or assets that are not part of the consolidated group. Of note, the GHG protocol is currently being updated.

41 Draft Amended ESRS does not have a definition of operational control. In Appendix II, Table 2 (Definitions in ESRS Set 1), operational control is defined as 'a situation in which the (reporting) entity has the ability to direct the operating activities and relationships of the entity, site, operation or asset'.

c) Draft Amended ESRS 1 (paragraph 62) also clarifies the notion of own operations for the consolidated group (i.e. for the parent undertaking and its subsidiaries). Specifically, except for leasing assets and assets that are held by the undertaking's long-term employee benefit schemes, the assets, liabilities, revenues and expenses of the parent undertaking and its subsidiaries are considered as part of the reporting undertaking's own operations. It is also noted that, in May 2024, for ESRS Set 1, EFRAG published Implementation Guidance for Value Chain (IG 2), which addresses value chain and reporting boundary implementation questions, including the treatment of associates, joint ventures, and joint operations.

d) **ISSB sustainability-related financial disclosures:** As mentioned in **paragraph 2.6c,** reporting under the IFRS Accounting Standard and the ISSB Standards occurs for the same reporting entity (parent entity and its subsidiaries). As per Paragraph B27 of IFRS S2, an entity is required to use the equity share or control approach of the GHG Protocol Standard for the measurement of GHG emissions. Of note, the GHG Protocol Standard outlines the financial control, operational control, and equity share consolidation approaches. A November 2025 Transition Implementation Group ISSB staff paper explains that, under IFRS S2, the different GHG Protocol consolidation approaches are deemed to be different measurement (and not consolidation) approaches. In other words, the application of different GHG Protocol consolidation approaches (e.g. financial control and operational control) does not affect the representation of the group as a single economic entity. Rather, it only affects whether GHG emissions attributable to the single economic entity are reflected as either direct or indirect emissions.

e) Paragraph BC54 of IFRS S1 notes that, analogous to the consolidated financial statements treatment, sustainability-related financial information from a reporting entity's joint ventures, associates, and non-controlled equity investments is relevant for users, even though these investments are not part of the reporting entity. IFRS S1 does not specify how to include information about these investments, as noted in paragraph BC55 of IFRS S1.

2.9 The consolidation approach for the sustainability statement under ESRS may differ from that of the financial statements under IFRS Accounting Standards. This could be because of the following reasons.

a) When a reporting entity is a group, some subsidiaries might not be material for the purposes of consolidated financial statements but are material for the purposes of the consolidated sustainability statement. For example, if these subsidiaries have material sustainability-related IROs. The converse can occur. That is, material subsidiaries for the consolidation of financial statements may have immaterial sustainability-related IROs.

b) When applying the operational control consolidation approach, the reporting boundary can extend beyond that applied for the consolidation of financial statements information to include 'own operations' and the entity's upstream and downstream value chain. Under IFRS Accounting Standards, there is only the notion of 'control', and there is no explicit mention of 'operational control', nor is a distinction made between 'financial control' and 'operational control'.

c) For the disclosed information in the sustainability statement/disclosures, there is currently no approach that includes the investor's share of the investee's aggregate sustainability position and aggregate sustainability performance[42], similar to how the investee's share of the investee's net assets and net income/loss are included in the investor's financial statements under the equity method of accounting. That said, in EFRAG's IG2, there are examples of companies with an investment relationship in an investee entity, and the treatment is a single line with the equity share of emissions. The equity share approach under the GHG protocol is akin to the proportional consolidation approach that is no longer allowed under IFRS Accounting Standards.

42 There is no defined aggregated sustainability position (akin to net assets) or aggregated sustainability performance (akin to net income).

CONNECTIVITY OF INFORMATION/CONNECTED INFORMATION UNDER ESRS AND IFRS LITERATURE

2.10 As noted in Chapter 1, the scope of the DP is connectivity of information within and across different reports, albeit with a prioritisation of connectivity across reports, and with a primary focus on the connectivity between the sustainability statement under ESRS and financial statements under IFRS Accounting Standards.

2.11 As noted earlier, the IFRS Accounting Standards and the Conceptual Framework do not have explicit requirements for the connectivity of reported information. In contrast, the sustainability reporting Standards (ESRS and ISSB Standards) and the 2025 IFRS MCPS have explicit requirements for the connectivity of information within and across different reports. Specifically, under paragraph 118 of ESRS 1 Set 1 and paragraph 113 of Draft Amended ESRS 1, the undertaking is required to provide information that enables users of its sustainability statement to understand the connections:

a) within the sustainability statement; and

b) between the sustainability statement and other corporate reporting documents published by the undertaking, including its financial statements.

2.12 Similarly, paragraph 21 of IFRS S1 requires an entity to provide information that allows users to understand the following connections:

a) connections between the items to which the information relates, such as connections between various sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects; and

b) the connections between disclosures provided by the entity:

(i) within its sustainability-related financial disclosures, such as connections within its disclosures of governance, strategy, risk management, and metrics and targets; and

(ii) across its sustainability-related financial disclosures and other general purpose financial reports published by the entity such as its financial statements.

2.13 With the above broad objectives in mind, below is an analysis of the types and mechanisms of connectivity of reported information.

TYPES AND MECHANISMS OF CONNECTIVITY OF REPORTED INFORMATION

2.14 In broad terms, the types and mechanisms (techniques related to types) described below allow the linkage of a) an entity's sustainability-related IROs, its commitments and other actions in response, which are disclosed in the sustainability statement/disclosures, and b) the related effects on financial position, financial performance, and cash flows. For instance, physical and transition risks[43] associated with climate change, together with an entity's climate commitments and transition/adaptation plans, can have material financial implications on the entity's financial position, performance and cash flows in the short, medium, and long term. That said, the need for connectivity is not restricted to climate-related matters, and in the discussion of anchor points (**paragraphs 2.31 to 2.36 and Table 2.1**), there is a more complete articulation of where and how connectivity could arise across a range of sustainability-related matters.

2.15 Before further elaboration in **paragraphs 2.16 to 2.26, Figure 2.2** below represents the different types of connectivity, which are drawn from ESRS, ISSB Standards, and the 2025 IFRS MCPS. It must be emphasised that there are overlapping elements across the different types of connectivity.

43 Physical risks stem from acute (e.g. storms, floods) and chronic events (e.g. sea level rise, droughts), while transition risks arise from regulatory, technological, market, or reputational changes in the shift to a low-carbon economy.

Figure 2.2: Different types of connectivity

Overarching types of connectivity (ESRS, ISSB standards, IFRS MCPS)

- **Providing explanations that tell a story/integration of information:** An entity explaining how strategy, business model and IROs are linked to reporting outcomes (i.e. financial position, financial performance, cash flows, other metrics)
- **Direct and indirect connectivity:** Linking (via cross reference or explanation) of related monetary and other quantitative data points in the sustainability statement and the financial statements as required by ESRS
- **Consistency:** Consistent data, narrative/qualitative information, assumptions and units of measurement (presentation currency)
- **Coherence:** Providing information in a way that allows users to relate information about an entity's sustainability-related risks and opportunities to information in the entity's financial statements. Supports the completeness, clarity and comparability of reported information; explanation of apparent inconsistency across different reports

Other connectivity-related requirements under ESRS and ISSB standards

- **Reporting-date connectivity:** (disclosure of current financial effects)
- **Intertemporal (across reporting periods) connectivity:** (disclosure of anticipated financial effects)

Source: EFRAG

OVERARCHING TYPES OF CONNECTIVITY

2.16 **Providing necessary explanations (telling a story/integration of information).** Paragraph B42 of IFRS S1's application guidance for the connection requirements conveys that drawing connections between disclosures includes[44] providing necessary explanations. Paragraph B43 of IFRS S1 notes that, for example, in providing connected information, an entity might need to explain the effect or likely effect of its strategy on its financial statements and financial planning, or explain how that strategy relates to the metrics the entity uses to measure progress against targets. Another example[45] is cited in that application guidance paragraph.

2.17 Relatedly, paragraph B40 of IFRS S1 notes that connected information provides insight into connections between the items to which the information relates. For example, if an entity pursued a particular sustainability-related opportunity and that resulted in an increase in the entity's revenue, connected information will depict that relationship between the entity's strategy and its financial performance. Similarly, if an entity committed to a particular sustainability-related target, but that commitment has not yet affected the entity's financial position or financial performance because the applicable recognition criteria have not been met, connected information will depict that relationship. Further, paragraph B44 of IFRS S1 indicates that connections can include:

a) an explanation of the combined effects of the entity's sustainability-related risks and opportunities and its strategy on its financial position, financial performance and cash flows over the short, medium and long term;

44 The paragraph states that drawing connections includes but is not limited to providing necessary explanations, cross-references and using consistent data, assumptions, and units of measure

45 An entity might need to explain how its use of natural resources or changes within its supply chain could amplify or, in contrast, reduce its sustainability-related risks and opportunities. The entity might need to link the information about its use of natural resources or changes within its supply chain to information about current or anticipated financial effects on the entity's production costs, its strategic response to mitigate those risks and its related investment in new assets. The entity might need to link narrative information to the related metrics and targets and to information in the related financial statements.

b) a description of the alternatives that an entity evaluated in setting its strategy in response to its sustainability-related risks and opportunities, including a description of the trade-offs between those risks and opportunities that the entity considered.

2.18 **Direct and indirect connectivity** (under ESRS 1 Set 1 and Draft Amended ESRS 1). This relates to the connection of monetary amounts or other quantitative datapoints in the sustainability statement and the financial statements. The following are specific ESRS requirements.

a) *Direct connectivity:* ESRS (paragraph 124 of ESRS 1 Set 1 and paragraph 115 of Draft Amended ESRS 1) states that if the sustainability statement includes material monetary amounts or other quantitative information also presented in the undertaking's financial statements, the undertaking shall cross-reference its financial statements.

b) *Indirect connectivity:* ESRS (paragraph 125 of ESRS 1 Set 1, and paragraph 11 of Draft Amended ESRS 1) states that if the sustainability statement includes monetary amounts that are an aggregation or part of monetary amounts presented in the undertaking's financial statements, the undertaking is required to explain how the amounts in the sustainability statement relate to the most relevant amounts presented in the financial statements.

2.19 **Consistency** (under ESRS and ISSB Standards). As described in paragraphs 90 and 127–128 of ESRS 1 Set 1, paragraph 117 of Draft Amended ESRS 1, and paragraph 23 of IFRS S1, this relates to the consistency of data, assumptions, units of measurement (e.g. presentation currency) and qualitative/narrative information. It also entails disclosing information about significant differences between the data and assumptions used across reports. It is noted that the International Standards on Auditing (ISA) require an assessment of consistency as part of the assurance process (i.e. ISA states there should not be an inconsistency and there is a need to explain any significant differences). Similarly, the enforcers' thematic reviews often monitor the consistency of information across the annual report.

2.20 **Coherence** (under the 2025 IFRS MCPS and ISSB Standards). The 2025 IFRS MCPS indicates that coherence supports the completeness, clarity and comparability of reported information and conveys the following elements of this term:

a) disclosure of information in a way that makes clear the relationships between related matters and allows readers to assess the implications of interrelated matters;

b) presentation of information in a way that explains the relevant context and relationships with related information within the management commentary or across other IFRS general purpose financial reports to allow connections between the related information;

c) disclosure of information in a way that allows users to relate it to information in the financial statements or another general purpose financial report;

d) explanation of apparent inconsistency between information across different IFRS general purpose financial reports (e.g. management commentary/report and information in the financial statements).

2.21 Paragraph D33 of IFRS S1 (on enhancing qualitative characteristics of useful sustainability-related financial information) states that coherence requires an entity to provide information in a way that allows users to relate information about its sustainability-related risks and opportunities to information in the entity's financial statements.

2.22 The elements of coherence as described in the 2025 IFRS MCPS overlap with the connectivity/connection requirements of ESRS and ISSB standards (which require providing explanations, cross-referencing, consistency of information, and explaining significant differences in assumptions). At the same time, there are distinctive points of emphasis within the term coherence as applied in the 2025 IFRS MCPS. For example, the objective of supporting the completeness of information across different reports[46].

46 Some stakeholders refer to this as complementarity.

2.23 **Concluding thoughts and suggestions:** Overall, there is conceptual alignment between the types of connectivity and connection of information described under ESRS and ISSB Standards, and coherence as described in the 2025 IFRS MCPS. Though aligned, what is explicitly stated in the description of these connectivity-related concepts across ESRS and IFRS literature may differ. For example, the notions of direct and indirect connectivity (via cross-referencing and providing explanations) are only explicitly articulated under ESRS. That said, these notions overlap with IFRS S1 and MCPS coherence requirements, as they effectuate the idea of allowing users to identify the interrelationship and connections of information across different reports, as conveyed in the description of coherence under IFRS literature. Also, for many stakeholders, the term 'consistency' is synonymous with 'coherence'. In this DP, aligned with the 2025 IFRS MCPS, coherence is deemed a distinct and broader notion than consistency, even though there are overlapping elements within the description of these two terms (e.g., explaining inconsistency).

2.24 As noted earlier, there are no explicit connectivity requirements within IFRS Accounting Standards. Some have argued that this is because connections largely tend to be the 'connections of information disclosed in the reports outside the financial statements to the information in the financial statements'. That said, the illustrations in the Supplemental Document show that reciprocal (two-way connectivity) is desirable, as also suggested in the 2024 EFRAG connectivity project initial paper. One of the mechanisms of connectivity outlined in **paragraph 2.28** is to include information in a report by cross-referencing another report. As **mentioned in paragraph 2.3-b,** incorporation of information into financial statements by cross-referencing information in other reports, which links two reports, can also occur if required by IFRS Accounting Standards (as is the case to meet the IFRS 7 requirements for some risk disclosures). Moreover, as noted in **paragraph 1.14** of Chapter 1, connectivity or connection of information may be required within financial statements. For example, for the disclosures of non-cash transactions and non-cash changes of the balances of assets and liabilities. For these reasons, the IASB could consider including explicit requirements in the IFRS Accounting Standards for connections of information within and outside the financial statements, akin to the ESRS 1 connection and connectivity requirements, IFRS S1 connection requirements, and the 2025 IFRS MCPS coherence requirements. EFRAG also made this call in its 2024 connectivity project initial paper and in its comment letter to the IASB ED related to the 'Disclosures about Uncertainties in the Financial Statements' project.

Other connectivity-related requirements under ESRS and ISSB Standards

2.25 **Connectivity via the disclosure of current financial effects.** The types of connectivity in **paragraphs 2.16 to 2.24** relate to connectivity at the reporting date. In addition, ESRS and ISSB Standards have requirements for the disclosure of current financial effects in the sustainability statement and sustainability-related financial disclosures.

2.26 **Intertemporal (across reporting periods) connectivity via the disclosure of anticipated financial effects.** ESRS and ISSB Standards have requirements for the disclosure of anticipated financial effects in the sustainability statement and sustainability-related financial disclosures. In this DP, the disclosure of anticipated financial effects is considered to be related to intertemporal (across reporting periods) connectivity.

MECHANISMS OF CONNECTIVITY OF REPORTED INFORMATION

2.27 Mechanisms of connectivity are the practical ways of implementing the types of connectivity. The descriptions of providing necessary explanations, direct and indirect connectivity, consistency, and coherence of information in **paragraphs 2.16 to 2.26** also convey the mechanisms to attain each of these types of connectivity. For example, as stated in **paragraph 2.20**, coherent reporting occurs when the information across different reports gives a more complete picture of a phenomenon or an explanation is given of why there are significant differences in the related information across different reports. Illustration 1 in the Supplemental Document is related to coherent reporting, as the information in the sustainability statement and the information in the financial statements collectively give a more complete picture of the exposure and mitigation of a water pollution incident.

2.28 The mechanisms of connectivity described below were drawn from ESRS, IFRS literature, and other regulatory literature. Some of the mechanisms can overlap. For instance, the disclosure of current financial effects in the sustainability statement/disclosures can be done by cross-referencing the financial statements or by disclosing in the sustainability statement/disclosures that there is no material exposure in the financial statements.

a) ***Cross-referencing, including information by reference/cross-reference, and signposting.*** Cross-referencing, including information by cross-reference, and signposting are explicitly, albeit differently described across different literature, including ESRS, EC *Guidelines on non-financial information,* IFRS S1, the Basis for Conclusions of the 2025 IFRS MCPS, and the UK Financial Reporting Council (FRC-UK) Guidance on the Strategic Report. These terms are sometimes used interchangeably, and for this DP's outline of the mechanisms of connectivity, they are distinguished as follows.

(i) **Cross-referencing across reports.** This occurs when the information disclosed in a report cross-references the related information in another report. Under ESRS, when monetary and other quantitative amounts disclosed in the sustainability cross-reference the related amounts in the financial statements, it is **described as direct connectivity,** as noted in **paragraph 2.18.** For example, the disclosure of the EU taxonomy investment/Capex amount in the sustainability statement could refer to and cross-reference the property, plant and equipment (PP&E) amount disclosed or recognised in the financial statements. Such cross-referencing highlights the relationship of disclosures across different reports.

(ii) **Cross-referencing within a report.** This could occur to show the relationship between different topics disclosed within the report. Paragraphs 113 and 114 of Draft Amended ESRS 1 have requirements for connections and cross-referencing to avoid duplication within the sustainability statement, while paragraph 21-b (i) of IFRS S1 has requirements for connections between disclosures within the sustainability-related financial disclosures. Such cross-referencing could occur, for example, if the climate-related transition plan of a company may result in material impacts and risks for the company's workforce. In this case, within the company's sustainability statement, the own workforce disclosures could cross-reference the disclosed climate-related impacts and risks. Cross-referencing within a report could also occur to avoid duplication. For example, when the same information pertains to different sustainability topics (e.g. governance responsibility).

(iii) **Including information by cross-referencing other reports.** This is a way of including material information in a report, and it is done by including information in a report by cross-referencing information disclosed in another report. The cross-referred information becomes part of the report where the cross-reference was made. Though the primary objective is to provide material information, including information by cross-referencing another report, also creates a link between two reports. For the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards, including information by cross-referencing other reports, can only be done subject to certain conditions (as required by paragraphs 119 to 120 of ESRS 1 Set 1, paragraphs 118 to 129 of Draft Amended ESRS 1, and paragraphs 63, B45-47 of IFRS S1). It could be done for the required disclosure of current financial effects in the sustainability statement or sustainability-related financial disclosures by cross-referencing the financial statements. As noted in **paragraph 2.3-b,** there are obstacles to including information in the financial statements by cross-referencing information in other reports (including legal risk associated with forward-looking information and the need for reasonable assurance of the information being cross-referenced).

(iv) **Signposting** is referred to in a varied manner across different guidance. In this DP, as noted in **paragraphs 2.28-m and 2.29-b** below, signposting refers to the use of navigation tools (including summary notes) to link and aid the navigability of the information within a report (annual report section). Relatedly, though the term signposting is not explicitly used in ESRS, paragraphs 111 and 112 of Draft Amended ESRS 1 allow the use of executive summary, content indices, tables mapping different disclosures or cross-reference tables. Paragraph 3.3 of the EC guidelines on non-financial information mentions that internal cross-references or signposting are ways to be concise, limit repetition, and provide links to other information. On the other hand, the FRC-UK Guidance for the Strategic Report and the Basis for Conclusions of the 2025 IFRS MCPS define signposting as a way of drawing attention to complementary information within or outside the annual report that is of interest to investors but not material (or required) in the context of the objective of a particular report (annual report section). For example, the source of a statistic or other included included in the particular report.

b) ***The reconciliation of related quantitative datapoints (indirect connectivity).*** As noted, under ESRS, undertakings are required to explain how monetary amounts or datapoints in the sustainability statement relate to the most relevant amounts presented in the financial statements. Such disclosures could, for example, be related to assets at

risk (amount and percentage of assets exposed to physical and transition risk), and Capex and Opex investments related to decarbonisation as required by ESRS E1. Under the Draft Amended ESRS E1, the GHG and energy intensity metrics for which reconciliation or cross-referencing of the denominator (i.e. revenue reported under IFRS 15 *Revenue Recognition*) was necessary under ESRS Set 1 are no longer required[47].

c) ***Qualitative disclosures about connected information.*** For instance, as required for sustainability-related financial disclosures under paragraph 31-b of Draft Amended ESRS 2 and paragraph 40-b of IFRS S1, describing the financial statement line items that are affected by a sustainability-related risk or opportunity if an entity is unable to provide quantitative disclosures of current or anticipated financial effects.

d) ***Explaining differences in assumptions across different reports (coherence).*** An explanation of the differences in the related assumptions is useful. Illustration 6 in the Supplemental Document is an example of this. It is related to an oil and gas company, which highlights the reasons for the different commodity price assumptions respectively applied for potential impairment disclosed in the management report and the asset impairment in the financial statements.

e) ***Disclosure of current financial effects in the sustainability statement/disclosures.*** The disclosure of current financial effects of sustainability matters is related to connectivity at the reporting date. This information is required to be disclosed in the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards. Paragraph 28 of Draft Amended ESRS 2 *General Disclosures* and paragraph 38 of IFRS S1 specify the circumstances under which a reporting undertaking (entity) does not have to disclose quantitative information about current financial effects. These include if the undertaking determines that: (i) the effects are not separately identifiable; or (ii) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

f) ***Disclosure of anticipated financial effects in the sustainability statement (under ESRS) or sustainability-related financial disclosures (under ISSB Standards).*** This disclosure is a part of intertemporal (across different reporting periods) connectivity, and it is required under the ESRS and ISSB Standards. In August 2025, the ISSB published supporting educational material[48]. Illustrations 11 and 12 in the Supplemental Document cover anticipated financial effects. Below are other points of note.

   (i) For the disclosure of anticipated financial effects, based on paragraph 27 of Draft Amended ESRS 2 *General Disclosures*, an undertaking is required to disclose qualitative and quantitative information on how it expects its financial position, financial performance, and cash flows to change over the short, medium and long term, given its strategy to manage material risks and opportunities. In alignment with the ISSB Standards, paragraph 30 of Draft Amended ESRS 2 requires the undertaking, while preparing this disclosure, to use all reasonable and supportable information available to it at the reporting date without undue cost or effort.

   (II) Furthermore, paragraphs 28 and 29 of Draft Amended ESRS 2 specify the circumstances under which an undertaking does not have to disclose quantitative information about anticipated financial effects. These include if the undertaking determines that: (i) the effects are not separately identifiable; (ii) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful; or (iii) it does not have the skills, capabilities or resources to provide that quantitative information. There are also transitional reliefs for wave one adopters (i.e., they do not have to disclose any anticipated financial effects for the financial year 2026, and they do not have to disclose quantitative information for financial years 2027, 2028, and 2029).

g) During EFRAG's outreach for this DP, stakeholders highlighted that, when considering information disclosed as anticipated financial effects, it is important to distinguish between

47 Under Draft Amended ESRS, GHG and Energy intensity metrics are no longer mandatory.

48 ISSB, August 2025, Disclosing information about anticipated financial effects applying ISSB Standards.

(i) information that can be connected to financial statements at the reporting date Such as, the disclosure of short-term anticipated financial effects that may overlap with disclosures in the financial statements of assumptions and sources of estimation uncertainty that may result in a material adjustment in the carrying value of assets and liabilities within the next financial year under paragraph 125 of IAS 1 (paragraph 31A of IAS 8);

(ii) information that is likely to be connected to future-period financial statements; and

(iii) information that will never crystallise in future-period financial statements due to high existence and/or measurement uncertainty.

h) ***Highlighting differences in the financial statements' and the sustainability statement's scope of consolidation.*** Paragraph 4 of Draft Amended ESRS 2 requires an undertaking to disclose i) whether the sustainability statement has been prepared on a consolidated or individual basis and if the reporting boundary of the undertaking's own operations differs from the one adopted for the consolidated financial statements, an explanation of why this is the case, and ii) an indication of the extent to which the sustainability statement covers the undertaking's upstream and downstream value chain.

i) ***Disclosure of qualitatively material information about exposures.*** For the financial statements, this disclosure is required under paragraph 31 of IAS 1 (paragraph 20 of IFRS 18). It could, for example, state that the useful lives of an entity's property, plant and equipment (PPE) have not been impacted by the entity's transition plans related to climate-related risk. The IASB has provided guidance on this disclosure through Example IV-1[49] of the IASB Illustrative examples on Disclosures about Uncertainties in the Financial Statements.

j) This disclosure can be an example of coherent reporting by explaining the perceived inconsistency between related information in the sustainability statement and the financial statements. For instance, if the discounted future environmental remediation cost amount is deemed immaterial for the recognition of a provision in the financial statements, yet the undiscounted amount/gross exposure may be deemed material for and disclosed in the sustainability statement/disclosures. Illustrations 6 and 17 of the Supplemental Document have examples where the companies disclose they have no material exposure arising from sustainability-related risks.

k) The disclosure of qualitatively material information about exposures can also be located in the sustainability statement/disclosures while disclosing current financial effects (e.g. by disclosing that a sustainability matter has no current financial effects). Illustration 3 in the Supplemental Document is an example of this.

l) ***Disclosure of the process and material topics under a double materiality assessment.*** Paragraph 29 of ESRS 1 Set 1 and paragraph 35 of Draft Amended ESRS 2 state that the undertaking shall always disclose the process to identify and assess material IROs. Based on a review of EU companies in 2024, it is noted that the disclosure of material topics under a double materiality assessment contextualises/influences the expectations of whether a sustainability matter ought to be reflected in the financial statements. Therefore, this disclosure is also considered a mechanism of connectivity in this DP.

m) ***Signposting via content index (or similar) in the sustainability statement/disclosures.*** Paragraph 56 of ESRS Set 1 and paragraph 37d of Draft Amended ESRS 2 require undertakings to include a list of the Disclosure Requirements complied with in preparing the sustainability statement. Application Requirement 30 for paragraph 37d of Revised ESRS 2 states that this list may be in a content index. Such a list can be a signposting tool that enhances the access, understandability and consequently the connectivity of reported information.

2.29 Stakeholders' feedback, thematic reviews and an academic working paper (Agrawal, Bayne, Hellman, and Wee, 2025), hereafter called Bayne et al. (2025)[50], identify the following additional mechanisms of connectivity.

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49 In its response to the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project, EFRAG supported the related illustrative example but also aired several stakeholders' reservations about a possible disclosure overload due to this disclosure.

