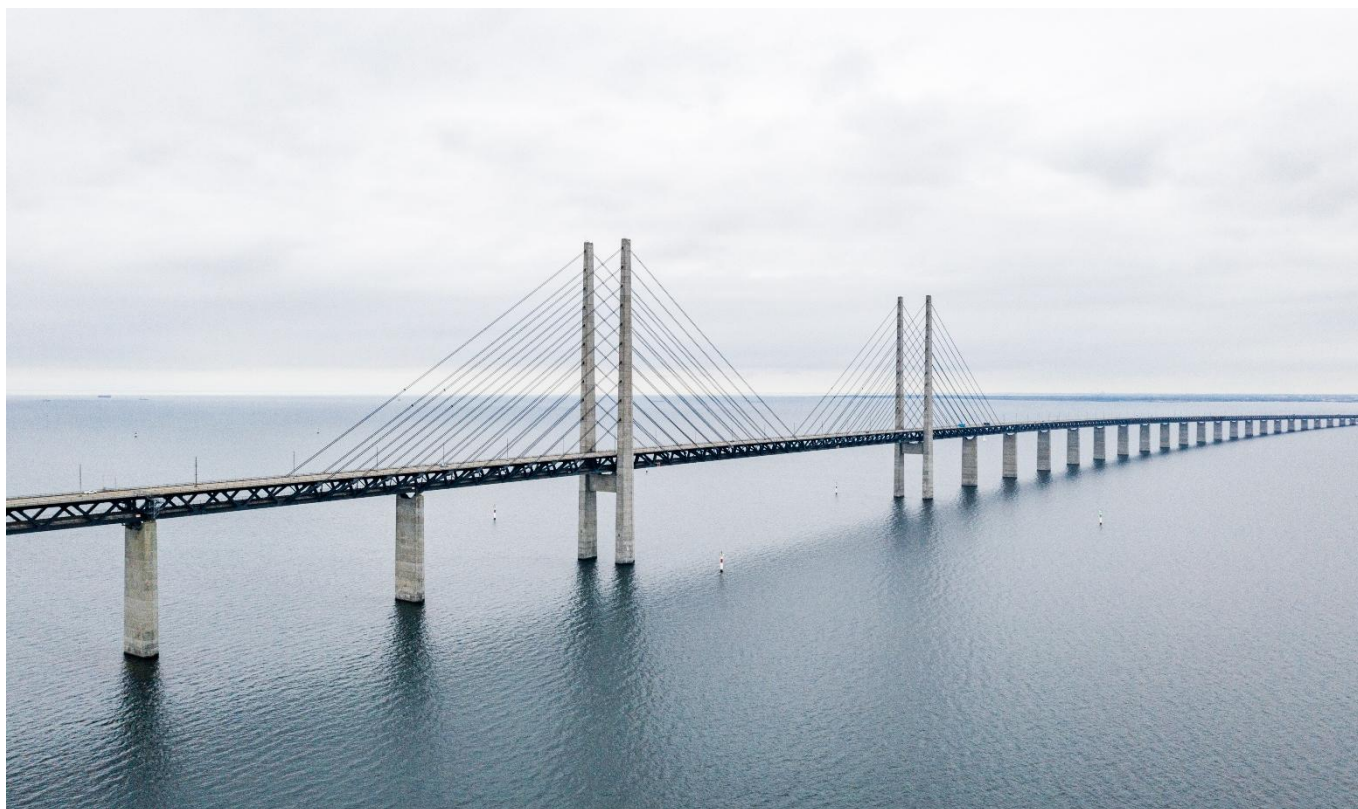


**ROUNDTABLE
DISCUSSION – PRACTICAL
CONSIDERATIONS FOR
CONNECTING FINANCIAL
AND SUSTAINABILITY
REPORTING
WEBINAR REPORT
25 APRIL 2025**



Introduction

As part of EFRAG's research project on connectivity, on 25 April 2025, EFRAG organised a multi-stakeholder online joint outreach webinar/roundtable on practical considerations for connecting financial and sustainability reporting. The roundtable was moderated by the EFRAG Connectivity Advisory Panel (EFRAG CAP) Chairman and EFRAG Financial Reporting Technical Expert Group (EFRAG FR TEG) Vice Chair Jens Berger. It consisted of an overview of EFRAG's research project on connectivity, the presentation of four illustrations of connectivity, and follow-up discussions among eight multi-functional experts (three preparers, two users, two auditors and one enforcer) on the illustrations and practical aspects of connectivity. The roundtable had 600-plus attendees.

This report summarising the roundtable has been prepared for the convenience of European constituents and other EFRAG stakeholders who attended the webinar/roundtable and for those who are interested in the topic of connectivity.

