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

### **Summaries of illustrations**

#### **Contextual overview of connectivity illustrations**

- 1 Below is a summary provided for each illustration which covers the sector, material topic related to the connectivity illustration, the related key IROs, the anchor points and an explanation of the type of connectivity being illustrated. These offer contextual information on the company to better understand the connectivity illustration.
- 2 In the summaries below, 'SR' refers to sustainability statement/disclosures and 'FS' refers to financial statements.

#### **ILLUSTRATION #1:**

##### **COHERENCE BETWEEN WATER POLLUTION INCIDENT & REMEDIATION (SR) AND CONTINGENT LIABILITY (FS)**

**Sector:** Paper and wood

**Material sustainability topic in focus:** Pollution

**Related Key IRO:** Water pollution was identified as one of the critical topics for the Group both for impact and financial materiality.

**Illustration Anchor points:** Water pollution incident disclosures (sustainability statement) under ESRS and contingent liability disclosures (financial statements)

**Type of connectivity illustrated (Coherence):** The details on the incident and the company's past and ongoing remediation actions in the sustainability statement contextualise the disclosure of a related contingent liability in the financial statements.

## ILLUSTRATION #2:

### COHERENCE BETWEEN DISCLOSURE OF ENERGY OPTIMISATION (SR) AND POWER PURCHASE AGREEMENTS ('PPAs') (FS)

**Sector:** Dairy

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Risks include brand value decline if consumers turn away from dairy due to climate-related impacts and regulatory pressure to reduce emissions in the dairy sector. Opportunities include leveraging climate data to access financing.

**Illustration Anchor points:** Energy optimisation strategy (sustainability statement) under ESRS and PPAs disclosures (financial statements)

**Type of connectivity illustrated (Coherence):** The disclosures about the entity's energy optimisation strategy in the sustainability statement (i.e. the proportion of energy consumption originating from renewable sources) contextualise the disclosures about the energy contracted, the location and the contractual commitments of PPAs in the financial statements.

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## ILLUSTRATION #3:

### COHERENCE - CURRENT FINANCIAL EFFECTS (DISCLOSURE OF QUALITATIVELY MATERIAL INFORMATION ABOUT EXPOSURES) RELATED TO OWN WORKFORCE AND HUMAN RIGHTS IN SR

**Sector:** Forest assets, packaging solutions, wood products

**Material sustainability topic in focus:** Own workforce

**Related Key IROs:** Impacts include discrimination, bullying, or harassment despite a zero-tolerance policy and a profit improvement programme, launched in February 2024, that has led to redundancies across operations. Risks include serious or fatal injuries to employees, contractors, or third parties.

**Illustration Anchor points:** Disclosure of qualitatively material information about exposures regarding human rights and own workforce-related incidents, under ESRS, in the sustainability statement

**Type of connectivity illustrated (Coherence):** Information in the sustainability statement clarifying that, since the company's own workforce is a material sustainability-related topic, but no significant human rights issues, work-related incidents, fines, or penalties occurred, there is no need for reconciliation with the financial statements.

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**ILLUSTRATION #4:**

**COHERENCE AND DIRECT CONNECTIVITY BETWEEN DISCLOSURES OF GHG MITIGATION (SR) AND EMISSIONS TRADING SCHEME ('ETS') (FS)**

**Sector:** Forest assets, packaging solutions, wood products

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Includes direct and indirect impacts on climate change which stem from greenhouse gas emissions from production sites and the entire value chain, both upstream and downstream, driven by an energy-intensive production process. There are also long-term climate risks, including rising temperatures, which threaten forests, operations, and wood assets.

**Illustration Anchor points:** GHG emissions and mitigation disclosures in the sustainability statement, under ESRS, and emission rights disclosures in the financial statements

**Type of connectivity illustrated (Coherence, direct connectivity):** Coherence between the greenhouse gas emissions disclosures in the sustainability statement, as the company reports the share of its emissions covered by regulated emissions trading schemes and the emissions rights presented in the financial statements. Specifically, the financial statements detail the accounting treatment and use of emissions rights, including those under the European Union Emissions Trading Scheme (EU ETS).

**Direct connectivity:** There is a cross-reference within the sustainability statement, which has quantitative information on GHG emissions covered by regulated emissions trading schemes, to a financial statements note on emission rights.