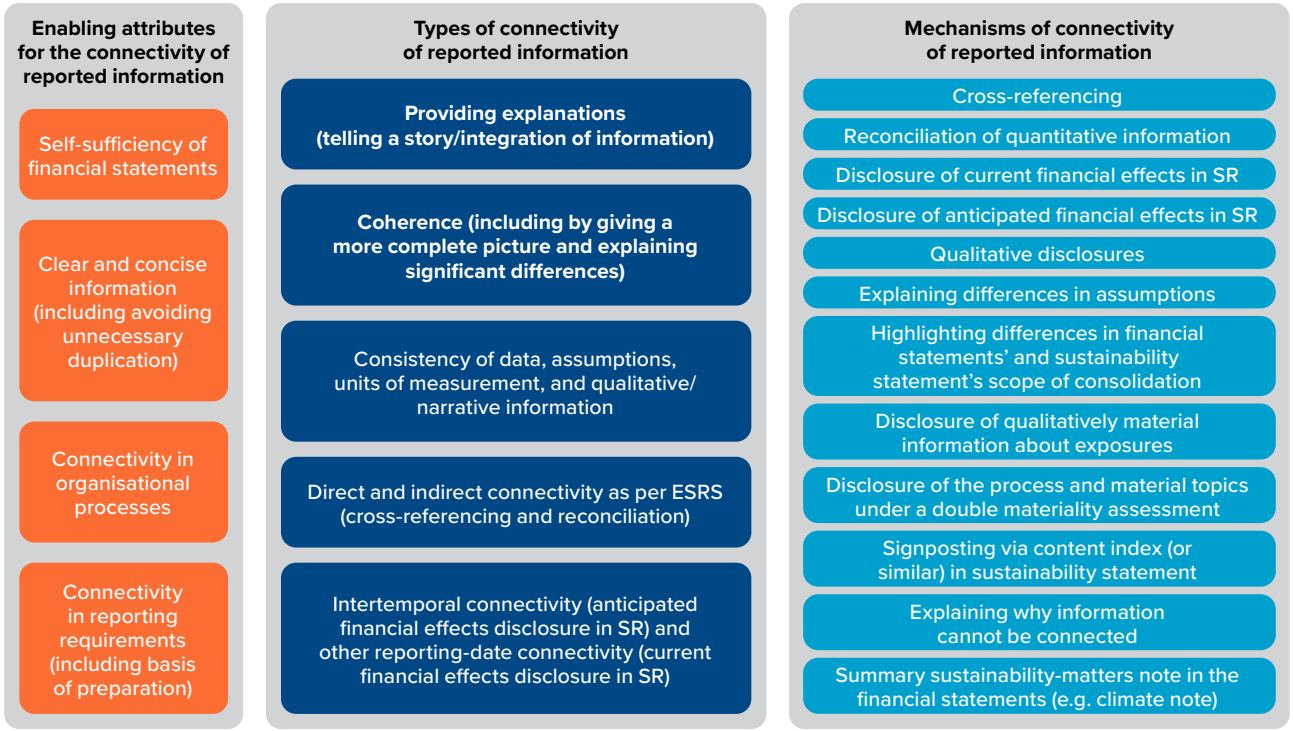
50 Agrawal. P., Bayne. L., Hellman. N., and Wee. M., 2025. AASB Research Centre Working Paper No25-05. University of Western Australia, Stockholm School of Economics, and Australian National University (Bayne et al, 2025). This paper describes 21 mechanisms to attain connectivity of reports.

a) ***Explaining why information cannot be connected.*** As further discussed in Chapter 5, information may be reasonably expected to be capable of being connected across different reports, yet that is not the case. For instance, this could be due to differing levels of aggregation. Although not mandated, stakeholders (including EFRAG CAP members) have indicated that, in such cases, it may be useful for companies to explain why particular information cannot be connected.

b) ***Signposting via summary note of sustainability-related matters in the financial statements (e.g. climate note).*** Such a summary note, which is encouraged by regulators in some jurisdictions, is observed in practice[51], and it has also been suggested as a mechanism of connectivity by Bayne et al., 2025. It is a form of signposting that aids users' navigation of information within the financial statements and their connection of reported information if it also refers to the location of disclosures in the sustainability statement/disclosures.

2.30 Figure 2.3 below is a summarised depiction of the attributes that enable connectivity and of the different types and mechanisms of connectivity of reported information.

Figure 2.3: Enabling attributes, types and mechanisms of connectivity of reported information



Source: EFRAG

51 In a 2024 Forvis Mazars publication (Financial reporting of European companies on climate issues), it is noted that 60% of the 72 reviewed companies presented climate issues in a dedicated note in their 2023 financial statements. In the 2025 report, it is 67% of the 72 reviewed companies did the same in their 2024 financial statements.

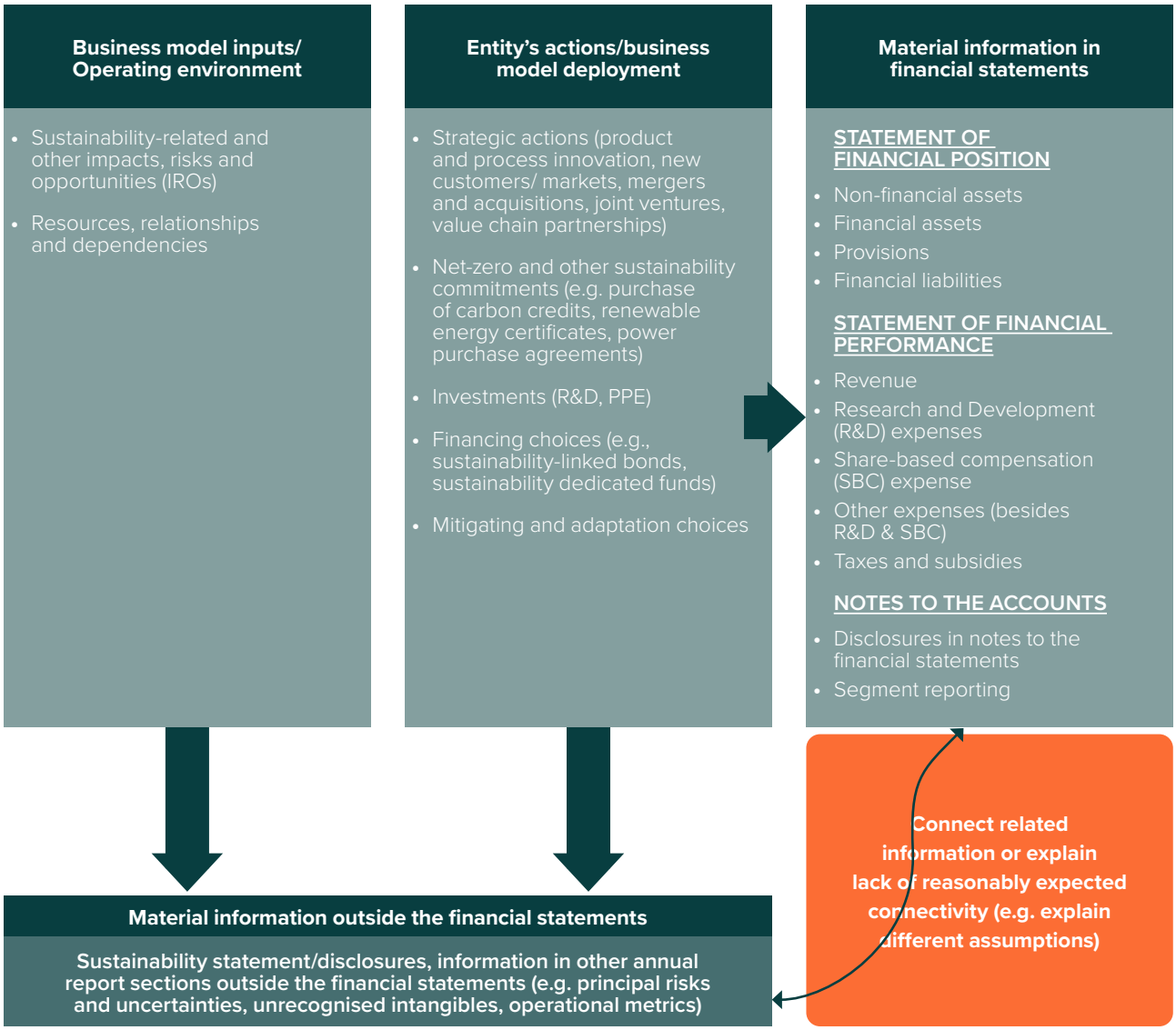
Forvis Mazars, 2024, Financial reporting of European companies on climate issues- Findings from 2022 financial statements and, November 2025, Financial reporting of European companies on sustainability issues- Findings from 2024 Financial Statements and Connectivity

ANCHOR POINTS

2.31 At a high level, Figure 2.4 below depicts the interplay between an entity's operating environment (including its IROs), its actions (e.g. mitigating and financing), including its strategy and business model in response to the IROs, and the resulting reporting outcomes reflected in the sustainability statement/disclosures and financial statements.

2.32 The diagram below is a useful backdrop for identifying suitable anchor points (i.e. narrative or quantitative information within the sustainability statement/disclosures and/or the financial statements that allows the connection of information across these different reports). The identified anchor points enable the systematic identification of suitable illustrations of connectivity in the DP's Supplemental Document.

Figure 2.4: Interplay of an entity's operating environment (including sustainability-related factors), its actions, and reporting effects



Source: EFRAG

2.33 The anchor points in **Table 2.1** below are derived from discussions with the EFRAG CAP and EFRAG technical governance bodies. Also considered were the focal areas highlighted in thematic reviews of reporting practices done by ESMA and other related 2022–2025 publications (Mazars, Carbon Tracker, EY, Other NSS, including ANC-France, UKEB, New Zealand XRB and Australia). In essence, this list of anchor points is not intended to be either exhaustive or to provide guidance but has only been used to guide the development of illustrations in the Supplemental Document. Another detailed breakdown of anchor points with respect to climate-related information can be found in Table 2 of the 2025 ANC-France report[52] on the reporting of climate issues and in the November 2025 Mazars report[53].

2.34 A summary of the respective sustainability statement/disclosures and financial statements anchor points is presented below.

SUSTAINABILITY STATEMENT/DISCLOSURES ANCHOR POINTS

2.35 The sustainability statement/disclosures anchor points that are expected to be connected to either the reporting-date financial statements or future-period financial statements include:

a) disclosure of scope of consolidation disclosure (related to consistency or otherwise of the boundary of the reporting entity);

b) disclosures of scenarios and assumptions used;

c) disclosures of the business model, strategy, value chain(s), significant sectors of operations;

d) governance disclosures and incentive shemes;

e) resilience disclosures;

f) disclosures of material IROs;

g) disclosure of entity's actions, including its investments and transition plans;

h) mandatory EU taxonomy Capex, Opex and revenue disclosures;

i) anticipated financial effects disclosures;

j) assets at risk, revenue at risk disclosures;

k) stranded assets disclosure;

l) internal carbon pricing disclosure;

m) environmental and decommissioning or rehabilitation liabilities;

n) disclosure of GHG emissions and mitigation actions;

o) disclosure of environmental, social and business conduct incidents;

p) human capital metrics, including employee benefits disclosures;

q) sustainability-linked financing[54] disclosure;

r) sustainability-linked loans disclosure; and

s) disclosure of convictions, sanctions and fines (for corruption and bribery).

52 AUTORITÉ DES NORMES COMPTABLES (ANC) – France, February 2025, Enjeux climatiques : Quels liens entre les états financiers et l'état de durabilité ? Contribution à la réflexion.

53 Mazars, November 2025, Financial reporting of European companies on sustainability issues- Findings from 2024 Financial Statements and Connectivity. Connectivity-related Set 1 of ESRS datapoints are in pages 241 to 243.

54 It is noted that sustainability-linked loans are different from green loans. Sustainability-linked loans are provided for any type of investment and required to fulfil certain sustainability-related KPIs, while green loans are used to finance investments in green projects.

FINANCIAL STATEMENTS ANCHOR POINTS

2.36 These anchor points represent the information in financial statements where connections to information in the sustainability statement/disclosures were considered likely. They include:

a) capitalisation of expenditures;

b) impairment of non-financial assets, useful lives, and residual value;

c) impairment of financial assets – expected credit loss (ECL) for financial institutions;

d) provisions and disclosures of contingent liabilities and provisions, including those related to asset retirement obligations, legal fines;

e) disclosures of major sources of estimation uncertainty in the next 12 months;

f) segment disclosures;

g) share-based payment disclosures;

h) sustainability-linked financing (sustainability-linked loans and green bonds);

i) disaggregation of revenue disclosures;

j) disclosures disaggregating PP&E and research and development (R&D) intangibles;

k) disclosures of carbon credits/emission trading schemes; and

l) disclosures of power purchase agreements (PPAs).

Table 2.1: Sustainability statement/disclosures and financial statements anchor points

Sustainability statement/ disclosures (SR)-anchor points	Financial statements (FS) anchor points	Types/mechanisms of connectivity of reported information
GENERAL ANCHOR POINT (ALSO DEPICTED IN FIGURE 2.4 ABOVE)		
Overarching anchor point: Material topics and material IROs Disclosure of the entity's strategy, business model (SBM) (including funding and investments and other financial implications, entity's definition of applicable time horizon) in response to material IROs Disclosure of the current financial effects of an entity's material IROs and its actions in response to the IROs (e.g. mitigating actions)	A company's sustainability-related strategy and business model adaptation and its actions in response to the IROs can influence the information in the financial statements. The mitigation and financing instruments in response to sustainability-related risks include carbon credits, power purchase agreements, renewable and energy saving certificates, sustainability-linked financing, and green bonds, and these instruments are expected to be reflected in the financial statements as depicted below. **Balance sheet effects: assets recognition, measurement and related disclosures** • valuation of tangible, intangible assets, and other non-financial assets (goodwill and inventories), i.e. impairment, amortisation, write-offs, useful lives, and residual value • valuation and impairment of financial assets (ECL) • R&D and other investment capitalisation • asset retirement obligations (e.g. changes in the useful lives of assets and asset retirement obligations, the corresponding impact on the asset and liability, and the assumptions of the useful life and repurposing of the asset for new asset retirement obligations) Sustainability-related impacts and risks may lead to balance sheet effects – provisions, contingent liabilities and related disclosures: • decommissioning and asset retirement obligations • potential litigation due to environmental damage, human rights and labour safety violations • regulatory requirements to remediate environmental damage • additional levies or penalties related to environmental requirements • onerous contracts • restructuring to achieve climate-related targets • disclosures of sources of estimation uncertainty under paragraph 125 of IAS 1 (paragraph 31A of IAS 8). **Income statement effects** (e.g. revenues, R&D expenses, deferred taxes, subsidies) Sustainability-related SBM adaptation may lead to changes in **key business segments** disclosed	**Coherence and consistency** of sustainability statement/ disclosures, the financial statements and the rest of the management report information (for instance, consistency in the description of risks and assumptions). Coherence by explaining any key differences between assumptions in the sustainability statement/ disclosures and financial statements assumptions (e.g. differences in time horizon, whether amounts are discounted, likelihood of occurrence, scenario analysis outcomes versus accounting estimates based on best management estimate) **Disclosure of current financial effects in the sustainability statement/disclosures** via cross-referencing the financial statements **Disclosure of qualitatively material information about exposures in the financial statements:** When there are no material effects in the financial statements, even though these would have been reasonably expected by investors **Disclosure of anticipated financial effects in the sustainability statement/disclosures** (addressed further below under the specific anchor point of the disclosure)

Sustainability statement/ disclosures (SR)-anchor points	Financial statements (FS) anchor points	Types/mechanisms of connectivity of reported information
SPECIFIC ANCHOR POINTS		
Article 8 Taxonomy investments disclosed in the sustainability statement/disclosures Narrative on the nature and purpose of sustainability-related investments	**Balance sheet and income statement effects.** Assets, Revenue, Opex	**Direct/indirect connectivity.** Sustainability statement/ disclosures taxonomy disclosure that is either cross-referenced or provides a reconciliation to the related financial statements line items, including revenue, related Opex, assets, PPE and intangible assets. **Coherence** of the narrative in the sustainability statement/ disclosures narrative on sustainability-related investments and the strategy articulated elsewhere in the management report.
Disclosure of anticipated financial effects Anticipated financial effects of sustainability matters may include: • potential liabilities (net-zero commitments, environmental and decommissioning liabilities, health and safety liabilities); • potential assets (R&D in transition-related assets and products, circular economy/recycled materials, stranded assets, capex disclosed in the sustainability statement/disclosures); • potential expenses and revenue.	Anticipated financial effects may only crystallise in future-period financial statements. Nonetheless, there are possible anchor points in current-period financial statements as described below. **Forward-looking assumptions** related to current-period recognised line items measured based on forward-looking information (asset impairment, fair value of recognised assets and liabilities) **Disclosure of assumptions and other sources of estimation uncertainty** that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next 12 months under paragraph 125 of IAS 1 (paragraph 31A of IAS 8). The information in this disclosure may overlap with short-term anticipated financial effects disclosed in the sustainability statement/ disclosures **Disclosure of forward-looking information** on long-term investments and commitments	**Intertemporal connectivity** – link to future-period financial statements **Cross-referencing:** Where there is an overlap, the disclosure of anticipated financial effects in the sustainability statement/ disclosures could cross-reference the disclosure of sources of estimation uncertainty in the financial statements under paragraph 125 of IAS 1 (paragraph 31A of IAS 8) **Coherence** by explaining any key differences between assumptions in the sustainability statement/ disclosures and the assumptions in the forward-looking information in the financial statements (e.g. differences in time horizon, whether amounts are discounted, likelihood of occurrence, scenario analysis outcomes versus accounting estimates based on best management estimate)
Disclosures of revenues at climate transition risk and assets exposed to physical risk (climate) – classified as part of anticipated financial effects under ESRS E1	**Balance sheet effects:** PPE under IAS 16 *Property, Plant and Equipment* and right-of-use/leased assets under IFRS 16 *Leases* **Income statement effects:** Recognised, disclosed IFRS 15 revenues	**Direct connectivity** (via cross-referencing) **or indirect connectivity** (via reconciliations/ explanation of linkage to financial statements) **Coherence and consistency** of narrative and amounts disclosed between the sustainability statement/disclosures and the financial statements

Sustainability statement/ disclosures (SR)-anchor points	Financial statements (FS) anchor points	Types/mechanisms of connectivity of reported information
Disclosure of environmental, social (own workforce and value chain/human rights), and business conduct incidents	**Balance sheet effects.** Provisions recognised and/ or disclosure of contingent liabilities in the financial statements: • disclosures of sources of estimation uncertainty under paragraph 125 of IAS 1 (paragraph 31A of IAS 8); • potential litigation due to environmental damage, human rights and labour safety violations; • regulatory requirements to remediate environmental damage; • additional levies or penalties related to environmental requirements. **Income statement effects** include share-based expenses in the income statement and incentives schemes (share-based payments, pension schemes) disclosed. Financial statements information would fall under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* IFRS 2 *Share-based payment,* and IAS 19 *Employee Benefits requirements*.	**Disclosure of current financial effects** in the sustainability statement/disclosures via cross-referencing **Coherence** between disclosure of incident/remediation in the sustainability statement/ disclosures and contingent liability disclosure in the financial statements **Incorporation by reference** of information in the remuneration report into the sustainability statement/disclosures **Disclosure of anticipated financial effects** in the sustainability statement/disclosures
Disclosure of human capital and social capital metrics, including employee benefits/ obligations and own and value-chain workforce metrics under ESRS	Intangibles related to an entity's own workforce/human capital are not recognised in financial statements because the reporting entity does not control these resources. However, the expected benefits of these resources are subsumed into the recognised goodwill. In January 2025, the ISSB staff presented a paper on the instances where human capital matters may be presented or disclosed in the financial statements when applying IFRS Accounting Standards. For instance, human capital matters (restructuring severance payments and wrongful treatment lawsuits) may affect the recognition, measurement and disclosure of liabilities. Financial statements information would fall under IFRS 2, IAS 19, and IAS 37 requirements.	**Disclosure of current financial effects in the sustainability statement/disclosures** via cross-referencing **Coherence and consistency** of narrative and amounts in sustainability statement/ disclosures and disclosures or recognised amounts in financial statements **Disclosure of anticipated financial effects** in the sustainability statement/disclosures
Disclosure of financing and mitigation mechanisms, including ESG-linked financing (sustainability-linked loans, green bonds), use of carbon credits to mitigate GHG emissions	Recognition and disclosure of ESG-linked bonds and carbon credits/emission trading schemes	**Consistency and coherence** of narrative and amounts of sustainability-linked financing or borrowing disclosed in the sustainability statement/ disclosures and the financial statements

Sustainability statement/ disclosures (SR)-anchor points	Financial statements (FS) anchor points	Types/mechanisms of connectivity of reported information
Disclosure of SR reporting boundary/consolidation approach Disclosure of whether there is an application of operational control. Disclosure confirming that the scope of consolidation of the sustainability statement is the same as for the financial statements, ii) an indication of which subsidiaries included in the consolidation are exempted from individual or consolidated sustainability statement, iii) to what extent the sustainability statement covers the undertaking's upstream and downstream value chain. GHG and intensity metrics based on revenue. The scope of consolidation of the numerator (GHG emission and Energy consumption) may differ from that of the denominator (revenue).	**FS reporting boundary** No specific financial statements anchor point, as the sustainability statement/disclosures show the consistency or otherwise of its scope of consolidation and that of the financial statements. The reporting boundary and consolidation approach of the financial statements is defined under IFRS 10 and IAS 28, and it is not entity-specific. IFRS 15 revenue if GHG and energy intensity metrics are disclosed voluntarily, as they are no longer required under the Draft Amended ESRS	**Coherence:** Explain significant differences via the disclosure of sites or entities that the entity does not control but fall within the reporting boundary of the sustainability statement (e.g. for the consolidation of GHG emissions based on operational control) **Consistency:** disclosure of consistency in the scope of consolidation of the financial statements and the sustainability statement. Consistency of IFRS 15 revenue amounts and revenue applied in the GHG and Energy intensity metrics. **Direct connectivity** – cross-referencing the IFRS 15 revenue reported in the financial statements

CHAPTER 3:
OVERVIEW OF ILLUSTRATIONS OF CONNECTIVITY

CHAPTER STRUCTURE

DOCUMENTATION OF THE CONNECTIVITY ILLUSTRATIONS
(Paragraphs 3.1 to 3.2)

PROFILE OF THE CONNECTIVITY ILLUSTRATIONS
(Paragraphs 3.3 to 3.7)

This chapter provides an overview of the 17 illustrations of connectivity from 15 companies included in the Supplemental Document. These illustrations of current reporting practice reflect the types and mechanisms of connectivity and anchor points (i.e. financial statements and sustainability reporting datapoints that would be connectivity related) outlined in Chapter 2, and they have been chosen to cover different sustainability-related topics, sectors and geographies. They are selected from the 2023 and 2024 annual reports of entities.

It is noted that, even though all information in the financial statements are in the scope of the DP, the financial statements anchor points for the illustrations are largely related to the statement of financial position/balance sheet and statement of financial performance/income statement (and related notes) and not to the cash flow statement, statement of other comprehensive income, or statement of equity. This is because there were more readily identifiable connections that could be made to the balance sheet and income statement.

The illustrations are not representative of the general level of connectivity across the reviewed 72 annual reports. Rather, they reflect a non-exhaustive selection of good practices chosen from 15 companies' annual reports. Also, no single annual report had all the types and mechanisms of connectivity identified in Chapter 2, and there are good examples of connectivity in other companies' annual reports that are not included in the illustrations.

The illustrations in the Supplemental Document are not to be construed as ESRS application guidance. The illustrations are exclusively focused on conveying the connectivity of reported information, and they are not an assessment of the credibility, appropriateness and/or quality of sustainability-related actions taken by any of the entities whose excerpts are included in the illustrations. Each illustration exclusively reflects a specific anchor point and type/s of connectivity. The entire annual report would need to be looked at to obtain a more complete picture of a company. Most of the connectivity illustrations (i.e. 12 of the 15 companies) have been based on sustainability reporting done under ESRS Set 1. There is one illustration of sustainability-related financial disclosures under ISSB Standards.

DOCUMENTATION OF THE CONNECTIVITY ILLUSTRATIONS

3.1 The 17 illustrations were drawn from 15 companies after reviewing the annual reports of 72 companies that are profiled in Appendix 1.

3.2 The documentation of each illustration aims to convey connectivity from an integration of information standpoint, alongside highlighting the specific connection, coherence, or consistency of quantitative and narrative information across different reports. Hence, the documentation of each illustration in the Supplemental Document includes

a) the sector the illustrated company report belongs to, the company's key segments, and its defined time horizons, IROs, and governance responsibilities.

b) the type and mechanism of connectivity, anchor points within the different reports for the illustration, and underlying sustainability reporting, accounting, and any other requirements or guidance applied for the information being illustrated.

c) excerpts of the sustainability statement/disclosures, management report, financial statements, risk report, or governance report illustrating connectivity.

PROFILE OF THE CONNECTIVITY ILLUSTRATIONS

3.3 For their sustainability reporting, **12 of 15 companies reported under ESRS,** one under ISSB Standards, one under the TCFD recommendations, and one reported under the EU Non-Financial Reporting Directive (NFRD) and incorporated principles from other frameworks[55].

3.4 Also, below is an outline of:

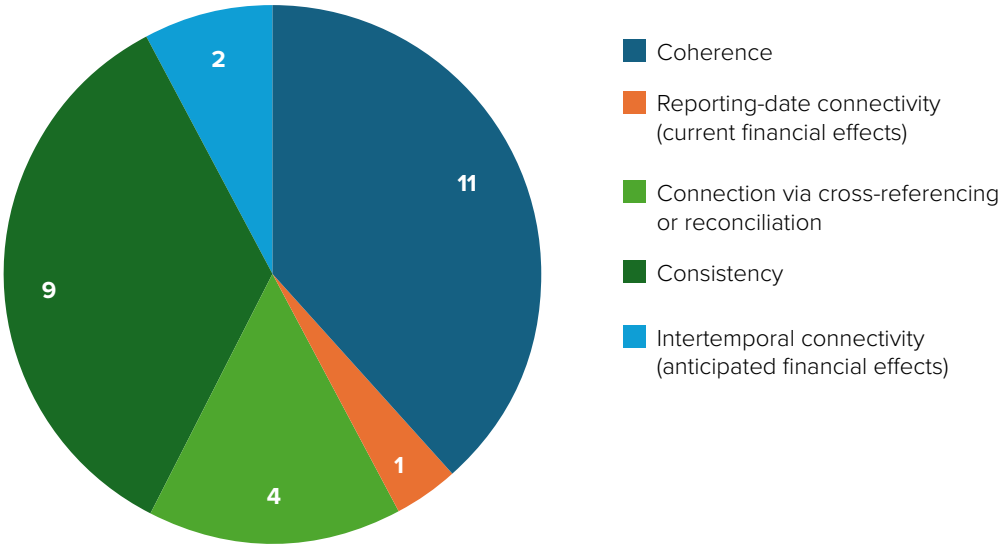
a) types of connectivity and anchor points in the illustrations **(Figure 3.1 and Table 3.1);**

b) sustainability-related topics covered **(Figure 3.2);**

c) sector coverage **(Figure 3.3).**

3.5 ***Types of connectivity and anchor points.*** **Figure 3.1** shows the different types of connectivity of reported information for the 17 illustrations. There are some illustrations that have more than one type of connectivity illustrated. Integration of information is captured across all the illustrations by highlighting key aspects of the business and IROs that contextualise the reported information. In addition, connectivity related to the boundary of the reporting entity is considered in one illustration. **Table 3.1** shows the anchor points and type of connectivity per illustration.

Figure 3.1: Types of connectivity across the illustrations[56]



55 Global Reporting Initiative (GRI), ISSB Standards, Sustainability Accounting Standards Board (SASB), United Nations Global Compact (UNGC), and United Nations Sustainable Development Goals (UN SDGs)

56 Some illustrations depict more than one type of connectivity of reported information. For example, illustration 4 is related to coherence and direct connectivity.