Opening



The moderator, EFRAG CAP Chairman and EFRAG FR TEG Vice Chair Jens Berger, welcomed the attendees to the multi-stakeholder roundtable. He then gave an overview of the roundtable's twofold objectives: that is, to respectively discuss in separate sessions (a) four selected illustrations of connectivity and (b) practical challenges with implementing connectivity. The webinar's exchanges will inform EFRAG's forthcoming Discussion Paper. The results of the four polling questions posed during the webinar can be accessed through [this link](#).

Following the introduction, Vincent Papa from the EFRAG Secretariat outlined the background¹ of EFRAG's research project on connectivity. He noted that the multi-stakeholder EFRAG Connectivity Advisory Panel (EFRAG CAP) has been guiding the connectivity project with a Discussion Paper expected to be published this year, while an interim deliverable paper ([Initial Paper – Connectivity Considerations and Boundaries of Different Annual Report Sections](#)) was published in 2024. He also referred to other initiatives by ESMA and the IASB-ISSB on connectivity. Finally, he outlined what connectivity means in the context of EFRAG's project, noting that the term means different things to different people. He noted the different types/mechanisms of connectivity being illustrated during the webinar (i.e. coherence, consistency, direct and indirect connectivity via cross-referencing and reconciliations, and the disclosure of current and anticipated financial effects) were drawn from the ESRS, ISSB Standards and the IASB Management Commentary Practice Statement revision-related guidance. More information on EFRAG's research project on connectivity is available on [EFRAG's website](#).

DISCUSSION ON THE ILLUSTRATIONS OF CONNECTIVITY

Presentation of the illustrations

The EFRAG Secretariat (Sapna Heeralall, Vasileios Dionelis and Ioana Kiss) presented four illustrations that formed the basis for the discussion in the first part of the webinar ([the slides that were presented can be accessed here](#)).

Sapna Heeralall presented two illustrations taken from the annual report of a paper and packaging company (**Illustrations 1a** and **1b**), specifically, the company's disclosure (in the TCFD report, within

¹ The connectivity project was the top-ranked project during EFRAG's research workplan agenda consultation in 2021, and stakeholders' call for the project arose because of the often observed disconnect between the information within the financial statements and the sustainability reporting. The initiation of the connectivity project coincided with the advent of authoritative SR requirements (ESRS and ISSB Standards).

its strategic report) of its current financial effects and anticipated financial impacts related to its climate-related risks and opportunities. Some points of note she raised were:

- climate risk, which was amongst the company's top 10 material topics identified from a double materiality assessment. This risk is also listed among the principal risks identified in another part of the strategic report. The narrative details the sources of transition and physical risks (flooding, high wood procurement costs) and climate-related opportunities (changing customer behaviour and reduced operating costs through energy efficiency);
- the current financial effects related to the valuation of forest assets, goodwill, asset impairment and business combinations;
- the quantified anticipated financial impacts, which are disaggregated by time horizon (short-, medium- and long-term time horizon);
- the company specifies what it means by each time horizon; and
- the two illustrations related to direct connectivity and intertemporal connectivity.

Vasileios Dionelis presented an illustration taken from the annual report of a paper and wood company (**Illustration 2**). Specifically, the company's financial statements' notes disclose a contingent liability related to a water pollution incident. The pollution disclosures in the sustainability statement contextualise this information. Some points of note he raised were as follows.

- In the company's sustainability statement, water pollution is seen as critical both from an impact materiality and a financial materiality perspective.
- The company does not deny legal liability for the water pollution incident but considered that the amount of the claim filed was uncertain. As such, the amount of the related provision could not be reliably estimated, and a contingent liability was disclosed instead.
- The sustainability statement provides narrative disclosures on the incident and the initial remediation actions taken by the company.
- The illustration was related to the coherence of the information in the sustainability statement and financial statements.

Ioana Kiss presented an illustration taken from the annual report of an oil and gas company (**Illustration 3**). The illustration highlights the company's reconciliation of the mandatory Capex KPI, as required under Article 8 of the Taxonomy Regulation, to related financial statement information (additions to PPE, intangible assets and equity-accounted investments). It also shows the company's explanation of the differing basis of preparation between the mandatory Capex KPI and a voluntary KPI that is aligned with the financial statement information (i.e. that includes equity-accounted

investments, which are excluded from the mandatory KPI). Some points of note she raised were as follows.

- The illustration reflects different reporting boundaries between the EU Taxonomy information and the sustainability statement/financial statements. Of note, a large proportion of the company's environmentally sustainable activities take place through equity-accounted investments.
- Illustration 3 was related to indirect connectivity (reconciliation of Capex to PPE) and consistency in assumptions of the reporting boundary.