**ILLUSTRATION #5:**

**COHERENCE BETWEEN SUSTAINABILITY LINKED METRICS (GOVERNANCE REPORT) AND SHARE-BASED PAYMENT DISCLOSURES (FS)**

**Sector:** Information technology (IT) services and consulting

**Material sustainability topic in focus:** Climate change and Social (Diversity)

**Related Key IROs:** Impacts included direct and indirect contributions to GHG emissions related to its operational and upstream activities, including the use of external data centres, cloud services, and AI development. In addition, there are risks on employees' exposure to unequal treatment, non-inclusive behaviours, lack of diversity, and workplace harassment.

**Illustration Anchor points:** ESG performance targets disclosed in the governance report and share-based payments information in the financial statements

**Type of connectivity illustrated (Coherence):** The company's governance report refers to a Corporate Social Responsibility (CSR) performance condition (the proportion of women as executive leaders and the reduction of carbon footprint per employee) for its share-based payment plans, which is explained in the notes to the financial statements.

#### ILLUSTRATION #6:

##### COHERENCE BETWEEN EXPLAINING WHY POTENTIAL ASSET IMPAIRMENT (MANAGEMENT REPORT) AND ASSET IMPAIRMENT (FS) DIFFER

**Sector:** Oil and gas

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Negative impacts were identified in relation to greenhouse gas emissions, particularly methane. These are contrasted by positive developments such as the advancement of renewable energy, carbon capture and storage technologies, and sustainable energy production. Risks included higher carbon prices, the risk of losing climate-related social license to operate, and market effects linked to climate change mitigation.

**Illustration Anchor points:** Scenario analysis (Potential asset impairment estimate of oil and gas assets) (management report) and asset impairment information in the financial statements

**Type of connectivity illustrated (Coherence):** Coherence via explaining significant differences in assumptions in the management report and the financial statements. Specifically, explaining why the potential asset impairment disclosed in the management report, which is based on “worst-case”/net-zero goals are met decarbonisation scenarios, differs from the asset impairment recognised in the financial statements, which is based on realistic-expectation scenarios.

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#### ILLUSTRATION #7:

##### CONSISTENCY IN AMOUNTS AND NARRATIVE RELATED TO DECARBONISATION BETWEEN MANAGEMENT REPORT & FS

**Sector:** Steel and mining

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Stricter laws and regulations limiting GHG emissions could lead to higher capital and operational expenditure.

**Illustration Anchor points:** Decarbonisation strategy and related investments in the management report and financial statements

**Type of connectivity illustrated (Consistency):** The first excerpt shows consistency in the amounts and qualitative disclosures regarding reported investments in decarbonisation, related to the construction of electric arc furnaces, in the management report and the financial statements.

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In addition, the second excerpt shows a description of strategy and actions on the decarbonisation investments in the management report indicating delayed investments, which is consistent with the financial statements notes indicating no depreciation.

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**ILLUSTRATION #8:**

**INDIRECT CONNECTIVITY (RECONCILIATION) OF EU TAXONOMY CAPEX (SR) TO NON-FINANCIAL ASSETS (FS); IMPLICATIONS OF BOUNDARY DIFFERENCES DISCLOSED**

**Sector:** Oil and Gas

**Material sustainability topic in focus:** Climate Change

**Related Key IROs:** Same as illustration #6 (i.e. the excerpt is from the same company)

**Illustration Anchor points:** EU Taxonomy investments disclosed in the management report and property, plant and equipment disclosures in the financial statements

**Type of connectivity illustrated (Indirect connectivity):** Indirect connectivity is demonstrated through a reconciliation of EU Taxonomy capital expenditure (Capex) reported in the management report with the non-financial assets disclosed in the financial statements.

Additionally, the illustration highlights the implications of differing reporting boundaries between the financial and sustainability statements, particularly in relation to the calculation of the Capex key performance indicator ('KPI'). The voluntary KPI includes Capex related to equity-accounted investees, whereas this is excluded from the mandatory Capex KPI reported in the sustainability statement.

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**ILLUSTRATION #9:**

**CONSISTENCY- DISCLOSURE OUTLINING REPORTING BOUNDARY DIFFERENCES IN INFORMATION USED TO CALCULATE GHG INTENSITY METRIC**

**Sector:** Hospitality

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Negative impact as the entity is dependent on energy-intensive suppliers and uses natural gas resulting in high GHG emissions. Risks include future costs from emission taxes and energy-efficiency investments. Opportunities related to sustainable building certification making properties more attractive, and cost savings by investing in more energy-efficient buildings.

**Illustration Anchor points:** GHG intensity metrics in the sustainability statement (under ESRS) and revenue in the financial statements; outlining reporting boundary differences in information used to calculate GHG intensity metric, based on ESRS and supplementary information according to the European Public Real Estate Association's (EPRA's) requirements.

