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DRAFT DISCUSSION PAPER

CONNECTIVITY OF FINANCIAL AND SUSTAINABILITY REPORTING

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

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

Both this Discussion Paper and the 2024 EFRAG connectivity publication have been developed under the guidance of EFRAG's financial reporting pillar and sustainability reporting pillar technical governance bodies (EFRAG FR TEG, EFRAG FRB, EFRAG SR TEG, and EFRAG SRB). The strategic importance of the topic of connectivity for EFRAG also led to the constitution of a dedicated EFRAG advisory working group, i.e., a 20+ person multi-stakeholder connectivity advisory panel (EFRAG CAP¹), which has diverse functional expertise. The EFRAG CAP has been active since 2023 and has guided and made a pivotal contribution to the development of both the 2024 EFRAG connectivity publication and this Discussion Paper.

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

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POINT OF NOTE: KEY TERMINOLOGY ACROSS THE DISCUSSION PAPER

The focus of this Discussion Paper (hereafter referred to as the “DP”) is on the connectivity of information across different annual report² sections, which, across the DP, are sometimes referred to as

- *‘different reports’ in an EU context. These are the different reports within the Annual Report, including the financial statements, the sustainability statement within the management report, and the rest of the management report; or*
- *‘IFRS general purpose financial reports’ (when referring to reports prepared under the IFRS Foundation’s reporting requirements and guidance). IFRS general purpose financial reports, as defined in the IASB and ISSB literature,³ consist of IFRS financial statements, the IFRS sustainability-related financial disclosures, and the management commentary.*

Sustainability report is used interchangeably with the sustainability statement as required under the EU CSRD/ESRS, or sustainability-related financial disclosures under the ISSB Standards, or sustainability disclosures.

A detailed glossary of terms is included in Appendix 2.

² The focus of the DP is on connectivity across the Annual Report. That said, it is acknowledged that connectivity could be applicable to information outside the annual report (i.e. the company’s other communications including management presentations, other reports including sustainability reports outside the annual report).

³ Appendix A of IFRS 18 *Presentation and Disclosure in the Financial Statements*, Appendix A of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and Appendix A of the June 2025 IFRS 1: *Management Commentary Practice Statement*.

EXECUTIVE SUMMARY

STAKEHOLDERS' PERSPECTIVES ON THE IMPORTANCE OF CONNECTIVITY OF REPORTED INFORMATION

"Failing to ensure connectivity between accounting and sustainability standards can have negative effects on the quality of information disclosed to capital markets, with potentially system-wide consequences." - 2024 European Systemic Risk Board (ESRB) Report about climate-related risks and accounting⁴

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

"Connected information establishes clear links between the management report, sustainability statements and financial statements and provides a holistic view between all the factors that affect value creation." Basis for Conclusions - ESRS 1 Set 1

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

ES1 The advent of mandatory sustainability reporting requirements, together with the sometimes observed disconnect between information in the financial statements and the sustainability reports, and the duplication and inconsistencies of information across these different reports, has led to an increased focus amongst stakeholders on enhancing the connectivity of reported information.

ES2 The DP aims to contribute to the thought leadership on connectivity in terms of its underlying concepts (outlined in Chapters 1 and 2) and practical application (in Chapters 3 and 4, and the [supplementarySupplemental](#) document with illustrations). The DP also includes considerations for enhancing connectivity (in Chapter 5). With no commonly accepted definition, for this DP, connectivity of reported information is defined⁵ as *"the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different annual report sections (such as the financial statements, sustainability statement/disclosures and other parts of the management report)"*. Chapter 2 details the enabling attributes and the types and mechanisms of connectivity, including coherence and integration of information across the annual report; consistency of data, narrative, and assumptions; and linkage via cross-referencing or reconciliation of related quantitative information in the sustainability statement/disclosures to the related amounts in the financial statements. It is shown that the connectivity of reported information is enabled by

- (a) a 'connectivity in process' (including interdepartmental coordination within companies), and
- (b) a 'connectivity in reporting requirements', including having a similar basis of preparation of the financial statements and the sustainability statement.

⁴ ESRB, 2024, [Climate-related risks and accounting](#)

⁵ The same definition was applied the 2024 EFRAG connectivity project initial paper.