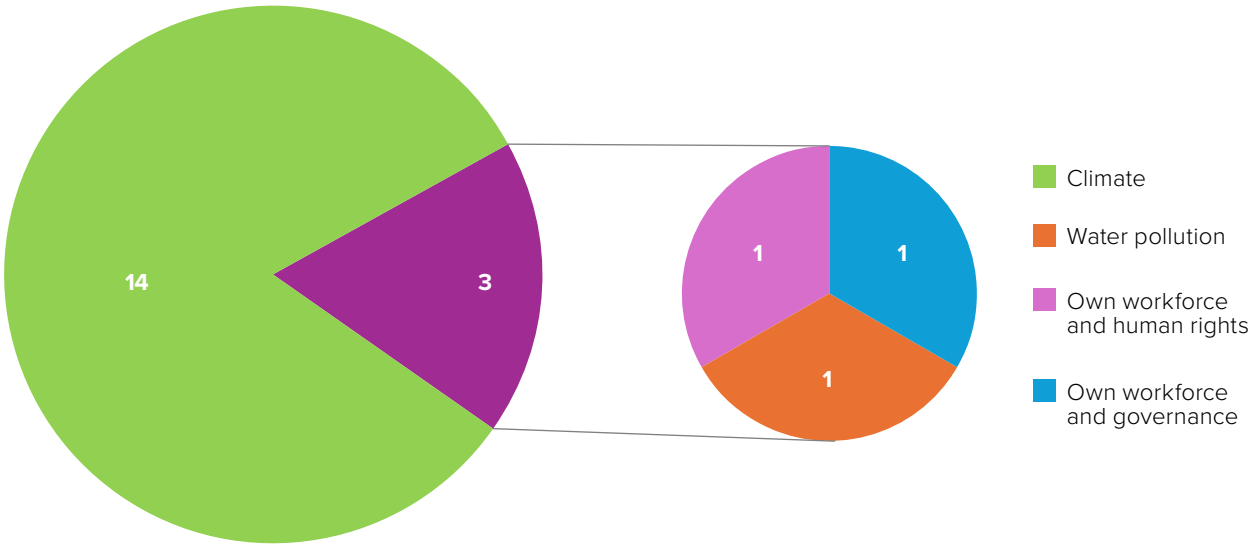
Table 3.1: Sustainability statement/disclosures (SR) and financial statements (FS) Anchor points, Type and mechanism of connectivity, Sector covered for the 17 illustrations in the Supplemental Document

Illustration #	Anchor Points – Sustainability Statement/ disclosures (SR)	Anchor Points –Financial Statements (FS)	Type and mechanism of connectivity of reported information	Sector
1	Water pollution incident and remediation disclosure	Contingent liability disclosure	Coherence by giving a more complete picture of the pollution incident	Paper and wood
2	Energy optimisation strategy disclosure	Power purchase agreements disclosure	Coherence by giving a more complete picture of energy management	Dairy
3	Disclosure in the sustainability statement of no human capital exposures in the financial statements.	No FS anchor point because the connection is explained in the sustainability statement disclosure.	Connectivity via disclosure of own workforce current financial effects	Forest assets, packaging solutions, wood products
4	Greenhouse Gas (GHG) emissions and mitigation disclosure	EU Emissions Trading Scheme (ETS) disclosure	Coherence and cross-referencing (direct connectivity)- GHG mitigation reporting	Forest assets, packaging solutions, wood products
5	Environmental impact targets in sustainability statement and gender diversity targets in governance report	Share-based payments disclosure	Coherence by giving a more complete picture of share-based payment arrangements	Information technology (IT) services and consulting
6	Disclosures of potential impairment of non-financial assets and transition targets	Asset impairment, asset retirement obligation	Coherence and cross-referencing (direct connectivity)- asset impairment, cessation exposure	Oil and gas
7	Disclosure of strategy and actions, including investments, related to decarbonisation	Property, Plant and Equipment (PPE) disclosure	Consistency of amounts and narrative	Steel and mining
8	EU Taxonomy investments disclosure	PPE disclosure	Connection via reconciliation	Oil and gas
9	Disclosure of GHG intensity metrics	Revenue in the consolidated income statement	Consistency of amounts	Hospitality
10	Business segments disaggregation in the strategic report Disclosure of consolidation approach (operational control versus financial control)	Disclosure of operating segments No FS anchor point because the connection can be inferred from the SR disclosure.	Consistency in narrative Coherence by explaining significant measurement differences from different consolidation approaches	Energy and petrochemical

Illustration #	Anchor Points – Sustainability Statement/ disclosures (SR)	Anchor Points –Financial Statements (FS)	Type and mechanism of connectivity of reported information	Sector
11	Anticipated financial effects disclosures Disclosure of sustainability-related IROs, business model and strategy	FS anchor point (except for disclosures of sources of estimation uncertainty of carrying amounts of assets and liabilities). Amounts may crystallise in future-period FS. No FS anchor point, as focus was on connectivity within the strategic report	Intertemporal connectivity via the disclosure of anticipated financial effects Consistency in narrative assumptions	Packaging and paper
12	Anticipated financial effect disclosures	No FS anchor point (except for disclosures of sources of estimation uncertainty of carrying amounts of assets and liabilities). Amounts may crystallise in future-period FS.	Intertemporal connectivity via the disclosure of anticipated financial effects	Mining and energy
13	Disclosure of sustainability-linked financing (sustainability-linked loans and green bonds)	Disclosure of sustainability-linked financing (sustainability-linked loans and green bonds)	Consistency of narrative and amounts	Real estate property
14	Disclosure of assets at risk	Assets (corporate loans) recognised on the balance sheet	Consistency of amounts Coherence by giving a more complete picture of assets at risk	Banking
15	Disclosure of climate transition financing	Disclosure of green assets and total investments	Consistency of amounts Coherence by giving a more complete picture of assets covered by a GHG measurement methodology	Insurance
16	Disclosure of sustainability-linked loans	Disclosure of sustainability-linked loans	Consistency of amounts	Banking
17	Disclosure of Expected Credit Loss (ECL)	ECL note	Consistency in narrative Connection via cross-referencing within SR to the FS Coherence via disclosure of qualitatively material information about exposures and by giving a more complete picture of ECL sensitivity	Banking

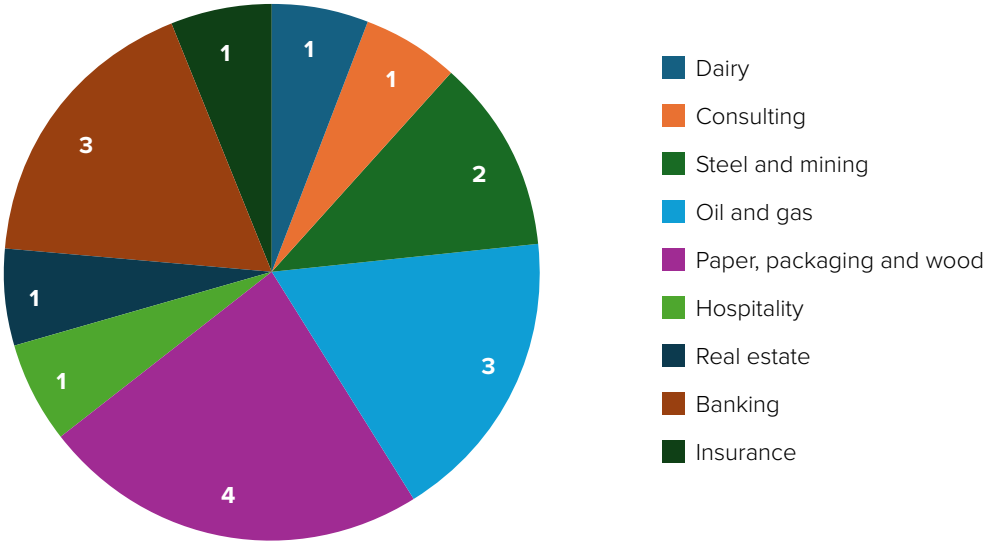
3.6 ***Sustainability topics covered.*** As shown in **Figure 3.2** below, the connectivity illustrations cover a range of sustainability topics. Although EFRAG's selection of illustrations did not prioritise climate-related matters, only three of the illustrations in the Supplemental Document (18%) were not on this topic. This is because, as observed in Chapter 4, compared to other sustainability matters, the reporting on climate matters is more mature, which in turn makes it easier to find climate-related examples of connectivity of reported information.

Figure 3.2: Number of illustrations per sustainability topic



3.7 ***Sectors covered.*** As shown in Figure 3.3 below, the illustrations selected cover various sectors and include both non-financial and financial entities.

Figure 3.3: Number of illustrations per sector



CHAPTER 4: AGGREGATED OBSERVATIONS ON CURRENT CONNECTIVITY OF REPORTED INFORMATION

CHAPTER STRUCTURE

OBSERVATIONS ON TRENDS AND AREAS OF FOCUS IN CONNECTIVITY OF REPORTED INFORMATION (Paragraphs 4.1 to 4.10)

OBSERVATIONS ON TYPES AND MECHANISMS OF CONNECTIVITY OF REPORTED INFORMATION (Paragraphs 4.11 to 4.35)

USEFULNESS OF CONNECTIVITY OF REPORTED INFORMATION – USERS' AND OTHER STAKEHOLDERS' PERSPECTIVES (Paragraphs 4.36 to 4.45)

This chapter provides aggregated observations on the application of connectivity in current reporting practices based on EFRAG's review of the annual reports from 72 companies (which includes the 15 companies from which the 17 illustrations of connectivity in the Supplemental Document were selected), feedback from EFRAG's outreach to stakeholders, and a review of external publications (see Appendix 1).

This chapter conveys connectivity in practice and complements Chapter 3 and the Supplemental Document of illustrations. It highlights positive observations and considerations (areas of attention) that could be addressed by stakeholders.

Overall, it is observed that the concepts of connectivity of reported information, including the identified types and mechanisms, are being applied, albeit that companies are still in the early stages of the journey.

During EFRAG's targeted outreach (see Appendix 1), stakeholders (preparers, users, auditors and enforcers) shared their unique perspectives based on their functional roles. Stakeholders prioritised certain types and mechanisms of connectivity of reported information. They considered coherence, the integration of information, cross-referencing to make connections, and the consistency of information across different reports to be most important. Users also underscored the importance of disclosures of anticipated financial effects while being aware of the limitations of this disclosure. Preparers, on the other hand, aired concerns about this disclosure.

As mentioned in Chapter 3, EFRAG's review of reporting practices targeted a broad range of sustainability topics. However, the analysis and evidence cited below are largely about connectivity in the reporting of climate-related matters because, when addressing connectivity, this is the main sustainability topic addressed by thematic reviews and current financial statements, and climate-related IROs likely have more financial effects than other sustainability-related matters. That said, as shown by some of the illustrations in the Supplemental Document, there is evidence of the connectivity of reported information related to other sustainability-related topics (e.g., own workforce and water pollution).

OBSERVATIONS ON TRENDS AND AREAS OF FOCUS IN THE CONNECTIVITY OF REPORTED INFORMATION

GENERAL TRENDS IN THE CONNECTIVITY OF REPORTED INFORMATION

4.1 To assess the level of connectivity across the annual reports of 72 companies, the EFRAG Secretariat used a connectivity scoring system that was applied in the 2025 academic working paper *Connectivity in climate-related disclosures* by Karlsson, M (hereafter referred to as Karlsson (2025)), which reviewed the level of connectivity across 787 European firms.

4.2 In the review of the annual reports of 72 companies, among other things, EFRAG assessed the level of connectivity by assessing the extent to which connected climate-related matters are reported within and outside the financial statements. The review only included firms which, outside the financial statements of their annual report, had disclosed a climate-related commitment and that their business was impacted by climate change. The firms were manually scored into the following three different categories, based on the availability and information content of the climate-related disclosures in the financial statements.

a) *Lack of connectivity of reported information.* There are no disclosures on climate-related matters in the financial statements.

b) *Weak connectivity of reported information.* There are disclosures on climate-related matters in the financial statements. However, disclosures are generic and do not explicitly state how climate-related risks impact the financial statements.

c) *Strong connectivity of reported information.* In the financial statements, climate-related disclosures are firm-specific and describe how climate-related matters impact the financial statements. This includes describing which items in the financial statements are impacted by climate-related matters and whether climate-related matters have a significant impact on the financial statements. Also, when the information on climate-related matters is not material,

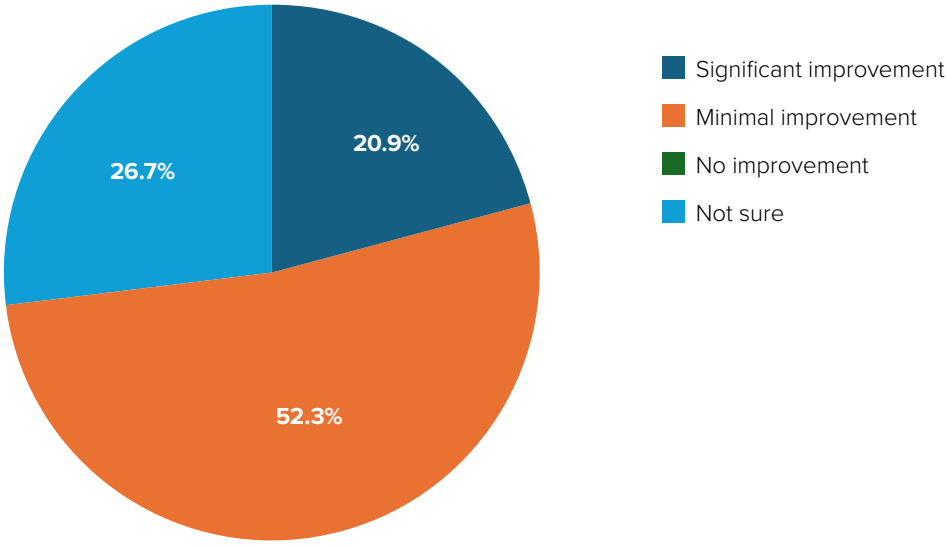
but investors would reasonably expect otherwise, the firm explains why. And where to contextualise financial statement line items, sensitivity analysis and scenario analysis assumptions are included in the disclosures.

4.3 EFRAG's review[57] found that **49% of companies demonstrated strong connectivity in the reporting of climate-related matters within and outside the financial statements, 43% of companies demonstrated weak connectivity, and 8% of companies demonstrated no connectivity of reported information.** Other specific observations from EFRAG's review are captured in the descriptions of positive observations and considerations below.

4.4 Relatedly, Karlsson's (2025) review of the level of connectivity of climate-related reported information for 787 European firms showed that, for 2023 reporting, **29% of firms had strong connectivity, 33% had weak connectivity, and 38% had no connectivity.** The energy sector had the highest number of firms showing strong connectivity[58] (56% of firms), followed by utilities (41%) and materials (31%). Similarly, other academic working papers, including (a) Müller, Ormazabal, Sellhorn and Wagner (2025)[59]; and (b) Bayne et al. (2025)[60], show that companies are in the early stages of having connected disclosures.

4.5 ***The connectivity journey is in its early stages.*** Overall, based on EFRAG's review of 72 annual reports and the Karlsonn (2025) working paper, it can be seen that though progress is being made, companies are in the early stages of their journey towards implementing the connectivity of reported information. This view has been corroborated in various fora, including during the April 2025 EFRAG roundtable event, where responses to a polling question showed that 52% of the participants considered that there has been minimal improvement in the connectivity of reported information over time (as shown in **Figure 4.1** below).

Figure 4.1: Extent of improvement of connectivity over time



OBSERVATIONS ON AREAS OF FOCUS IN CONNECTED REPORTING (ANCHOR POINTS)

4.6 The connectivity of reported information is observed mainly with respect to climate-related matters.

a) As noted in Chapter 3, though not prioritised, across the annual reports of the 72 companies reviewed by EFRAG, connectivity was mainly observed in respect of climate-related reporting. This may be because, except for ESRS

57 Across the 72 companies reviewed by EFRAG, there was a higher proportion of companies exhibiting some level of connectivity than was the case for the 787 companies in Karlsonn's review, which reflects that the companies in EFRAG's sample were companies where connectivity had been expected upfront.

58 The lowest proportion of strong connectivity were in the real estate sector (15% of firms), consumer discretionary (18%) and industrials (20%).

59 *Climate disclosure in financial statements*, TRR 266 Accounting for Transparency Working Paper Series No. 144, University of Cologne, IESE Business School, CEPR, ECGI, LMU Munich School of Management.

60 *Connectivity and Boundaries of Climate-related disclosures in Annual Reports* 2025 review of 80 companies (from EU, UK, Australia, and Canada).

requirements and Global Reporting Initiative (GRI) Standards that have separate standards for different sustainability topics, there has been a 'climate first' approach underpinning most sustainability-related reporting standards and voluntary guidance[61]. Moreover, thematic reviews of reporting practices, including the reports of national standard setters, audit firms and profession associations (including a 2025 Acteo and Institute of Management Accountants (IMA) France study[62]), and the signalled ESMA enforcement priorities, have typically focused on climate-related reporting.

b) During EFRAG's outreach discussions, preparers indicated that, from a connectivity perspective, it was generally easier for them to link climate-related information to financial statements compared to information on other sustainability matters, largely due to preparers having more practical experience with climate-related issues. In other words, the reporting on climate matters is more mature than it is for other sustainability topics.

4.7 ***Challenges in finding connected reporting for some pre-identified financial statements and sustainability statement/disclosures anchor points[63].*** During EFRAG's review of the selected annual reports of 72 companies, it was challenging to find information on some of the pre-identified anchor points (i.e. those cited in **Table 2.1** in Chapter 2). Specifically, it was challenging to match and connect the information in the sustainability statement/disclosures to the information in the financial statements related to the valuation of tangible and intangible non-financial assets (i.e. impairment, amortisation, useful economic lives and impairment (ECL) of financial assets for financial institutions).

4.8 Conversely, it was also challenging to identify sustainability-related information in the financial statements related to the disclosure of sources of uncertainty in the estimation of carrying value of assets and liabilities, as per paragraphs 125 and 129 of IAS 1 (paragraphs 31A and 31E of IAS 8), and the application of qualitative materiality assessment under paragraph 31 of IAS 1 (paragraph 20 of IFRS 18). Disclosures under the requirements of paragraph 31 of IAS 1 were observed with respect to disclosures of qualitatively material information about exposures as mentioned in **paragraph 4.19** below. It is noted that stakeholders had expressed mixed views[64] on the applicability of paragraph 31 of IAS 1. Some had the perception that it is not applied frequently enough in practice, whereas others were concerned about its stretched application and questioned the limits of such disclosures.

4.9 ***Limited presentation of sustainability matters in financial statements' revenue and segment disclosures.*** It was challenging to find information related to the disaggregation of revenues under IFRS 15 and segment disclosures of material sustainability-related matters. In only 2 of the 17 illustrations did material sustainability matters get depicted in the segment disclosures. Similarly, Karlsson (2025) showed that only 1% of firms (i.e. over a two-year period) disclosed climate-related matters in relation to segment reporting under IFRS 8.

4.10 As shown in **Table 4.1,** Karlsson's (2025) findings are indicative of the prevalence of the financial statements' anchor points in respect of climate-related matters. It also shows increased frequency of coverage of climate-related matters in the financial statements.

61 For example, the 2019 IASB educational article, updated in a 2023 IASB educational article Effects of climate-related matters in the financial statements, the IASB Illustrative examples on Disclosures about Uncertainties in the Financial Statements, ISSB Standards, and the TCFD recommendations.

62 *Observations sur la connectivité by IMA – France* analysed 71 2024 annual reports from European companies, and climate-related disclosures emerged as the most developed area.

63 Anchor points are data and/or qualitative or quantitative information that allow the connection of sustainability reporting disclosures and financial statements information.

64 EFRAG's Comment Letter on the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project, the 2024 EFRAG initial connectivity paper Connectivity considerations and boundaries of different annual report sections and the April 2024 IFASS report highlighted multiple views on the applicability of IAS 1.31, including stakeholders who had concerns about the stretched application of IAS 1.31. It is noted that stakeholders' feedback was taken into account in the IASB illustrative examples on Disclosures about Uncertainties in the Financial Statements.

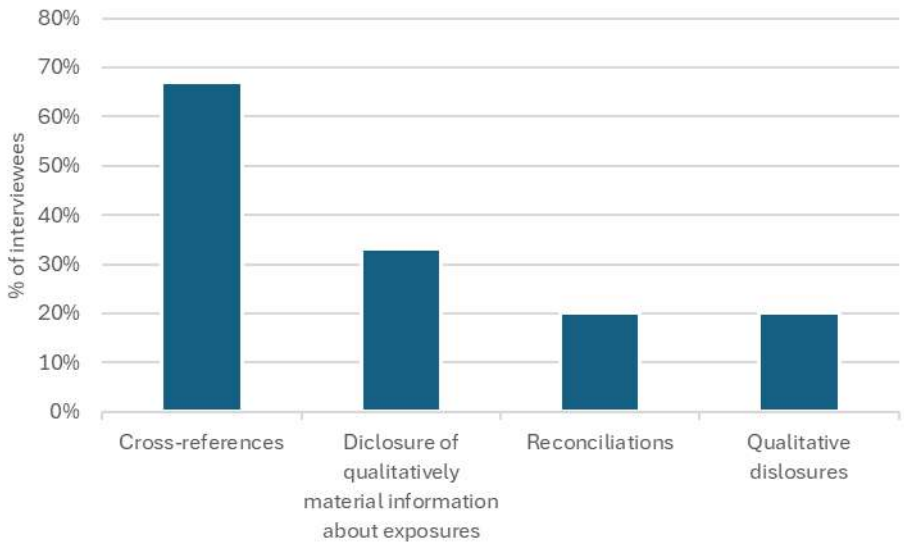
Table 4.1: Accounting area where climate risk is covered in entities' financial statements – as reported in Karlsson (2025)

Accounting area	N	2022	N	2023	N	2022/3
Impairment of goodwill (IAS 36)	213	57%	292	60%	505	59%
Non-current assets (PP&E, Intangible assets excluding goodwill & RoU)* (IAS 16, IAS 38, IFRS 16, IAS 36)	200	53%	295	61%	495	58%
Provisions and contingent liabilities (IAS 37)	83	22%	94	19%	177	21%
Going concern (IAS 1)	62	17%	106	22%	168	20%
Financial instruments** (IFRS 7, IFRS 9, IFRS 13)	54	14%	84	17%	138	16%
Deferred tax (IAS 12)	29	8%	49	10%	78	9%
Investment properties (IAS 40)	29	8%	41	8%	70	8%
Share-based payments/incentive programs (IFRS 2, IAS 19)	17	5%	37	8%	54	6%
Inventory (IAS 2)	22	6%	31	6%	53	6%
Defined benefit plans (IAS 19)	19	5%	28	6%	47	5%
Power purchase agreements (IFRS 10, IFRS 11, IFRS 16, IAS 16 or IAS 20)	7	2%	16	3%	23	3%
Biological assets (IAS 41)	8	2%	8	2%	16	2%
Revenue (IFRS 15)	4	1%	10	2%	14	2%
Investments in associates/joint ventures (IAS 28)	6	2%	6	1%	12	1%
Segment reporting (IFRS 8)	6	2%	6	1%	12	1%
Government grants (IAS 20)	1	0%	3	1%	4	0.5%

OBSERVATIONS ON THE TYPES AND MECHANISMS OF CONNECTIVITY OF REPORTED INFORMATION

4.11 During EFRAG's targeted outreach, interviewees (preparers, auditors, and users) opined on the importance of a selection of connectivity mechanisms, as depicted in **Figure 4.2.**

Figure 4.2: Proportion of interviewees considering connectivity mechanisms important



POSITIVE OBSERVATIONS ON THE TYPES AND MECHANISMS OF CONNECTIVITY

4.12 ***Some level of coherence and integration of information observed, and the importance of narrative explanations affirmed.*** Some level of coherent reporting was identifiable from the annual reports reviewed by EFRAG, with variation in the level of integration of information (as further discussed in **paragraphs 4.29 and 4.30** below). Pointedly, 9 of the 17 illustrations in the Supplemental Document reflect coherent reported information.

4.13 Concurrently, as noted in **paragraph 4.28-a** below, the financial implications of the entity's sustainability-related actions were often not quantified, which lessened the coherence of the information across reports. During EFRAG's outreach, stakeholders emphasised the importance of coherence across different reports. In this regard, they viewed contextualising qualitative disclosures when accompanying reconciliations and/or quantitative information to be beneficial.

4.14 ***Well-specified time horizon disclosures (as part of the communication of strategy and business model).*** Among other things, the time horizon description helps readers to understand why information may be material in the context of the sustainability statement/disclosures but not material for the financial statements. Relatedly, all 15 companies, from which the 17 illustrations in the Supplemental Document were drawn, had a clear specification of what is meant by short, medium, and long term.

4.15 ***Consistency of related information across different reports was easily identified.*** Across the annual reports reviewed by EFRAG, the consistency of quantitative data, assumptions and narrative information across different reports was often observed. This is unsurprising given the emphasis on consistency that pre-dated the inclusion of mandatory connectivity requirements, and as it is also a focus of assurance. In this regard, in the 2025 ESMA report on Corporate Reporting Enforcement and Regulatory Activities, it is conveyed that, for 2024 reporting, 77% of the 27 reviewed issuers provided qualitative and/or quantitative disclosures regarding material climate-related matters within financial statements and the management report, the non-financial statement or (where applicable) the prospectus. The ESMA report indicated that, for all the reviewed issuers, there were no significant inconsistencies identified between the assumptions used in estimations and measurements related to climate matters applied, either within the financial statements or across the

different parts of the annual report. From ESMA's reports of the preceding years (2024 and 2023), it could be inferred that issuers are improving their reporting. For 2023 (2022) reporting, 6% (8%) of the reviewed issuers provided inconsistent or partially inconsistent climate-related information across the financial statements and accompanying sustainability reports or management commentaries. As noted, for 2024 reporting, such inconsistencies were not observed in the sample of issuers reviewed.

4.16 ***Connection of quantitative information via cross-referencing or reconciliation (direct and indirect connectivity) frequently observed.*** Across the annual reports reviewed by EFRAG, connections of quantitative information via cross-referencing or reconciliation of the information in the sustainability statement to the financial statements were frequently observed with respect to disclosure of EU taxonomy investments. During EFRAG's outreach, 20% of the interviewees considered that reconciliations help to connect financial and sustainability data, despite the challenges sometimes posed by the differences in the measurement and levels of aggregation of data across different reports.

4.17 ***Cross-referencing is a useful and commonly used connectivity mechanism in the sustainability statement.*** As shown in **Figure 4.2,** during EFRAG's outreach feedback, 67% of the interviewees considered cross-referencing as an important and pragmatic method for avoiding duplication across different annual report sections. For example, when providing context to other disclosed information. Similarly, a 2025 EY publication (CSRD Barometer) found that 99% of the 200 reviewed companies incorporated information into the sustainability statement by reference. This involved providing overview tables listing the disclosure requirements and datapoints that were incorporated by reference, to approaches where the cross-referencing is within the sustainability narrative. A 2025 KPMG publication (Real-time ESRS), based on a review of 270 ESRS reporters, found that 53% of them incorporated information into the sustainability statement by reference.

4.18 On the other hand, Karlsson (2025) showed that cross-referencing of climate-related matters between the financial statements and other parts of the annual report occurred in 26% of the observations (i.e. over a two-year period). The lower proportion found in Karlsson (2025) relative to the EY and KPMG publications is because Karlsson's study focuses on the reporting in the financial statements. There are more constraints to the incorporation of information by cross-referencing into the financial statements (e.g. due to the need to have reasonable assurance of such information) than there are for doing so into the sustainability statement.

4.19 ***Disclosures of qualitatively material information about exposures identifiable.*** As mentioned in Chapter 2, such disclosures include where an entity explains that a sustainability risk has no material effect on the entity's financial position and financial performance. These disclosures are helpful when the carrying value of a reasonably expected exposure is not quantitatively material, and they explain why material information on a sustainability risk in the sustainability statement is not material for the financial statements. Example IV-1 of the IASB illustrative examples on 'Reporting about Uncertainties in the Financial Statements' showcases this disclosure. These were identified several times across the annual reports reviewed by EFRAG and are included in the illustrations in the Supplemental Document, i.e., illustrations 6 and 17. Similarly, an academic paper (Bayne et al., 2025), based on the review of the 2022 reporting by a sample of 80 companies (including 20 from the EU), found these disclosures in 19% of the companies.

4.20 During EFRAG's outreach, a third of the interviewees considered these disclosures to be important. Some preparers did not consider them to be appropriate, as they could be generic and cover immaterial information, which could be mistakenly interpreted by users as material. Of note, as reflected in EFRAG's response to the IASB ED developed under the 'Reporting about Uncertainties' project, similar mixed views about this disclosure were expressed by stakeholders.

4.21 ***Navigation tools, including ESRS content indexes and dedicated sustainability-related (mostly climate-related) notes in the financial statements are commonly applied.*** Though not included in the illustrations in the Supplemental Document, these navigation tools were included in several of the annual reports reviewed by EFRAG, to enhance the navigability within these reports. Moreover, a few entities presented a concise summary of topics (usually in a tabular format) that link information in the financial statements and the sustainability statement or other sections of the management report. Corroborating this observation, a 2025 Mazars publication (Financial reporting of European Companies on sustainability issues) highlights that 67% of its 72 reviewed companies had a dedicated climate note.

4.22 ***Explanations of differences of some key assumptions (e.g. boundary of the reporting entity) were common.*** Across all 15 companies, from which the illustrations of connectivity in the Supplemental Document were excerpted, there were dedicated notes explaining whether the boundary of the reporting entity for the sustainability statement and the financial statements was the same or different. This disclosure also helped to identify immaterial subsidiaries, whose information is excluded from the consolidated financial statements, had material IROs and were in the scope of the consolidated sustainability statement.