First Panel Discussion – The Illustrations of Connectivity

Jens Berger introduced the first panel's speakers, namely:



- Cédric Tonnerre (EFRAG CAP member and partner from the Corporate Financial Reporting Department at Forvis Mazars, France);



- Carsten Zielke (EFRAG CAP member, Vice Chair of the EFRAG User Panel and CEO of Zielke Research Consult GmbH and Zielke Rating GmbH, Germany); and



- Jeremy Stuber (EFRAG CAP member, member of the EFRAG Advisory Panel on Intangibles and Senior Global Equity Analyst, UK).

Jens Berger asked the panellists for their views on the illustrations that were presented.

Overall assessment of the illustrations of connectivity

Overall, the speakers indicated that all four illustrations presented were useful for varied reasons.

There was unanimous support for Illustration 1b with its disclosure of anticipated financial effects, while the rest of the illustrations received mixed views. Below are the detailed comments provided.

Detailed comments on the illustrations

Cédric Tonnerre framed his evaluation of connectivity using a two-step approach. First, he assessed the materiality and adherence to the respective financial accounting and sustainability reporting requirements on a stand-alone basis. Thereafter, he assessed the quality of the connectivity between the two reports based on consistency, complementarity and other key criteria. On this basis, he found Illustrations 1a, 1b and 2 to be suitable examples of connectivity.

Carsten Zielke emphasised the importance of assessing the risks and opportunities arising from climate change and how they relate to financial impacts, notwithstanding the ESG factors being negated. He

also noted the necessary emphasis on the risks in sustainability reporting. He considered the annual report of the UK paper and package company, which distinguished between current and future financial effects as shown in Illustrations 1a and 1b, to be a dream report for analysts who consider both the financial statements and sustainability reporting information. The disclosure of contingent liabilities in Illustration 2 reminded him of past high-profile cases (e.g. Asbestos lawsuits that companies faced in the early 2000s), and there was the question of reputational damage, which the disclosure did not convey. He found the taxonomy reconciliation in Illustration 3 very useful, albeit it was challenging to link it with the company's transition plan.

Jeremy Stuber indicated that he views the suitability of the connectivity illustrations through the lens of how they can inform his valuation of the reporting entities, i.e. whether they improve his understanding of the past or help him forecast future cash flows. Below is his assessment of each illustration.

Illustrations 1a and 1b on current and anticipated financial effects. Jeremy Stuber noted that, given the company's business model (with its huge paper mills producing vast rolls of paper and cardboard for packaging), he was keen to understand the company's risks associated with the materials flow, recycling of its products, and its water and energy consumption. He found the disclosure of current financial effects useful as it showed the links between the sustainability-related risks and the financial statement line items. It also showed that management had considered these issues and found them not to be material for the line items in the balance sheet.

Jeremy Stuber concurred with Carsten's view on the usefulness of the anticipated financial impacts disclosure (and his characterisation of it as an analyst's dream), along with its details on annualised impact and time horizons. He observed that this type of disclosure is rare. The disclosure also provided a hook for engagement with a company's management, for instance, on how it came up with the numbers. He also found the language concise, clear and entity-specific. For example, it conveys that 9 out of 13 pulp mills are under the EU emissions trading scheme. He also found the disclosures about the governance structure quite insightful as they showed the different responsibilities and that the company is very 'joined up internally' (integrated).

Illustration 2 on the disclosed water pollution contingent liability. Jeremy Stuber had two valuation-related questions: what is the claim on the business of the water-pollution incident (the amount that he could reflect in his valuation)? Will there be a recurrence of this incident in the future? For these questions, he found the information in the financial statements and the sustainability report to be complementary. There is an indication of the amount of the claim in the financial statements, and

the sustainability report gives information about the date and location of the incident. The latter gives a lot of contextual information for investors to ask questions to the company's management.

Illustration 3 on Capex reconciliation. Jeremy Stuber noted that, with the company's business model shifting away from the production of fossil fuels and oil and gas exploration towards renewable energy investments, the valuation question is: what are the prospective returns on those projects? Are they higher or lower? Are they more or less risky? Hence, he found the illustration insightful as it illustrates the importance of equity-accounted investments, especially as much of the shift to wind and non-fossil fuels is occurring in the equity-accounted investments, which are outside of the statutory/mandated Capex. Moreover, understanding the shifts within those equity-accounted investments is important. This disclosure is not only relevant for the oil and gas industry but also for the pharmaceutical, aerospace and defence industries, where there are large development contracts and companies often come together to share both risk and reward.

Summing up, Jens Berger took note of the two analysts' dreams and expressed, too, his own dream, namely that the CFO would be able to press a button and generate all the data that auditors need. He then asked the panellists what additional information could be presented in the illustrations.