ES3 As outlined in Chapter 1, the scope of the DP includes connectivity across and within different reports in the Annual Report (i.e. financial statements, sustainability statement/disclosures⁶ within the management report, and the rest of the management report), with a prioritisation of sustainability reporting under ESRS and EU companies and connectivity across different reports given the EU context of a separate sustainability statement, whose information can be connected to the financial statements and the rest of the management report.

ES4 The conceptual and practical content in the DP has been informed by:

- (a) Discussions held by the EFRAG CAP, EFRAG's financial reporting and sustainability reporting pillars' technical governance bodies, and several EFRAG working groups (details in Appendix A).
- (b) The interim deliverable of EFRAG's research project on connectivity (Initial paper-[Connectivity Considerations and Boundaries of Different Annual Report Sections](#)) (hereafter referred to as the 2024 EFRAG connectivity publication).
- (c) ESRS, ISSB Standards, IFRS Conceptual Framework for Financial Reporting, IFRS Accounting Standards, and the 2025 IFRS 1 Practice Statement-*Management Commentary* (2025 IFRS MCPS), the 2021 EFRAG Project Taskforce for Non-Financial Reporting Standard (PTF-NFRS) publications ([Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting](#) and [Appendix A4 Interconnection between Financial and Non-Financial Information](#)), and other related regulator, national standard setter, audit firm, and academic publications.
- (d) EFRAG's review of the annual reports of a sample of 72 companies. The 17 illustrations (included in the ~~supplementary~~[Supplemental](#) document and Chapter 3) were excerpted from these companies. The sustainability reporting for these illustrations was done under the currently applicable Set 1 of ESRS, ISSB Standards and other voluntary reporting frameworks (e.g. TCFD recommendations). The primary focus was on European companies and ESRS-reporters. **The changes in connectivity-related requirements in the revised draft ESRS are noted in Chapters 2 and 5.** The financial statements of the illustrations were under IFRS Accounting requirements. Though local GAAP could have been considered, it is assumed that the principles of IFRS Accounting requirements and local GAAP are broadly similar.
- (e) EFRAG's dialogue with stakeholders through targeted outreach meetings and a series of EFRAG-hosted events (details are in Appendix A).

ES5 Below are several key messages made in the DP:

- (a) *Relevance of connectivity of reported information ought to be reporting framework-agnostic and is not limited to sustainability-related matters:* As noted in Chapter 1, connectivity is framework-agnostic. That is, seeking connectivity of reported information is important regardless of the underlying regime of financial statements/accounting or sustainability reporting requirements or voluntary reporting frameworks. ~~In other words, connectivity is framework-agnostic. That is, the connectivity of information related to value creation across reports is important and can be attained/sought regardless of the guidance underpinning the information in different reports.~~ Also, even though the primary focus of the DP is the connectivity between sustainability reporting and financial statements information, the usefulness of the connectivity of reported information extends to the information on a company's value creation in other annual report sections

⁶ Sustainability-related financial disclosures under ISSB Standards

(e.g. the rest of the management report besides the sustainability statement/disclosures, governance report) ~~where there are disclosures of value creation information).~~

- (b) *Connectivity is an evolving concept*: Connectivity is a relatively new reporting concept that, for instance, is not included in IFRS Accounting literature. As outlined in Chapter 2, there are multiple meanings⁷ that other authoritative and non-authoritative literature assign to the notion of connectivity of reported information (e.g., coherence⁸ of information across different reports; integration of information across the annual report; consistency of data, narrative, and assumptions; and direct and indirect connectivity via linkage of quantitative data etc.). It is expected that the practical application of connectivity will likely help foster a common understanding of what this term ought to mean, and it will also clarify the types and mechanisms (i.e. techniques of applying the types) of connectivity that should be prioritised. And to help in the practical application of this concept, preparers have called for illustrative examples such as those presented in this DP in Chapter 3 and the Supplemental Document.
- (c) The types and mechanisms of connectivity considered in the context of this DP (detailed in Chapter 2) are drawn from ESRS, ISSB Standards, the 2025 IFRS MCPS, and other publications. As shown in Chapter 4, EFRAG's outreach has provided initial indications of the relative priority of different mechanisms, with several stakeholders emphasising the primacy of coherence and integration of information, and the consistency of data, narrative, and assumptions across different reports. This DP further seeks constituents' views on the relative priority of the different types and mechanisms of connectivity.
- (d) *Connectivity of reported information is improving, although companies are in the early stages of applying this concept*: As detailed in Chapter 4, companies are in the early stages of the journey of preparing connected reports. As shown by the illustrations in the DP's supplemental document and several thematic studies of trends in climate-related reporting in financial statements, there is observable progress being made in applying different mechanisms of connectivity of reported information (e.g. it was easy to identify the cross-referencing of information, disclosures of reconciliation of taxonomy investment amounts to related amount in the financial statements, and there is an observable increase in the frequency of sustainability-related topics being addressed by different accounting standards in the financial statements). However, there are some points of attention noted in Chapter 4, including:
 - (i) There is still some way to go before readers of annual reports can readily link the sustainability-related strategy, impacts, risks and opportunities (IROs), entity actions in response to these IROs, and the effects on financial position, financial performance, and cash flows.
 - (ii) Disclosure of anticipated financial effects (which allow connectivity of information across reporting periods/intertemporal connectivity) is considered useful by investors and other users. Stakeholders have conveyed the challenges with the calculation methodology and the comparability of the information in this disclosure. It is noted that there is a review of this disclosure as part of the ESRS revision.