4.23 ***Some insightful governance disclosures.*** For 8 of the 15 companies from which the illustrations were drawn, there were disclosures about the governance structure, including the individuals who are responsible for managing sustainability matters. The feedback received from users during EFRAG's outreach indicated that these disclosures are useful as they give comfort that sustainability-related risks are being well managed by the entity.

OBSERVATIONS ON ANTICIPATED FINANCIAL EFFECTS

4.24 The Supplemental Document has two illustrations of disclosures of anticipated financial effects (i.e. illustrations 11 and 12), which relate to intertemporal (across reporting periods) connectivity. That said, across the annual reports reviewed by EFRAG, this disclosure was found to be rare, and it is assumed that this is due to transitional reliefs under ESRS[65] and ISSB Standards. The limited disclosure was also observed in

a) a study conducted by Acteo and IMA France, whereby 85% of companies applied exemptions related to anticipated financial effects, and less than 20% of companies produced this disclosure.

b) the 2025 KPMG publication (Real-time ESRS), based on a review of 270 ESRS sustainability statements, found that this disclosure was provided by 41% of the reviewed companies, and the information was mostly qualitative.

4.25 The disclosure of anticipated financial effects is a new and contentious area of reporting. For this reason, under the simplification objective, the July 2025 Draft Amended ESRS Exposure Drafts (hereafter 'Draft Amended ESRS EDs') sought constituents' feedback on two possible options for this disclosure requirement. Under 'Option 1', both qualitative and quantitative disclosures of the anticipated financial effects would be required with reliefs[66]. Under 'Option 2', only qualitative disclosure would be required, leaving the option to the undertaking to disclose quantitative information voluntarily[67]. During EFRAG's less extensive and targeted outreach for this DP, using illustration 11 of the Supplemental Document, views were sought on this disclosure. Below is the feedback received.

a) In response to the Draft Amended ESRS EDs users and the European supervisory authorities mainly supported Option 1, while preparers mostly preferred Option 2. As noted in Chapter 2, based on the feedback, the Draft Amended ESRS submitted by EFRAG to the EC has retained the requirement for quantitative and qualitative disclosures and, in tandem, introduced additional transition reliefs and exemptions from quantitative disclosures in the absence of reasonable and supportable information. The Draft Amended ESRS are aligned with the ISSB Standards in this respect.

b) During EFRAG's targeted outreach for this DP, the Draft Revised ESRS EDs' options were not presented or discussed. Instead, the focus was on getting stakeholders' views on the usefulness of this disclosure as a mechanism of intertemporal connectivity. Similar to the response to the Draft Amended ESRS EDs, a clear divide in the opinions of preparers and users about this disclosure emerged. Several preparers favoured qualitative disclosures for practicability reasons, including the challenges they faced when applying the currently immature methodologies for determining quantitative information. On the other hand, users and several other stakeholders indicated that quantitative disclosures are useful for the analysis of the companies' prospects and risk profiles. At the April 2025

65 Under ESRS Set 1, wave one companies may limit their disclosures on anticipated financial effects to qualitative disclosures for the first three years of reporting (with limited exceptions and, in the case of climate-related financial effects only if it is impracticable to prepare quantitative disclosures). Under Draft Amended ESRS, wave one companies no longer have to disclose anticipated financial effects for the 2026 financial year and are only required to disclose quantitative effects starting from 2030.

66 A relief substantially equivalent to the one available in IFRS S2 was proposed to be introduced, in addition to the general relief of undue cost or effort. This would allow for the reporting of qualitative information when the level of estimation uncertainty is so high that the resulting quantitative information would not be useful. Under this option, the relief related to the skills, capabilities and resources available to the company included in IFRS S2 was not proposed to be included.

67 Under Option 2, the undertaking could deviate from the corresponding ISSB's IFRS S1 and S2 relief.

EFRAG-hosted multistakeholder webinar, users described the information in this disclosure as an 'analyst's dream'. As highlighted in Chapter 2, it was underscored that when interpreting this disclosure, there is a need to distinguish between anticipated financial effects that may be reflected in current or future financial statements from those that may never crystallise in the financial statements.

c) Users also noted that the disclosure of anticipated financial effects, though currently rare, can signal that a company's management has considered risks that may crystallise in the long term. They suggested that this disclosure can allow them (users) to engage with the management of the reporting company on how they came up with the numbers. Users could also engage with a company's competitors by asking questions about related information. In so doing, this may prompt the provision of similar disclosures by the reporting company's competitors. Despite their support, users also acknowledged the limitations of this disclosure, including the lack of comparable historical data, the lack of comparable information across companies, the inherent uncertainty of the information, and the challenges stemming from unclear terminology. Due to these limitations, the importance of reporting standards that enhance the disclosures of anticipated financial effects was underscored.

4.26 From the reviewed disclosures of anticipated financial effects, the following was observed for some of the companies.

a) *Misalignment of anticipated financial effects with the information in the financial statements.* In one case, a significant amount of potential asset impairment disclosed by the company seemed to be misaligned with the company also disclosing that there was no material impairment in the financial statements. Whereas this could be due to the time horizons considered in the potential versus reporting date asset impairment, there was no contextual explanation that could help readers understand the misalignment.

b) *Understandability of information.* There was unclear terminology being used, for example, financial impacts/financial effects, and it was difficult to gauge the methodology used to quantify the numbers, whether the effects related to future balance sheet items, expenses, cash items or non-cash items, or whether they refer to the maximum exposure or expected value of the financial impact.

CONSIDERATIONS (AREAS OF ATTENTION) TO ENHANCE THE CONNECTIVITY OF REPORTED INFORMATION

4.27 Connections can only be made when the respective information in the financial statements and the sustainability statement/disclosures is high-quality information (e.g. complete, understandable, comparable, verifiable). Below are some considerations (points of attention), which are based on EFRAG's review of 72 companies' annual reports.

4.28 ***Some way to go in ensuring coherent communication.*** There is room to further ensure companies' annual reports tell a coherent story that allows readers to link a company's strategy, IROs, actions and reported metrics and financial effects. The following are particular points of attention.

a) *Limited quantification of financial implications and financial effects.* In general, in the sustainability disclosures, there was limited quantification of the financial implications and financial effects of actions, including commitments and investments.

b) *Consider what information on investment would be most useful to disclose.* Companies' disclosures (including the taxonomy disclosures) in the annual report rarely shed light on the company's sustainability-related strategic objectives and its net-zero commitments. Some users conveyed that information that helps them to assess a company's return on invested capital (ROIC) would also be useful if disclosed by companies. However, several other stakeholders questioned the appropriateness of having such disclosures in the financial statements or the broader annual report.

c) *Opacity of sustainability-related research and development (R&D) expenditures.* In the sustainability statement/disclosures, it was challenging to identify narrative or quantitative information about the sustainability-related R&D expenditures that were not either capitalised, expensed, or disclosed in the financial statements.

4.29 ***Varied quality in the reporting of entities' strategies and business models.*** The narrative descriptions of entities' strategies and business models were sometimes generic. As noted in the 2021 EFRAG European Lab Project Task Force on the Reporting of Non-financial Risks and Opportunities and Linkage to the Business Model (PTF-RNFRO) publication[68], an explanation of the sustainability of the business model and its potential to continue beyond the current period is often not part of the business model description. The 2025 KPMG publication (ESRS-reporters), based on the review of 270 ESRS reporters, showed that many sustainability statements included the required disclosures, but the link to the company's overall business strategy was unclear.

4.30 ***Varied quality in the reporting on IROs, actions and targets.*** The reporting on IROs was of varied quality. Sometimes, IROs were not clearly described or were challenging to identify. Moreover, in some cases, for material topics identified, there were generically worded risks and opportunities. An ESMA report, *Results of a fact-finding exercise on 2024 corporate reporting practices under ESRS Set 1*, based on a sample of 91 issuers (i.e. reporting companies) from 23 Member States, had similar findings. This ESMA report conveys that some disclosures were boilerplate and did not provide meaningful insight on the judgements made regarding the materiality of the issuers' IROs, in particular for impacts. The report also indicated that 71% of the issuers disclosed either the targets or a negative statement[69]. However, a number of targets were of a generic nature or expressed as high-level commitments.

4.31 EFRAG's review of annual reports found that disclosures rarely focused on a company's opportunities in addition to its risks. There was also varied information on the company's actions and targets, and in some cases, these were generically worded. Moreover, for some companies, it was challenging to identify entity-specific, clear and concise IROs and the financial implications of these IROs. Corroborating the results of EFRAG's review, the 2025 Acteo and IMA France study found that 79% of companies reviewed had no targets or indicators in place. In addition, the 2025 KPMG publication, based on a review of 270 ESRS reporters, found that impacts outpace risks (for 30% of companies, there were five times more impacts than risks). That said, it is discernible that the ESRS requirements are leading to increasingly consistent terminology and a better and consistent structure of sustainability information (e.g. in the description of IROs and material topics).

4.32 ***Connections across different reports were not always easily identifiable.*** Connections of reported information in the sustainability statement/disclosures and the financial statements were not always easily identifiable. Sometimes, the related information was generic. For example, there would be information on impairment of non-financial assets in the financial statements, but only high-level information of an entity's decarbonisation strategy in the sustainability statement/disclosures. Another example is detailed information in the financial statements on carbon credits, but generic information on these credits in the sustainability statement/disclosures.

4.33 ***Inconsistent terminology across different reports.*** Sometimes, the same term is used for different concepts. For example, the reference to a 'commitment' in the disclosures outside the financial statements may mean a company's aspiration, while in the financial statements, such a reference is made to binding arrangements. Conversely, different terms are sometimes applied for the same concept (e.g. financial effects and financial impacts were similarly applied across the reviewed disclosures of anticipated financial effects as noted in **paragraph 4.26-b**). For this reason, during EFRAG's outreach, stakeholders emphasised the role of connectivity-related concepts towards enhancing effective communication, including by the harmonisation of terms applied across the annual report and related requirements (e.g. for the related terms applied in the IFRS Conceptual Framework and those applied in IFRS S1 and ESRS 1).

4.34 The following **challenges with signposting and cross-referencing** were noted.

a) *Uninformative signposting.* Across the reviewed annual reports, there was uninformative mutual cross-referencing (i.e. sustainability disclosures which refer to a specific note in the financial statements, and that note in turn only stated that it considered the sustainability disclosures).

b) EFRAG's outreach with stakeholders highlighted the following challenges.

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68 EFRAG, 2021, PTF-RNFRO report, Towards Sustainable Business: Good Practices in Business Model, Sustainability Risks and Opportunities Reporting in the EU.

69 ESRS 2 *Metrics and Targets* whereby if an undertaking cannot disclose information on targets required under the topical ESRS, it should disclose this and provide reasons why.

(i) *Excessive referencing.* This could clutter and reduce the understandability of the information in the annual report.

(ii) *Cross-referencing limitations lead to duplicative reporting.* Duplicative reporting of sustainability-related information in the financial statements sometimes occurs because, as noted in Chapter 2, the incorporation of information into the financial statements by cross-reference under IFRS Accounting Standards is generally limited.

4.35 ***Preparer implementation challenges.*** Preparers pointed to the following additional challenges towards connecting financial statements and sustainability statement/disclosures information.

a) *Lack of clear guidance and illustrative examples.* This makes the reporting process particularly difficult.

b) *Uneven implementation of the CSRD across EU Member States.* In some jurisdictions, the directive has yet to be transposed into national law, and audit practices vary considerably.

c) The need for *knowledge-building* across teams.

d) *Meeting diverse audience needs.* Some preparers found it challenging to identify the target user of the annual report, which has evolved due to sustainability reporting.

USEFULNESS OF CONNECTIVITY OF REPORTED INFORMATION – USERS' AND OTHER STAKEHOLDERS' PERSPECTIVES

4.36 As detailed below, the usefulness of the connectivity of reported information has been highlighted in the feedback received from users during EFRAG's outreach, including through interviews, outreach events and the user panel (see Appendix 1 for a detailed profile of the users who provided feedback). Some academic studies similarly provide evidence to that effect.

USERS' FEEDBACK RECEIVED DURING EFRAG'S OUTREACH

Feedback on sources and use of companies' information

4.37 The users interviewed indicated that they rely on annual reports, other publicly available information (e.g. corporate governance reports, press releases) and information from data providers to gather information for their analytical purposes and for engaging with an entity's management. Some of them also noted that they use proprietary questionnaires to assess how an entity manages sustainability-related matters.

4.38 One user, representing a technology-driven investment firm, signalled that they primarily rely on data providers' extracted information from annual reports. Nonetheless, this user underscored that the attributes and quality of annual reports, including the connectivity of reported information, affect the quality of information available from third-party data providers and their own proprietary databases.

4.39 *Integration of users' analytical processes.* Unlike some of the preparers, there was no indication that the interviewed users had unified functional teams that jointly consider both the traditional financial information and the sustainability statement/disclosures for analytical purposes. A unified analytical approach would be expected to increase the demand for the connectivity of reported information.

Usefulness and priority of different types and mechanisms of connectivity

4.40 Users shared their views on the usefulness and priority of some of the enabling attributes, types and mechanisms of connectivity of reported information. Below are the key points they raised.

a) *Avoidance of duplication.* Users confirmed that avoiding duplication across different reports, which supports the connectivity of reported information, also minimises the risk of them double-counting information during their valuation and assessment of the risk profile of companies.

b) *Coherence and integration of information.* Users highlighted the importance of coherent annual reports that portray transition risks. For instance, they noted that these risks could be overlooked if a company's mitigation actions via the purchase of carbon credits are inadequately reported in either the financial statements or sustainability statement/disclosures (e.g. due to the inadequate accounting requirements for carbon credits). They also noted that in interpreting information, they need to be alert to the offsetting effects of various factors disclosed in both the financial statements and the sustainability statement/disclosures (e.g. rising employee injuries may occur in tandem with increased profitability due to both factors occurring as a result of increased production time).

c) *Consistency.* Users confirmed that the consistency of related information across different reports or an explanation for any differences in assumptions was crucial for ensuring the credibility of the reported information and of the company by extension. Users considered that consistency across reports lessens the risk of greenwashing.

d) *Cross-referencing.* Users considered that cross-referencing enhances the navigability of the annual report, and it also lessens the risk of double counting information. However, users also confirmed the concern aired by other stakeholders, namely, that excessive cross-referencing impairs understandability.

e) *Reconciliation.* Users conveyed that the reconciliation of related quantitative information disclosed in the sustainability statement/disclosures and reported in the financial statements can help them gauge the reliability of the information. However, users also noted that such reconciliations had limited usefulness for their understanding of a company's future cash flows.

f) *Disclosure of anticipated financial effects and other forward-looking information (inter-temporal connectivity mechanism).* Users' support and why they consider the disclosure of anticipated financial effects useful is conveyed in **paragraphs 4.25 and 4.26.** In general, the role of forward-looking information in making connections across reporting periods was underscored by users. For instance, the disclosure in the sustainability statement/disclosures of the actions planned by a company's management to mitigate sustainability risk exposures (e.g. from environmental pollution, climate-related transition risk, water scarcity) can inform on the recurrence of adverse incidents and related possible obligations (liabilities or contingent liabilities) in future-period financial statements.

g) *Disclosure of anticipated business impacts.* Related to anticipated financial effects, users underscored the importance of the disclosure of the anticipated business impacts that precede and provide context to the occurrence of the anticipated financial effects.

h) *Disclosure of qualitatively material information about exposures.* Users conveyed that these disclosures explain why, contrary to investors' expectations, a particular sustainability-related risk is not reported in the financial statements. They conveyed that these disclosures enable them to have a more targeted engagement with a company's management. They also suggested that these disclosures could be located within or outside the financial statements.

i) *Other mechanisms of the connectivity of reported information.* Users considered other mechanisms of the connectivity of reported information, such as dedicated sustainability-related matter notes in the financial statements and content indices, as less important.

4.41 *Relative priority of types and mechanisms of the connectivity of reported information.* Overall, users underscored the importance of the consistency, coherence and integration of information. They also considered the disclosures of anticipated financial effects to be potentially very helpful, notwithstanding the limitations of these disclosures. Cross-referencing and reconciliation were only deemed moderately helpful for the reasons noted in **sub-paragraphs 4.40 c and d.** And, as noted in the preceding paragraph, other mechanisms such as dedicated notes and content indices were seen as less important.

Other user perspectives

4.42 During EFRAG's outreach, users provided additional perspectives on the following matters.

a) *Level of disaggregation*. The challenges in connecting information that arises from the differences in the level of aggregation/disaggregation across different reports are further discussed in Chapter 5. Below are specific disaggregation issues that were raised by users.

(i) Users pointed to the insufficient disaggregation as sometimes being an issue with respect to both financial statements and the sustainability statement/disclosures. For instance, they pointed to the difficulty in linking the information about an entity's operating segments disclosed in the financial statements to information about its transition plans disclosed in the sustainability statement/disclosures (e.g. asset retirement plans due to transition to green products).

(ii) Disaggregated information conveys the significance of sustainable activities within a business, for instance, a large conglomerate may only have 2% of its operations making a strong contribution to sustainability, while the remainder of its activities are neutral or negative.

(iii) Users signalled that they consider CapEx to be one of the most important sustainability-related metrics. They have suggested that, where possible, Capex should be quantified. Furthermore, users highlighted that it was essential for them to identify CapEx and capital commitments related to transition activities, and they indicated that the level of disaggregation that could inform them on this was usually not provided. Responding to the latter concern, Example IV-2 of the 'IASB Illustrative Examples on 'Disclosures about Uncertainties in the Financial Statements' shows that a reporting entity can disaggregate its PP&E in a manner that distinguishes its high-emission and low-emission PP&Es.

(iv) Some users observed that renewable energy businesses have different ROIC prospects and risk profiles from the traditional business models focused on fossil fuels. As also pointed out in **paragraph 4.28-b,** these users suggested that the disclosure of information that enables a valuation of these businesses separately from existing businesses would be helpful and a part of coherent reporting. However, as also noted in **paragraph 4.28-b,** several other stakeholders have questioned the appropriateness of having such disclosures in either the financial statements or the broader annual report.

(v) Some users suggested that a greater disaggregation of human capital information (e.g. employee attrition rates, employee satisfaction) can enable investors to better assess the long-term prospects of companies (i.e. distinguish between short-term fixes and long-term solutions).

b) *Role of connected information in enhancing users' engagement with companies' management.* Users noted that the connectivity of reported information (e.g. by disclosing sustainability-related business segments) and the disclosure of the individuals responsible for sustainability governance, facilitates users' engagement with companies' management by fostering users' ability to ask management the right questions. **Paragraph 4.25-c** also highlights how the disclosure of anticipated financial effects can enable users' engagement with companies' management.

EMPIRICAL ACADEMIC EVIDENCE ON THE USEFULNESS OF THE CONNECTIVITY OF REPORTED INFORMATION

4.43 The working paper by Karlsson (2025) tested the relationship between the level of connectivity of reported information and information asymmetry (i.e. a gap of information about the company that exists between insiders/management and outsiders of the company, including investors). Information asymmetry could be caused by the limited transparency and understandability of a company's communication to capital markets, including through its reporting. As noted in **paragraph 4.2,** the level of connectivity of reported information was measured by manually scoring entities into three different categories depending on their climate-related disclosures within and outside the financial statements. The stock's bid-ask spread served as a proxy for investors' perceived risk and information asymmetry.

4.44 Karlsonn (2025) found that increased levels of connectivity of reported information reduced the information asymmetry. Similarly, an academic working paper (Wang, Chua, Simnett, and Zhou, 2024)[70], based on assessing the quality and connectivity of sustainability disclosures of 428 UK-listed companies, found that increased connectivity of reported information resulted in lower bid-ask spreads (and lower cost of capital). These results suggest that increased connectivity of reported information has the potential to reduce information asymmetry between investors and companies' management.

4.45 However, neither of the two studies found there to be a significant relationship between the levels of connectivity of reported information and analysts' earnings forecast dispersion (which is another proxy measure for information asymmetry commonly applied in academic studies). That said, these are nascent studies. Hence, there ought to be caution in interpreting these initial findings, and this is an area where further evidence would be helpful.

70 Wang, R., Chua W.F., Simnett, R., and Zhou, S., 2024. Is greater connectivity of financial and non-financial information valued by market participants? The British Accounting Review. The University of Sydney and Deakin University.

CHAPTER 5: CONSIDERATIONS FOR ENHANCING THE CONNECTIVITY OF REPORTED INFORMATION AND RELATED ASPECTS

CHAPTER STRUCTURE

OVERVIEW
(Paragraphs 5.1 to 5.11)

CONSIDERATIONS TO BE ADDRESSED BY STANDARD SETTERS
Further clarifying the border of the financial statements for disclosures (Paragraphs 5.12 to 5.43)

Addressing differences in level of disaggregation across different reports (Paragraphs 5.44 to 5.54)

CONSIDERATIONS TO BE ADDRESSED BY DIFFERENT STAKEHOLDERS
Assessing differences in the reporting boundary of different reports (Paragraphs 5.55 to 5.60)

Enhancing connectivity in organisational processes (Paragraphs 5.61 to 5.63)

Exploring digitisation to enhance connectivity (Paragraphs 5.64 to 5.74)

To wrap up the DP, this chapter draws from the feedback obtained during EFRAG's outreach on where connectivity challenges may arise, and it provides conceptual and some practical considerations for enhancing the connectivity of information across annual report sections and the related aspect of further clarifying the border[71] of the financial statements. In contrast to the considerations (points of attention) related to observed reporting practices in Chapter 4, which can already be addressed by preparers, users, and auditors under current reporting requirements, the considerations highlighted in this chapter are longer-term in nature, and some go beyond a discussion of observed reported information (e.g., connectivity in organisational processes).

Some of the considerations in this chapter, such as clarifying the border of the financial statements, are primarily aimed at standard setters, while other considerations, such as enhancing connectivity through digitisation, are to be addressed by multiple stakeholders (standard setters, preparers, users, auditors, etc.). Of note, given the context of the extensive review and simplification of ESRS requirements while developing the Amended ESRS, no suggestions for further reviewing sustainability reporting requirements and other non-mandatory guidance are made in this chapter.

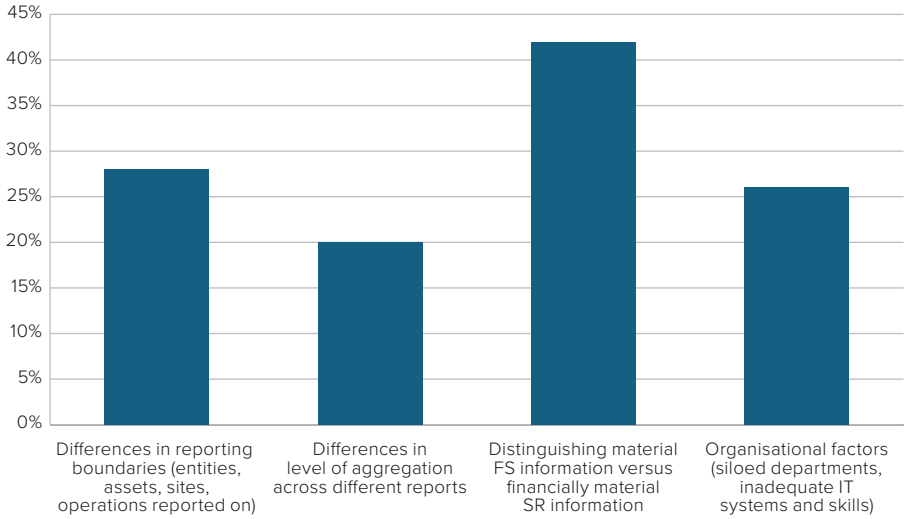
OVERVIEW

CONNECTIVITY-ENHANCING CONSIDERATIONS

Connectivity challenges identified by stakeholders

5.1 The connectivity-enhancing considerations examined are drawn from the feedback received during EFRAG's outreach to stakeholders. Indicatively, Figure 5.1 below outlines the sources of connectivity challenges that were highlighted during a multi-stakeholder webinar and corroborated during EFRAG's interviews with multiple stakeholders.

Figure 5.1: Response to polling question during EFRAG April 2025 multi-stakeholder webinar – stakeholders' views on sources of connectivity challenges



5.2 The lack of connectivity of information across different reports could be because of the distinctive nature of the information they contain. For example, non-financial metrics disclosed in the management report may not be readily connected to the information reported in the financial statements.

5.3 However, stakeholders have also identified situations **where information would reasonably be expected to be reported across different reports, but it is not, and this hampers the connectivity of reported information.** For instance,

71 Borders are the differentiating features of different reports in the annual report, for example, the recognition criteria for the elements of the financial statements. In effect, it is the dividing line which distinguishes between information included and excluded within these different reports.

a) as noted in Chapter 4, ESMA's review of 2023 and 2022 reports, found inconsistencies across reports due to underreporting of climate-related risks in the financial statements by 6% of 34 reviewed issuers in 2023 and by 8% of 98 reviewed issuers in 2022. Such inconsistencies could occur when sustainability-related investments are disclosed in the sustainability statement/disclosures without corresponding information on either the asset capitalisation or expense, asset impairment, or asset amortisation/depreciation in the financial statements. Similarly, when sustainability-related commitments disclosed in the sustainability statement/disclosures have no reported obligations in the financial statements. Furthermore, companies may not have considered qualitatively (but not quantitatively) material information in the financial statements.

b) as noted in Chapter 4, from EFRAG's review of annual reports, it was observed that some companies fail to provide contextual information in the sustainability statement/disclosures for sustainability matters that were reported in the financial statements.

c) stakeholders have questioned the observed differences in the level of aggregation of similar information across different reports (e.g. staff costs), and this matter is further addressed in **paragraphs 5.44 and 5.54**.

High-level solutions to connectivity challenges identified by stakeholders

5.4 The underreporting of sustainability information noted in **paragraph 5.3, a-b,** could be addressed by preparers considering the 2019 and 2022 articles on climate reporting by Nick Anderson of the IASB, the IASB's Illustrative examples on Disclosures about Uncertainties in the Financial Statements, and the publications on materiality of sustainability reporting information issued by EFRAG and the ISSB. Collectively, these articles and publications are complementary guidance to the IFRS accounting requirements for the financial statements, ESRS for the sustainability statement, and ISSB Standards for the sustainability-related financial disclosures.

5.5 Omitting material information in the financial statements could also arise due to the misinterpretation of existing IFRS Accounting requirements, which in turn could be addressed by standard-setting clarifications. For instance, in EFRAG's response to the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project, EFRAG suggested clarification may be necessary with respect to paragraphs 34 and 35 of IAS 36. These paragraphs are related to the value in use calculation done during the asset impairment test, and they may be interpreted as not covering the applicable time horizon for climate-related fact patterns.

5.6 Besides the underreporting mentioned in **paragraph 5.3 a-b, there can be connectivity challenges due to duplicated reporting,** which is burdensome for preparers and poses a risk of double counting by users. Hence, some stakeholders have questioned how to distinguish information of the same nature, but which is material information for different reports. For example, the anticipated financial effects in the sustainability statement/disclosures, including a company's financial commitments, could also be material information in the context of the financial statements. This is shown in the 2025 Mazars publication (Financial reporting of European companies on sustainability issues), which, based on a thematic review of the 2024 reporting of 72 companies, found that investment commitments related to transition plans were often in the financial statements. In this regard, to avoid duplication, the ISSB educational material, Disclosing information about anticipated financial effects applying ISSB Standards, indicates that anticipated financial effects can be included in the sustainability-related financial disclosures by cross-referencing the financial statements.

CLARIFYING THE BORDERS OF THE FINANCIAL STATEMENTS (DISCLOSURES IN NOTES) HAS IMPLICATIONS FOR THE CONNECTIVITY OF REPORTED INFORMATION

5.7 *Overview:* In responding to the consultative documents of some IASB projects[72], stakeholders have called for a clarification of the border of financial statements with respect to disclosures (see **paragraphs 5.12 to 5.43**). A particular focus on clarifying the border of the financial statements is appropriate because, relative to other annual report sections, there are defined criteria for including information in the financial statements (see **paragraphs 5.13-c and h**). Thus, some of the information disclosed in other annual report sections cannot be reported in the financial statements.

