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EFRAG research project on connectivity-

Discussion Paper Draft content

PROPOSED DRAFT CHAPTER 5

CONSIDERATIONS FOR ENHANCING CONNECTIVITY OF REPORTED INFORMATION

Overview- Considerations for enhancing connectivity of reported information

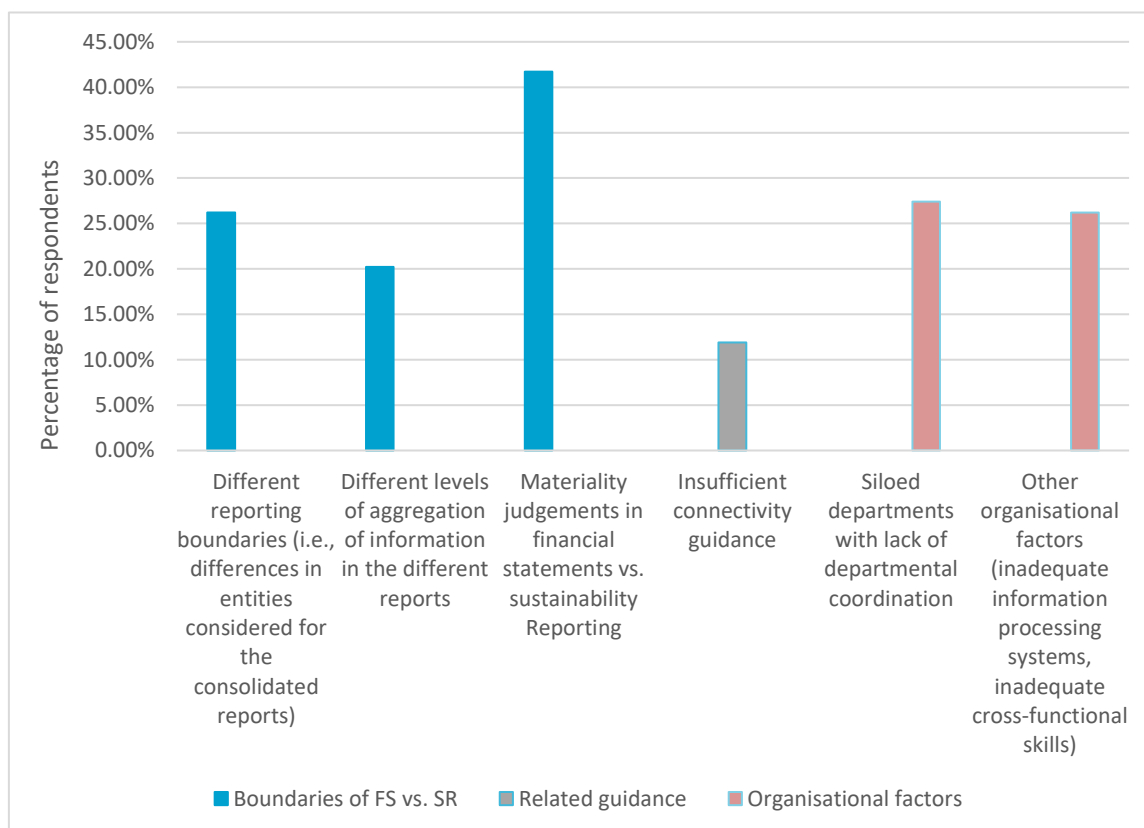
- 1 Feedback from EFRAG’s outreach¹ affirmed the importance of the connectivity of the information reported in the annual report. However, this feedback, along with the review of reporting practices, shows that there is still some way to go before connected reporting becomes a mainstream feature of reporting.
- 2 Building on the findings in Chapters 3 and 4 (illustrations and aggregated observations of connectivity in practice), and drawing from the feedback during EFRAG’s outreach, this Chapter primarily provides considerations for enhancing the connectivity of information across different annual report sections (i.e., general purpose financial statements, sustainability statement/disclosures, other parts of the management report, etc.).
- 3 In broad terms, the lack of connectivity of information across different annual report sections (i.e., general purpose financial statements, sustainability statement/disclosures, other parts of the management report) could be related to:
 - (a) information that would be reasonably expected to be connected across reports but is not (e.g. information related to sustainability-related risks and opportunities that is reported in both financial statements and the sustainability statement/disclosures).
 - (b) information that cannot be connected. For example, due to materiality judgements in the context of the financial statements’ objectives, certain sustainability-related information may be reported in the sustainability statement/disclosures but not in the financial statements. In such cases, expectations of connectivity of information across reports would be an expectation gap.
- 4 This chapter focuses on addressing situations where information would be reasonably expected to be connected across reports but is not. It is noted that educational material would be appropriate for situations where there is an expectation gap (rather than a shortcoming of reporting requirements) on what ought to be reported.
- 5 Because the ESRS requirements, including connectivity requirements and guidance, are under revision, this Chapter does not focus on providing any possible alternatives or suggestions for reviewing sustainability reporting requirements. It only provides

¹ This includes feedback obtained during a) the meetings of the EFRAG CAP, the EFRAG FR and SR pillar technical governance bodies, and EFRAG’s advisory working groups (EFRAG IAWG, EFRAG FIWG, EFRAG User Panel, and EFRAG CFSS); b) EFRAG’s outreach interviews and EFRAG’s [April 2025 multi-stakeholder webinar](#). Stakeholders’ feedback was also obtained during EFRAG’s presentations of the 2024 EFRAG Connectivity project’s initial paper, *Connectivity Considerations and Boundaries of Different Annual Report Sections*.

considerations to stimulate further feedback on aspects of possible enhancement to connectivity, which have surfaced during EFRAG’s outreach.

- 6 Figure 4.1 below outlines the aspects that were identified during EFRAG’s outreach to stakeholders, which contribute to the lack of connectivity of information across reports.

Figure 4.1: Stakeholders’ perspective on sources of connectivity challenges



- 7 Moreover, during EFRAG’s outreach, the required disclosure of anticipated financial effects under ESRS Set 1 and ISSB Standards was a focal point of discussion. However, stakeholders’ views shared about this particular ESRS Set 1 requirement are not analysed any further in this Chapter because the requirement is under review based on the Revised ESRS ED proposals (see Chapter 2), and the related decisions will be made after the EFRAG SR pillar’s governance bodies’ redeliberation on constituents’ feedback to the ED.
- 8 Based on the feedback from EFRAG’s outreach and the discussions had with EFRAG CAP, EFRAG FR TEG and EFRAG FRB in May and June 2025, the following considerations for enhancing the connectivity across reports are further analysed in this chapter:
- (a) **Consideration 1: Clarifying the boundaries of financial statements:** In EFRAG’s response to the 2024 IASB ED *Climate-related and Other Uncertainties in the Financial Statements* (COUFS), it was noted that expectation gaps sometimes arise due to a lack of clarity amongst stakeholders on the boundaries of the financial

statements. Moreover, other stakeholders have voiced concerns about stretching the boundaries of the financial statements. Across several EFRAG workstreams, discussions of the boundaries of financial statements have arisen. This has been in the context of 1) the reporting of climate-related matters, 2) the requirements of reporting business combinations' synergies, which is being addressed in the IASB's Business Combinations Disclosures, Goodwill & Impairment (BCDGI) project, and 3) the disclosure location of unrecognised intangibles. And in these discussions, some placement principles have been suggested. In addition, the possible migration of items from outside of and into the financial statements in future reporting periods is an important consideration while considering the universe of items, which are related to the financial statements across time horizons. All these aspects are further detailed in paragraphs 9 to 23.