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**Type of connectivity illustrated (Consistency):** Consistency of data: The company reports on its GHG intensity per net revenue, with the revenue denominator being the same as revenue reported in the financial statements.

There is a disclosure of differences in reporting boundaries. The sustainability statement is prepared on a consolidated basis, aligned with the scope of the financial statements. The company also discloses supplementary outcomes for ESRS E1, E2, and E5 to meet the specific calculation and reporting requirements of the European Public Real Estate Association (EPRA) and science-based targets (SBT) in order to calculate the GHG emission intensity metric.

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#### ILLUSTRATION #10:

##### CONSISTENCY OF SEGMENT INFORMATION IN STRATEGIC REPORT AND FS; OUTLINING REPORTING BOUNDARY DIFFERENCES

**Sector:** Energy and petrochemical

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Short to medium-term physical risks, including hurricanes in the US Gulf Coast, heat in the Middle East, and water scarcity in Europe and Asia. Long-term risks remain uncertain, with no immediate need for adaptation investments. Opportunities include research and development to drive progress toward net-zero emissions across all segments.

**Illustration Anchor points:** Disaggregation of business segments in strategic report (as known in the UK context; also known as management discussion & analysis in the US context/management report in the EU context) and the financial statements

**Type of connectivity illustrated (Consistency):** Consistency in the use of segment categories across both the financial statements and the strategic report in relation to assets exposed to climate risk, as well as operating expenses and capital expenditure linked to the energy transition.

The second excerpt shows a table included in the sustainability statement explaining the reporting boundary differences between reporting based on operational control versus financial control, including how these are treated under the ESRS framework.

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#### ILLUSTRATION #11:

##### INTERTEMPORAL CONNECTIVITY (ANTICIPATED FINANCIAL EFFECTS DISCLOSURES); COHERENCE & CONSISTENCY OF RISKS BETWEEN TCFD REPORT AND PRINCIPAL RISKS SECTION

**Sector:** Packaging and paper

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**Material sustainability topic in focus:** Climate change

**Related Key IROs:** The group identified six categories of physical (e.g., higher wood procurement costs) and transition risk (e.g., energy supply costs). Two categories of opportunities were also identified (e.g., changing customer demand for more sustainable products).

**Illustration Anchor points:** Annual estimated financial impacts disclosures (similar to anticipated financial effects disclosures) under the TCFD recommendations; sustainability-related IROs and business model and strategy disclosures in the strategic report

**Types of connectivity illustrated (Intertemporal connectivity-connectivity over reporting periods, coherence, consistency):** The first excerpt shows the quantitative and qualitative disclosure (in TCFD report) of possible annual estimated financial impacts of climate change-related risks and opportunities in the sustainability report over the short, medium and long-term horizon.

The second excerpt shows that there is consistency of assumptions between the entity's Principal Risks section, and its IROs in the sustainability section of the strategic report, as climate change is identified both as a principal risk and as a material topic. The information in the sustainability section explains how climate change risks are linked to the strategy in driving performance along the value chain and highlights that operational risks factor in environmental risks.

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**ILLUSTRATION #12:**

**INTERTEMPORAL CONNECTIVITY (CONNECTIVITY OVER REPORTING PERIODS)- ANTICIPATED FINANCIAL EFFECTS DISCLOSURES)**

**Sector:** Mining and energy

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Transition risks include increased costs and reduced market share due to regulations on GHG emissions. Physical risks relate to extreme weather conditions which may impact operations and communities. The identified opportunities relate to increased demand for more efficient products and growing demand for energy transition metals.

**Illustration Anchor points:** Anticipated financial effect disclosures related to identified transition and physical risks in the sustainability-related financial information report under ISSB Standards

**Type of connectivity illustrated (Intertemporal connectivity-connectivity over reporting periods):** Quantitative and qualitative disclosures of possible anticipated financial statements effects of climate change-related risks for both transition and physical over the short, medium and long-term time horizon (e.g. costs incurred due to carbon pricing mechanisms)

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**ILLUSTRATION #13:**

## CONSISTENCY OF SUSTAINABILITY-LINKED LOANS BETWEEN MANAGEMENT REPORT AND FS

**Sector:** Real estate property

**Material sustainability topic in focus:** Climate change mitigation

**Related Key IROs:** Identified impacts include negative impacts due to its shopping centres/corporate offices and value chain and a positive impact on the implementation of actions to reduce Scope 3 GHG emissions. Identified risks include increased costs due to evolving legislation, and increased investment requirements to support the green transition. The resulting opportunities are reduced energy costs from lower emission technology.