⁷ Some terms (e.g., coherence, consistency) are sometimes used as synonyms for connectivity. Yet at other times, these same terms are applied as being distinctive elements of connectivity. And still, at other times, some of the terms (complementarity, coherence, integration in reporting) are described as being distinct notions from connectivity. Other stakeholders have suggested also suggested ought to relate to the correlation of information across different reports. Due to the multiple associated notions, one stakeholder described connectivity as a 'Porte Manteau' term (i.e., a hanger on which one can place any coat).

⁸ For some stakeholders, coherence is used interchangeably with consistency. As laid out in the glossary of terms, in this DP, coherence is broader than consistency, which connotes consistency of data, assumptions, and narrative information as per ESRS.

(iii) Inconsistent terminology: In some cases, there is the use of the same term for different concepts (e.g. commitment considered as intent versus it being a contractual commitment) and different terms for the same concept (e.g. financial effects versus financial impacts). During EFRAG's outreach, stakeholders expressed the expectation that the push for connectivity of reported information will result in the alignment of terminology applied across different reports.

- (e) *Usefulness ~~to users~~ of connectivity of reported information ascertained:* As detailed in Chapter 4, during EFRAG's outreach, users and other stakeholders (auditors, securities regulators, and academics) have underscored connectivity as an aspect of high-quality reporting, ~~which users view as the "body language" of companies that engenders trust.~~ Stakeholders viewed connectivity as a way of facilitating the credibility and effectiveness of companies' communication through the annual report. As shown in Chapter 4, Users have described the quality of reporting, including whether a company has a connected, relevant, and coherent annual report, as the "body language" that guides users' decisions about any company. Users have elaborated on why they consider connectivity useful, the connectivity mechanisms they consider most important, including the disclosure of anticipated financial effects. Of note, they emphasised that disclosure of anticipated business impacts should precede the disclosure of anticipated financial effects. Early-stage academic studies also present evidence ascertaining the usefulness of connectivity towards reducing the information asymmetry⁹ between companies' management and investors, which in academic literature is measured by the bid-ask spread¹⁰ of companies' stock prices. In turn, reducing the lower information asymmetry leads to better capital allocation decisions and an enhancement in the quality of enhances users' engagement with ability to ask companies' management ~~(i.e., enhances their ability to ask the right questions).~~
- (f) *Addressing information across different reports that some expect to be (but is not) reported and connected:* As noted in paragraph ES.1, a disconnect of information reported across different reports is sometimes observed. In some cases, as discussed in Chapter 5, there is a perceived rather real disconnect, which arises due to an expectation gap that stakeholders may have on what information can be reported and thereafter connected across different reports (e.g. expectations on recognition criteria of assets or liabilities that differ from those within IFRS Accounting requirements with respect to reporting of externalities and resources that are not controlled by the entity in the financial statements). For this situation, the development of educational material reiterating the objectives and reporting requirements of different reports would be helpful.
- (g) Also, as noted in Chapter 5, there are instances of some companies underreporting material information (e.g., due to the failure to consider qualitative material information about exposures¹¹), which then leads to disconnected information across different reports. This situation could be lessened by educational material and illustrative examples, such as those that have been provided by the IASB. Underreporting of material information in the financial statements could also arise due to the misinterpretation of existing IFRS Accounting requirements. This could be addressed by standard setting

⁹ Information asymmetry means that insiders/management within companies have much more information about the company including its prospects than outsiders/investors. It is assumed that the quality of a company's report (information content, understandability and connectedness of information) reduces the noted information asymmetry.