- (b) **Consideration 2: Application of financial materiality in financial statements and sustainability reporting.** What differentiates material information in the financial statements from that which is financially material information in the sustainability statement? For instance, when should forward-looking information (e.g. transition plan investments, commitments and future-oriented expenses) be disclosed in the financial statements? These questions relate to clarifying the boundaries of financial statements and are further analysed in paragraphs 24 to 34.
- (c) **Consideration 3: Differences in level of aggregation or disaggregation:** Sustainability reporting is often far more granular than financial statements information, which is classified and aggregated or disaggregated based on the elements of financial statements (i.e., assets, liabilities, equity, income, expenses). The analysis in paragraphs 35 to 42 reviews considerations arising from the differing levels of aggregation or disaggregation.
- (d) **Consideration 3: Implications for connectivity of the differences of organisational reporting boundaries between financial statements and sustainability reporting** (i.e. entities, operations, and assets reported on). The respective organisational reporting boundary/ scope of consolidation applied for financial statements and sustainability reporting (i.e., an aspect of basis of preparation) affects the connectivity of reporting information. As noted in Chapter 2, unlike the scope of the financial statements, under ESRS Set 1, the organisational reporting boundary encompasses the value chain, albeit different sustainability matters can have

different² organisational reporting boundaries. Moreover, the notions of ‘own operations’ and ‘operational control’³ applied in sustainability reporting do not exist within IFRS accounting requirements. The Revised ESRS ED proposals align the reporting boundary of sustainability reporting to that of the financial statements. Hence, the analysis in paragraphs 43 to 45 is limited to a review of the implications of any remaining⁴ differences in the respective financial statements and sustainability reporting organisational reporting boundaries for the connectivity of reported information.

- (e) **Consideration 5: Enhancing connectivity in process** (including governance within organisations). Even though, as noted in Chapter 1 that the primary focus of the DP is on the connectivity of reported information, which is observable, as noted in Chapters 1 and 2, ‘connectivity in process’ contributes to the connectivity of reported information. At the same time, except for the information disclosed about the governance and controls within an organisation, ‘connectivity in process’ cannot be observed from outside the organisation. In this respect, as highlighted in Chapter 4, 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. Moreover, during EFRAG’s outreach, stakeholders have underscored the importance of and the steps that could enhance ‘connectivity in process’, as detailed in paragraphs 46 and 47.
- (f) **Consideration 6, Digitisation.** Currently, the conversation about connectivity is largely framed through the lens of PDF reports. The analysis in paragraphs 48 to 53 provides considerations for digitisation based on structured data provision and AI developments, which could foster connectivity of reported information.

²For instance, under ESRS, environmental disclosure encompasses information from the value chain, while governance disclosures are limited to information from the reporting entity’s own operations.

³ In Appendix II, Table 2 (Definitions in the ESRSs), 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". For example, according to ESRS 1 AR 40 operational control exists when the entity (i.e. the parent company or a subsidiary) has the licence – or permission – to operate the assets of unconsolidated joint ventures, associates, non-significant subsidiaries and contractual arrangements.

⁴ Under Revised ESRS ED proposals, immaterial subsidiaries with material IROs will be in the scope of consolidation of metrics disclosed in sustainability reports based on ESRS.

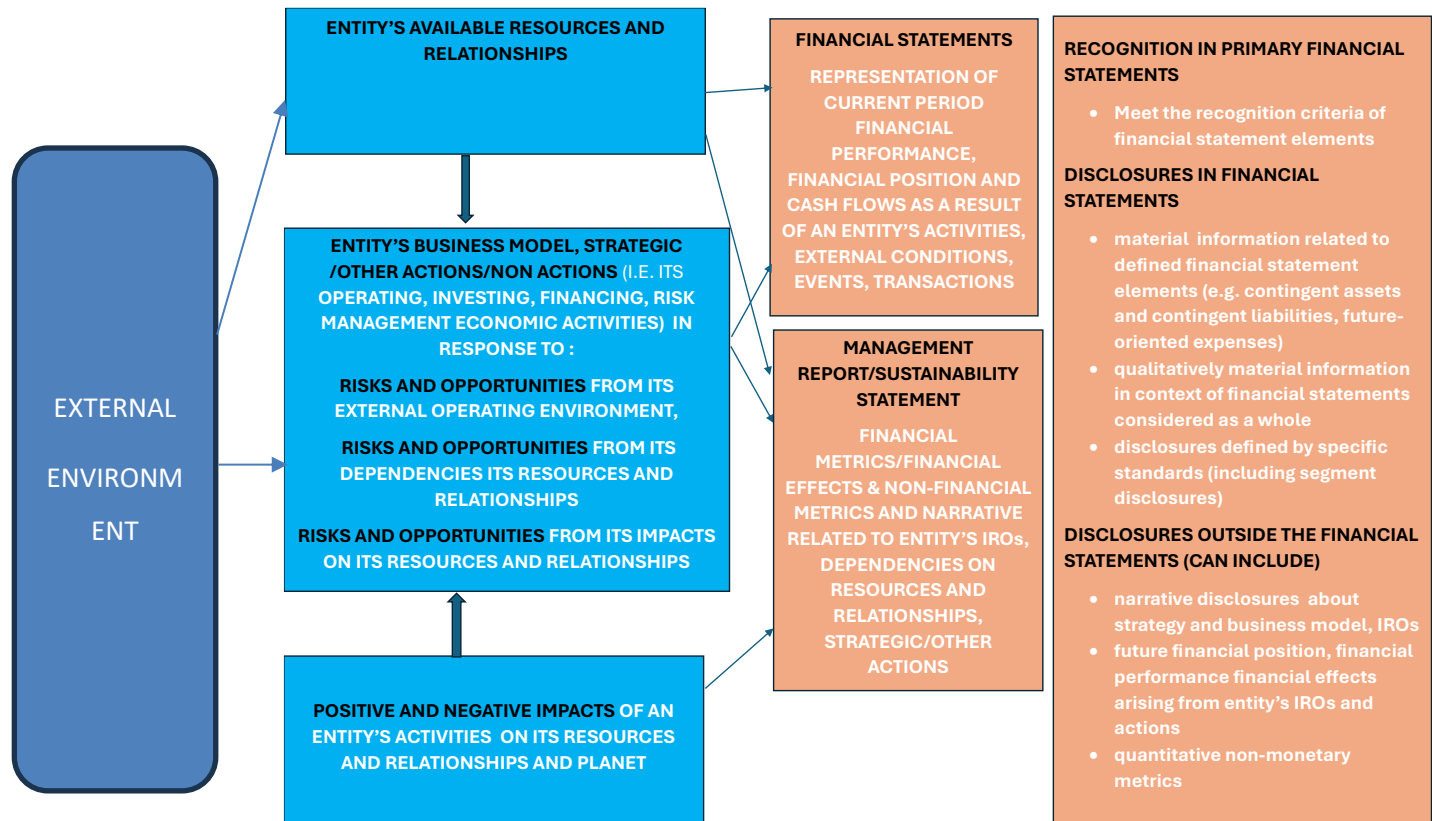
Further analysis of considerations for enhancing connectivity

Consideration 1: Enhancing the definition of the boundaries of financial statements

Overview

- 9 Ensuring there is clarity amongst stakeholders on the boundaries of different reports (i.e. the dividing line/distinguishing factors that specify the information on transactions, activities, conditions, events, and impacts included within different reports) can help to shape expectations on the reporting and connectivity of information across different reports.
- 10 As a backdrop to the analysis of boundaries of different reports, the below diagram (Figure 4.2) outlines how an entity's reporting within and outside the financial statements flow from the interplay between the entity's strategy, its business model deployment, and actions in response to a) its available resources and relationships, and b) the risks and opportunities that arise from its external environment, its dependencies on its available resources and relationships, and its impacts.