5.8 Furthermore, there is a long history of financial reporting, and financial statements require reasonable assurance and have an established primary audience (i.e. investors). Collectively, these factors could explain the expectation from some stakeholders for more information to be reported in the financial statements than is currently required or allowed under IFRS Accounting Standards (see **paragraph 5.9 (c)(i)**).

5.9 *Addressing stakeholder expectations related to the border of the financial statements and implications for connectivity.* Clarifying the border of the financial statements could affect the information reported and, thereafter, the ability to connect information across different reports. Moreover, such a clarification:

a) will help avoid unnecessary duplication of information across different reports, which in turn allows clear and concise reports that enable readers to connect information across different reports, as mentioned in Chapters 2 and 4.

b) can help identify any information gaps[73] that need to be addressed within different reports, and this could facilitate the enhancement of the information that can be reported and connected across different reports.

c) can address the expectations among stakeholders on what ought to be reported and connected across reports. Below is a description of the different stakeholder expectations related to the border of the financial statements, and how these expectation gaps can be addressed.

(i) Some stakeholders expect that the recognition criteria of financial statements ought to be amended to allow reporting externalities/impacts, including a company's climate-related impacts (e.g. GHG emissions) and uncontrolled resources, including climate-related impacts (e.g. GHG emissions) and resources not controlled by companies, including nature-related intangibles/resources[74] within the financial statements. Correspondingly, there are nascent initiatives[75], which conceptualise the possible monetisation and inclusion of impacts/externalities and uncontrolled resources within the financial statements. In other words, the **current border of the financial statements is perceived to be 'too narrow'** by some stakeholders. The development of educational material on the objectives and requirements of the different annual report sections may help address the aforementioned expectation of reporting in the financial statements that cannot be attained under the current IFRS Accounting Standards.

(ii) In contrast, other stakeholders have voiced **concern about what they perceive to be the 'stretched' current border of the financial statements.** Notably, these stakeholders have a stricter view of when forward-looking information should be disclosed in the notes to the financial statements than the requirements of paragraph 3.6

72 For instance, this call has been made in the responses to the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project, the 2024 IFRS IC agenda decision *Climate-related Commitments* (IAS 37), the IASB ED on Business Combinations – Disclosure, Goodwill and Impairment (BCDGI), and the IASB research project on intangibles- 2024 Surveys on Intangible Assets. It has also been made in proactive research done by standard setting related organisations including EFRAG's Discussion Paper *Better Information on Intangibles* and the related Recommendation and Feedback Statement.

73 For instance, a question of possible gaps arose in respect of disclosure of environmental liabilities. The EFRAG SR pillar's Secretariat reviewed relevant academic literature and conducted a desktop review of the reporting of environmental and decommissioning liabilities by a sample of oil and gas companies. Their analysis showed that the reviewed companies did not disclose the triggering event of the decommissioning provisions, the disclosure of the estimated retirement date was missing, and it was difficult to identify the asset for which an asset retirement obligation or decommissioning provision is recognised. Concurrently, the enacted sector-agnostic ESRS do not require this information. This raised the question of whether these disclosures should be considered as part of IAS 37 Provisions requirements.

74 Capitals coalition has a Nature on Balance Sheet Initiative. and had a 2020 publication Improving nature's visibility in financial accounting.

75 Cohen, R and Serafeim, G. 2020, How to Measure a Company's Real Impact, Harvard Business Review. Stakeholders have shared examples of initiatives in certain jurisdictions on how to monetise and incorporate CO_2 into financial reporting standards (e.g. expenses and carbon liabilities). The 2021 EFRAG PTF-NFRS publication Chapter lists several other experimental initiatives.

of the IFRS Conceptual Framework. This paragraph[76] requires disclosures in the financial statements of forward-looking information if such information relates to defined[77] elements of the financial statements (i.e. assets, liabilities, income, expenses and equity), and if such information is useful to users. These stakeholders consider[78] that disclosures of information (including forward-looking information) in the financial statements should only occur if related to recognised elements in the primary financial statements and not if related to any of the defined elements (e.g. unrecognised but disclosed assets and liabilities). For instance, in their view, the disclosure of information about intangibles that are not recognised as assets should only be done outside the financial statements. Moreover, some stakeholders have expressed concerns about the proposed disclosure of business combinations, post-acquisition performance and expected synergy information in the financial statements (see **paragraphs 5.36 to 5.38**).

(iii) At the same time, some other stakeholders expect that forward-looking information on commitments for sustainability investments (future Capex) ought to be disclosed in the notes to the financial statements even when not related to defined elements in the financial statements at the reporting date (see **paragraphs 5.31 to 5.35**). The latter view is less strict than the requirements of paragraph 3.6 of the IFRS Conceptual Framework. How these varied and sometimes conflicting expectations can be addressed is further discussed in **paragraphs 5.12 to 5.43**.

SUMMARY OF FOCUS POINTS FOR REST OF CHAPTER

5.10 Based on the above, the following considerations are further addressed in this Chapter.

Considerations for standard setters

a) ***Clarifying the border of the financial statements with respect to the disclosure of some grey areas in the notes to the financial statements.*** This is further detailed in **paragraphs 5.12 to 5.43.** The focus[79] of the analysis is on whether and when there should be disclosures in the notes to the financial statements of (i) sustainability-related intangibles (which include human capital[80], relational capital across the value chain, social capital, and intellectual and organisational capital); (ii) sustainability-related commitments for future Capex; and (iii) business combinations, post-acquisition performance and expected synergy information.

b) ***Addressing differences in levels of disaggregation across different reports.*** The analysis in **paragraphs 5.44 to 5.54** assesses the lack of connectivity arising from the observed differences in the levels of aggregation across different reports. A distinction is made between where such differences appropriately reflect differing materiality perspectives of different reports and where there may be an issue with existing reporting requirements.

c) ***Materiality:*** As noted above, there is a challenge of distinguishing information of a similar nature that is material across different reports to avoid double reporting. This challenge could arise from the disclosure of anticipated financial effects in the sustainability statement/disclosures. However, this challenge is not addressed as a separate consideration in this chapter for the following reasons.

(i) Materiality judgements are incorporated into the considerations and analysis of the border of the financial statements with respect to disclosures and the differences in the level of disaggregation across different

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76 Paragraph 3.6 of the IFRS 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.**

77 Defined elements include recognised elements and unrecognised elements. Contingent assets and contingent liabilities are examples of defined but unrecognised elements of financial statements.

78 This was one of views expressed in the feedback to the EFRAG Discussion Paper *Better Information on Intangibles*.

79 Even though the focus of the analysis is on sustainability-related intangibles and commitments, the analysis is applicable to other intangibles and commitments.

80 Human capital can encompass own workforce and value chain workforce.

reports. Moreover, anticipated financial effects are embedded into the analysis of the relationship between items disclosed outside the financial statements and future-period financial statements (see **paragraphs 5.39 to 5.43**).

(ii) Chapter 4 summarises the challenges associated with the disclosure of anticipated financial effects, which were shared during EFRAG's target outreach for this DP and gleaned from the responses to the Draft Amended ESRS EDs. These challenges include the absence of defined methodologies and a lack of comparability of disclosed information. Hence, these issues are already on the radar of sustainability reporting standard setters. Moreover, the ISSB educational material, Disclosing information about anticipated financial effects applying ISSB Standards, is a useful reference.

(iii) Besides anticipated financial effects, no other fact patterns have been put forward by stakeholders that would support a separate additional analysis of materiality issues. Plus, stakeholders can draw on the available educational resources, including the May 2024 EFRAG IG1: ESRS Materiality Assessment Implementation Guidance, and the November 2024 ISSB publication – Sustainability-related risks and opportunities and the disclosure of material information, to address the challenge of differences in materiality judgments across different reports.

Considerations for different stakeholders (i.e. standard setters, preparers, users, auditors, enforcers)

d) ***Assessing differences in the reporting boundaries (i.e. entities, operations and assets reported on).*** As noted in Chapter 2, the Draft Amended ESRS further aligns the reporting boundary of the sustainability statement with that of the financial statements. The analysis in **paragraphs 5.55 to 5.60** examines whether there are any implications for the connectivity of reported information whenever differences in reporting boundaries arise and outlines matters raised during EFRAG's outreach for this DP.

e) ***Enhancing connectivity in organisational processes.*** As noted in Chapters 1 and 2, 'connectivity in organisational processes' contributes to the connectivity of reported information. During EFRAG's outreach, stakeholders underscored the importance of enhancing 'connectivity in organisational processes', including integrated thinking, as detailed in **paragraphs 5.61 to 5.63.**

f) ***Exploring digitisation via structured data to enhance connectivity.*** Currently, the conversation about connectivity is largely framed through the lens of PDF reports. The analysis in **paragraphs 5.64 to 5.74** provides considerations for digitisation based on structured data provision, which could foster the connectivity of reported information.

5.11 ***Other considerations that are not further addressed in the DP.*** Both the June 2024 EFRAG connectivity project initial paper and the February 2025 ANC-France report called for the alignment/connectivity in the auditing of financial statements and the assurance of the sustainability statement. In addition, in its past commentary[81], EFRAG has called for the development of a sustainability reporting conceptual framework. Nonetheless, these aspects are not further analysed in this chapter. This is because audit/assurance is beyond the scope of the DP. Also, as noted in the preamble to this chapter, because of the ongoing revision/streamlining of ESRS, no further analysis of a sustainability reporting conceptual framework is done.

81 The call for a sustainability reporting conceptual framework was made in EFRAG's response to the 2024 IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project, EFRAG's response to the 2023 ISSB agenda consultation, and in the 2024 EFRAG connectivity project initial paper.

CONSIDERATIONS TO BE ADDRESSED BY STANDARD SETTERS

STANDARD SETTER CONSIDERATION: FURTHER CLARIFYING THE BORDER OF THE FINANCIAL STATEMENTS WITH RESPECT TO ON DISCLOSURES

5.12 As a backdrop to the analysis of the border of the financial statements, the diagram below **(Figure 5.2)** outlines the interplay between an entity's reported information and its:

a) available resources and relationships;

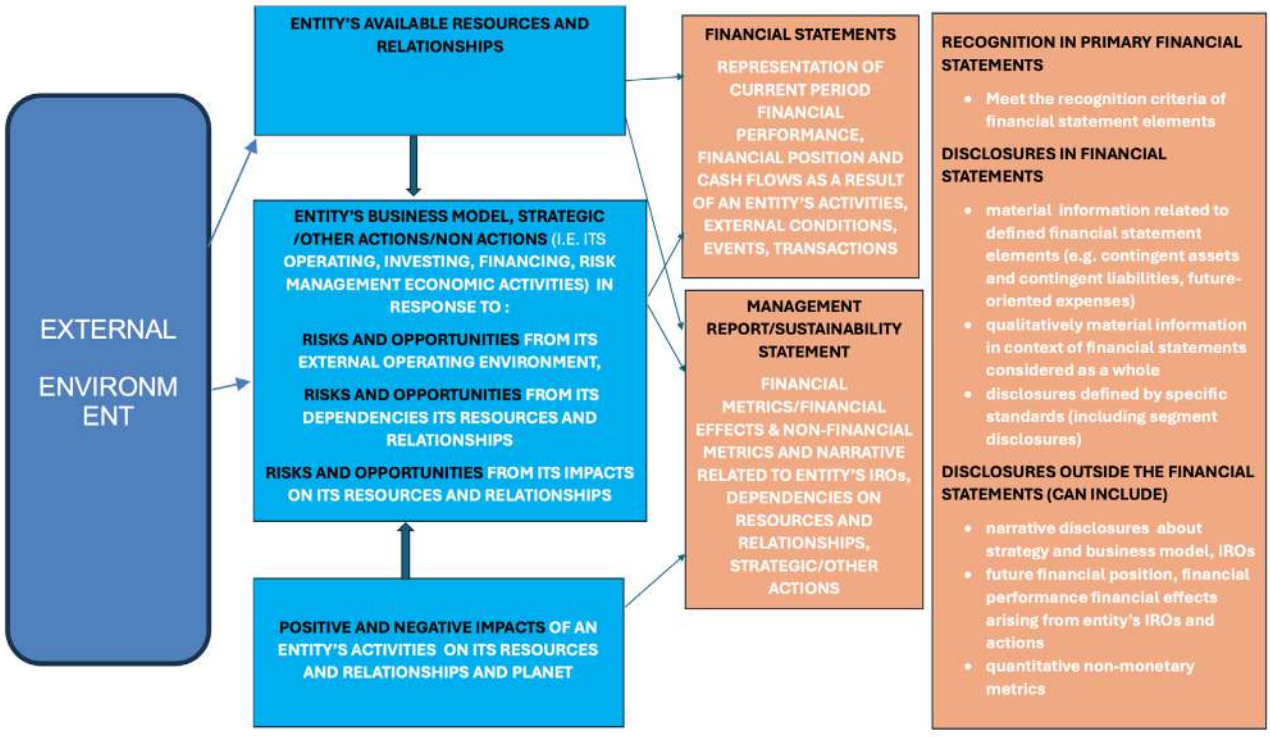
b) impacts;

c) strategy, business model and actions in response to the risks and opportunities that arise from its external environment;

d) strategy, business model and actions in response to the risks and opportunities that arise from its dependencies on its available resources and relationships; and

e) strategy, business model and actions in response to the risks and opportunities that arise from its impacts on its resources and relationships.

Figure 5.2: Factors influencing reporting outcomes



Source: EFRAG[82] – Reporting outcomes (including financial effects reported within and outside the financial statements) are depicted in beige-coloured boxes.

82 Below is a definition of some of the terms applied in Figure 5.2: An **entity's external environment** encompasses: (a) its direct environment – the industries and markets in which the entity interacts with its customers, suppliers, and competitors; and (b) the wider environment, including the legal, regulatory and economic environment; the political, technological, social and cultural landscape; and the natural environment (Sourced from 2025 IFRS MCPS).

Resources and relationships. These include human, intellectual, financial, natural, manufactured, and social resources and relationships, and they can span across an entity's own operations (e.g. financial, intellectual property, manufacturing), upstream and downstream value chain (e.g. social), and external environment (e.g. natural) (Source: November 2024 ISSB educational material).

Dependencies. How an entity directly or indirectly depends on resources and relationships to generate future cash flows (Source: November 2024 ISSB educational material). The situation of an undertaking being dependent on natural, human and/or social resources for its business processes. (Draft Amended ESRS- Annex II)

Dimensions of the borders of different reports

5.13 Different literature[83] (standard setters', audit firms' and academic literature[84]) identifies the following differentiating dimensions of the information within different annual report sections (with a summary diagram in **Figure 5.3** below).

a) *Nature of information.* For instance, several metrics measured using non-currency units (e.g. GHG emissions) would primarily be reported outside the financial statements. There is greater emphasis on narrative information in the sustainability statement/disclosures relative to the financial statements, and strategy, business model and governance disclosures would typically be disclosed outside the financial statements.

b) *Different materiality perspectives* are applied for information reported in the financial statements and the sustainability statement/disclosures. For IFRS financial statements, materiality is assessed in the context of the objective[85] of the financial statements. Similarly, the materiality of information in the sustainability statement under ESRS or sustainability-related financial disclosures under ISSB Standards is assessed in the context of the objectives[86] of these different sustainability reports.

c) *Differentiating criteria for reporting in the financial statements.*

(i) *Primary financial statements (which include the statement of financial position/balance sheet, the statement of financial performance/income statement and the statement of cash flows).* Recognition of financial statement elements (i.e. assets, liabilities, income, expenses or equity) in the primary financial statements requires the occurrence of a 'past event' that either creates an asset (rights to obtain future economic benefits from resources) or creates a liability (an obligation for the entity to transfer economic resources) or creates ownership claims (equity). Also, a threshold of occurrence/existence and measurement certainty is associated with the aforementioned rights or obligations of the entity, which have been created from a 'past event'.

(ii) *Disclosures in the notes.* The disclosure of a contingent asset or contingent liability in the notes to the financial statements also requires a 'past event' to have occurred, but there is a lower certainty threshold for this disclosure than for the recognition of an asset or liability in the primary financial statements. Disclosures are also provided if deemed material for financial statements by users based on general requirements under paragraph 31 of IAS 1 (paragraph 20 of IFRS 18)[87] and paragraph 125 of IAS 1 (paragraph 31A of IAS 8)[88].

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83 The publications considered include: the 2024 EFRAG Connectivity Project's initial paper, the 2021 PTF-NFRS report, the IAASB's Proposed International Standard on Sustainability Assurance ISSA 5000 related definition, and academic literature (Girella, 2018; Bayne, 2022).

84 Bayne (2022) outlines 10 dimensions that define boundaries of different reports include: **a) the reporting entity** (extent of financial versus sustainability control/influence); **b) target users** (extent of investor versus wider stakeholder focus); **c) materiality** (extent of financial versus impact materiality); **d) extent of entity-wide versus topic boundary definition.** For instance, the GRI evolution of boundary rules from an entity-wide boundary concept (akin to financial reporting) to a topic-specific concept; **e) impact** (external versus inward impact); **f) outward impact** (extent of direct versus indirect outward impacts); **g) time horizon** (extent of historic versus future focus); **h) performance** (extent of financial versus sustainability focus); **i) value** (extent of entity versus wider stakeholder value focus); and **j) purpose of report/disclosure.**

85 According to the IFRS Conceptual Framework, the objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses at the reporting date 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.

86 Paragraph 1 of IFRS S1 states that the objective of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

Paragraph 2 of Draft Amended ESRS states that ESRS require the undertaking to disclose information about its material impacts on people and the environment and about its material sustainability-related risks and opportunities (collectively 'impacts, risks and/or opportunities'). Reporting under these two perspectives constitutes the double materiality principle. Paragraph 3 of Draft Amended ESRS states that the objective of the sustainability statement, taken as whole, is to present fairly all the undertaking's sustainability-related material impacts, risks and opportunities and how the undertaking manages them. The reported information shall be decision-useful for the users of general purpose sustainability statements.

87 Under paragraph 31 of IAS 1, an entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

88 Paragraph 125 of IAS 1 relates 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.

(iii) Hence, an entity's sustainability-related commitments (which could be obligations to transfer economic resources in the future)[89], while mitigating sustainability-related risks, may fail to meet the criteria for recognition as provisions or disclosure as contingent liabilities in the financial statements due to there being no 'past event' or due to uncertainty associated with the obligation. Such risks and related obligations could, however, be disclosed in the sustainability statement/disclosures. For example, such possible obligations could be disclosed as anticipated financial effects. Similarly, if an entity has sustainability-related opportunities[90] (potential future economic benefits) from its available resources and relationships, but if no 'past event' has occurred that results in the entity having exclusive rights to the economic benefits from these resources and relationships, then these opportunities do not qualify to be recognised as assets or disclosed as contingent assets in the financial statements. Such opportunities could, however, be disclosed in the sustainability statement/disclosures as anticipated financial effects (potential revenue/income or potential assets).

d) *Boundary of the reporting entity/reporting boundary* (i.e. entities, operations, and assets reported on) see Chapter 2 and **paragraphs 5.55 to 5.60.**

e) *Differences in presentation/level of aggregation between financial statements and the sustainability statement/ disclosures* see **paragraphs 5.44 to 5.54.**

f) *Application of the accrual principle and preparation of summary/aggregated primary statements.* As outlined in an academic paper (Wagenhofer[91], 2023), unlike for financial statements, in mandatory sustainability reporting, there is no 'stocks and flows[92]' representation of information, and the accruals principle for the intertemporal allocation of amounts is not applied. There are also no mandated summary statements with aggregated line items (akin to the primary financial statements).

g) *Time horizon covered.* For example, the extent of orientation towards forward-looking or retrospective information of the financial statements versus the sustainability statement differs, as does the extent of their coverage of anticipated financial effects. Under sustainability reporting, the disclosures of anticipated financial effects cover the short, medium, and long term are required whereas the financial statements require the disclosure of information about the assumptions 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. In this particular case, there can be an overlap[93] between short-term anticipated financial effects in the sustainability statement and disclosures of sources of estimation uncertainty in the financial statements.

h) *Extent to which forward-looking information is incorporated.* Related to (g), forward-looking information can be included in both the sustainability statement/disclosures and the financial statements, albeit that such information is reflected to a larger extent in the sustainability statement/disclosures.

(i) As noted in **paragraph 5.9(c)(ii),** when disclosed in the notes to the financial statements, forward-looking information relates to the defined elements of the financial statements, which include recognised and unrecognised assets and liabilities. This means that forward-looking information is disclosed in the notes to the financial statements when there is a 'past event' that either creates an exclusive right for the entity to obtain future economic benefits or creates a present obligation to transfer economic resources. For example, the disclosure

89 Taking into account the three criteria for recognising provisions under IAS 37 (i.e. present obligation as a result of past events, probable outflow of economic resources and reliable measurement), the 2021 EFRAG PTF-NFRS connectivity publication concluded that the low likelihood of obligations from sustainability-related matters plays a hand in their failure to meet the IAS 37 present obligation criteria. There is also the challenge of establishing that there is an obligation to transfer economic resources (for many sustainability-related circumstances).

The 2021 EFRAG PTF-NFRS publication observed that there could be an increased reporting of obligations related to sustainability-related risks as liabilities if more legal/regulatory measures were taken that created obligations (e.g. pricing of negative externalities similar to the EU ETS, adoption of mandatory Human Rights Due Diligence on human rights and environment, and prohibition of activities with above-threshold GHG emissions).

90 Potential assets could be a) the economic value of potential reuse of materials (circular economy) and b) the potential future economic value from sustainability-related research and development activities that are not recognised as intangible assets.

91 Alfred Wagenhofer (2023), Sustainability Reporting: A Financial Reporting Perspective, Accounting in Europe.

92 **Flows** refer to actions and to the effects of events that take place within a given period of time, while **stocks** refer to positions in, or holdings of, assets and liabilities at a given point in time. The statement of performance/income statement depicts the flows while the statement of financial position/balance sheet depicts the stocks.

93 When such overlaps arise, both ESRS and ISSB Standards, allow incorporation of information from the financial statements by cross-reference.

of forward-looking information could be done in the context of the impairment of recognised goodwill, which requires an estimate of the terminal value of groups of cash-generating units. It could also arise whenever the impairment test of a recognised asset incorporates amounts related to committed restructuring activities into the calculation of the value in use of the asset. Forward-looking information can also be disclosed under IAS 10 *Events after the balance sheet period*, which requires the disclosure of post balance sheet events.

(ii) In the sustainability statement/disclosures, forward-looking information also encompasses future consequences of an entity's future actions, and the events and other conditions faced by the entity (i.e. it is not only related to where a 'past event' has occurred, as is the case with the financial statements).

Figure 5.3: Comparison of different annual report sections (EU corporate reporting)

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

Areas where questions on the border of financial statements with respect to notes to the financial statements arise

5.14 Discussions within EFRAG and amongst stakeholders on the border of the financial statements have been held in relation to a set of identified, specific grey areas outlined below (i.e. areas where there is a debate on whether and which information should be disclosed in the notes to the financial statements).

a) Sustainability-related intangibles (e.g. own workforce), a subset of unrecognised intangibles (i.e. intangible resources), are not recognised as assets in the statement of financial position. That said, some stakeholders have signalled the need for a better depiction of the financial implications of sustainability-related intangibles that may be disclosed through narrative disclosures and other KPIs outside the financial statements (see **paragraphs 5.17 to 5.26**).

b) Sustainability-related commitments, including those on climate-related transition plans: There are mixed views amongst stakeholders on whether disclosures of the forward-looking information related to these commitments should be in the financial statements (see **paragraphs 5.27 to 5.35**).

c) Business combinations' strategic performance and synergies: There have been questions of why it is being proposed to have certain information that some consider to be forward-looking in the financial statements (see **paragraphs 5.36 to 5.38**).

5.15 Clarification on what information (in respect of the items in the above paragraph) ought to be respectively reported within and outside the financial statements, including the sustainability statement/disclosures, could enhance the reported information and connectivity of information across different reports.

5.16 Finally, for this consideration, there is an analysis of the intertemporal (across different reporting periods) relationship between information disclosed in the management report and/or sustainability statement/disclosures and the information recognised or disclosed in the financial statements (see **paragraphs 5.39 to 5.43**).

Reporting of sustainability-related intangibles

5.17 *Statement of financial position recognition.* IAS 38 *Intangible Assets* specifies the definition and recognition criteria for recognising an intangible resource as an intangible asset as follows.

a) *Definition of an intangible asset.* An intangible resource is an intangible asset if it is identifiable[94], the entity has control over the resource, and there are future economic benefits (paragraphs 10-17 of IAS 38).

b) *Recognition criteria of an intangible asset.* An intangible asset shall be recognised if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably (paragraph 21 of IAS 38).

5.18 *Statement of financial performance and goodwill recognition.* If an item within the scope of IAS 38 does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date (paragraph 10 of IAS 38).

5.19 *Disclosures in financial statements.* Paragraphs 118 to 127 of IAS 38 outline detailed disclosure requirements related to intangible assets. Paragraph 128(b) of IAS 38 encourages, but does not require, a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the IAS 38 recognition criteria.

5.20 *Location of unrecognised intangibles.* In response to EFRAG's 2021 Discussion Paper[95] *Better Information for Intangibles*, stakeholders provided mixed feedback[96] on what they considered to be the appropriate location for the disclosure of unrecognised intangibles.

5.21 **Figures 5.4 and 5.5** below represent the views that were subsequently expressed on the placement of unrecognised intangibles during discussions held by EFRAG's technical governance bodies and working groups. It is noted that these views have not been previously published as official EFRAG positions.

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94 Paragraph 12 of IAS 38 states that an asset is identifiable if it either:

a) is separable, i.e. 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.

95 EFRAG 2021, Better information on intangibles – Which is the best way to go?

96 EFRAG 2023, Better information on intangibles – Which is the best way to go? Recommendations and Feedback Statement. In response to question 9 on the placement of information, 8 of 22 comment letter respondents suggested that unrecognised intangibles should be disclosed outside the financial statements, several comment letter respondents supported having these disclosures in the financial statements, and several respondents favoured having disclosures of both recognised and unrecognised intangibles in one location.

Figure 5.4: Should intangibles (assets or resources), including those that are sustainability-related, be disclosed in the financial statements?