¹⁰ The more that is known about a company by investors, the more liquid will be the company's stock/shares, and the corresponding bid-ask spread is indicative of a stock's liquidity.

¹¹ For example, the effects of a sustainability-related risk on financial statement line items may not be quantitatively material yet users (investors and other stakeholders) would have reasonably expected otherwise based on the information reported in other annual report sections and users' expert knowledge of the companies' business model/sector. In such a case, an explanation of why there are no financial statement effects could be deemed qualitatively material information.

clarifications in a few areas, as noted in EFRAG's response¹² to the IASB Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* (to be updated to *Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples*).

- (h) *Clarification of the border of financial statements with respect to the disclosure of forward-looking information is needed and will enhance connectivity:* As detailed in Chapter 5, further clarification by the IASB is needed on the appropriate location and information content of a set of identified, specific grey areas (i.e., where there is a debate on the appropriate location and what should be reported on certain matters). These grey areas include sustainability-related intangibles (e.g., own workforce) that are not recognised as intangible assets in the financial statements, and capital commitments related to future sustainability-related investments. The clarification of borders of financial statements with respect to disclosures can help ensure that stakeholders have a common understanding of what information can be reported and thereafter connected across different reports.
- (i) *Connectivity in process/integrated thinking is an important consideration:* As discussed in Chapters 2, 4 and 5, connectivity of reported information has to be underpinned by connectivity in process (via unified data sets and an integrated organisational structure) and integrated thinking in how companies manage their business. Connectivity of reported information is seen by some stakeholders as a step on a broader trajectory towards integrated thinking (i.e. connectivity of reported information is a precursor to 'integrated reporting', which then leads to 'integrated thinking'). At the same time, 'integrated thinking' lies beyond the remit of reporting standard setters; it is not readily observable, and it should not be mandated through reporting requirements. Reporting is primarily about transparency.
- (j) *Full benefits of XBRL-generated structured data for connectivity in the provision and consumption of reported information are yet to be realised:* As discussed in Chapter 5, EFRAG's outreach feedback indicates that there is still some way to go towards ensuring the interoperability of accounting and sustainability XBRL taxonomies in a manner that facilitates the connectivity of reported information. At the same time, the potential complementarity of structured data and the application of AI towards enhancing connectivity in the consumption of reported information seems to be currently underexplored.

ES6 **Suggested way forward:** The main considerations (or points of attention for stakeholders), which are highlighted in Chapter 4 (which are aimed at enhancing connectivity under current reporting requirements) and Chapter 5 (which have a longer-term orientation), are reflected in the above key messages. Some of the considerations in Chapter 5 (i.e., clarifying the borders of financial statements with respect to disclosure of forward-looking information in the notes to the accounts, and addressing differences in the level of aggregation across different reports with a focus on segment reporting) are aimed at standard setters. The IASB and ISSB could consider the matters raised in their forthcoming agenda consultation. The other considerations within Chapters 4 and 5 can be addressed by multi-stakeholders in the coming reporting periods.

ES7 Finally, in Chapter 5, it is noted that the concepts of connectivity of reported information have generally been formulated in the context of current reporting channels (which include information reported in PDF documents). With the digitisation (including AI tools) still evolving,

¹² [EFRAG Comment letter](#), 28 November 2024 noted that, for instance, standard setting clarification may be necessary with respect to paragraphs 34 and 35 of IAS 36 in relation to the value in use calculation and the applicable time horizon for climate-related fact patterns

it remains unclear if and to what extent the thinking about connectivity may evolve in a [future](#) world of fully digitised provision and consumption of reported information.

QUESTIONS TO CONSTITUENTS

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

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

All comments should be received by **(date to be decided)**.

Question 1 [Chapter 1: Background and Scope of DP]

Based on the scope of the DP described in Chapter 1, does the difference between the sustainability statement under ESRS with a double materiality perspective and distinct location in the management report versus location-agnostic sustainability-related financial disclosures under ISSB with a focus on material information from the perspective of investors have any implications for the connectivity of reported information? Please explain

Question 2 [Chapter 2: Underpinning Concepts]

Do you agree or disagree with the different types of connectivity (integration of information; coherence; consistency; direct and indirect connectivity of quantitative datapoints, intertemporal (across different reporting periods) connectivity) and mechanisms (e.g., cross-referencing, reconciliation, statement of qualitatively material exposure; disclosure of current financial effects; disclosure of anticipated financial effects for intertemporal connectivity, etc)?