Figure 4.2 Interplay between an entity's strategy, business model, actions and its reporting outcomes



Source: EFRAG⁵ - Reporting outcomes (including financial effects reported within and outside the financial statements) are depicted in beige-coloured boxes.

Requirements for disclosures of information in the financial statements, management report, and sustainability reporting

- 11 **Financial statements:** The recognition of elements of primary financial statements (assets, liabilities, equity, income, and expenses) is guided by the requirements of accounting standards (e.g. IFRS Accounting Standards, local GAAP). Unlike the management report

⁵ Below is a definition of the terms applied in the above diagram

- 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 MCPS).
- **Metric (financial and non-financial metrics)**- A measure used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position (Sourced from 2025 MCPS).
- **Financial effects:** Financial effects are the financial metrics depicted as an entity's assets (controlled economic resources) or potential assets, commitments/obligations, claims, current or potential income, and current or potential expenses. It also encompasses qualitative or quantitative descriptions of effects on an entity's cost of capital and access to finance.
- **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: ISSB educational material).
- **Dependencies**- How an entity directly or indirectly depends on resources and relationships to generate future cash flows (Source: 2024 ISSB educational material).

and sustainability statement/disclosures, which consider all resources and relationships available to the reporting entity, financial statements only depict resources owned/controlled by the reporting entity and claims on these resources.

12 IFRS 18.16 states that the role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for:

- (a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;
- (b) making comparisons between entities, and between reporting periods for the same entity; and
- (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

13 IFRS 18.17 states that the role of the notes is to provide material information necessary:

- (a) to enable users of financial statements to understand the line items presented in the primary financial statements; and
- (b) to supplement the primary financial statements with additional information to achieve the objective of financial statements.

14 For IFRS reporting entities (including EU-listed entities), the disclosures in the financial statements result from the general and specific IFRS Accounting requirements. In general, the following can be considered the guiding principles for the disclosures of information in the financial statements.

- (a) Disclosures should only relate to defined assets and liabilities (including contingent liabilities) and thus should be guided by specific IFRS Accounting Standards.
- (b) Disclosures are provided if deemed material for financial statements by users and are done on the basis of general requirements under IAS 1.31 (paragraph 20 of IFRS 18). Disclosures can also be provided based on paragraph 125 of IAS 1⁶(paragraph 31A of IAS 8) and this would relate to information about the assumptions a reporting entity makes about the future, and other major sources of estimation

⁶ Paragraph 125 of IAS 1 [Paragraph 31A of IAS 8] requires an entity to disclose information about the assumptions it 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. The paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of the assets and liabilities.

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.

- 15 The guidance for developing and drafting disclosure requirements (developed after the completion of the *Disclosure Initiative – Targeted Standards Level Review of Disclosures* project) indicated that disclosures can include information about unrecognised assets and unrecognised liabilities including information about their nature and the risks arising from them.
- 16 Management report, sustainability statement/disclosures: For EU entities, the sustainability statement within the management report is prepared based on ESRS requirements and the management report is prepared based on the EU Accounting Directive and country-specific requirements. Figure 4.6 outlines other key differences between the financial statements, the management report, and the sustainability statement under the EU reporting architecture.

Figure 4.3: Comparison of different AR sections (EU corporate reporting)

Financial statements (FS) (Source: Conceptual Framework)	Management report (Source: EU Accounting Directive)	Sustainability statement (Source: EU Accounting Directive and ESRS)
<p>Reflects financial position, financial performance at reporting date (present assets and liabilities)</p> <p>Primary audience of financial capital providers</p> <p>Includes information material to FS users</p> <p>Recognition depends on financial control, separability of items, existence/occurrence and measurement uncertainty considered</p> <p>Reporting entity- entities in scope of consolidation depend on financial control</p>	<p>Reflects entity's performance, position and development; it is traditionally a part of <u>general purpose</u> financial reporting with financial materiality perspective</p> <p>Under CSRD, management report can be deemed to be part of <u>general purpose</u> sustainability reporting</p> <p>Provides description of principal risks and uncertainties</p> <p>Primary audience is knowledgeable user</p> <p>Implicit that it has same reporting entity as FS</p>	<p>It is a section of the management report</p> <p>Discloses entities' sustainability impacts, risks and opportunities</p> <p>Discloses financial effects of IROs in short, medium and long term</p> <p>Audience of stakeholders including investors and other users with interest in entity's impacts on planet and economy</p> <p>Financially and/or impactfully material information included</p> <p>Same reporting entity as FS, consideration operational control in calculation of environmental metrics</p>
<p>Observations</p> <ul style="list-style-type: none"> - Materiality is interrelated with objectives and audience; similarity in the definition of financial materiality and difference of information in different AR sections stems from differences in their objectives - Similarities: overlaps in information related to current financial performance and financial position; same reporting entity, informs financial capital allocation decisions and users' assessment of management's stewardship of entity's own resources - Differences: FS does not focus on representing information related to future financial performance and financial position. Application of operational control in only SR extends the related reporting boundary beyond that of FS; sustainability statement informs on externalities, CSR (stewardship of planetary and societal resources) 		

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

Factors that distinguish the boundaries of different reports (AR sections)

17 Different literature⁷ (standard setters', audit firms', and academic literature⁸) identifies the following differentiating dimensions of information in different annual report sections:

- (a) *Nature of information/subject matter or topics* (e.g., non-monetary metrics would primarily be reported outside the financial statements, greater emphasis on narrative information in sustainability statement/disclosures relative to financial statements, governance disclosures would typically be disclosed outside the financial statements);
- (b) *Different materiality perspectives* are applied for financial statements and sustainability reporting information. For financial statements (where materiality is gauged relative to defined elements of financial statements) and sustainability reporting information (where materiality is gauged relative to an entity's/undertaking's IROs) (see Appendix 1, assessment of materiality requirements within and outside the financial statements, for further analysis).
- (c) *Organisational reporting boundary* (i.e. entities, operations, and assets reported on) (see Chapter 2 and Paragraphs 40-42).
- (d) *Time horizon covered* (e.g. extent of orientation towards forward-looking or retrospective information in a report, and extent of coverage of anticipated financial effects).
- (a) *Differences in recognition criteria for the reporting of* transactions, events, and conditions. Notably, a 'past event' and meeting a threshold of occurrence/existence and measurement certainty is required for the recognition of information in the primary financial statements or disclosure of contingent liability or contingent asset in the notes to the financial statements. For this reason, sustainability-related risks

⁷ 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).

⁸ Bayne (2022) outlines 10 dimensions that define boundaries of different reports include: 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**.

that are expected to result in future cash outflows⁹ may fail to meet the criteria for recognition as provisions or disclosure as contingent liabilities. And sustainability-related opportunities¹⁰ do not qualify to be recognised as assets or disclosed as potential revenue in the financial statements.