Additional information that could be presented in the illustrations

The speakers indicated that, for Illustration 1b (anticipated financial effects disclosure), they would have liked to see the income statement effects, non-monetary metrics, the methods applied in determining the amounts, and additional, realistic scenarios being applied in the projected scenario analysis. For Illustration 2, an indication of reputational risk would have been useful. For Illustration 3, information on the return on capital associated with the Taxonomy investments would be useful. More detailed comments are included below.

Illustration 1b (anticipated financial effects). Jeremy Stuber indicated that he would like to see the impact on the income statement due to risks (e.g. floods, number of days lost to production spikes in energy prices or wood prices) as well as a clarification/definition of what the company means by 'financial impact'. He commented that the immaterial balance sheet effects were not useful for his valuation. He would have also liked to see quantified non-monetary metrics of some of the risks described in the strategic report (volumes of wood and water used), as done in Illustration 2 from the annual report of the paper and wood company. This would allow monitoring of the company's progress in meeting its targets/strategic objectives over the years.

Cédric Tonnerre observed that the link of the anticipated financial effects to the 2024 financial statement is not obvious (i.e. there is a disconnect between the significant amounts portrayed in the

anticipated financial effects disclosure and the company conveying that it had no material effects in the current financial statements). Therefore, in this instance, connectivity only relates to future reporting periods, i.e. there is forward-looking information with estimates of anticipated financial effects that may emerge in future financial statements.

Moreover, for the illustrated disclosures, it is difficult to distinguish between the current financial effects and the anticipated financial effects when both these effects are included in projected cash flows for forestry assets valued under IAS 41 or in the asset impairment testing under IAS 36. His understanding was that the financial effects under the TCFD recommendations depend on the time horizon (short-, medium- and long-term) and the climate scenario analysis outcomes. Thus, his guess was that, ordinarily, only the short-term financial effects would be material enough to be incorporated within the 2024 financial statements (e.g. within the valuation of forestry assets and assets impairment).

That said, Cédric Tonnerre considered that the usefulness of connectivity arose not only in the disclosure of anticipated financial effects supplementing the financial statement information but also by helping readers to understand and anticipate future events and changes in the business model. As such, there is continuity of information, not only between the two different reports at the reporting date but also in the information reported over time. Hence, he would be interested in the basis of the estimation of financial impacts reported in Illustration 1b. For instance, how the higher cost of wood supply is calculated, whether the value of infrastructure damages is calculated before or after insurance claims, and what methodology is used to model, measure and mitigate these impacts.

Overall, Cédric Tonnerre concurred with the usefulness of the anticipated financial effects disclosures as conveyed by Carsten and Jeremy, but he also considered that it is very complex to provide these disclosures. That said, he noted that the Illustration 1b disclosure was under TCFD recommendations (aligned with the requirements of ESRS E1 *Climate Change*, paragraph E1-9), and the fact that such information can be disclosed under GRI Standards and TCFD recommendations shows that the ESRS are not more demanding than other guidance. Jens Berger agreed that the most interesting information is often the one that is most difficult to compile and contextualise.

Carsten Zielke concurred with Jeremy's and Cédric's observations, and he added that the scenario analysis in Illustration 1b was based on only two scenarios, which were unrealistic in his view. He would have expected the inclusion of at least one more plausible scenario.

Illustration 2 (water pollution contingent liability disclosure). Jeremy Stuber stated that the key question for investors would be how realistic the disclosed contingent liability amount is. He noted

that it would be interesting to see if there are any comparable cases from other companies, albeit such information would likely only be communicated during the earnings call rather than disclosed in the annual report. Carsten Zielke reiterated his earlier concern regarding the omission of reputational risk and the concomitant possible effect of such risk on customer demand. In his view, the Illustration 2 disclosure failed to address such risks adequately. He anticipated that such information would be disclosed under the ESRS requirements.

Cédric Tonnerre affirmed the complementarity of the illustration 2 example, noting that the company articulated the water pollution risk and remediation across the financial statements and the sustainability disclosures while avoiding repetition.

Illustration 3 (EU Taxonomy reconciliation). Jeremy Stuber indicated that he would like to compare the through-the-life-cycle return on capital for green projects with the same performance measure applied for the company's historic oil and gas projects. He would also like to know how the company was deploying its human resources to better assess the operational risk. For instance, are the engineers used for developing oil and gas exploration projects also involved in the green projects? Carsten Zielke would have expected more information about how the new business model is creating cash flows. The taxonomy disclosure only gave a limited view in this regard.