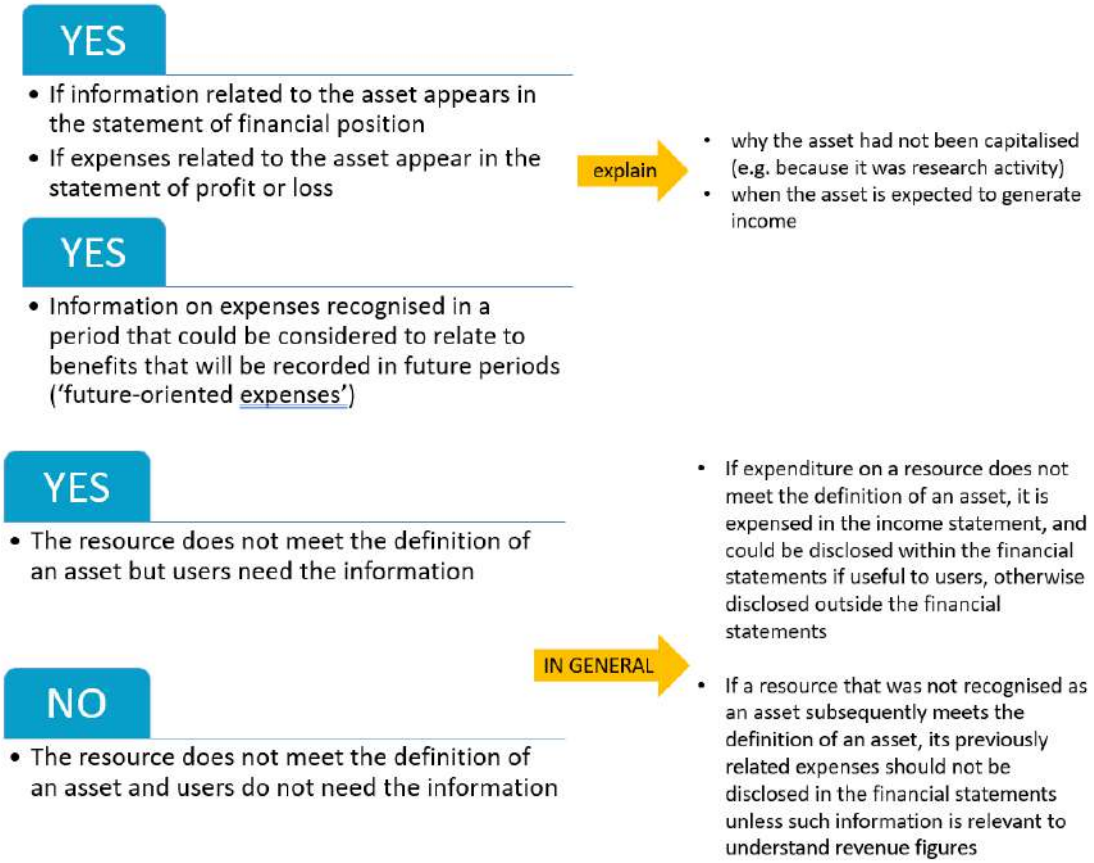
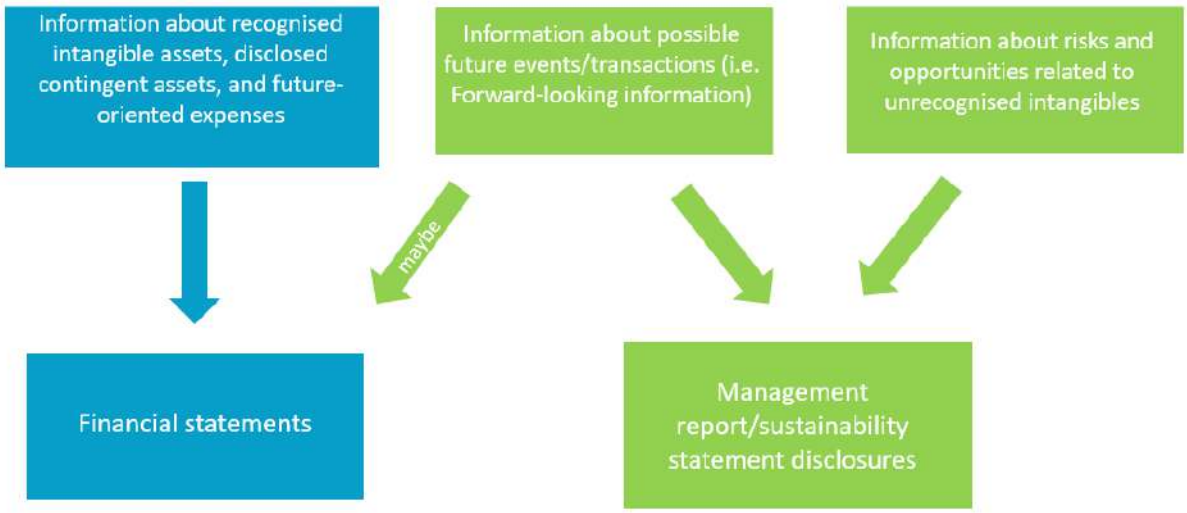


Figure 5.5: Synthesis of placement considerations



5.22 To sum up, as depicted in **Figures 5.4 and 5.5,** below is the suggested placement for information on a company's expenditure on intangible resources:

a) if expenditure on a resource does not meet the definition of an asset, it is expensed in the income statement, and it could be disclosed within the financial statements if useful to users[97]; otherwise, it is disclosed outside the financial statements.

b) information on 'future-oriented expenses' should be disclosed in the financial statements if it relates to benefits of future periods (e.g. this could be for sustainability-related research and development expenditures on carbon capture technologies that are not recognised as assets).

Sustainability-related intangibles reporting and connectivity implications

5.23 Information related to these intangibles would primarily be in the management report and/or sustainability statement/ disclosures, but there could be information related to these intangibles that is presented and/or disclosed in the financial statements. Below are related requirements.

a) *Sustainability reporting/management report guidance.* Recital (32) of the EU Accounting Directive notes that certain information on intangible resources is intrinsic to sustainability matters and should therefore be part of sustainability reporting. The Directive provides examples[98] that illustrate how, in some cases, it is not possible to distinguish information on intangible resources from information on sustainability matters. This point was also made in the 2021 EFRAG Discussion Paper, *Better Information for Intangibles – Which way to go?* and in the 2021 EFRAG PTF-NFRS report[99].

b) Article 19 (1) of the EU Accounting Directive[100] requires entities to disclose in the management report how key intangible resources underpin business models and drive the entity's value creation, and this necessitates a distinction between sustainability-related intangibles and other intangibles. Under sustainability reporting requirements, consonant with Recital 32 of the Accounting Directive, the disclosure of sustainability-related intangibles is encompassed within several ESRS topical standards, including ESRS S1 *Own Workforce*, S2 *Workers in the Value Chain*, S3 *Affected Communities* and S4 *Consumers/End-Users*.

c) Internationally, the ISSB has an ongoing research project exploring the necessity and feasibility of developing ISSB requirements for disclosure of information about particular human capital-related matters within the sustainability-related financial disclosures. With respect to the management commentary, the 2025 IFRS MCPS, which is voluntary guidance, includes disclosure requirements for resources and relationships (i.e. sustainability-related intangibles and other resources and relationships) as one of the content elements.

d) *Financial statements.* The 2021 EFRAG Discussion Paper *Better Information for Intangibles – Which way to go?* and EFRAG's 2021 PTF-NFRS publication on connectivity *Interconnection between Financial and Non-Financial Information*[101] pointed to the limitations of IFRS requirements (IAS 38 and IFRS 3 *Business Combinations*) in respect of reporting human capital, organisational capital and relationship capital. For example, even if a company can identify the incremental staff skills derived from training, which lead to future economic benefits, the company is unlikely to have sufficient control over the attributable expected future economic benefits. Therefore, under IAS 38,

97 This is consistent with paragraph 3.6(b) of the IFRS Conceptual Framework.

98 For example, information about employees' skills, competences, experience and loyalty to the undertaking and motivation for improving processes, goods and services is sustainability information regarding social matters that could also be considered as information on intangible resources. Likewise, information about the quality of the relationships between the undertaking and its stakeholders, including customers, suppliers and communities affected by the activities of the undertaking, is sustainability information relevant to social or governance matters that could also be considered as information on intangible resources.

99 Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting.

100 Undertakings shall report information on the key intangible resources and explain how the business model of the undertaking fundamentally depends on such resources and how such resources are a source of value creation for the undertaking.

101 https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/EFRAG PTF-NFRS_A4_FINAL.pdf

the company cannot recognise an asset. The same can be concluded for customer relationships[102] unless there has been an exchange transaction. It is also noted that, under IFRS 3 requirements, the value of an acquired assembled workforce is subsumed into the recognised goodwill amount because it is not separately identifiable.

e) *The above observation does not mean there is no information related to sustainability-related intangibles reported in the financial statements.* Notably, a January 2025 ISSB staff paper[103] highlights instances in which the application of IFRS Accounting Standards might result in information directly relating to human capital-related matters being presented or disclosed in the financial statements. For instance,

   (i) IAS 24 *Related Party Disclosures*, where an entity is required to disclose key management personnel compensation in total and by several subcategories, including short-term employee benefits, post-employment and other long-term benefits, termination benefits, and share-based payments (paragraph 17 of IAS 24);

   (ii) IAS 19, workers health and well-being is linked to employee benefits provided by employers, and IAS 19 has requirements for the disclosure of employee benefit expense, contributions to and expense for defined contribution plans, and characteristics, risks, financial statement amounts of defined benefit plans as well as how these plans may affect the amount, timing, and uncertainty of an entity's future cash flows (paragraphs 25,53,54, and 135 of IAS 19);

   (iii) IAS 37, for example, may be related to legal proceedings initiated by employees for wrongful treatment or to severance payments to employees when restructuring;

   (iv) IFRS 2, where an entity is required to describe each type of share-based payment arrangement and to disclose information that enables users of financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position (paragraphs 45(a) and 50 of IFRS 2);

   (v) IFRS 3 requires the qualitative description of the factors that make up goodwill, including intangible assets that do not qualify for separate recognition (e.g. an acquired assembled workforce, whose value is not separately identifiable, and thus any value attributed to it is subsumed under goodwill (paragraph B37 of IFRS 3).

5.24 In sum, **whether to disclose information on sustainability-related intangibles in either the financial statements, sustainability statement/disclosures, or another section of the management report will ultimately depend on the objectives of these different reports.** For example, disclosing staff training expenses in the financial statements can be informative in respect of human capital (which is not recognised as an asset in the statement of financial position as it is not separately identifiable). Staff expenses can also be disclosed in the sustainability statement/disclosures, for users to assess whether the company is actively training on anti-corruption or other sustainability-related matters.

5.25 *Implications for connectivity and views on the border of the financial statements.* The ongoing IASB intangibles project is currently scoped to address financial statements requirements. Unrecognised intangibles may be considered at a later stage, as they are in scope of the IASB project (i.e. the project objective on the IASB website indicates the initial work stream of 'assessing user needs for information about recognised and unrecognised intangible assets and expenditures associated with them in the financial statements'). In this regard, during conversations with EFRAG working groups, it has been observed that for companies that are intangibles resource-intensive (e.g. pharmaceutical companies), there is largely narrative information in the front part of the annual report which cannot be readily linked to the single expense line item in the financial statements. Hence, this has led some stakeholders to suggest that information on unrecognised intangibles should be reported within the financial statements, or, if such information is disclosed outside the financial statements, it should be better linked to the financial statements.

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102 In the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (e.g. portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets.

However, if there are exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination), it will provide evidence that a) the entity is able to control the expected future economic benefits flowing from these customer relationships and that b) these customer relationships are separable and meet the definition of an intangible asset.

103 https://www.ifrs.org/content/dam/ifrs/meetings/2025/january/issb/ap3a-ap4-ifrs-accounting-standards-presentation-disclosure-bees-human-capital.pdf

5.26 Of note, the connectivity illustrations 3 and 5 included in the Supplemental Document are related to the connectivity of information on sustainability-related intangibles disclosed in both the sustainability disclosures and financial statements. These illustrations relate to:

a) a forestry company that discloses in the sustainability statement that there is no material legal exposure related to its workers' human rights; and

b) a technology consultancy firm whose share-based payments disclosed in the financial statements are linked to gender diversity targets disclosed in the governance report.

Possible disclosure of sustainability-related commitments in the financial statements

5.27 The importance of Capex disclosures for users (investors) is underscored in Chapter 4. The Green Deal and companies' transition to a green economy necessitate significant incremental Capex (future investments to reduce emissions, including upgrades to existing facilities, replacing energy sources, changing production processes, and new product lines). Illustratively, the 2025 ANC report on climate reporting highlights the type of significant investments that could be related to climate change mitigation, such as:

a) capital commitments related to energy efficiency;

b) renewal of transport fleets with alternative fuels;

c) development of carbon-capture and storage technologies; and

d) investment in renewable energy or nuclear infrastructure.

5.28 Related to the above, a question has arisen on the extent to which sustainability-related commitments, including those on transition-plan-related investments, ought to be reported in the financial statements. In this regard, the IASB Illustrative examples on Disclosures about Uncertainties in the Financial Statements, the 2019 IASB educational article and the IASB educational article 'Effects of climate-related matters in the financial statements' updated in 2023 confirm that IFRS Accounting Standards have requirements[104] for entities to report material information about uncertainties (including sustainability-related uncertainties) in the financial statements[105]. The aforementioned IASB literature collectively relates to the recognition, measurement, presentation and disclosures of these uncertainties.

5.29 Nonetheless, amongst stakeholders, there remains a question of whether information on sustainability-related commitments that is forward-looking in nature (and not related to defined assets, liabilities, income and expenses within the reporting period) should be disclosed in the financial statements. Of note, the April 2024 IFRIC agenda decision[106]

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104 This was stated in the 2019 IASB educational article by Nick Anderson and the 2023 update.

105 Below is a non-exhaustive list of requirements related to climate-related matters:

a) IAS 1/IFRS 18: This Standard includes overarching disclosure requirements for information not presented elsewhere in the financial statements but is relevant for their understanding. Entities will therefore need to consider whether to provide additional disclosures to enable investors to understand the impact of climate-related matters on the company. In addition, climate-related matters may give rise to estimation uncertainty and other significant judgements made.

b) IAS 2 Inventories: The selling price of inventories or their completion cost.

c) IAS 12 Income Taxes: Estimates of future taxable profits and the recognition of deferred tax assets.

d) IAS 16/38: Climate-related matters may prompt expenditure to adapt operations (including R&D). They may affect the recognition of costs as assets and estimations pertinent to residual values and useful lives of assets.

e) IAS 36: Estimates of recoverable amounts, impairment assessment for assets and goodwill, impairment indicators, and disclosures of key assumptions leading to the recognition of impairment.

f) IAS 37: The recognition, measurement and disclosure of liabilities, the nature of provisions or contingent liabilities; and any uncertainties on the timing or amount of outflows of economic benefits.

g) IFRS 7: The nature and extent of risks and the concentration of market risk for types of financial instruments.

h) IFRS 9 Financial Instruments: Climate-related contractual terms may affect the classification and measurement of financial instruments and the measurement of expected credit losses (ECL).

i) IFRS 13 Fair Value Measurement: Fair value measurement of assets and liabilities and related disclosures.

j) IFRS 17 Insurance Contracts: Assumptions used to measure insurance contract liabilities and disclosures about significant judgements and risk exposure.

106 *Fact pattern addressed by the April 2024 IFRIC agenda decision.* A manufacturer of household products publishes/states its commitment to reduce targets by 60% at a future date (in nine years) and to offset remaining emissions at the future date and, thereafter, by buying carbon credits and retiring them. The entity details its plans to modify its manufacturing methods to achieve the set target, and management conveys this will be done profitably.

clarified that a provision can only be recognised or a contingent liability disclosed if there is a 'past event' and an expected outflow of economic resources, but the agenda decision did not address other possible related disclosures (i.e. besides contingent liabilities).

5.30 Also, the feedback from EFRAG's outreach and the 2025 ANC report highlighted the challenge of aligning the Capex and Opex amounts disclosed in the sustainability statement/disclosures to the line items in the financial statements. Notably, these terms are not defined within IFRS Accounting Standards. Moreover, EFRAG's outreach (reflected in the September 2023 EFRAG Secretariat Briefing on climate reporting by EU companies) indicated that for some stakeholders, it is often unclear whether incremental Capex has been reflected in the impairment testing. That said, it is noted that in the amendments were proposed in the March 2024 ED *Business Combinations – Disclosures, Goodwill and Impairment* to remove the prohibition in paragraph 33 (b) of IAS 36[107] from including cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance whilst performing the value in use calculation and while assessing the recoverable value of an asset as part of the IAS 36 impairment test.

Should sustainability-related commitments be disclosed in the financial statements?

5.31 In their response to the April 2024 IFRIC agenda decision's consultative documents, stakeholders made suggestions for enhancing disclosures on a) management's assumptions and b) information about capital expenditure projects required to fulfil climate-related commitments and capital already committed to purchasing assets to fulfil those commitments. Moreover, during EFRAG's outreach, users have indicated that the disclosure of a time series of likely costs would be useful even if such commitments do not qualify to be recognised as provisions or disclosed as contingent liabilities.

5.32 Some stakeholders have suggested that forward-looking information on climate-related commitments could be disclosed in the financial statements based on applying paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) and paragraph 3.6 of the IFRS Conceptual Framework. These paragraphs require consideration of whether information is useful for users. However, as noted in paragraph 5.9(c)(ii), some stakeholders have a stricter view of when forward-looking information should be disclosed in the notes to the financial statements than the requirements of paragraph 3.6 of the IFRS Conceptual Framework. These stakeholders consider that disclosures of information (including forward-looking information) in the financial statements should only occur if related to recognised elements in the primary financial statements and not occur if related to unrecognised but disclosed assets and liabilities.

5.33 Moreover, from the outreach feedback (see Chapter 4, **paragraphs 4.8 and 4.19, 20**) and during the discussions held at EFRAG and at IFASS meetings[108], there have been mixed views on the circumstances under which paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) can be applied. In this regard, to some extent, the clarification of the application of this paragraph has been provided by the IASB illustrative examples on Disclosures about Uncertainties in the Financial

107 Paragraph 33 b) states that in measuring value in use an entity shall base cash flow projections on the most recent financial budgets/ forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.

BC205 notes the IASB's view that this change would reduce complexity because stakeholders said that can be challenging for management to distinguish maintenance capital expenditure from expansionary capital expenditure and identify which cash flows need to be excluded because they relate to expansionary capital expenditure.

108 EFRAG's response to the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project and the April 2024 IFASS meeting (see page 60 of meeting report)

Statements. Specifically, under Example IV-1[109], it is stated that, to determine whether to have a disclosure in the financial statements, among other factors[110], that particular IAS 1/IFRS 18 paragraph is only applied after stepping back and considering materiality in the context of the entire financial statements and not on a line-item basis.

5.34 Nonetheless, some stakeholders have called for related application guidance because the clarification of the IFRS Accounting requirements should not be primarily done through illustrative examples that are likely to be confined to specific circumstances. For instance, the aforementioned illustrative example relates to a disclosure that there is no quantitatively material exposure. Within the IASB illustrative examples on Reporting about Uncertainties, there was no example of when qualitatively material additional[111] information can be disclosed. Moreover, although the clarifying language (see footnote 110) on the circumstances under which paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) can be applied is helpful and extensive, it was only added to the example after the feedback to the ED. Hence, this clarification has not been subject to stakeholder scrutiny and feedback. For these reasons, it may be helpful for stakeholders if the IASB developed application guidance for this particular IAS 1/IFRS 18 paragraph.

5.35 On the other hand, some stakeholders have called for less emphasis on the location of sustainability-related commitments and more emphasis on the connectivity of information across different reports. That said, because materiality is determined in the context of the objective of different reports, it could be argued that the location of information matters as it affects what is reported (presented or disclosed) and, thereafter, what can be connected.

Disclosure of business combinations' strategic performance and expected synergy information

5.36 This aspect is briefly addressed in this chapter because the considerations of connectivity and the debate on the location of information outside the financial statements are applicable to other annual report sections besides the sustainability statement/disclosures. In response to the IASB's Exposure Draft (ED) on *Business Combinations-Disclosures, Goodwill and Impairment* (IASB BCDGI ED), several stakeholders (including EFRAG) expressed concerns about the proposal for the disclosure of the strategic post-acquisition performance and expected synergy from business combinations in

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109 Fact pattern – Example IV-1 in the IASB Illustrative examples on Disclosures about Uncertainties in the Financial Statements: The entity is a manufacturer that operates in a capital-intensive industry and is exposed to climate-related transition risks. To manage these risks, the entity has developed a climate-related transition plan. The entity discloses information about the plan in a general purpose financial report outside the financial statements, including detailed information about how it plans to reduce greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing its raw materials and manufacturing methods. The entity discloses no other information about climate-related transition risks in its general purpose financial reports.

The entity concludes that its transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses for the current reporting period because, for example: a) the transition plan did not affect the useful lives of the affected manufacturing facilities. These facilities will not be replaced until the end of their current useful lives. (b) the entity's existing inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan. The carrying amount of the raw materials is recoverable. (c) the recoverable amounts of the affected cash-generating units (CGUs), after reflecting the effects of the transition plan where required by IAS 36 Impairment of Assets, exceed their carrying amounts. (d) the transition plan did not affect the timing or amount of expenditure required to settle the entity's decommissioning and site-restoration obligations. There are no required disclosures under specific IFRS Standards (IAS 16, IAS 36 and IAS 37). After considering its particular facts and circumstances and the factors outlined in the next footnote, the entity discloses its transition plan has no effect on its financial position and financial performance and explains why if it has determined that additional disclosure to explain the lack of effect of its transition plan on its financial position and financial performance for the current reporting period would provide material information in the context of its financial statements taken as a whole.

110 **MULTIPLE CONSIDERATIONS WHEN APPLYING PARAGRAPH 31 OF IAS 1 (PARAGRAPH 20 OF IFRS 18)**

- An entity applies paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], for example, when reviewing its draft financial statements to determine whether all material information has been provided in those financial statements. This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. This review might involve considering whether, without additional disclosures, information in its financial statements might appear inconsistent with information in its general purpose financial reports accompanying those financial statements.
- As part of the assessment, an entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of its financial statements taken as a whole has been provided in those financial statements. The entity considers primary users' common information needs—rather than the needs of individual users. The entity considers entity-specific and external qualitative factors.
- In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity applies judgement to determine whether additional disclosures to enable users of its financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information.
- In making a judgement about whether such additional disclosures would provide material information, the entity considers both quantitative and qualitative factors. In the context of Example 1, although the transition plan had no effect on the entity's financial position and financial performance for the current reporting period, the entity considers entity-specific and external qualitative factors.
- The entity also considers whether, without additional disclosures, information in its financial statements might appear inconsistent with information in its general purpose financial reports accompanying those financial statements.

111 IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project had an example (Example 5) that showed disclosure of additional information based on qualitative materiality (i.e. applying paragraph 31 of IAS 1 (paragraph 20 of IFRS 18).

the financial statements. In summing up the feedback to the ED, a March 2025 IASB staff agenda paper[112] noted that stakeholders had concerns, including that such information was:

a) forward-looking information (by some jurisdictional definitions), and this could result in litigation risk;

b) commercially sensitive;

c) not related to the defined assets, liabilities, income or expenses; and

d) financial statements cannot provide all the information users need.

5.37 Based on discussions held at EFRAG during the IASB's redeliberation on the feedback to the ED, it was observed that similar performance information was not required for other acquisitions, and it was questioned why this information was needed for business combinations. A view was expressed that what some describe as 'non-financial information' did not belong in the financial statements, and in some jurisdictions, some information (e.g. workforce-related information) was prohibited from public disclosure until regulatory requirements were met.

5.38 On the other hand, the aforementioned IASB staff agenda paper indicates that the disclosure of forward-looking information in the financial statements cannot be precluded. The IASB staff note that it is not uncommon[113] for IFRS Accounting Standards to require entities to disclose expected or possible future transactions or events based on information available at the reporting date (hedge-accounting-related risk disclosures and going concern disclosures). Moreover, in developing the requirements for the BCDGI project, the IASB has several times considered whether the information on synergies of business combinations fits within the border of the financial statements.

Intertemporal (across reporting periods) relationship between the information disclosed outside the financial statements and future-period financial statements

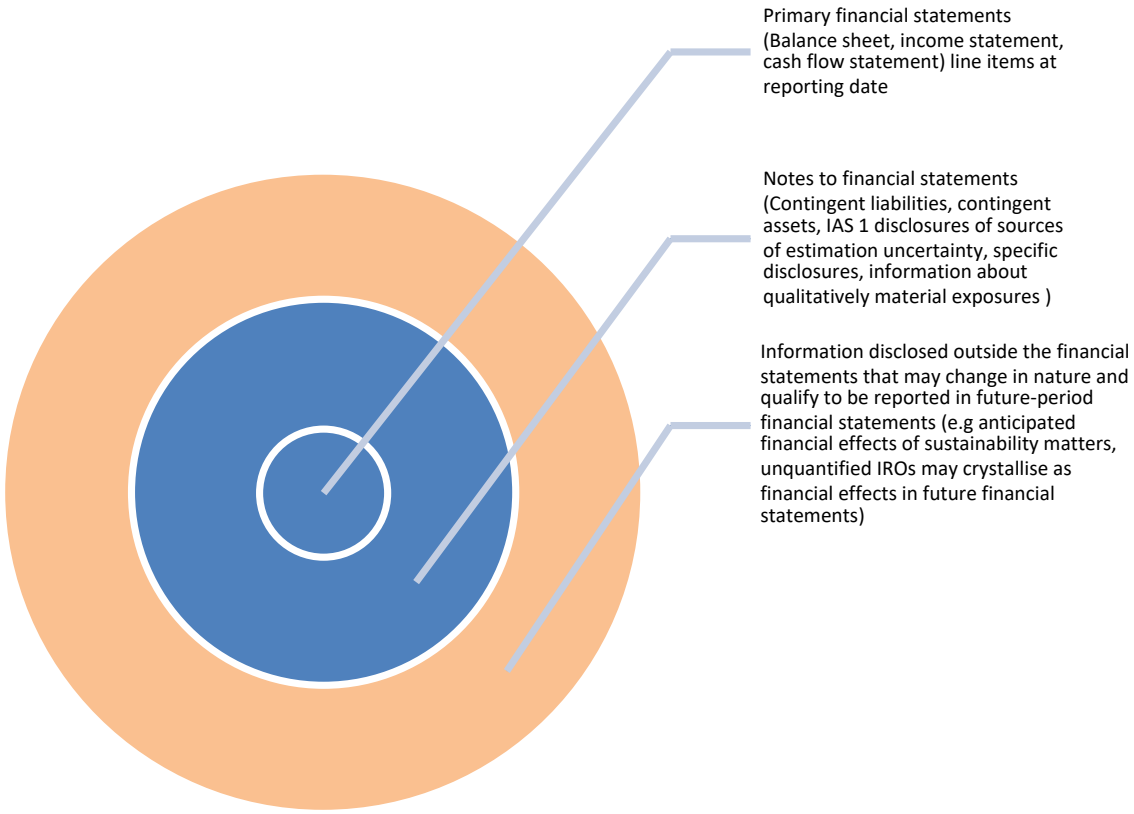
5.39 Earlier chapters have discussed intertemporal (across reporting periods) connectivity. When thinking of the border of the financial statements from a multiple-reporting-period perspective, intertemporal connectivity comes into play. In this regard, it is useful to consider items that are disclosed in the annual report outside[114] the financial statements, whose nature and/or level of measurement certainty may change such that they may qualify to be disclosed or recognised in future-period financial statements. These items may be part of the items depicted in Figure 5.5 in beige colour. For these, it is useful to distinguish between a) unquantified/qualitative IROs disclosed outside the financial statements that are yet to crystallise into financial effects and b) anticipated financial effects disclosed in the sustainability statement/disclosures.

112 IASB BCDGI March 2025 agenda paper ap18a-conceptual-analysis.pdf.

113 For example, paragraph 21A of IFRS 7 requires an entity to disclose information about risk exposures for which the entity hedges and applies hedge accounting, which according to paragraph 6.3.1 of IFRS 9 could include forecast transactions.

114 These include the sustainability statement/disclosures and other parts of the management report.

Figure 5.6: Current-period financial statement items versus possible future-period financial statements items



Source: EFRAG

5.40 A company may have sustainability-related and other commitments, including those that are constructive obligations[115] and for which there are no 'past events'. Such commitments will not qualify to be disclosed as contingent liabilities or recognised as provisions, but could be disclosed in the sustainability statement/disclosures or elsewhere in the management report. Also, a company's business model could be inherently exposed to the risk of future liabilities due to potential fines or lawsuits for which there is no 'past event' that creates a present obligation. For instance, as noted in an academic working paper (Boustanifar and Verriest, 2024)[116], a company's business model could make it susceptible to potential lawsuits from a) competitors for infringements of patents or copyrights; b) communities due to environmental damage; and c) individuals injured because of using the company's products or services. Such risk exposures could be qualitatively disclosed in the risk report or the sustainability statement/disclosures.

5.41 The items in the above paragraph could be disclosed or recognised in future-period financial statements due to a change in their nature and/or the level of their measurement certainty, for example, if a commitment becomes a legal obligation when a 'past event' occurs. This could happen when a lawsuit is filed, and the company has not assessed that it is likely to lose. It could also be the case if a company breaches or 'is about to and likely to breach' a regulatory limit and is eligible to be fined. Similarly, a commitment to invest in future Capex disclosed in the sustainability statement/ disclosures may become a recognised asset or expense and/or disclosed in the financial statements at a future date

115 Paragraph 10 of IAS 37 defines a constructive obligation as 'An obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.'

Paragraph 20 of IAS 37 states that: '... Because an obligation always involves a commitment to another party, it follows that a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.'