- (e) *Differences in presentation/level of aggregation between financial statements and the sustainability statement/disclosures* (see paragraphs 35 to 42 for further analysis).

Areas where questions on the boundaries of financial statements have arisen

18 Discussions on the placement of information and boundaries of financial statements have been held at EFRAG in relation to:

- (a) climate-related commitments (see paragraphs 24 to 34 below),
- (b) synergies realised as a result of business combinations, and
- (c) unrecognised intangibles.

19 For synergies realised as a result of business combinations under the IASB BCDGI project, it was observed that similar performance information was not required for other acquisitions, and a question arose as to why this information was needed for business combinations. It was noted that non-financial information did not belong in the financial statements, and some information was prohibited from public disclosure in some jurisdictions until regulatory requirements are met (for example, workforce-related information).

20 EFRAG's discussion on the disclosure of unrecognised intangibles occurred in the context of the mixed feedback received on this aspect during the consultation on the 2021 EFRAG Discussion Paper¹¹ *Better Information for Intangibles*. The general view expressed was that

⁹ 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 (i.e., probable outflow of economic resources) for many sustainability-related circumstances.

The 2021 EFRAG PTF-NFRS publication observed that there could be an increased reporting of sustainability-related risks as liabilities if more legal/regulatory measures were taken and 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).

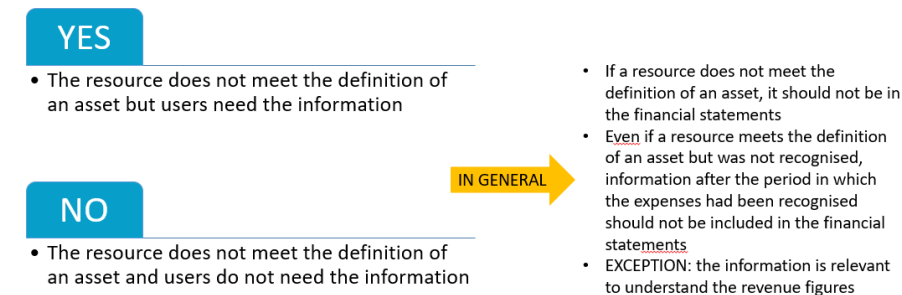
¹⁰ Potential assets could be a) the economic value of potential reuse of materials (circular economy); and b) the potential future economic value from sustainability-related research and development activities that are not recognised as intangible assets.

¹¹ EFRAG 2021, [Better information on intangibles - Which is the best way to go?](#)

if a resource does not meet the definition of an asset, consistent with paragraph 3.6-b of the Conceptual Framework for Financial Reporting, whether it should be disclosed in the financial statements would depend on users' needs. As a general rule, information related to resources that do not meet the definition of an asset should be placed outside the financial statements. For resources that would meet the definition of an asset but had not been recognised, related information after the period in which the expenses had been recognised, should, as a general rule, be placed outside the financial statements unless information about the asset was relevant for understanding the revenue figures of an entity. Information on items that could be said to have a value (although not meeting the definition of an asset) could (but not necessarily should) be provided in the financial statements.

- 21 The implication of the above paragraph (see the diagram below- Figure 4.4) is that:
- Some of the information not provided in the financial statements should be included in sustainability reporting (e.g., information on staff training).
 - Information on 'future-oriented expenses' should be disclosed in the financial statements (e.g., Sustainability-related research and development expenditures on carbon capture technologies that are not recognised as assets).

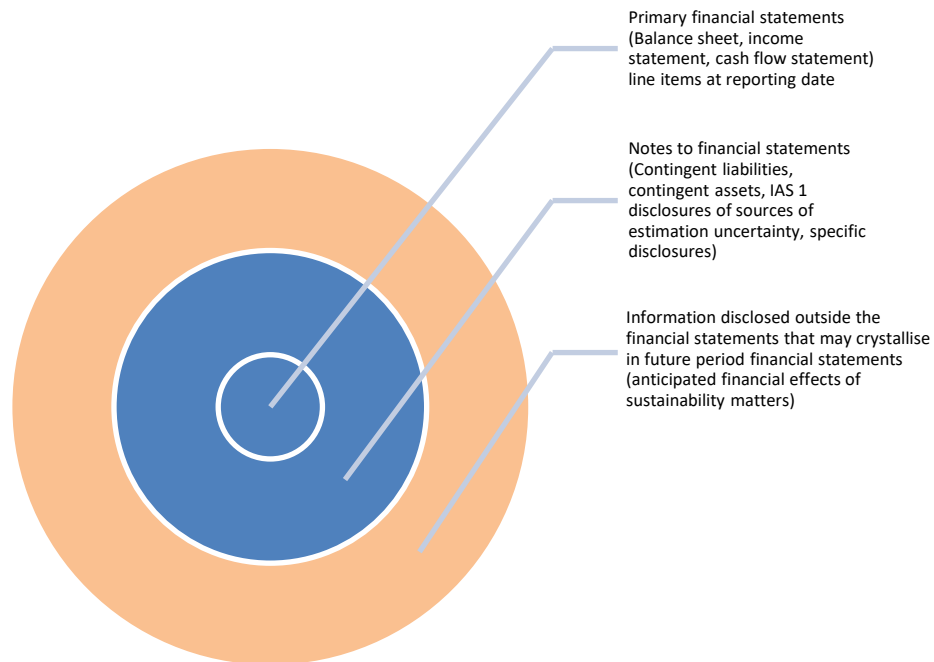
Figure 4.4 Should intangibles be disclosed in the financial statements?



Possible future period migration of items from other parts of the annual report into the financial statements

- 22 Chapters 2 and 3 highlight the dynamic or intertemporal aspect of connectivity. In this regard, as depicted in Figure 4.5, items disclosed in the annual report outside the financial statements (e.g., the sustainability statement/disclosures and other parts of the management report) may crystallise in the financial statements in future periods (e.g., at a future date, a commitment disclosed in the management report may become either a disclosed contingent liability or recognised provision).

Figure 4.5 Schema of possible financial effects in future reporting periods



- 23 As a result, the consideration of the boundaries of financial statements likely has to encompass the consideration of a) items that may crystallise in the financial statements in future periods, and b) indicators of migration of items from other parts of the annual report into the financial statements.

**Consideration 2: Application of materiality for climate-related commitments-
Distinction between financial materiality in the context of sustainability reporting and
financial statements information**

- 24 Consideration 2 (application of materiality in sustainability reporting and the financial statements) is related to consideration 1 (clarifying the boundaries of the financial statements). For background purposes, the Appendix recaps the materiality perspectives under the EU reporting framework and IFRS general purpose financial reports.

Should material climate-related commitments and other forward-looking transition plan-related information be disclosed in the financial statements?

- 25 As conveyed by the 2025 IASB COUFS set of illustrative examples, [2019 IASB education article](#) and [\(updated in a 2023 IASB educational article- Effects of climate-related matters in the financial statements\)](#), IFRS Accounting Standards (i.e. both general requirements and specific standards) have implicit requirements for entities to either report material climate-related and other uncertainties (including other sustainability-related uncertainties) in the financial statements, or to explain why these uncertainties were not reported in the financial statements when they were reasonably expected to be material by investors.