Second Panel Discussion – Practical Considerations of Achieving Connectivity

Jens Berger introduced the second panel of speakers, namely:



- Kirsten Margrethe Hovi (EFRAG CAP member and Vice President and ESG Adviser in Investor Relations at Norsk Hydro ASA);



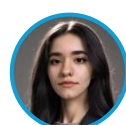
- Valentina Rossi (EFRAG CAP member and head of Group Financial Reporting, Management, and Tax at Mediobanca, Italy);



- Gerhard Margetich (EFRAG Banking Advisory Panel member and Chairman of the Board of the Austrian Savings Bank Audit Association);



- Vanya Rusinova (EFRAG Sustainability Reporting TEG member and lead ESG Specialist within Group Finance at Ørsted);



- Dona Dunea (EFRAG CAP observer and Policy Officer in the Corporate Finance and Reporting Unit at the European Securities and Markets Authority, France); and



- Fredrik Walmeus (EFRAG Financial Reporting Board member and partner at Deloitte Sweden).

Testimony – Journey towards connectivity

Jens Berger invited Kirsten Margrethe Hovi to share her experience with connectivity.

Kirsten Margrethe Hovi recounted how her company, Norsk Hydro, began its journey to connectivity with the publication of its first environmental report in 1989, which was said to be the world's first of its kind. This report was motivated by reputational considerations and the financial risks inherent in a lack of transparency that were well understood by the then President and CEO. In 2004, Kirsten Margrethe Hovi took on the responsibility of developing a strategic approach to sustainability reporting. The CEO articulated the company's values, which formed the basis for reporting, and it was a de facto materiality analysis long before she had even heard of the term. And every year since, Norsk Hydro has updated its materiality analysis to reflect the developments of the company, its associated communities and the world. It takes into account the company's impact on ESG factors as well as the decision-making by stakeholders (including investors and financial analysts).

Kirsten Margrethe Hovi referred to the change in the company's business model from being a conglomerate with primary activities in aluminium, hydropower, and oil and gas production to being a renewable energy and integrated aluminium company with no oil activities. The company has a significant impact on climate change, nature and human rights.

Connectivity-related aspects. Kirsten Margrethe Hovi noted that climate change is an area where economists have been engaged for many years already. Thus, it is in this aspect that connectivity between sustainability reporting and financial reporting has come the furthest, as was evident in the illustrations presented during the webinar. She noted there were several good examples of how to include environmental assets and retirement plans in the financial statements. However, she also highlighted that there is still a long way to go to ensure connectivity in the reporting on nature and human rights. Nonetheless, she underscored the importance of ensuring consistency between the information in sustainability reporting and the financial statements.

Enhancing connectivity. Kirsten Margrethe Hovi made several suggestions to enhance connectivity, including: (a) having a more inclusive letter to stakeholders instead of the letter to shareholders; (b) ensuring that the main message is balanced and consistent; (c) including not only financial risks but also the main ESG risks in the risk review; and (d) ensuring close collaboration between the sustainability reporting and the financial reporting teams.

To avoid misunderstandings and to ensure consistency, she noted, it was important to realise the differences in approach and subject matter expertise required for sustainability reporting and financial reporting. Notably, it was easy to underestimate the challenges in quantifying many parts of the material ESG information. She underscored the importance of qualitative information to be able to understand the disclosed quantitative information. Specifically, it was crucial to understand the company's industry, its internal and external value chain, its size and its geographical context. For instance, there would be significant differences in the impact of a small aluminium recycling company situated in the EU and an integrated aluminium company covering all parts of the value chain with operations inside and outside of the European Economic Area.

Finally, she emphasised that there should be no contradictions between what is said in the sustainability report and what is said in the financial statements. Few things, she said, can undermine the trustworthiness of an annual report, and thus the company's reputation, more than speaking with a forked tongue.

In reaction to Kirsten Margrethe Hovi's shared journey, Jens Berger acknowledged that connectivity does not happen overnight. Thus, it is important to get started even if it is not perfect the first time around. There is always room for improvement, but you have to start.

Jens Berger then asked the panellists about the constraints and challenges that they face in ensuring connectivity when preparing information in the annual report and whether there was any information that cannot be connected across the annual report.

Panel Discussion – Connectivity-related constraints and challenges

Valentina Rossi outlined three key challenges faced by preparers in achieving effective connectivity between financial and sustainability reporting.

- **Materiality judgements.** Challenges arise due to the differing objectives and definitions of materiality in financial and sustainability reporting, with the latter encompassing a broader double materiality perspective (including both impact and financial materiality). Under the ESRS, the materiality assessment must incorporate stakeholder engagement, further expanding the scope of analysis.
- **Level of aggregation of information.** 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 or asset may also be required, especially when the impacts, risks and opportunities (IROs) differ across the geographies. On the other hand, financial reporting adheres to standardised accounting principles to aggregate data at a higher level, presenting it in a standardised format within the primary

financial statements. This is geared at ensuring consistency and comparability, but it also limits the level of detail.

