

This paper has been prepared by the EFRAG Secretariat for discussion at a public joint meeting of EFRAG FR TEG and SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB / SRB or EFRAG FR / SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB / SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG Connectivity Project Draft Discussion Paper

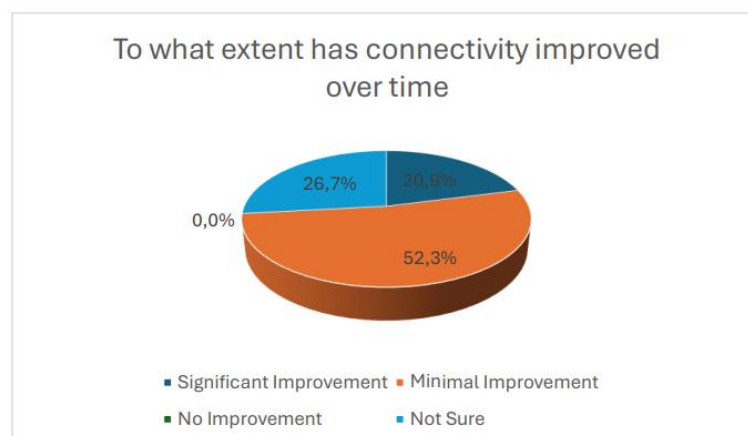
Chapter 3: Illustrations of connectivity

- 1 *This chapter provides illustrations of connectivity, reflecting current practice, based on concepts (enabling attributes, and different types and mechanisms of connectivity of reporting information) explained in Chapter 2 of this Discussion Paper. These illustrations also cover specified anchor points, as described in Chapter 2, and cover different sectors and geographies.*

Introduction

- 2 As indicated in Chapter 1, there is an often observed disconnect between the reporting of sustainability-related risks in the financial statements and the sustainability statement/disclosures. Therefore, it is important to enhance the connectivity of reported information across different parts of the annual report.
- 3 Currently, based on audience response on the extent to which connectivity has improved over time at the [EFRAG Roundtable event](#) on 25 April 2025, there is still some way to go for improvement.

Figure 1: Extent of improvement of connectivity over time



Aggregate analysis of level of connectivity

- 4 The desk research conducted by the EFRAG Secretariat revealed that the most commonly reported material sustainability topics among entities were climate change, business conduct, and own workforce. These findings align with those reported by two Big Four firms¹.
- 5 Based on [a 2025 SFB/TRR paper which studied climate disclosure in financial statements](#), large EU-listed firms have substantially increased climate-related disclosures in their financial statements since 2018. This trend is strongest in firms that have higher exposure to financially material climate-change-related risks, especially due to 'green transition' efforts and related regulation.
- 6 In addition, the EFRAG Secretariat reviewed 59 (primarily) EU entities across multiple industries, drawn from desk research and thematic studies on climate-related disclosures in the financial statements, including one conducted by M. Müller, G. Ormazabal, T. Sellhorn and V. Wagner in May 2025 ([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 Management²). In the reviewed annual reports, there was evidence of alignment of connectivity across reports.
- 7 In the EFRAG Secretariat's review of companies' 2024 annual reports, it was observed that 76% of companies either provided climate-related information in the financial statements, a non-exposure statement regarding climate-related matters in the financial statements, or provided quantitative information on anticipated financial effects in their sustainability statement/disclosures. In their 2023 annual reports, 75% of the reviewed companies provided similar disclosures.
- 8 The above information illustrates that the journey towards connectivity has begun, and the objective of this chapter is to enhance stakeholders' understanding of what connectivity

¹ [EY CSRD Barometer 2025](#) and PwC article [In search of sustainable value: The CSRD journey begins](#)