- 26 Moreover, the April 2024 IFRIC agenda decision¹² clarified that a public statement on net zero commitments would only be a constructive obligation if it created a valid public expectation. Thereafter, a provision would only be recognised or a contingent liability disclosed if there is a past event and an expected outflow of economic resources. However, this agenda decision did not address other possible related disclosures (i.e., besides contingent liabilities). Hence, the below analysis only focuses on whether forward-looking climate-related commitments should be disclosed in the financial statements. And this is not intended to reignite a discussion about whether a provision should be recognised in the statement of financial position, or contingent liabilities disclosed in the notes.
- 27 Related to the fact pattern considered for April 2024 IFRIC agenda decision, it is noted that, in response to this 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 in 2024, users 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.

View supporting disclosures of forward-looking climate-related commitments in the financial statements

- 28 Stakeholders supporting disclosures of forward-looking climate-related commitments have argued that this should be done based on the IFRS Accounting general disclosure requirements (Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18]) and paragraph 3.6-b of the Conceptual Framework for Financial Reporting, which requires consideration of whether information is useful for users.
- 29 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance. Relatedly, in its comment letter response to the 2024 IASB COUFS ED, EFRAG acknowledged that paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) is an essential requirement within IFRS accounting literature, as it can be applied to ensure the

¹² 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.

reporting of material information in the financial statements (including in the context of connectivity) that is not required by specific IFRS accounting requirements as was the case with the IASB ED Example 1¹³ (statement of immaterial exposure¹⁴).

- 30 Stakeholders supporting disclosures of climate-related commitments have argued that if information is material in the context of financial statements, it ought to be disclosed regardless of whether similar information is disclosed outside the financial statements (e.g., management report or sustainability statement/disclosures). Several of these stakeholders, including national standard setters,¹⁵ have voiced a concern that a qualitative materiality assessment, which considers investor expectations on what ought to be material information, is not always sufficiently done during the preparation of financial statements.

View against disclosures of climate-related commitments in the financial statements

- 31 Other stakeholders¹⁶ have noted that applying paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) to include disclosures on climate-related commitments would be too liberal an interpretation of this general disclosure requirements (e.g., by focusing on what is missing at a line-item level instead of assessing materiality by viewing financial statements holistically) and such an application would stretch the boundaries of the financial statements and likely result in unnecessary duplication of information reported outside the

¹³ Fact pattern- 2024 IASB COUFS ED Example 1: 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 because: (a) the affected manufacturing facilities are nearly fully depreciated; (b) the recoverable amounts of the affected cash-generating units significantly exceed their respective carrying amounts; and (c) the entity has no asset retirement obligations. There are no required disclosures under specific IFRS Standards (IAS 16, IAS 36 and IAS 37). As users would reasonably expect impact on the financial statements, applying IAS 1.31, the entity discloses its transition plan has no effect on its financial position and financial performance and explains why.

¹⁴ In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect of the announced regulation on the entity's financial position and financial performance would provide material information. That is, omitting, misstating or obscuring this information could reasonably be expected to influence decisions that primary users of the entity's financial statements make on the basis of those financial statements.

¹⁵ See a) AASB, October 2023, [Auditors' Perspectives: The Impacts of Materiality Practice Statement 2- Making Materiality Judgements](#); this report notes that anecdotal evidence from audit partners, and academic research, reveal the materiality concept to be applied by report preparers and auditors largely in a mechanical fashion, without the sufficient nuance or systemic context required to appropriately make materiality judgements that provide decision-useful information to report users, and b) [UKEB September 2023 report](#)

¹⁶ April 2024 IFASS meeting ([see report page 69](#)).

financial statements (i.e. sustainability statement/disclosures or other parts of the management report).

- 32 These stakeholders were of the view that paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) ought to be only invoked in specific circumstances, and it should not be a way of capturing broad topics. Some of them opined that this requirement should only relate to transactions, events and conditions affecting the current financial position and financial performance, and not to possible future financial position and financial performance items.

Concluding thoughts on the application of general disclosure requirements as the basis of disclosing forward-looking climate-related commitments

- 33 As shown above, there are mixed views on the application of paragraph 31 of IAS 1 (paragraph 20 of IFRS 18). That said, some level of clarification of the application of this paragraph has been provided by the 2025 IASB illustrative examples, where it is stated that this 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. Nonetheless, some stakeholders have called for related application guidance with the view that clarification should not be primarily done through illustrative examples.
- 34 Finally, it is noted that, for Chapter 3's illustrations of connectivity, disclosures based on paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) were considered as an anchor point and related examples were sought after. However, from the review of a sample of 70+ companies' reports and several other thematic reviews of reporting practices, there were no observed examples of this paragraph being applied. It is nonetheless not possible to infer that this relates to the underreporting of material climate-related information based on not sufficiently considering qualitative materiality.

Consideration 3: Level of aggregation or disaggregation

Requirements for aggregation or disaggregation in the Financial Statements and Sustainability Disclosures/Statement

35 For both the financial statements and sustainability reporting, 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.

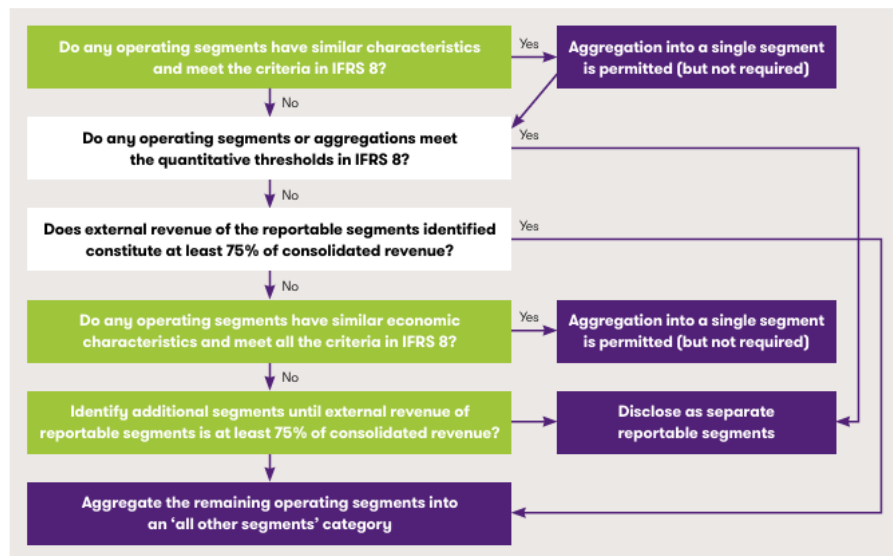
- (a) *IFRS Accounting Standards:* As described in paragraph 41 of IFRS 18 *Presentation and Disclosure in Financial Statements*, in the primary financial statements, the financial statement elements are classified¹⁷ and aggregated¹⁸ into items based on shared characteristics, and items are disaggregated 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) Under IFRS 8 *Operating Segments*, Paragraph 12 indicates that two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have

¹⁷ 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. (Conceptual Framework for Financial Reporting Paragraphs 7.7-8)

¹⁸ 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)

similar economic characteristics, and the segments are similar 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.’