- ***Differing reporting boundaries.*** Sustainability reporting often extends beyond the financial consolidation perimeter, and this extended scope requires assessing operational control and collecting data from third parties demanding substantial resources, time, technology and expertise. Coordination between departments becomes crucial, then, to ensure quality and consistency across the different reports.

Valentina Rossi pointed to the following reasons why the information in financial and sustainability reports may not be directly connected.

- ***Retrospective versus forward-looking orientation.*** Financial reporting is focused on past performance within a defined period while sustainability reporting is forward-looking and considers future risks and opportunities that occur over the short-, medium-, and long-term. For example, transition plans and investments in decarbonisation may be considered material for sustainability purposes, even if they have not produced a financial impact in financial reporting. Such future-oriented items, such as planned capital expenditures, are not recognised until the transaction occurs (i.e. until there is a past event). While financial statements can include forward-looking elements in the asset impairments and fair value measurement of assets and liabilities, these are typically related to existing assets and liabilities. Hence, financial materiality in the context of financial statements differs from financial materiality in the context of sustainability reporting.
- ***Measurement approaches.*** Financial statements are prepared based on clearly defined accounting principles for the recognition and measurement of financial statement elements (assets, liabilities, income, revenue, expenses, equity). On the other hand, in the absence of defined measurement approaches, sustainability reports may disclose different metrics that are determined using varied estimation methodologies related to ESG factors, and this results in lower levels of comparability of reporting across entities than is the case for financial statement information.
- ***Narrative and context.*** The narrative sections of the sustainability statement/disclosures provide context and qualitative information about a company's sustainability initiatives and their broader impacts. In contrast, financial statements are more focused on quantitative financial data.

Gerhard Margetich agreed with the points raised by Valentina Rossi, and he pointed to a further set of challenges as described below.

- **Limited data availability for financial institutions.** For mature reporters (experienced sustainability reporters), the information required to prepare a sustainability report is available and relatively reliable. However, there is limited information for entities that were not part of wave 1 of ESRS reporters (i.e. wave 1 entities are those whose effective date for applying the ESRS was 1 January 2024). This shortfall of data makes it difficult to assess risks and opportunities and to assign them a monetary value.
- **Reliability and relevance of ESG risk indicators.** Gerhard Margetich noted that, as an auditor, he had also faced difficulties with the methodologies, estimates and calculations being used for some of the ESG risk indicators, leading to questions on their reliability and relevance.
- **Inadequate reporting on transition plans.** Gerhard Margetich referred to the inadequate reporting on transition plans, which stems from the absence of standardised, comparable transition plans. Without these, it becomes extremely difficult to understand how future developments, risks, opportunities and impacts could affect financial institutions' transition strategies or to quantify the future business model. He affirmed the challenges in valuation across multiple time horizons that had been earlier highlighted by the users and concurred with their assessment that standardisation is essential for comparability and for assessing the financial implications of sustainability factors.

Kirsten Margrethe Hovi pointed to the following challenges (some of which overlap with those raised by Valentina Rossi and Gerhard Margetich).