116 Boustanifar. H. and Verriest. A., 2023, Intangible Liabilities, Working Paper, EDHEC Business School and KU Leuven https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4543436. The authors refer to both contingent liabilities in the financial statements and possible obligations and risk exposures disclosed in the annual report outside the financial statements as 'intangible liabilities'. This term is a misnomer as there are no tangible liabilities and the term 'intangible liabilities' does not exist in IFRS accounting requirements. The authors, however, note that their use of the term stems from an 'intangible versus tangible' distinction based on an item being capable of being appraised/valued at actual or approximate value.

when a 'past event' occurs. Also, if a risk exposure or opportunity disclosed qualitatively outside the financial statements crystallises as an entity's obligation to transfer economic resources or its right to economic benefits as a result of a 'past event', and if such an obligation or right can be quantified and measured with reasonable certainty, then it can be recognised and/or disclosed in the financial statements.

5.42 Hence, to assess intertemporal connectivity, it can be useful to identify any indicators (including event triggers) which signal that items disclosed in the sustainability statement/disclosures and the rest of the management report may change in nature and/or measurement certainty, and thus may be reported in future-period financial statements. During discussions held at the April 2024 IFASS meeting[117], there was a general view that such indicators (including event triggers) may vary across jurisdictions and over time as well.

5.43 To further develop the thinking on this matter, this DP seeks constituents' views on possible indicators (including event triggers) of items disclosed outside the financial statements that may qualify to be recognised as assets or liabilities or disclosed as contingent assets or contingent liabilities in future-period financial statements.

STANDARD-SETTER CONSIDERATION: ADDRESSING DIFFERENCES IN THE LEVEL OF DISAGGREGATION ACROSS DIFFERENT REPORTS

Requirements for aggregation or disaggregation across different reports

5.44 **Paragraph 4.42a of Chapter 4** outlines several situations where users expect a greater disaggregation of information to allow the connectivity of reported information than is currently the case. In a nutshell, users have conveyed that they expect a link between the business activities or risks disclosed in the sustainability statement and the segment disclosures in the financial statements, a greater disaggregation of Capex that allows them to identify Capex related to transition activities, and a greater disaggregation of human capital metrics. This begs the question of whether the inadequate disaggregation stems from the reporting requirements. Thus, the following paragraphs examine the related requirements for different reports.

5.45 For both the financial statements and sustainability statement/disclosures, as outlined below, there are overarching requirements to aggregate information based on similar characteristics, disaggregate based on dissimilar characteristics, and ensure that the aggregation and disaggregation do not obscure other material/relevant information. Below is a high-level summary of the aggregation and disaggregation requirements under IFRS Accounting Standards, ISSB Standards and ESRS.

a) *IFRS Accounting Standards.* As described in paragraph 41 of IFRS 18, in the primary financial statements, the financial statement elements are classified[118] and aggregated[119] into items based on shared characteristics, and items are disaggregated based on characteristics that are not shared. The entity's aggregation and disaggregation of items is to present line items in the primary financial statements or disclose items in the notes in a manner that fulfils the respective objectives of the primary financial statements and notes. It is also stated that an entity shall ensure that aggregation and disaggregation in the financial statements do not obscure material information.

b) IFRS 18 requirements do not preclude the disaggregation in the financial statements that allows the connection to the information in the sustainability statement/disclosures. To demonstrate this, Example IV-2 of the 'IASB Illustrative Examples on Disclosures about Uncertainties in the Financial Statements' shows that by applying paragraphs 41, 42

117 April 2024 IFASS report – page 67

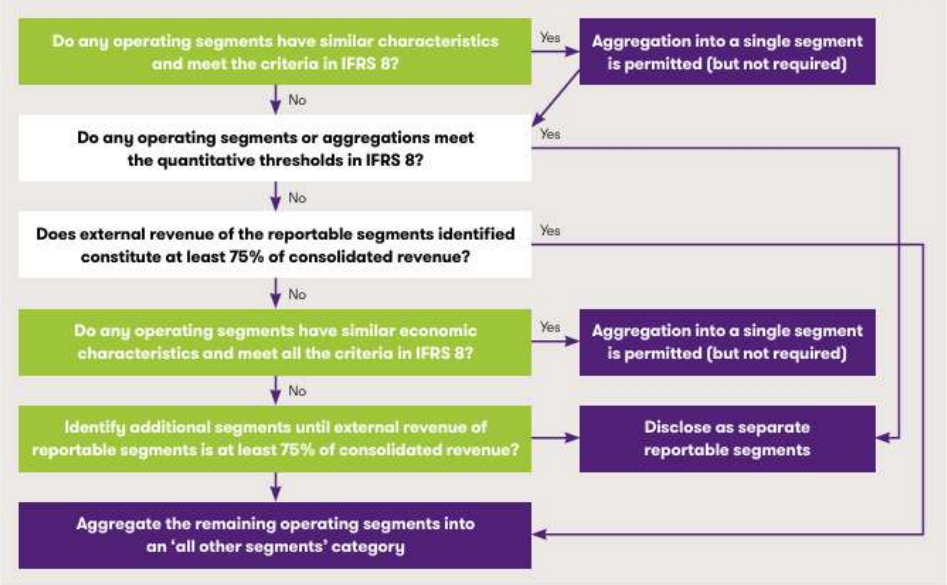
118 Classification is the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include – but are not limited to – the nature of the item, its role (or function) within the business activities conducted by the entity, and how it is measured. Classifying dissimilar assets, liabilities, equity, income or expenses together can obscure relevant information, reduce understandability and comparability and may not provide a faithful representation of what it purports to represent. (paragraphs 7.7 and 7.8 of the Conceptual Framework for Financial Reporting Paragraphs)

119 Aggregation is the adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification. Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation. Different levels of aggregation may be needed in different parts of the financial statements. For example, typically, the statement of financial position and the statement(s) of financial performance provide summarised information, and more detailed information is provided in the notes. (Conceptual Framework for Financial Reporting Paragraphs 7.20-22)

and B110 of IFRS 18, a reporting entity can disaggregate its PP&E in a manner that distinguishes its high-emission and low-emission PP&Es.

c) For segment disclosures in the financial statements, paragraph 12 of IFRS 8 indicates that two or more operating segments[120] may be aggregated into a single operating segment if such aggregation is consistent with the core principle of this IFRS paragraph, the segments have similar economic characteristics, and the segments are similar. The similarity of segments is assessed in each of the following respects: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.'

Figure 5.7: Aggregating operating segments



Source: Grant Thornton, Insights into IFRS 8

d) Other IFRS Accounting Standards (e.g. IFRS 15 and IFRS 17) have specific aggregation/disaggregation requirements for measurement, presentation and disclosure purposes.

e) *ISSB Standards.* For sustainability-related financial disclosures, paragraphs B29 and B30 of IFRS S1 indicate that information shall be aggregated if items of information have shared characteristics and shall not be aggregated if they do not have shared characteristics. The entity might need to disaggregate information about sustainability-related risks and opportunities, for example, by geographical location or in consideration of the geopolitical environment. To ensure that material information is not obscured, an entity might need to disaggregate information about its use of water to distinguish between water drawn from abundant sources and water drawn from water-stressed areas. It is also stated that an entity shall not aggregate information if doing so would obscure information that is material.

e) *ESRS.* For aggregation or disaggregation, the Draft Amended ESRS (paragraphs 54 to 56 of ESRS 1) would require undertakings to reflect the level at which significant variations of material impacts, risks or opportunities arise, such

120 In addition, paragraph 13 of IFRS 8 states that: An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.

c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

as by topic, sector, subsidiary, geography, or asset. It is also stated that the undertaking shall ensure that the level of aggregation and disaggregation does not obscure material information. And the disaggregation used to present a given disclosure shall reflect the level that provides the most relevant information to users (i.e. topic, or group or individual IROs) while reflecting the nature and management of these IROs.

5.46 During EFRAG's outreach, stakeholders observed that, relative to the financial statements, sustainability disclosures often require more granular data to reflect the specific sustainability-related impacts of individual projects, facilities or other specific activities. Disaggregation by country may also be done when material IROs differ across geographies. Stakeholders also highlighted fact patterns where there were differences in the level of aggregation/disaggregation of related information in the financial statements and the sustainability statement/disclosures. For instance,

a) a preparer from a banking financial institution indicated that investments in green finance are typically material for the sustainability disclosures but not for the financial statements, particularly if there is a limited impact of such investments on the financial indicators related to the loan portfolio of the related entity (such as net interest income).

b) it was noted that training expenses may not be material for presentation as a separate line item in the financial statements, but, as noted in **paragraph 5.24,** may be material information for the sustainability statement for users to assess whether the company is actively training on anti-corruption or other sustainability-related matters.

5.47 Overall, **except for the possible issue with segment reporting** addressed in **paragraphs 5.48 and 5.54** below, **there is no indication of any shortfall in existing aggregation or disaggregation requirements. The differing levels of granularity across the financial statements and the sustainability statement/disclosures simply reflect material information for each report.**

Gross versus net exposure presentation

5.48 Several stakeholders observed that the sustainability statement/disclosures typically depict gross exposure before mitigation, while the financial statements typically depict the net exposure[121] and that this difference in level of aggregation could, in some situations, limit the connectivity of reported information. The analysis below shows what underpins the gross versus net depiction in the sustainability statement and the financial statements.

a) Paragraph 37 of Draft Amended ESRS 1 states that the assessment of impacts is the starting point of the double materiality assessment, as impacts can be financially material in a reporting period or become financially material in a future reporting period, as noted in paragraph 36 of Draft Amended ESRS 1. Similarly, paragraph 49 of Draft Amended ESRS 1 states that material risks and opportunities arise from, among other factors[122], the undertaking's material impacts identified in the impact materiality assessment. Correspondingly, paragraph 44 of Draft Amended ESRS 1 clarifies how mitigation, prevention and remediation measures would be considered in the impact materiality assessment. The paragraph conveys the following.

i) For the severity of actual negative impacts, an undertaking would only consider mitigation measures from previous periods. Current period impacts would be assessed without considering the remediation measures.

ii) For potential negative impacts, an undertaking is required to assess the materiality of impacts after consideration of prevention and mitigation policies and actions that can be reasonably assumed to reduce the severity or likelihood of the impacts.

iii) The information about impacts and how the undertaking manages them through policies and actions may be decision-useful to users, irrespective of how effectively the undertaking manages the impacts.

121 For example, an entity whose manufacturing facilities were damaged by a severe weather event may disclose, in its sustainability statement/disclosures, information about the exposed sites and expected costs related to the damaged assets. However, if the assets had been fully insured, the entity may not disclose information about the flood event in the financial statements.

122 Paragraph 49 of Draft Amended ESRS 1 states that material risks and opportunities can also arise from an undertaking's dependencies on natural, human and social resources; and other factors, such as exposures to climate hazards or regulatory changes addressing systemic risk.

b) While the line items in primary financial statements are indeed, in many situations, reported on a net basis, gross exposures can also be disclosed in the notes to the financial statements (e.g. the disclosures of financial instruments that are subject to an enforceable master netting arrangement or similar agreement[123] and disclosures of risk management strategy under hedge accounting disclosures[124]).

c) In its response to the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project, EFRAG observed that, when related to long-time horizons, some stakeholders found disclosures of potential exposure (e.g. undiscounted amounts) in the notes to the financial statements useful[125]. In this sense, gross exposure disclosures can be useful.

d) In sum, gross versus net presentation of information is done in the context of the objectives of different reports. Correspondingly, the lack of connectivity due to the different aggregation approaches applied in the sustainability statement and the financial statements reflects the relevant information for these different reports, and it ought to be deemed appropriate.

Connecting sustainability statement information to segment disclosures in the financial statements

5.49 As noted in Chapter 4[126], the observations from the 72 reviewed annual reports and the results of Karlsonn's (2025) review of 787 European companies show that sustainability-related items are rarely disclosed in the segment disclosures. It could be because the information on sustainability matters was not material for the financial statements of the companies that do not include this information in their segment disclosures. In some cases, this was evident. Yet it seems odd that certain sustainability-related information can be material for the sustainability statement and usually material for several other financial statement line items (e.g. for the valuation of assets), but not be material for the segment disclosures.

5.50 A question arises whether the perceived underreporting of sustainability matters in the segment disclosures is indicative of shortcomings in the requirements for segment disclosures (i.e. IFRS 8). In this regard, it is noted that the IASB has a pipeline research project on segment disclosures. Moreover, other national standard setters[127] have highlighted challenges that stakeholders in their jurisdictions have found with the aggregation requirements of segment reporting (i.e. the sole reliance on the management approach and perspective of the Chief Operating Decision Maker (CODM) to determine reportable segments). It is possible that this could be the root cause of the seeming underreporting of sustainability-related matters in the segment disclosures in the annual reports of 72 reviewed companies, as highlighted in Chapter 4. That is, sustainability-related matters, which have a long-term horizon, may not fall within the scope of what management monitors regularly for operational purposes.

5.51 Concurrently, it is noted that under ESRS 2 Set 1 (paragraph AR 14(c)), in preparing disclosures related to its business model and value chain, the undertaking is required to consider the cost structure and revenue of its business segments in line with IFRS 8 requirements; and under paragraph 40(b) of ESRS 2 Set 1, there is a requirement for a reconciliation of ESRS sectors' revenue to IFRS 8 information[128]. The requirement to disaggregate information by sectors in ESRS Set 1

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123 See paragraphs 13A–C of IFRS 7. IFRS 7.13C(a) states that 'an entity shall disclose…the gross amounts of those recognised financial assets and financial liabilities.'

124 Paragraph 22A–C of IFRS 7: An entity shall explain its risk management strategy for each risk category or risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate the extent of risk exposures that the entity manages.

125 In its comments on Example 7 in the IASB ED developed under the 'Disclosures about Uncertainties in the Financial Statements' project (related to disclosure about decommissioning and restoration provisions), EFRAG noted that some stakeholders have concerns about how entities measure such decommissioning provisions because these are usually incurred very far into the future. That is, these provisions, when discounted to their present value, results in the carrying amount being immaterial and therefore not recognised in the statement of financial position. As there is a risk that the entity may need to settle their obligations on decommissioning and restoration earlier than expected and considering the size of these costs, EFRAG suggests that the IASB consider whether disclosure about the undiscounted amounts of future costs would provide more useful information in this fact pattern. An undiscounted amount can be indicative of the potential risk.

126 For instance, as noted in Chapter 4, across the 17 illustrations of connectivity, of which sustainability related matters were material in both the financial statements and sustainability disclosures/statement, and of which in many instances there were references to sustainability related strategy and business model changes, it is only twice where there was any disaggregation by sustainability-related business unit, revenue or profitability in the financial statements' segment disclosures. Karlsonn (2025) review of 787 European companies found climate risk was reflected in segment reporting only 1% of the time.

127 See the Canadian Accounting Standard Setter (AcSB) presentation at the July 2025 ASAF meeting and the Australian and Malaysian Accounting Standard setters (AASB and MASB) joint presentation at the March 2025 IFASS meeting.

128 ESRS Set 1, paragraph 40(b) of ESRS 2 requires the disclosure of a breakdown of total revenue, as included in its financial statements, by significant ESRS sectors. When the undertaking provides segment reporting as required by IFRS 8 *Operating Segments* in its financial statements, this sector revenue information shall be, as far as possible, reconciled with IFRS 8 information.

aimed to provide contextual information for the understanding of the material IROs. This objective may not necessarily be correlated with the drivers of financial performance and how the management prepares its segment disclosures under IFRS 8. For example, for high-impact sectors from a sustainability perspective, material impacts may arise from a segment that only has a marginal contribution to the financial performance.

5.52 The preceding ESRS Set 1 requirements that required a link to business segments under IFRS 8 have been removed under the Draft Amended ESRS 2 (Application Requirement-AR 13 of paragraph 20). Instead, to classify its business activities, an undertaking may apply a) the NACE classification systems; b) reportable segments disclosed in financial statements in accordance with IFRS 8 or local GAAP principles; or c) available classification best practices or frameworks, such as the IFRS industry-based guidance and GRI Standards.

5.53 Hence, another explanation for the failure to observe companies connecting the information in the sustainability statement to the reported segments could be that the 72 reviewed companies were still in the early stages of implementing ESRS Set 1 requirements. Alternatively, these companies could have applied a classification system that differs from that under IFRS 8 requirements, as proposed by the Draft Amended ESRS 2 non-mandatory guidance stated in the preceding paragraph.

5.54 The DP seeks constituents' views on whether the root cause of underreporting of sustainability-related matters in segment reporting could be existing IFRS 8 requirements, with its application of the management approach and the CODM perspective. Conversely, the inability to connect information in the sustainability statement to the reported segments simply reflects that the 72 reviewed companies were in the early stages of ESRS adoption.

CONSIDERATIONS TO BE ADDRESSED BY DIFFERENT STAKEHOLDERS

CONSIDERATION FOR DIFFERENT STAKEHOLDERS: ASSESSING DIFFERENCES IN THE BOUNDARY OF THE REPORTING ENTITY ACROSS DIFFERENT REPORTS

5.55 The reporting boundary is related to the scope of consolidation, and it may affect the measurement and connectivity of reported information. As noted in Chapter 2, the notions of 'own operations' and 'operational control' applied in ESRS are not explicitly articulated within the IFRS accounting requirements' description of control. It is noted that under IFRS 10, control occurs when an investor, exposed or having rights to variable returns from its involvement with the investee, has the ability to affect those returns through its power over the investee. Power is defined as existing rights (voting rights or embedded in contractual arrangements) that give the current ability to direct the relevant activities. Also, the notion of significant influence is applied to determine whether to apply the equity method of accounting for investees.

5.56 As detailed in Chapter 2, under the Draft Amended ESRS, the reporting boundary of the consolidated sustainability statement will be the same as that of consolidated financial statements. Notably, the Draft Amended ESRS E1 requires an undertaking to apply the scope (perimeter) of the consolidated financial statements and the financial control consolidation approach for the measurement of GHG emissions. However, there can still be differences in the consolidation approaches respectively applied for the sustainability statement/disclosures and the financial statements.

a) In some circumstances, an undertaking is required to additionally provide a supplementary GHG emissions metric, which is measured based on the operational control consolidation approach. The latter is one of the consolidation approaches of the GHG Protocol Standard, and it is therefore also among the permissible approaches for the measurement of GHG emissions under IFRS S2. Of note, the 2025 KPMG publication (ESRS-reporters), based on the review of 270 European companies, found that 45% of them reference operational control as an additional consideration when setting the reporting boundary under ESRS.

b) IROs of leased assets and employee benefit schemes are excluded from the reporting undertaking's own operations.

c) As was the case under ESRS Set 1, immaterial unconsolidated subsidiaries for the financial statements can be in the scope of consolidation of the sustainability statement if these subsidiaries have material sustainability-related IROs, and vice versa (material subsidiaries in the financial statements with immaterial IROs are not consolidated in the sustainability statement).

5.57 Related to the connectivity of reported information, a few stakeholders called for transparency on any differences in the reporting boundary considered for the numerator and denominator of the GHG intensity and energy intensity metrics based on revenue. Of note, these metrics were only required under ESRS Set 1, and they are no longer mandatory under the Draft Amended ESRS. However, during EFRAG's review of companies' reporting, it was observed that these metrics were sometimes voluntarily disclosed. Therefore, from a connectivity standpoint, transparency on the scopes of consolidation of the numerator and denominator of these metrics would be beneficial.

5.58 In general, an explanation of any differences in the scopes of consolidation across different reports is helpful for users to identify what information cannot be connected across these different reports. In this regard, it is noted that 13 out of the 15 illustrations included in the Supplemental Document indicated the extent to which there were similarities or differences in the scope of consolidation between the sustainability statement/disclosures and the financial statements.

5.59 Besides the intensity metrics, which ought not to be an issue as explained above, no other specific connectivity-related issues based on reported information were identified. Thus, **constituents' views are sought on whether there are any issues related to reporting boundaries that affect the connectivity of reported information.**

5.60 During EFRAG's outreach for this DP, stakeholders also highlighted implementation questions[129] for fact patterns where the consolidation approach of the sustainability statement may differ from the consolidation approach or accounting treatment within the financial statements (e.g. for certain joint ventures). Conversely, some highlighted why they may struggle interpreting certain reported sustainability metrics (e.g. own workforce metrics) when the sustainability statement/disclosures use the same consolidation approach as the financial statements. They have also questioned the difference between the notion of 'operational control' sometimes applied for the measurement of GHG emissions and 'significant influence' applied for equity-method accounted investees. Addressing these implementation-related and interpretation issues is beyond the scope of this DP. Some of the issues, such as the treatment of joint ventures, are covered in the 2024 EFRAG value chain implementation guidance (IG 2), and others could be considered and possibly addressed in future implementation support material.

CONSIDERATION FOR DIFFERENT STAKEHOLDERS: ENHANCING CONNECTIVITY IN ORGANISATIONAL PROCESSES

5.61 As noted earlier, connectivity in organisational processes supports the connectivity of reported information. Nonetheless, except for the information disclosed about the governance and controls within an organisation, 'connectivity in organisational processes' can be inferred but not observed from reported information. Hence, the views on this matter are drawn from EFRAG's interviews with preparers and auditors, where the following points of note were raised.

a) *Need for supporting organisational structure and inter-departmental collaboration.* Stakeholders mentioned the importance of organisational structures and internal controls underpinning the financial and sustainability reporting functions.

b) *Importance of governance disclosures for users.* Users also emphasised the importance of effective governance in ensuring the long-term prospects, and they gave weight to disclosures about the governance, which highlight individual responsibilities. On this aspect, it is noted that both ESRS and ISSB Standards have requirements for governance disclosures related to sustainability-related matters. And 8 out of the 15 companies from which illustrations in the DP were drawn had disclosures about the governance structure that showed the different responsibilities for managing sustainability matters.

5.62 *Integrated thinking.* Several stakeholders pointed out how integrated thinking / less-siloed departments have helped to enhance their internal risk management. It was also suggested that the connectivity of reported information could be seen as a step on a broader trajectory towards integrated thinking (i.e. connectivity of reported information is

129 For example, if a company own 60% of a joint venture, does it include 60% of their emissions, or 100%, or nothing? What if one subsidiary uses operational control and another uses the equity share method under the GHG protocol, how does the company merge that into one single number at group level?

During the April 2025 EFRAG roundtable webinar for multiple stakeholders (see page 13 of the webinar report), one of the speakers highlighted the challenge of interpreting some of the metrics when the financial statements consolidation approach is applied for social metrics. In the stakeholder's view, it is challenging to interpret a reported 0.2 fatalities or 1.3 incidents of corruption.

a precursor to 'integrated reporting', which then leads to 'integrated thinking'). At the same time, it was noted that 'integrated thinking' lies beyond the remit of reporting standard setters, since it cannot realistically be mandated through reporting requirements.

5.63 **This DP seeks stakeholders' views on the above and what other aspects of connectivity in process could enable connectivity of reported information.**

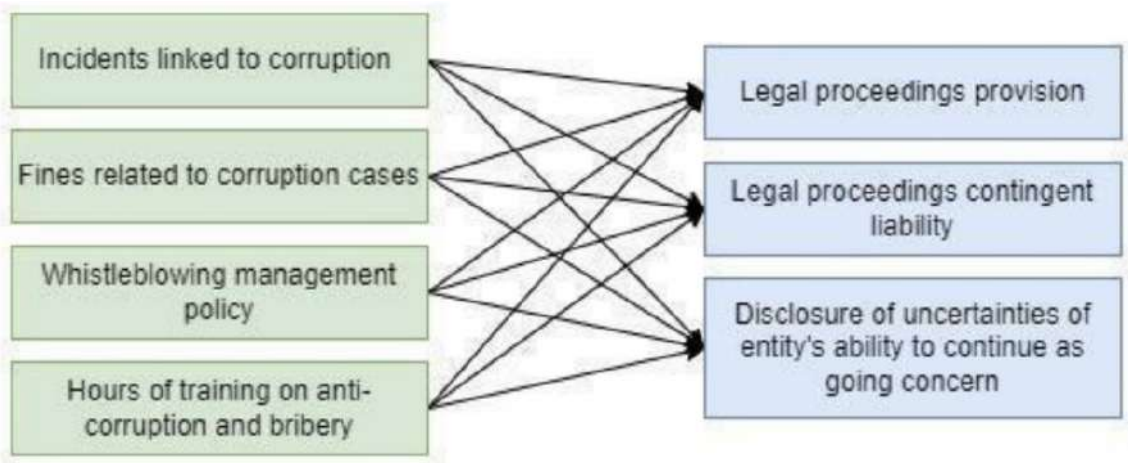
CONSIDERATION FOR DIFFERENT STAKEHOLDERS EXPLORING DIGITISATION/AI TO ENHANCE CONNECTIVITY IN THE PROVISION AND CONSUMPTION OF REPORTED INFORMATION

5.64 As described below, structured data coupled with AI can facilitate both structural and analytical links across different forms of disclosure and, in so doing, facilitate the consumption of reported/filed information.

5.65 *Structured data.* XBRL tagging provides a standardised and machine-readable format for the information in the financial statements and the sustainability statement/disclosures. This enhances consistency in terminology, enables comparability across data sets and supports reconciliation between financial statement line items and sustainability disclosures. It also improves usability and automation within reporting processes. With the CSRD mandating sustainability data in digital format, the ESMA European Single Electronic Format (ESEF), and the European Single Access Point (ESAP) under development, a structured data reporting ecosystem that could facilitate connectivity is beginning to take shape within the EU.

5.66 According to a 2022 XBRL Europe white paper[130], there are various options through which XBRL can represent the interconnection between the financial statements and sustainability statement/disclosure taxonomies. For instance, linkages that could be designed for exploration (i.e. when there is consensus that data about a sustainability-related matter is linked and contributes to a financial statement line item, but there is no consensus on the exact linkage/contribution), such as those shown in Figure 5.8.

Figure 5.8: Possible links of sustainability disclosures and financial statements taxonomies data



5.67 Moreover, in the 2024 EFRAG connectivity project initial paper, it was noted that XBRL could provide connection points as the need to tag information requires the use of shared terminology, such as on the definitions of revenue, provisions, segments and entity, and it enables the use of consistent terminology. Some potential aspects to be focused on are:

a) the creation of individual elements or even their specific data type classification (i.e. monetary elements such as 'assets at physical risk') within the sustainability statement/disclosures taxonomy, which will facilitate the access and usability of data connected to the financial statements;

130 XBRL Europe, 2022, Interconnectivity enabled through XBRL.

b) the potential creation of interoperability between the financial statements and sustainability statement/disclosures taxonomies (e.g. through the reuse of elements from the accounting taxonomy, e.g. Revenue/Turnover and Assets); and

c) the presentation of anticipated financial effects of sustainability matters (ESRS) by combining financial statement line items with an ESRS dimension.

5.68 The interoperability between financial statements and sustainability disclosures taxonomies can further strengthen connectivity. The classification of data elements within sustainability reporting, when linked to corresponding financial data, provides users with clearer insights into the financial impacts of sustainability issues.

5.69 Complementary digital tools, such as visualisation, hyperlinks, and structured taxonomies, also play a role in supporting navigation and improving the accessibility and usability of connected data.

5.70 *Complementary role of Artificial Intelligence (AI) and structured data.* AI adds an additional layer of analytical value by enabling the processing of both structured and unstructured information. AI can identify patterns, extract insights and support activities such as risk assessment and valuation when integrating financial and sustainability disclosures. However, early-stage academic research[131] shows that while AI models are good at classifying financial facts in documents, they struggle dramatically with the precise semantic understanding that tagging (and financial analysis) requires. The academic study looked at US filings and found that when it comes to linking extracted numbers and text to correct concepts in the full US GAAP taxonomy (the list of digital definitions used for US reporting), even the best models achieve only 17% accuracy. Hence, **as of now, AI and structured data via XBRL have to be deemed as complementary tools, and AI cannot be seen as a substitute for XBRL.**

5.71 In effect, structured digital data enables the use of technology to enhance connectivity. For instance, digital tagging with XBRL allows the connection of financial statement line items to the anticipated financial effects disclosed in the sustainability statement based on a dedicated and direct technical relationship. It is also noted that the use of Artificial Intelligence (AI) for enhancing connectivity in the consumption of reported information is currently problematic, in particular due to the problem of hallucinations, which reduces the accuracy and reliability of AI-generated results. Further research could help to explore the possibilities and issues at hand.