The following flowchart takes into account the requirements noted in this article as well as ‘Insights into IFRS 8 – Reportable segments’ to describe the process involved in aggregating operating segments:



Source-Grant Thornton

- (c) *ISSB Standards*: 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. For example, 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.
- (d) *ESRS*: For aggregation or disaggregation under ESRS, Revised ESRS ED (Paragraphs 51 and 52 of draft ESRS 1) would require undertakings to reflect the level at which significant variations of material impacts, risks or opportunities arise, such as by topic, sector, subsidiary, country, location, water basin, site, asset or other appropriate level of aggregation/disaggregation. It is also stated that the

undertaking shall ensure that the level of aggregation and disaggregation does not obscure information that is material.

Observations and issues raised during outreach and connectivity illustrations development

General observations

- 36 As noted during the April 2025 EFRAG webinar, relative to the financial statements, sustainability reporting often requires more granular data by project, site or activity to reflect the specific ESG impacts, such as individual projects, facilities or specific activities. Disaggregation by country may also be required, especially when material IROs differ across the geographies.
- 37 During EFRAG's outreach, stakeholders highlighted instances where there were differences in the level of aggregation/disaggregation of related information in the financial statements and sustainability reporting. For instance, a preparer from a banking financial institution indicated that investments in green finance are typically material for the sustainability report 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). In addition, it was noted that training expenses may not be material for presentation as a separate line item in the financial statements but may be material for the sustainability statement.
- 38 Moreover, the review of reporting practices showed that assets vulnerable to physical risk may be disclosed by location in the sustainability statement/disclosures, but not be similarly disaggregated in the financial statements. For instance, this can be seen in illustration 15, where in its sustainability statement, a banking institution disaggregates its loan portfolio, distinguishing between the exposures to different climate-related physical risks (acute and chronic risks).
- 39 The above instances are likely a reflection of the application of materiality within the respective contexts of financial statements' objectives and sustainability reporting's objectives (i.e. aggregation of information of similar characteristics or disaggregation of information of dissimilar characteristics, and it does not obscure other relevant information). In other words, there is no indication of any shortfall in either the financial statements' or sustainability reporting's aggregation or disaggregation requirements, and the observed differing levels of granularity across FS and SR simply reflect what is material for each of these reports.

40 *Gross versus net exposure presentation:* Several stakeholders observed that sustainability reporting typically depicts gross exposure before mitigation, while the financial statements typically depict the net exposure, and that this difference in level of aggregation hampers connectivity. In this respect, it is noted that:

- (a) This aspect is primarily related to the depiction of an entity's risk management and risk exposures. The Revised ESRS ED has proposals for circumstances when it is appropriate to report exposures on a gross versus net basis. Specifically, if a potential negative impact is managed by a past, completed action, the company assesses its materiality after considering the mitigation (on a net basis). If a potential negative impact requires ongoing mitigation or prevention measures, the company must assess its materiality before considering the mitigation (on a gross basis).
- (b) While the line items in primary financial statements are indeed, in many situations, reported on a net exposure 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 agreement¹⁹ and disclosures of risk management strategy under hedge accounting disclosures²⁰).
- (c) In other commentary (e.g., EFRAG's response to the IASB COUFS ED), EFRAG observed that, when related to long-time horizons, some stakeholders find disclosures of potential exposure (e.g. undiscounted amounts) in the notes to the financial statements to be useful²¹. On this basis, it could be inferred that gross exposure disclosures can be useful.

Possible issue with the level of aggregation or disaggregation

41 Material sustainability-related items are rarely disclosed in the segment breakdown. For instance, across the 17 illustrations of connectivity in Chapter 3, of which sustainability

¹⁹ See IFRS 7.13A-C. IFRS 7.13C-a states that "an entity shall disclose...the gross amounts of those recognised financial assets and financial liabilities."

²⁰ IFRS 7.22A-c- 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.

²¹ In its comments on Example 7 in the IASB ED (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.

related matters were material in both the financial statement 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. Concurrently, it is noted that under ESRS Set 1, ESRS 2 (paragraph AR 14-c), in preparing disclosures related to its business model and value chain, an undertaking shall consider the cost structure and revenue of its business segments in line with IFRS 8 requirements; and under paragraph ESRS 2.40b there is a requirements for a reconciliation of ESRS sectors' revenue to IFRS 8 information²².

- 42 The question could arise whether the above observation 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 setters²³ 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 to determine reportable segments). It is possible that this could be the root cause of the seeming under-representation of sustainability-related matters in the segment disclosures of the 70+ companies analysed as part of EFRAG's connectivity project. That is, sustainability-related matters, which have a long-term horizon, may not fall within the ambit of what management monitors regularly for operational purposes.

Consideration 4: Implications of the differences in the organisational reporting boundaries of financial statements and sustainability reporting- implications for connectivity

- 43 As detailed in Chapter 2, under the Revised ESRS ED proposals, the scope of consolidation of sustainability reporting will be the same as that of financial statements (which is based on financial control), except for the following:

²² Set of ESRS 2.40-b 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.

²³ 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](#).

- (a) The application of operational control for sustainability reporting is still permissible in certain circumstances²⁴.
- (b) As was the case under ESRS Set 1, immaterial unconsolidated subsidiaries for the financial statements can be in the scope of consolidation of sustainability reporting if these subsidiaries have material sustainability-related IROs.
- (c) There is no equivalent to the equity method of accounting under sustainability reporting.

- 44 During EFRAG’s outreach, stakeholders highlighted a few connectivity-related issues that may arise from differences in financial statements and sustainability reporting boundaries under ESRS Set 1’s requirements (e.g., the risk of misinterpreting GHG and Energy intensity metrics based on revenue if the numerator is determined based on operational control). In this regard, it is noted that the Revised ESRS ED proposals require the scope of consolidation of environmental metrics to be the same as that of the financial statements.
- 45 From a connectivity standpoint, a reconciliation of the different scopes of consolidation is helpful. In this regard, as noted in Chapter 4, 13 out of the 15 illustrations included in Chapter 3 indicated the extent to which there were similarities or differences in the scope of consolidation between the sustainability statement/disclosures and the financial statements. So far as there is an explanation of the differences in organisational boundaries (e.g., via a reconciliation), users of the reported information ought to be able to identify what information cannot be connected across the two reporting domains.

Consideration 5: Enhancing connectivity in process

- 46 As noted earlier in the chapter, the information disclosed about governance, including who bears responsibility for managing sustainability risks, can be indicative of the connectivity in process within companies. In this respect, both ESRS and ISSB Standards have requirements for governance disclosures related to sustainability-related matters.
- 47 Across the stakeholders’ feedback (i.e., preparers, auditors, and users), there was a broad acknowledgement of the need to integrate their financial and sustainability reporting functions. The following points of note were raised during the outreach.
- (a) *Challenges integrating sustainability data into company systems:* Preparers highlighted the challenges of translating sustainability data into quantitative information, and they indicated that they often relied on estimates.

²⁴ As detailed in Chapter 2, the ESRS ED proposes that, under certain circumstances, subject to fair presentation assessment, an undertaking should provide a separate disclosure of the metrics consolidated based on operational control.

- (b) *Need for supporting organisational structure and collaboration across sustainability and financial reporting departments:* Stakeholders mentioned the importance of organisational structures that support integrated reporting, with sustainability and financial data managed under a single control system.
- (c) *Need for robust internal controls:* Stakeholders underscored the importance of robust internal controls across the entire annual report, not just financial statements.
- (d) *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.