² Abstract: 'Climate exposure, a firm's financial risks and opportunities related to climate change, is increasingly recognized as a potential driver of firm value. Whereas firms increasingly discuss climate exposure in ESG reports, investors and policymakers worry that the financial statements, the bedrock of corporate reporting, largely ignore it. Studying its reflection in the financial statements, we present three sets of findings. First, EU firms increasingly disclose climate issues related to key accounting items highlighted by standard setters and enforcers, such as asset impairments and contingent liabilities. Second, these disclosures increase in firms' fundamental climate exposure and vary with supply frictions (e.g. preparation costs) and demand (e.g. from enforcers). Third, in contrast to the largely voluntary, unenforced disclosures made outside them, climate disclosures in audited financial statements align more strongly with firms' climate exposure and seem to crowd out climate-related 'cheap talk' — in line with their grounding of the corporate information environment in reliable 'hard facts.' Assessing generalizability, we find similar economic relations at work for large U.S. firms, despite these firms' lower absolute climate disclosure levels.'

means in practical terms through illustrations of connectivity in order to improve reported information.

Objective of illustrations

- 9 **The Discussion Paper's illustrations of connectivity in this Chapter are not to be construed as being part of any aspect of the ESRS's guidance. Rather, these illustrations are only meant to highlight the practical application of connectivity by companies.**
- 10 Most of the connectivity illustrations have been based on the application of current ESRS (see Figure 5 below).

Profile of the illustrations of connectivity

- 11 This Chapter has 17 illustrations, from 15 entities, based on current practice, which cover different mechanisms of connectivity, anchor points (i.e. financial statements and sustainability reporting data points that would be connectivity related), geographies (mostly EU), and sectors. These illustrations have been selected from both the 2023 and 2024 annual reports of entities.
- 12 The illustrations of connectivity can be found in Agenda paper 04-02A (written comments on these illustrations can be provided).
- 13 The documentation of each illustration includes aspects of strategy, business model, impacts, risks, and opportunities (IROs) and entities' actions and governance responsibilities that contextualise the metrics or financial effects in the sustainability statement/disclosures and financial statements.
- 14 Each illustration specifies reports (annual report sections) and anchor points being connected, the type/mechanism/s of connectivity, and underlying sustainability and accounting requirements. The aim is to ensure that the connectivity is viewed both from an integration of information standpoint, as well as highlighting the specific linkage of quantitative and narrative data.
- 15 **Each illustration reflects a specific anchor point and type/mechanism of connectivity and the entire annual report should be looked at to obtain a more complete picture of a company.**

Basis for selecting the connectivity illustrations

- 16 The 17 connectivity illustrations, from 15 entities, which are included in this Discussion Paper (see paragraph 12 above), are drawn from a review of 70+ possible connectivity illustrations that were identified and analysed by the EFRAG Secretariat and EFRAG Connectivity Advisory Panel (EFRAG CAP). The selected illustrations cover different types

of connectivity, anchor points, sustainability-related topics, sector coverage and geographical regions.

Profile of the connectivity illustrations

- 17 Below is a profile of the illustrations covering type of connectivity, the anchor points covered, sustainability-related topics covered, sector coverage and application of ESRS and ISSB Standards.