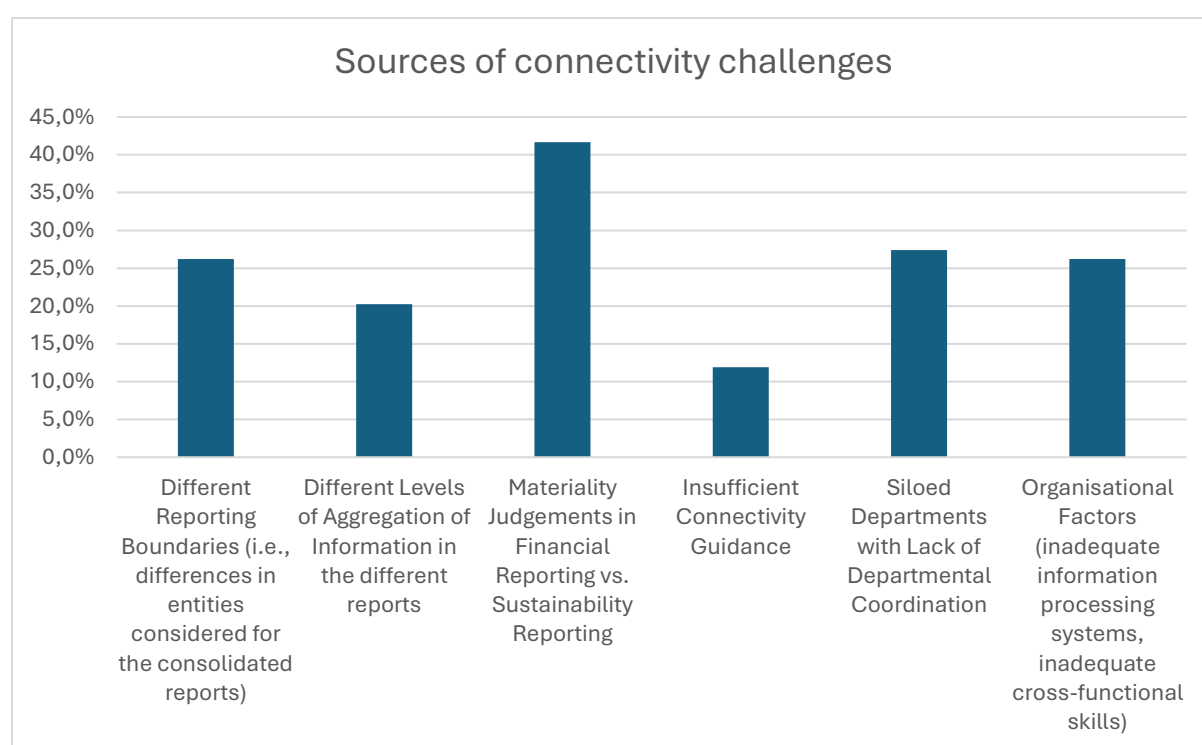
- **Estimation challenges.** She observed that many ESRS indicators may be costly but not more precise than currently used estimates.
- **Double materiality.** She observed that far too often the ESG impact outside the fence of the reporting organisation is given too little emphasis. However, such impacts were crucial to report on, not only to highlight the impact outside the organisation but also towards understanding the underlying financial risks.
- **Reporting boundaries.** She outlined the boundaries-related challenges with respect to (a) impacts and the extent to which these encompass the upstream and downstream value chain and (b) the scope of consolidation of sustainability reporting whereby including information in accordance with the CSRD on the same basis as the financial statements can be challenging. This was less of an issue for climate-related reporting than it was for other sustainability-matter indicators, particularly those measured using discrete/categorical data (i.e. in integers) rather than continuous data, for instance, the number of fatalities or the instances of corruption. Stating that in 2024 an entity had 0.2 fatalities and 1.3 instances of corruption did not make sense. She was, however, not too worried about discrepancies on

the consolidation basis between the financial statements and the ESG information in the management report. Similar to biased reports emphasising positive risks, what would be of concern is any misalignment or inconsistent information across the sustainability reporting and the financial statements as that would undermine the credibility of both reports.

Finally, sharing the ESG professional's dream, Vanya Rusinova extolled the merits of standardisation of ESG data, noting that it ensures transparency, accountability and robustness of data. She detailed the integration that had occurred between the sustainability and finance teams in her organisation and the alignment in reporting boundaries in the scope of consolidation of ESG data. She also referred to reporting challenges, including balancing broad stakeholder needs.

Vanya Rusinova identified the integration of different reports within a single annual report as a complex task due to their different purposes and audiences, making it difficult to present consistent and relevant information across different reports. She further stressed that, although climate change dominates current reporting efforts, there are at least nine other key ESG topics that deserve attention. Understanding their interconnections is one of the most pressing and complex issues on the path toward meaningful connectivity.

Related to the challenges of implementing connectivity, the audience's response to a polling question on this aspect is presented below. The results reveal that materiality judgement was the most significant concern for the audience.



Connectivity-related enforcement and assurance constraints and challenges

Jens Berger asked Gerhard Margetich and Dona Dunea for their respective assurance and enforcement perspectives. Gerhard Margetich mentioned that enforcers and assurance providers face similar challenges regarding connectivity, especially when it comes to auditing or analysing sustainability reports.

He emphasised that, for assurance to be meaningful, there must be specific evidence of the information being processed, collected and reported. In this context, he noted the difficulties auditors encounter when evaluating estimates at a reasonable assurance level. These difficulties arise particularly due to the complexity of the models and methodologies used in calculations, even when they are applied thoroughly and correctly. This challenge is relevant for both preparers and auditors, and it is likely to become an issue for enforcement as well.

Furthermore, Gerhard Margetich pointed out that enforcers have already touched on the issue of connectivity in the past, and its relevance is expected to increase significantly in the future. This is also true for the financial side, as it must be ensured that the information from the sustainability report remains consistent when connected to financial data. The importance of this is further reinforced by the upcoming requirements from the European Banking Authority regarding ESG risks. These requirements will necessitate engagement with non-financial and ESG-related risks regardless of reporting obligations, as financial institutions, particularly banks, will require this information in any case. Consequently, these developments will make sustainability data an integral part of both enforcement and assurance processes in the future.