Takeaways from EFRAG's outreach

5.72 During EFRAG's outreach, preparers and auditors saw digital tagging as beneficial for both reporting and audit processes. They, however, considered that such tagging could make comparing entities challenging because it is inherently specific to each company (via the use of extensions). Stakeholders considered that digital taxonomies had potential for enhancing connectivity, with clearer guidance on the scope and methodologies of key concepts such as anticipated financial effects and materiality frameworks.

5.73 On the other hand, users, some of whom applied algorithmic trading and AI-driven scraping of information across multiple sources whilst analysing companies, expected a minimal incremental role of technology in enhancing connectivity and their consumption of reported information. This could perhaps reflect the current challenges of obtaining comparable digital structured data. For example, due to companies applying extensions when tagging information, and also, there is some way to go before tools that apply AI analysis based on structured reporting data emerge, as noted in **paragraph 5.70. This DP seeks constituents' views on the state-of-play described above and what could be done to change this situation.**

5.74 Finally, it is noted that the outlined concepts for the connectivity of reported information have generally been formulated in the context of current reporting channels (which include information reported in PDF documents). With the evolving digitisation tools, it remains to be seen if the thinking about connectivity may similarly evolve should a world of fully digitised provision and consumption of reported information become a reality.

131 This research is referred to in an article by XBRL International Chair, John Turner- Beyond the Hype- How Structured Data Can Save AI Financial Analysis.

APPENDICES

APPENDIX 1: PROFILE OF REVIEWED COMPANIES AND OUTREACH OVERVIEW

PROFILE OF REVIEWED ANNUAL REPORTS

A1.1 Below is a profile of the country, sector and applicable sustainability reporting requirements of the 72 companies' annual reports that were reviewed.

Figure 1: Breakdown of companies per country

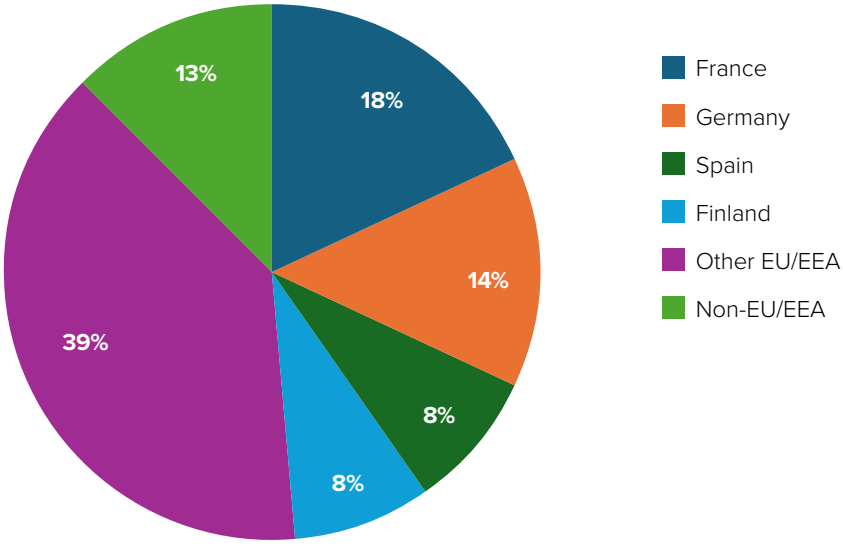
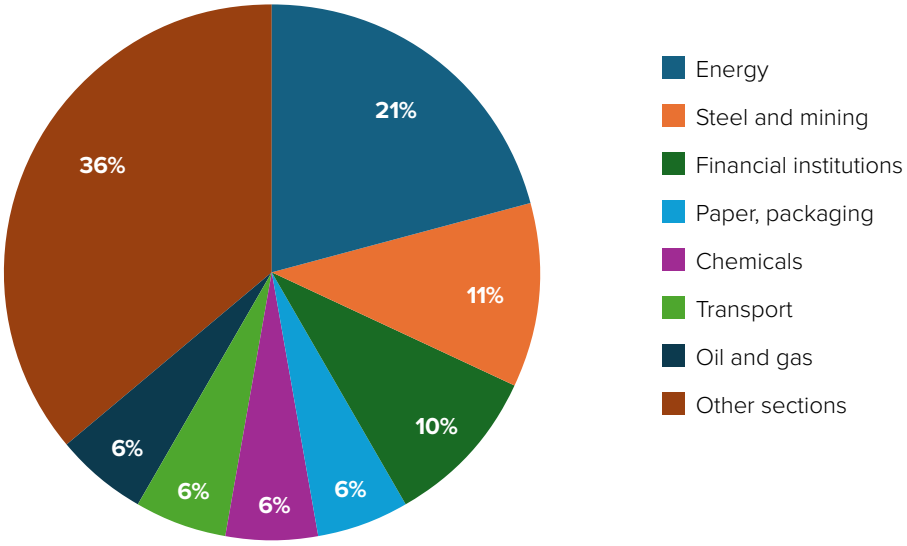
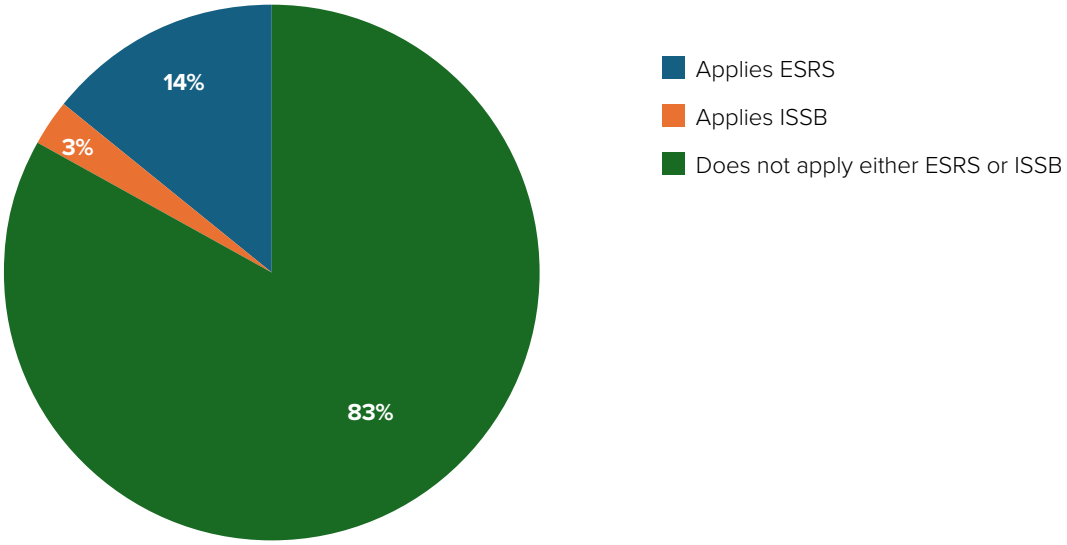


Figure 2: Breakdown of companies per sector[132]



132 Other sectors include various other sectors such as hospitality, telecommunications, consulting and food and retail.

Figure 3: Extent of application of ESRS and ISSB Standards[133]



PROFILE OF STAKEHOLDERS WHO PROVIDED FEEDBACK

A1.2 During EFRAG's outreach, input was obtained from the following.

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.

A1.3 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);

133 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.

b) 2024 OIC-EFRAG event, November 2024 meetings with the Norwegian Financial Services Authority and the Swedish Enterprise Accounting Group;

c) April and September 2024 IFASS meetings, where EFRAG presented key messages from the 2024 EFRAG connectivity project initial paper;

d) 2023 EFRAG Secretariat briefing Climate-related risks in the financial statements (based on an outreach survey and the review of publications);

e) 2023 EFRAG-hosted symposium at 45th EAA Congress (Multi-stakeholder Perspectives on Connectivity);

f) 2022 and 2023 EFRAG conferences.

APPENDIX 2: ABBREVIATIONS

Capex	Capital expenditure
CODM	Chief Operating Decision Maker
CSRD	EU Corporate Sustainability Reporting Directive
ECL	Expected credit loss
ED	Exposure Draft
EEA	European Economic Area
EFRAG PTF-NFRS	EFRAG European Lab Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards
ESAP	European Single Access Point
ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ESRS	European Sustainability Reporting Standards
EU ETS	EU Emissions Trading Scheme
EC	European Commission
GAAP	Generally Accepted Accounting Principles
GHG emissions	Greenhouse gas emissions
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IASB ASAF	IASB Accounting Standards Advisory Forum
IFASS	International Forum of Accounting Standard Setters
IFRS IC	IFRS Interpretations Committee
IFRS MCPS	IFRS 1 Practice Statement-Management Commentary
IIRC	International Integrated Reporting Council
IR Framework	Integrated Reporting Framework
IROs	Impacts, risks, and opportunities
ISSB	International Sustainability Standards Board
ISSB SSAF	ISSB Sustainability Standards Advisory Forum
KPIs	Key Performance Indicators
NACE	Nomenclature of Economic Activities
NFRD	EU Non-Financial Reporting Directive
NSS	National Standard Setters
Opex	Operating expenditure
PPAs	Power Purchase Agreements
PPE	Property, plant, and equipment
R&D	Research and development
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Task Force on Nature-related Financial Disclosures
UN SDGs	United Nations Sustainable Development Goals
UNGC	UN Global Compact
XBRL/ iXBRL	eXtensible Business Reporting Language/ Incline XBRL

APPENDIX 3: GLOSSARY OF TERMS

TERM	DESCRIPTION
CONNECTIVITY-RELATED AND CROSS-CUTTING TERMS	
Anchor Point	Data and/or information that intersects the sustainability statement/disclosures and financial statements and, as a result, can allow the connection of information across these reports.
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 on 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	These are the differentiating features of different reports in the annual report (i.e. financial statements, management report, the sustainability statement/disclosures, governance report in some jurisdictions, risk report and other annual report sections), for example, the recognition criteria for the elements of the financial statements. It is the dividing line which distinguishes between information included and excluded within these different reports.
Boundary of the reporting entity/ reporting boundary	Entities, operations, sites and assets reported on.
Coherence	For this DP, coherence (a term included in the 2025 IFRS MCPS) 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.
Complementary versus supplementary reported information	Based on the dictionary definition of the words complementary and supplementary, in a reporting context it can be inferred 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.

TERM	DESCRIPTION
Connectivity of reported information	For this DP, connectivity of reported information is described as the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different annual report sections (different reports). The types of connectivity of reported information include consistency of data, narrative and assumptions; coherence and integration of information across different reports; and direct or indirect connectivity (i.e. linkage of quantitative information via cross-referencing or reconciliations). Enabling attribute of connectivity of reported information: Attributes of the reporting process or the annual report sections, which make it easier for readers to connect the information across different reports. Type of connectivity: The DP refers to types or broad categories of connectivity of reported information (e.g., telling a story/integration of information consistency, direct or indirect connectivity). Mechanism of connectivity: This refers to the techniques or approaches of implementing a type of connectivity. For instance, cross-referencing for direct connectivity.
Connectivity in organisational processes	For this DP, connectivity in organisational processes refers to the integration of companies' organisational structure, functional departments, processes, and mindset (integrated thinking) for external financial and sustainability reporting. This can be done while gathering and processing data for the required external reporting.
Connectivity in reporting requirements	This refers to consistency in required standards and the basis of preparation of reported information within the financial statements and sustainability reports. For instance, both the ESRS and IFRS Sustainability Disclosure Standards require the same reporting entity and reporting period as the financial statements.
Consistency	Consistency within ESRS 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.
Dependencies	Dependencies relate to the situation of an undertaking being dependent on natural, human and/or social resources for its business processes. (ESRS) Dependencies refer to how an entity directly or indirectly depends on resources and relationships to generate future cash flows. (ISSB 2024 educational material)
Digital taxonomy	XBRL taxonomies are dictionaries for reporting. Taxonomies are usually specific to particular areas of reporting. They are a way to capture a set of reporting rules in digital form, ensuring that all reports are consistent, comparable and computer-readable. (XBRL) The IFRS Accounting Taxonomy enables the digital reporting of financial information prepared in accordance with IFRS Accounting Standards, making financial data more accessible to investors who prefer to receive information digitally. (IFRS Foundation) ESRS XBRL Taxonomy is a digital transposition of the human-readable ESRS.
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.

TERM	DESCRIPTION
Entity's external environment	An entity's external environment 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. (2025 IFRS MCPS)
Financial effects	Effects from risks and opportunities that affect the undertaking's financial position, financial performance and cash flows over the short, medium or long term (ESRS glossary).
Financial reporting	Financial reporting (e.g. reporting related to an entity's financial performance, financial position and cashflows) occurs across different annual report sections, albeit primarily being done in the financial statements. IFRS literature refers to general purpose financial reports, which include the financial statements, management commentary and sustainability-related financial disclosures. (2024 EFRAG connectivity publication initial paper)
Forward-looking information	Securities regulators define forward-looking information as the disclosure regarding possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action and includes 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. The 2025 IFRS MCPS defines forward-looking information 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.
General purpose financial report	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 (IFRS *Conceptual Framework*). General purpose financial reports financial reports include – but are not restricted to – an entity's management commentary, general purpose financial statements and sustainability-related financial disclosures (2025 IFRS MCPS).
Intangible resources	These are broader than intangible assets and are, for example, know-how or other intellectual capital, customer information, brands or reputation (2025 IFRS MCPS)
Integration in reporting	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). It also includes the collective consideration of the interdependencies, synergies and trade-offs between: • 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. (Source ISSB 2023 agenda consultation Request for Information- RFI)

TERM	DESCRIPTION
Integrated report	The 2021 *Integrated Reporting (IR) framework* defines an integrated report as a concise communication about how an organisation's strategy, governance and performance and prospects, in the context of its external environment, that lead to the creation, preservation or erosion of value over the short, medium and long term. The 2021 IR framework included connectivity of information as a guiding principle for the preparation of an integrated report. It states that the integrated report connects the content elements (*organisational overview and external environment; governance; business model; risks and opportunities; strategy and resource allocation; performance; outlook; and basis of preparation*) into a total picture that reflects the dynamic and systemic interactions of the organisation as a whole.
Integration of information	For this DP, integration of information refers to reporting that tells a story by linking an entity's strategic responses and its other actions in response to IROs to the reporting effects (i.e. financial position, financial performance, cash flows, and sustainability performance).
Interoperability of reporting requirements	This is a term used by standard setters with respect to their reporting requirements (e.g. sustainability reporting requirements). It refers to the compatibility of different requirements or guidance, or voluntary reporting frameworks, which helps reduce the reporting burden faced by eligible entities. In this DP, interoperability is not considered to be a type of connectivity.
Management commentary	A particular form of general purpose financial report that provides information that: a) enhances users' understanding of the entity's financial performance and financial position reported in its financial statements; and b) provides management's insight into factors, including sustainability-related factors, that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term. (2025 IFRS MCPS) It is noted that different terms are used for management commentary across jurisdictions (e.g. management discussion and analysis in the US, strategic report in the UK and management report in the EU).
Primary users of general purpose financial reports	Existing and potential investors, lenders, and other creditors. (IFRS Conceptual Framework)
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. (2025 IFRS MCPS) These include human, intellectual, financial, natural, manufactured and social resources and relationships, and they can span across an entity's own operations (e.g. financial, intellectual property, manufacturing), upstream and downstream value chain (e.g. social), and external environment (e.g. natural) (Source: November 2024 ISSB educational material).
Metrics	A measure used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position. (2025 IFRS MCPS)

TERM	DESCRIPTION
FINANCIAL STATEMENTS TERMS	
Terms related to the measurement of assets	
Amortisation, depreciation	Amortisation is the systematic allocation of an intangible asset's depreciable amount over its useful life. (paragraph 8 of IAS 38; paragraph 6 of IAS 16). Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. (paragraph 6 of IAS 16)
Impairment, expected credit loss (ECL)	An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount or a cash-generating unit exceeds its recoverable amount. (paragraph 6 of IAS 36). ECL is the impairment for financial assets. ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights (Appendix A of IFRS 9).
Carrying amount	This is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon. (paragraph 6 of IAS 36)
Cash-generating unit	This is the smallest identifiable group of assets that generates cash flows of both the cash-generating unit under review and other cash-generating units. (paragraph 6 of IAS 36)
Recoverable amount	The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value in use. (paragraph 6 of IAS 36) Fair value and value in use are described further below under measurement basis.
Useful life	This is the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity. (paragraph 6 of IAS 36)
Residual value	The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting estimated disposal costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (paragraph 6 of IAS 16)
Consolidated financial statements	If a reporting entity comprises both the parent and its subsidiaries, the reporting entity's financial statements are referred to as 'consolidated financial statements'. (paragraph 3.11 of the IFRS Conceptual Framework)
Control	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. (paragraph 4.20 of the IFRS Conceptual Framework) An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. (paragraph 6 of IFRS 10)
Constructive obligation	A constructive obligation is an obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. (paragraph 10 of IAS 37). Examples of constructive obligations include a retailer's refund policy, a company with a history of warranty repairs and the fact pattern related to a company pledging to reduce emissions that is described in the April 2024 IFRS Interpretation Committee agenda decision (Climate-related Commitments). The agenda decision also clarified that a constructive obligation can only be recognised as a provision or disclosed as a contingent liability in the financial statements if a 'past event' has occurred.

TERM	DESCRIPTION
Legal obligation	A legal obligation is an obligation that derives from a contract (through its explicit or implicit terms), legislation or other operation of law.
Contingent liability	A contingent liability is (a) 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; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. (paragraph 10 of IAS 37). Illustration 1 in the Supplemental Document has an example of a contingent liability arising from a water pollution incident.
Contingent asset	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. (paragraph 10 of IAS 37)
Provision	A liability of uncertain timing or amount. (paragraph 10 of IAS 37) Provisions can be distinguished from other liabilities, such as trade payables and accruals, because there is uncertainty about the timing or amount of the future expenditure required in settlement.
Elements of the financial statements	Asset: A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Liability: A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. (paragraph 10 of IAS 37) 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. (paragraph 4.2 of the IFRS Conceptual Framework)
Equity method of accounting	The equity method is applied by all entities that are investors with joint control of, or significant influence over, an investee. It 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 income includes its share of the investee's other comprehensive income (paragraphs 2 and 3 of IAS 28).
Significant influence	Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies (paragraph 3 of IAS 28). According to IAS 28, the existence of significant influence by an entity is usually evidenced in one or more of the following ways: a) representation on the board of directors or equivalent governing body of the investee; b) participation in policy-making processes, including participation in decisions about dividends or other distributions; c) material transactions between the entity and its investee; d) interchange of managerial personnel; or e) provision of essential technical information. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence.

TERM	DESCRIPTION
Financial asset	A financial asset is any asset that is one of the following: cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset of another entity (e.g. trade receivable, loan held), a contractual right to exchange financial assets or financial liabilities with another entity under potentially favourable conditions (e.g. derivative asset); or a contract that will or may be settled in the entity's own equity instruments. Such a contract could either be a) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or b) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed amount of the entity's own equity instruments. (i.e. does not meet the fixed-for-fixed condition, with some exceptions) (Adapted from paragraph 11 of IAS 32).
Equity instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all liabilities (paragraph 11 of IAS 32). An example would be ordinary shares.
Financial liability	A financial liability is any liability that is one of the following: a contractual obligation to deliver cash or another financial asset to another entity (e.g. trade payable, issued bond), to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity (e.g. derivative liability), or a contract that will or may be settled with the entity's own equity instruments. Such a contract could either be a) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or b) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed amount of the entity's own equity instruments (i.e. does not meet the fixed-for-fixed condition, with some exceptions) (Adapted from paragraph 11 of IAS 32).
Goodwill	Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. (Appendix A of IFRS 3). Goodwill is recorded when the purchase price exceeds the fair value of identifiable net assets acquired.
Material financial statements under IFRS	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 make on the basis of those financial statements, which provide financial information about a specific reporting entity (paragraph 7 of IAS 1 [paragraph B1 of IFRS 18]). Materiality depends on the nature of information, the 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 (paragraph 7 of IAS 1 [paragraph B2 of IFRS 18]).
Measurement basis, historical cost, fair value, value in use of an asset	An identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured (paragraph 6.1 of IFRS Conceptual Framework). This measurement basis determines how assets, liabilities, income and expenses are quantified. The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the considerations paid to acquire or create plus transaction costs. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs (paragraph 6.5 of IFRS Conceptual Framework). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date (paragraph 9 of IFRS 13 *Fair Value Measurement*). Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit (paragraph 6 of IAS 36).
Past event	An action taken by a company (including a past transaction), an event faced by a company (e.g. being sued) or a condition faced by the company. A past event is necessary for the recognition of assets or liabilities and disclosure of contingent assets or contingent liabilities. A past event that leads to a present obligation is called an obligating event. A past event leads to the control of resources and the recognition or disclosure of an asset by the company.

TERM	DESCRIPTION
Obligating event	An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation (paragraph 10 of IAS 37).
Primary financial statements and financial statements	A complete set of financial statements comprises: a) a statement (or statements) of financial performance for the reporting period (see paragraph 12 of IFRS 18); 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 paragraphs 31-32 of IFRS 18; g) a statement of financial position as of the beginning of the preceding period if required by paragraph 37 of IFRS 18. (paragraph 10 of IFRS 18) The statements listed from (a) to (d) (and their comparative information) are referred to as **the primary financial statements**. (paragraph 11 of IFRS 18)
Recognition	Recognition is 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. (paragraph 5.1 of the IFRS Conceptual Framework)
Reporting entity	A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity, or can comprise more than one entity. A reporting entity is not necessarily a legal entity. (paragraph 3.10 of the IFRS Conceptual Framework)
Research and development	**Research** is an original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. **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. (paragraph 8 of IAS 38)
Share-based payment	A transaction in which the entity (a) receives goods or services from the supplier of those goods or services (including an employee) in a **share-based payment arrangement**, or (b) incurs an obligation to settle the transaction with the supplier in a **share-based payment arrangement** when another group entity receives those goods or services. (Appendix A of IFRS 2)
Tangible asset, intangible asset	***Tangible asset:*** An asset is considered a tangible asset when it is an economic resource that has physical substance. (Principles of Accounting, Volume 1: Financial Accounting[134]) ***Intangible asset:*** An identifiable non-monetary asset without physical substance. (paragraph 8 of IAS 38) An asset is identifiable if it either: a) is separable, i.e. 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. (paragraph 12 of IAS 38)

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TERM	DESCRIPTION
SUSTAINABILITY REPORTING RELATED TERMS	
Anticipated financial effects	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 (ESRS glossary). 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 (paragraph 34 (b) of IFRS S1)
Climate change adaptation and mitigation	**Climate change adaptation** is the process of adjustment to actual and expected climate change and its impacts. 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. (ESRS Glossary)
Climate-related physical risk	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. (ESRS Glossary)
Climate-related transition risk	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. (ESRS Glossary)
Current financial effects	Financial effects for the current reporting period that are recognised in the primary financial statements. (ESRS glossary) As stated in 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. (paragraph 34 (a) of IFRS S1)
EU taxonomy	The 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 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. (EU Taxonomy for sustainable activities)
Impacts	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. (ESRS Glossary)

TERM	DESCRIPTION
Material information under sustainability reporting	**ESRS Double Materiality:** Double materiality has 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. (ESRS Glossary) **Financial Materiality:** A sustainability matter is material from a financial perspective if it generates risks or opportunities that affect (or could reasonably be expected to affect) the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term. (ESRS Glossary) **Impact Materiality:** A sustainability matter 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. (ESRS Glossary) **Material Information for 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. (paragraph 18 of IFRS S1)
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 a business that goes way beyond your financial statements.
Operational control	Operational control (over an entity, site, operation or asset) is the situation where the undertaking has the ability to direct the operational activities and relationships of the entity, site, operation or asset. (ESRS Set 1 Glossary)
Own operations	Draft Amended ESRS 1 (paragraph 62) clarifies the notion of own operations for the consolidated group (i.e. for the parent undertaking and its subsidiaries). Specifically, except for leasing assets and assets that are held by the undertaking's long-term employee benefit schemes, the assets, liabilities, revenues and expenses of the parent undertaking and its subsidiaries are considered as part of the reporting undertaking's own operations.
Scenario	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. (ESRS Glossary)
Scenario analysis disclosure	This is the depiction of a potential range of outcomes of future events under conditions of uncertainty.
Sustainability report	Sustainability statement as required under the EU CSRD/ESRS, sustainability-related financial disclosures under the ISSB Standards or sustainability disclosures under other voluntary frameworks (e.g. GRI Standards, TCFD recommendations etc.)
Sustainability statement	The dedicated section of the undertaking's management report, where the information about sustainability topics and sub-topics prepared in accordance with Directive (EU) 2022/2464 of the European Parliament and of the Council and the ESRS is presented. (ESRS Glossary). The terms 'general purpose financial reports' and 'general purpose sustainability statements' refer to reports that: a) are addressed to users with a reasonable knowledge of the general subject matters of such reports; and b) consider the information needs of groups of users. (ESRS 1 AR1)

TERM	DESCRIPTION
Sustainability reporting	Sustainability reporting, which includes providing disclosures about an entity's sustainability-related impacts, risks and opportunities, occurs across different annual report sections and in other reports besides the annual report (e.g. a stand-alone sustainability report). In the EU under the CSRD/ESRS, sustainability reporting primarily occurs in the sustainability statement, which is a distinct section of the management report.
User of general purpose sustainability statements	Users of general purpose sustainability statements are: a) primary users of general purpose financial reports, such as existing and potential investors, lenders and other creditors, including asset managers, credit institutions and insurance undertakings; and b) other users of general purpose sustainability statements, such as the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations. (Paragraph 4 of Draft Revised ESRS 1)
Value chain	The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates. 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 Glossary)

APPENDIX 4: BIBLIOGRAPHY

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APPENDIX 5: ACKNOWLEDGEMENTS

A5.1 The DP was prepared as part of EFRAG's proactive research work.

A5.2 The DP's content was developed by the EFRAG Secretariat (Vincent Papa, Sapna Heeralall, Vasilis Dionelis, Tamara Eiffes, Ioana Kiss, Andrea Giannini, and former intern, Anna Kessler) under the guidance of the EFRAG CAP and EFRAG's technical governance bodies (EFRAG FRB, EFRAG FR TEG, EFRAG SRB, and EFRAG SR TEG). Special credit goes to the following EFRAG CAP members and observers:

a) EFRAG FR TEG Vice Chair, Jens Berger (Chair),

b) Charles Mario Abela,

c) Martijn Bos,

d) Jorge Capeans,

e) Alessandra Cerutti,

f) Eduardo Damasio (ESMA observer),

g) Dona Dunea (ESMA observer),

h) Deborah Fischer,

i) Simon Gobert,

j) Manuel Liotta,

k) Kirsten Margrethe Hovi,

l) Gaizka Ormazabal,

m) Laura Palmeiro,

n) Sirkku Palmuaro,

o) Martin Petrov,

p) Sabrina Pucci,

q) Valentina Rossi,

r) Thorsten Sellhorn,

s) Jeremy Stuber,

t) Cédric Tonnerre (Illustrations sub-group lead),

u) Leo van der Tas (Concepts sub-group lead),

v) Anna Viefhues,

w) Virginie Vitiello,

x) Isabella Widmer, and

y) Carsten Zielke.

A5.3 The DP also benefited from the input of EFRAG's technical working groups, including EFRAG Academic Panel, EFRAG CFSS, EFRAG FIWG, EFRAG IAWG and EFRAG User Panel, as well as from the perspectives of stakeholders who participated in EFRAG's outreach (see Appendix 1). EFRAG Secretariat (Filipe Alves, Serge Vinogradov), former EFRAG intern, Marilia Karampatsoli, and subject matter experts from the Australian, French and Dutch Standard Setters also provided comments that enhanced the draft versions of this DP. Thanks also go to Daria Delnevo for the communication guidance, to David Calvet and Natacha Calandriello for the editorial review.

EFRAG receives financial support from the European Union – DG Financial Stability, Financial Services and Capital Markets Union. The contents of this document is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

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