Figure 2: Breakdown of illustrations per type of connectivity

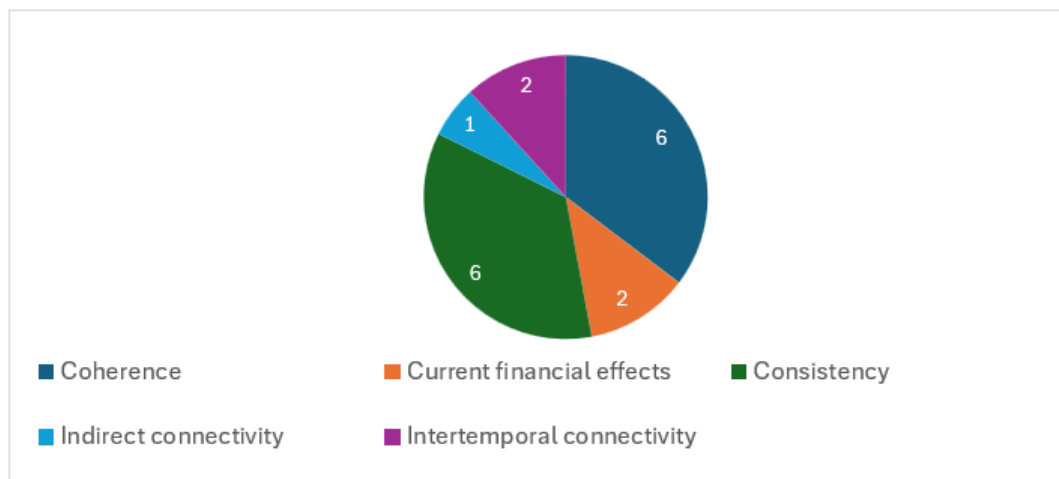
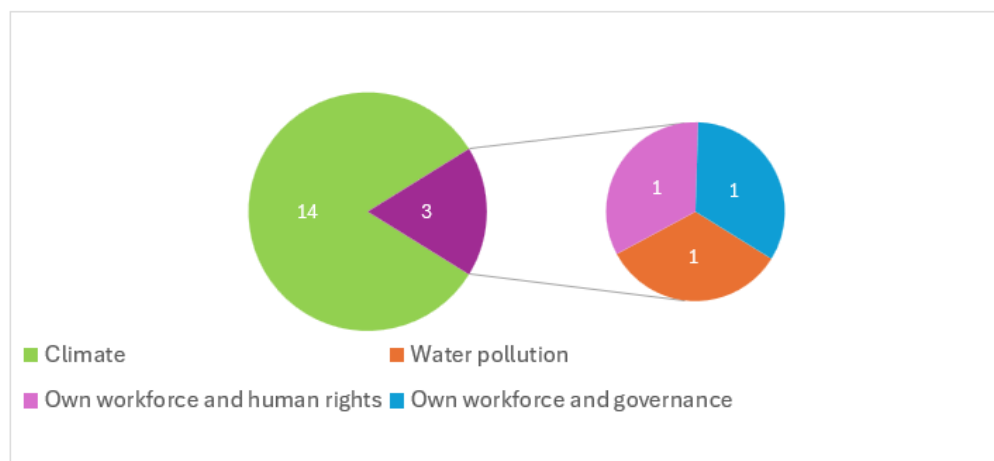


Table 1: Anchor points illustrated

Illustration #	Anchor point
1	Water pollution incident disclosures (SR) and Contingent liability disclosures (FS)
2	Energy optimisation strategy (SR) and PPAs disclosures (FS)
3	Immaterial-exposure statement regarding human rights and own workforce-related incidents in SR
4	GHG emissions and mitigation (SR) and ETS (FS)
5	ESG performance targets in the governance report and share-based payments information in FS
6	Potential impairment of non-financial assets derived from scenario analysis and asset impairment in the FS
7	Narrative on strategy and actions in the management report and FS notes
8	EU Taxonomy investments in Management report and PPE in FS
9	GHG intensity metrics in SR and revenue in FS
10	Business segments disaggregation in strategic report and FS
11	Anticipated financial effects disclosures
12	Anticipated financial effect disclosures related to transition and physical identified risks
13	Sustainability-linked financing information in the FS and management report
14	Assets at risk in SR and assets on balance sheet in FS
15	Climate transition financing in sustainability statement and green assets information financial statements
16	Sustainability-linked loans information in sustainability statement and financial statements

Illustration #	Anchor point
17	Climate-related disclosure in ESG review section and Expected Credit Loss (ECL) note in FS

Figure 3: Breakdown of illustrations per sustainability-related topic:



18 As can be seen in Figure 2 above, most of the connectivity illustrations are climate-related.

Figure 4: Breakdown of illustrations per sector:

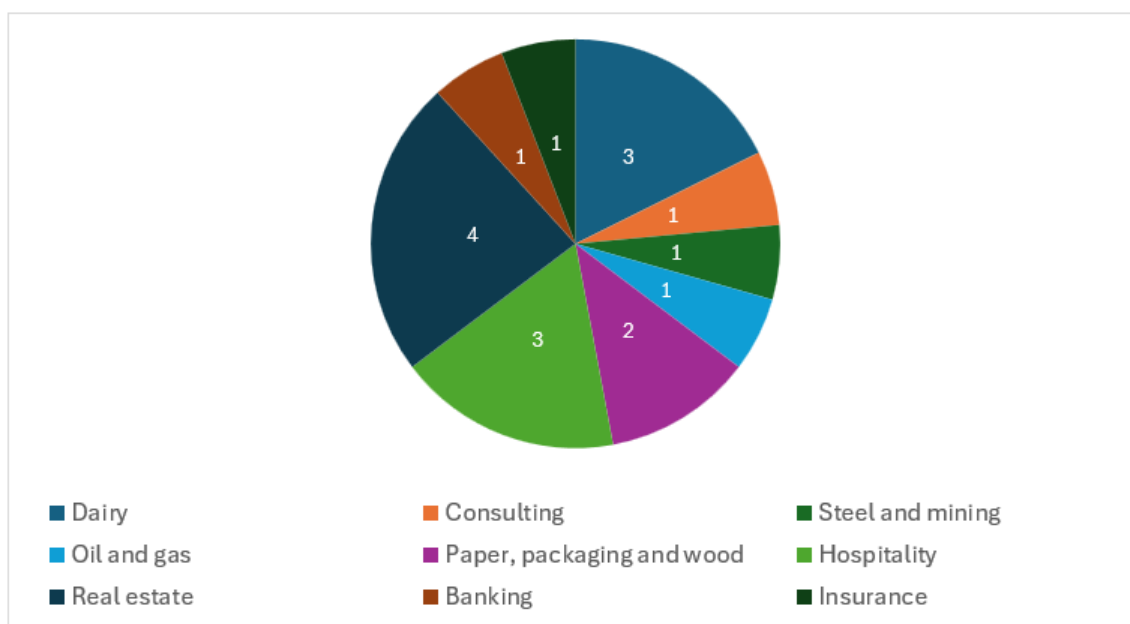
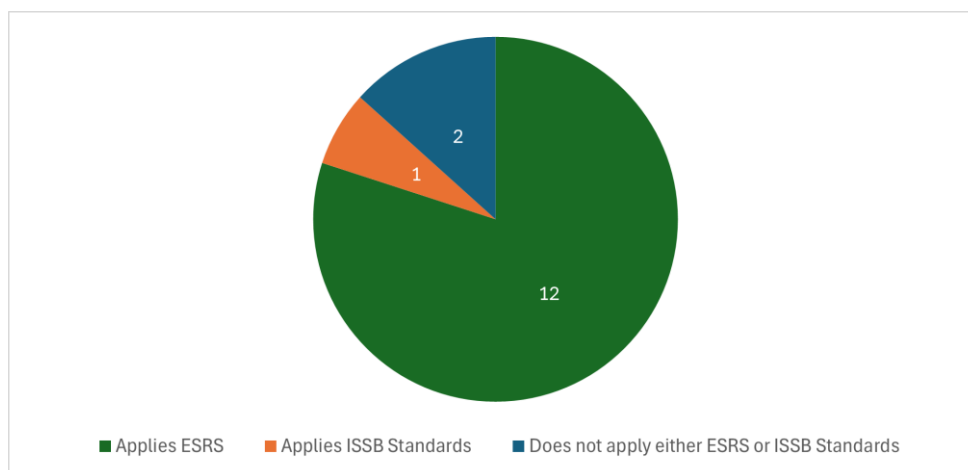


Figure 5: Extent of application of ESRS and ISSB Standards (15 entities)³

³ Of the two entities not applying either the ESRS or ISSB Standards: one reports under NFRD and additionally follows principles from IFRS, GRI, SASB, UNGC, and UN SDGs and one reports in line with TCFD.



Questions for EFRAG FR and SR TEG

- 19 Do you have any comments on the Chapter 3 content above? Please explain.
- 20 The following are suggested questions to constituents, to be included in the Discussion Paper, based on Chapter 3:
- (a) Seeking constituents' views on the 17 illustrations;
 - (b) Seeking constituents' views on the priority and circumstances best suited for applying different connectivity mechanisms (coherence, direct/indirect connectivity, immaterial exposure statement, etc); and
 - (c) Which types/connectivity mechanisms to connect information in different parts of the annual report is being used in practice.

Does EFRAG FR and SR TEG have any comments on the proposed questions to constituents?

Does EFRAG FR and SR TEG have any additional questions to ask the constituents? Please explain.