Consideration 6: Connectivity and technology

- 48 Technology can be a potential enabler of connectivity between financial and sustainability reporting. Beyond the provision of digital access, it facilitates both structural and analytical links across different forms of disclosure.
- 49 *Structured data provision/XBRL tagging:* At the core of this development is XBRL (eXtensible Business Reporting Language) tagging, which provides a standardised and machine-readable format for financial and sustainability information. 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.
- 50 According to Houllier et al. (2022), there are five distinct ways in which XBRL can link financial and sustainability reporting:
- (a) Arcs meant for exploration: expressing the existence of a connection where the exact relationship is not defined
 - (b) Standard arcs: capturing a specific technical relationship
 - (c) Non-standard arcs: conveying a technical or semantic relation, creating a new, domain-specific connection
 - (d) Arc labels: specifying the precise nature of a relationship
 - (e) Formulas: defining a technical relation when a close association exists between two concepts

	How many relationships can the relation be applied to?	How specific is the relation it describes?	How much work is required to define and maintain it?	How much work is required from software providers to work with it?
Arcs meant for exploration	Can always be used.	Expresses the existence of a connection, but not much is known about the nature of the relation.	Only requires identification of related concepts.	Standard but not especially meant for navigation.
Other standard arcs	Requires a close relationship between both taxonomy concepts.	Expresses a specific technical relation.	Requires careful consideration of consequences on the validity of documents.	None (standard).
Non-standard arcs	Depends on the meaning behind the relationship.	Expresses a specific technical or semantic relation.	Requires definition of relationship, documentation, and support.	Depends on the relationship and its specification, generally non-negligible.
Arc labels	Can always be used, but there is not always relevant information to add in a title.	Since it documents a specific relationship, it should express the exact nature of the relationship.	Potentially large amount of work if many connections are documented.	Little (standard but seldom used).
Formulas	Requires a close relationship between both taxonomy concepts.	Expresses a specific technical relation.	Requires careful consideration of consequences on the validity of documents, even more so with complex formulas.	None (standard).

- 51 The interoperability between financial and sustainability taxonomies further strengthens 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. 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.
- 52 *Role of Artificial Intelligence (AI)*: 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, AI lacks the precision of XBRL tagging, particularly in relation to contextual interpretation and the analysis of tabular data. For this reason, AI and XBRL are best understood as complementary: digital tagging provides reliable and structured data points, while AI enhances the analytical and interpretative processes built upon them.
- 53 In sum, the future of connectivity in corporate reporting will rely upon the combined use of digital tagging, interoperable taxonomies, and AI-enabled analysis. Together, these technologies create a more transparent, accessible, and comparable reporting environment, ultimately strengthening the decision-making capabilities of regulators, investors, and other stakeholders.

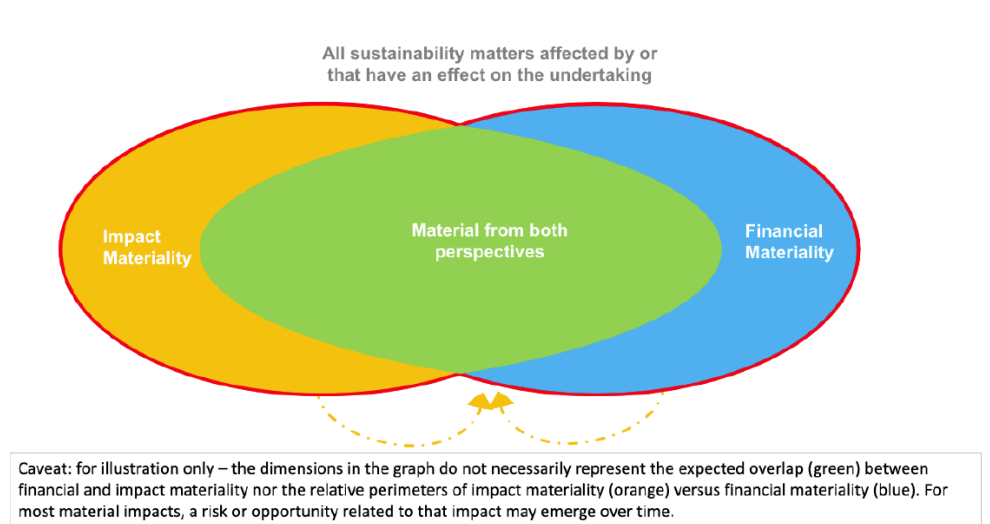
APPENDIX: MATERIALITY PERSPECTIVES (EU & IFRS GENERAL PURPOSE FINANCIAL REPORTS)

- 1 As noted in Chapter 1, both the EU reporting framework and IFRS general purpose financial reports are in the scope of this Discussion Paper. Thus, a recap of the application of the materiality concept is done with respect to both these reporting frameworks, including the similarities and differences in the objectives and materiality definitions of these different reports.

Materiality definition of SR versus financial statements under the EU reporting framework

- 2 Due to the broad set of users of the sustainability statement (primary users of financial statements, affected stakeholders (proposed to be referred to as users of general purpose sustainability statement under the Revised ESRS ED proposals), and other users), as depicted in the diagram below and detailed in ESRS 1 of ESRS Set 1 and the [May 2024 EFRAG IG1: ESRS Materiality Assessment Implementation Guidance](#) (EFRAG MAIG), the sustainability statement is prepared from both a financial materiality and impact materiality perspective (i.e., double materiality).

Figure 4.11: Excerpt from the May 2024 EFRAG ESRS Materiality Assessment Implementation Guidance



- 3 **ESRS Set 1 materiality definitions:** Under ESRS Set 1, a sustainability matter is ‘material’ when it is either impactfully material or financially material or both (ESRS 1. 28). A sustainability matter is material from a financial perspective (financially material) ‘if it triggers or could reasonably be expected to trigger material financial effects on the undertaking’ (ESRS 1. 49). Financial materiality is assessed from the perspective of the primary users of general-purpose financial reports in making decisions relating to providing

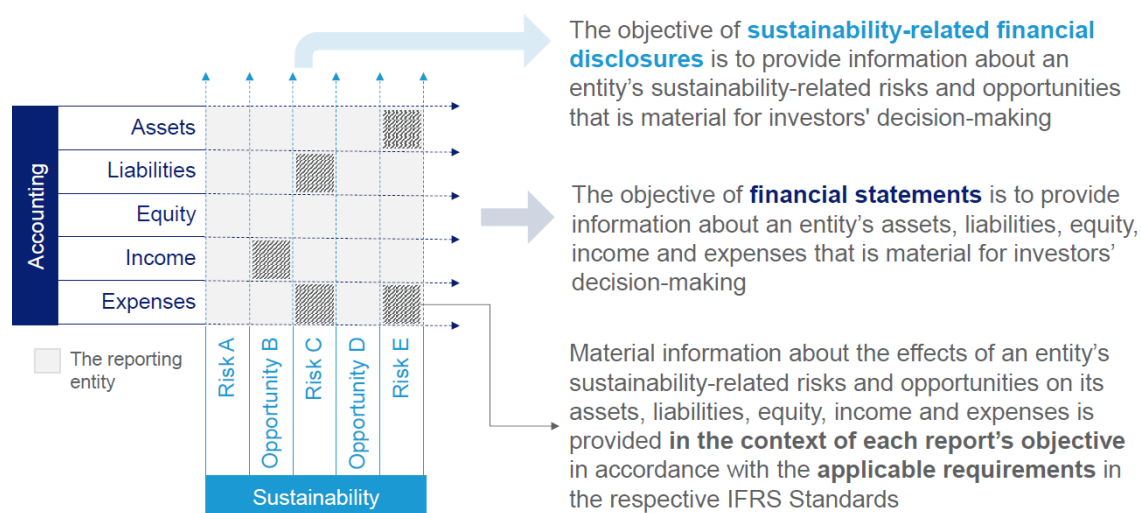
resources to the entity (ESRS 1. 48). A matter is impact material when it ‘... *pertains to the undertaking’s material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term. Impacts include those connected with the undertaking’s own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Business relationships include those in the undertaking’s upstream and downstream value chain and are not limited to direct contractual relationships.*’ (ESRS 1. 43). EFRAG ESRS MAIG Paragraph 37 notes that ‘*For most material impacts, a material risk and/or opportunity may emerge over time*’²⁵...