Dona Dunea noted that many national enforcers are currently debating the extent to which connectivity can be enforced under the existing financial reporting framework. She explained that, though IAS 1 does not explicitly mandate connectivity, it contains principles such as materiality, understandability and faithful representation. These principles carry an implicit expectation of connectivity and therefore provide a basis for enforcement.

She further pointed out that there are numerous climate-related disclosures made in sustainability statements which are not deemed material for financial statements. However, the presence of these disclosures often creates the expectation that they should also be addressed in the financial report. This disconnect is a significant area of focus in evolving enforcement practices.

Dona Dunea highlighted that unclear, ambiguous or misleading assumptions may move enforcement into a grey area, as there may be no strong legal foundation for action. In such cases, additional clarity,

for instance through standard-setting or interpretive guidance, would be highly valuable. In her view, such publications could play a helpful role for preparers, auditors and enforcers alike.

Finally, she underlined what may be the greatest challenge: adopting a more positive perspective on connectivity. Instead of seeing it as a burden, connectivity should be embraced as a tool that provides users with a more consistent and complete view of risks and opportunities. It also supports enforcers in assessing compliance with reporting obligations and principles.

Improving connectivity

Jens Berger asked Fredrik Walmeus and Valentina Rossi how connected the information is within and outside the financial statements and how it could be improved.

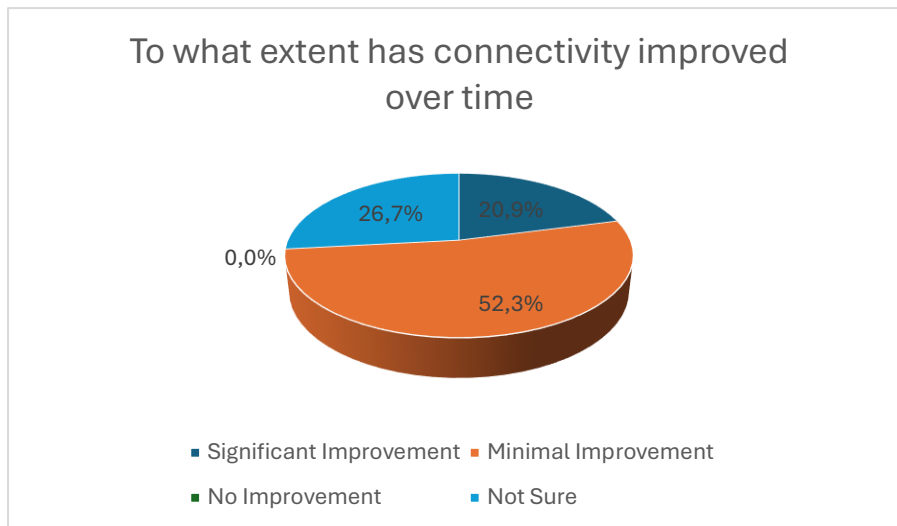
Fredrik Walmeus emphasised the need for a more refined definition of connectivity, noting that while it is more achievable in relation to recognition and measurement, it remains less developed in the context of disclosures. He shared a comment from a previous discussion where it was suggested that we must first connect the people before we can connect the information. In his view, this statement aptly reflects the practical challenges of connectivity, as different individuals are responsible for different areas of the annual report preparation.

He also highlighted the value of using links and connection points within reports to enhance navigability and overall coherence. Given the complexity of sustainability reports, he suggested that such improvements would be beneficial. Moreover, he pointed out that this approach could help address inconsistencies in terminology across financial and sustainability disclosures.

Valentina Rossi observed that recently published annual reports show only limited connectivity. However, she expressed optimism that, as sustainability becomes a more integral aspect of corporate strategy and planning, notable progress will be made on this aspect of reporting. She also concurred with Vanya Rusinova on the importance of aligning financial and sustainability risk management.

Valentina Rossi proposed three practical measures to enhance connectivity over time. First, via data integration through a centralised repository combining financial and sustainability metrics. Second, through the use of dashboards that facilitate the alignment of financial statements data with related sustainability disclosures, thereby improving both transparency and oversight. Third, internal control systems could be strengthened through the establishment of clearly defined roles and responsibilities, the formalisation of relevant policies and procedures, and the implementation of robust controls. To support these improvements, she stressed the importance of standardising reporting frameworks and enhancing the data management infrastructure.

Related to trends in connectivity, the pie chart below reflects the results of the participating audience's responses to a polling question on the extent to which connectivity has improved over time. The results reveal a perception (at least among the audience) that there is still some way to go.





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