**Illustration Anchor points:** Sustainability-linked financing amounts disclosed in the notes to the financial statements and the management report

**Type of connectivity illustrated (Consistency, coherence):** Consistency between the amount of sustainability-linked financing the company has received, including green loans with sustainability-linked features and green bonds, reported in the management report and the financial statements.

Moreover, further narrative context on the green loan facilities is provided in the management report, by explaining that they are aimed at reducing the entity's GHG emissions and improving its energy efficiency. In addition, the notes to the financial statements also provide further narrative context on the green bonds, by explaining that the proceeds are aimed at allocating resources to environmentally sustainable buildings.

### ILLUSTRATION #14:

#### COHERENCE OF EXPOSURE SENSITIVITY BETWEEN SR AND FS INFORMATION; CONSISTENCY BETWEEN ASSETS AT RISK IN SR AND FS

**Sector:** Banking and Financial Services

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Climate risk is material over the longer term for credit risk. In addition, the entity assesses the exposure of its corporate loans to environmental and social risks.

**Illustration Anchor points:** Assets at risk disclosed in the sustainability statement (under ESRS) and assets (corporate loans) on the balance sheet in the financial statements

**Type of connectivity illustrated (Coherence, consistency):** The sustainability statement contextualises the disclosures on the notes to the financial statement on corporate loans, by disclosing the sensitivity of corporate loans to physical and transition risk for each sub-sector, including the extent of negative impact. Further, the risk management section indicates that the entity adequately provisioned for climate risks in its credit risk assessment.



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Also, the corporate loan amount in the financial statements is consistent with the assets (corporate loans) at risks amount disclosed in the sustainability statement.

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#### ILLUSTRATION #15:

##### CONSISTENCY OF DISCLOSURES ON AMOUNTS OF GREEN INVESTMENTS IN FS AND SR; COHERENCE OF INFORMATION ON TARGETS BETWEEN SR AND FS

**Sector:** Insurance

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Positive and negative impacts, as well as risks and opportunities, are presented from both an investor and an insurer perspective. For example, the use of environmental criteria on climate change in investment decisions is a positive impact, and there is a risk of unrealised losses in the value of invested assets as a result of climate change.

**Illustration Anchor points:** Climate transition financing disclosed in the sustainability statement (under ESRS) and green assets information in the financial statements

**Type of connectivity illustrated (Consistency, coherence):** The first excerpt shows consistency of amounts and narrative information of its green investments, which include the entity's investments aimed at the development of the renewable energy sector, between the sustainability statement and the financial statements.

The second excerpt shows coherence, as the entity is measuring the carbon intensity of its assets under management, in alignment with its strategy to have a net-zero GHG emissions investment portfolio by 2050.

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#### ILLUSTRATION #16:

##### CONSISTENCY OF SUSTAINABILITY-LINKED LOANS' AMOUNTS IN SR AND FS

**Sector:** Banking and Financial services

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** The group has assessed both climate-related transition and physical risks across its portfolio, using a structured approach based on industry vulnerability. Identified impacts include GHG emissions from the lending portfolio. Identified risks include the exposure to counterparties and sectors that potentially face high climate-related transition risks and opportunities include revenue generation related to climate change mitigation and adaptation.

**Illustration Anchor points:** Information on sustainability-linked loans' amounts in the sustainability statement (under ESRS) and the financial statements

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**Types of connectivity illustrated (Consistency):** Consistency in the reported amounts of sustainability-linked loans, including off-balance sheet commitments, between the sustainability statement and financial statements. These loans are linked to transition-related KPIs, which, if not met, affect the interest rate charged.

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**ILLUSTRATION #17:**

**DIRECT CONNECTIVITY – EXPECTED CREDIT LOSS DISCLOSURE IN SR, CROSS-REFERENCE TO NOTES IN FS**

**Sector:** Banking and Financial Services

**Material sustainability topic in focus:** Climate change

**Related Key IROs:** Identified risks are a reduction in household income and wealth and lower asset performance over the short to long-term.

**Illustration Anchor points:** Climate-related disclosures in ESG review section and Expected Credit Loss ('ECL') note in the financial statements

**Type of connectivity illustrated (Direct connectivity):** The disclosure in the ESG review section cross-references the note in the financial statements stating that there is no material impact on ECL. The risk review section discloses a scenario analysis about the impact on the wholesale lending portfolios of increases in ECL, according to different climate scenarios.

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