Objectives and materiality definitions of IFRS general purpose financial reports

- 4 Different pieces of guiding literature²⁶ from the IASB and ISSB (i.e. Conceptual Framework for Financial Reporting, Appendix A of IFRS S1 *General Requirements for Disclosures of Sustainability-related Financial Information*, IFRS 18 Presentation and Disclosure in the Financial Statements, and the June 2025 IASB *IFRS Practice Statement 1- Management Commentary* (2025 MCPS), and related staff papers for the finalisation of the 2025 MCPS) provide definitions that convey the objectives, and materiality definitions of the different IFRS general purpose financial reports (i.e. IFRS general-purpose financial statements, sustainability-related financial disclosures, and management commentary). These different reports have a broad overlapping objective (i.e. to provide useful financial information about a reporting entity to primary users-investors related to providing resources to the entity). They also have distinctive objectives (e.g., general purpose financial statements provide information about financial statements’ elements, and sustainability-related financial disclosures provide information about sustainability-related risks and opportunities). Consequently, as shown in Figure 4.12 below, the information that is material depends on the context of the respective objectives of each distinctive general purpose financial report.

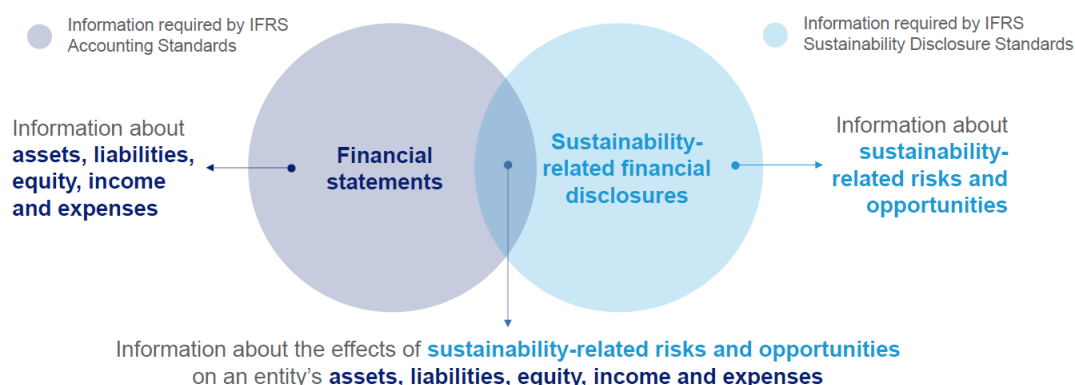
Figure 4.12:

²⁵ For example: a) an oil and gas undertaking identifies a material negative impact from not consulting or reaching an agreement with indigenous’ people about land use for extraction and relocation of the community. At the reporting date, the undertaking does not expect protests from the indigenous community. However, the community may later protest, halting the site production, causing material costs due to production days lost or the abandonment of the project; b) an undertaking has discriminated based on gender when promoting employees during the current reporting year. At the reporting date, the undertaking does not expect that the employees will pursue legal proceedings. However, the group of employees, individually or as a whole, may sue for financial compensation at a later stage on the grounds of gender discrimination and cause reputational damage to the undertaking.’



Source- IASB-ISSB slide presentation at the 2024 World Standard Setters Forum

- 5 The [November 2024 ISSB publication- Sustainability-related risks and opportunities and the disclosure of material information](#) (2024 ISSB materiality educational material) notes that the distinct scopes of the reported information—including differences in relevant time horizons and the types of information required to meet the respective objectives of sustainability-related financial disclosures and the related financial statements—mean that distinct materiality judgements are necessary for those disclosures and the related financial statements. It is also noted that, as depicted in the figure below, sustainability-related financial disclosures that provide information about sustainability-related risks and opportunities are not limited to information about whether those risks and opportunities have affected or relate to an entity's assets, liabilities, equity, income or expenses.



- 6 Moreover, Figure 4.4, which is excerpted from a November IASB staff [Agenda Paper 15B](#) related to the 2025 MCPS- Appendix A indicates there has been an alignment in the definitions of materiality for the different IFRS general purpose reports with the differentiating factor being the objective of the report (i.e. primary users use different IFRS general purpose financial reports to assess different aspects of the same purpose while making capital allocation decisions).

Conceptual Framework for financial reporting	IAS 1 Presentation of Financial Statements / IFRS 18 Presentation and Disclosure in Financial Statements	IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	Staff recommendation for refinements to the proposal in the Exposure Draft in mark-up
Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity.	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 of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or 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.	In the context of 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.	In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of general purpose financial reports, which include the management commentary and of the related financial statements and which provide information about a specific reporting entity.

Source: IASB staff paper

- 7 From the above, a salient difference between financial statements and other general purpose financial reports seems to be that the materiality of financial statements' information is made solely on the basis of financial statements. On the other hand, the materiality of information within sustainability-related financial disclosures under ISSB Standards and management commentary developed based on the 2025 MCPS guidance is considered in conjunction with financial statements information.

ESRS Set 1 versus IFRS general purpose financial reports- similarities and differences in the application of the materiality concept

- 8 As noted above, ESRS encompasses both financial materiality and impact materiality (i.e., double materiality), and its definition of financial materiality is the same as the definition of materiality for IFRS general purpose financial reports (i.e. financial statements, sustainability-related financial disclosures, and management commentary).
- 9 Impacts: Though ISSB Standards do not have the notion of impact materiality (and double materiality), they require the disclosure of information about how an entity's activities impact people and the environment when these impacts give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, and the related information about those impacts is material to primary users. IFRS S1 explains that an entity's dependencies and impacts give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.
- 10 Materiality determination: The materiality determination under ESRS Set 1 involves two steps: a) determining which sustainability matters/topics are material and should be covered in a sustainability report; and b) determining which information within such matters/topical standards is material and should be disclosed. In contrast, for sustainability-related financial disclosures under ISSB Standards, entities are required to

decide which of their sustainability-related risks and opportunities could be reasonably expected to affect the entity's prospects and thereafter to decide which information is material for investors.

- 11 Similarly, related to management commentary, the 2025 MCPS has requirements for entities to ascertain key matters²⁷ before deciding on the material information. In other words, unlike ESRS, the ISSB Standards and the IASB management commentary guidance only refer to material information with no reference to material matters (i.e., materiality is seen as a property of information).
- 12 That said, there still seems to be an implicit two-step approach applied to determine material information for management commentary and sustainability-related financial disclosures under IFRS general purpose financial reports. Hence, the difference may be more of a matter of framing than essence.

²⁷ Matters would be identified as 'key' if they are 'fundamental to the entity's ability to create value and generate cash flows'.