Are there any other types or mechanisms of connectivity that can be or are applied by companies that you consider useful but are not included in Chapter 2?

Question 3 [Chapter 3: Overview of illustrations, and Illustrations in the Supplemental Document]

Do you have any comments on the practical usefulness of the 17 illustrations on connectivity in the supplemental document? Are you aware of any impedimentsobstacles that your company or other companies you are familiar with may face in providing the type of connected reported that is illustrated?

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

Question 4 [Aggregated observations on the connectivity of reported information]

Do you agree or disagree with the aggregated positive observations and considerations (areas for further attention) to enhance connectivity of reported information reflected in paragraphs 4.12 to 4.35? What other observations or points of attention have you noticed with current reporting? What would be the required efforts to improve connectivity of reported information?

Do you have any suggestions on how to address the areas for further attention) to enhance connectivity of reported information (reflected in paragraphs 4.26 to 4.35); and

If you are a user of the information in the annual report, do you agree or disagree with the analysis of usefulness of connectivity of reported information (reflected in paragraphs 4.36 to 4.45)? How does the connectivity of reported information enhance your analysis of companies? Please explain

Question 5 [Chapter 5: considerations for enhancing the connectivity of reported information and related aspects]

Standard setter consideration: Clarifying the borders of the financial statements with respect to disclosures in notes to the accounts (Analysed in paragraphs 5.7 to 5.35)

- (i) In paragraphs 5.12 to 5.32, it is argued that clarifying the borders of financial statements with respect to the disclosure of unrecognised sustainability-related intangibles, sustainability-related commitments for future investments, and synergies from business combinations in the financial statements would be an enabler of connectivity. Do you agree or disagree with this view? Please explain
- (ii) Paragraphs 5.16 and 5.17 outline suggestions for determining when information on sustainability-related unrecognised intangibles should be disclosed in the financial statements. Do you agree or disagree with these suggestions? Please explain
- (iii) In paragraphs 5.33 to 5.35, it is suggested that identifying indicators of the migration of items from other reports in the annual report into the financial statements could be a helpful aspect of understanding the border of the financial statements. Do you agree or disagree with this view? If you agree, do you have any suggestions on what could be considered indicators/triggers of items migrating from other reports in the annual report into the financial statements?

Question 6 [Chapter 5-Standard setter consideration: Differences in level of disaggregation]

- (i) Some stakeholders (including users) have observed differences in the level of disaggregation in the financial statements and the sustainability statement/disclosures. The analysis in paragraphs 5.36 to 5.38 suggests that these are mainly a result of differences in what is material in the context of each of these reports. Thus, it should not be seen as a problem. Do you agree or disagree with this view? Please explain
- (ii) The analysis in paragraphs 5.40 to 5.41 suggests that the observed underrepresentation of sustainability-related revenues and profitability-related metrics in segment disclosures could be a result of the IFRS 8 aggregation being done based on the management approach, and this supports the need for the IASB to review segment reporting requirements. Do you agree or disagree with this view? Please explain

Question 7 [Chapter 5: considerations to be addressed by multiple stakeholders]

Do you agree or disagree, or have any additional suggestions for the following considerations?

- (iii) Assessing differences in organisational reporting boundaries between different reports (analysed in paragraphs 5.42 to 5.46)
- (iv) Enhancing connectivity in process (including governance within organisations) (analysed in paragraphs 5.47 to 5.49)

Question 8 [Chapter 5: Exploring digitisation to enhance connectivity of reported information]

In the analysis in paragraphs 5.57 to 5.59, it is concluded that the combination of structured data and AI analysis has yet to meet its full potential for enhancing connectivity in the provision and consumption of reported information. Do you agree or disagree with this observation? If you agree, how could this be changed?

CHAPTER 1: BACKGROUND AND SCOPE

CHAPTER STRUCTURE

INTRODUCTION- IMPORTANCE OF CONNECTIVITY (PARAGRAPHS 1.1 TO 1.8)

OBJECTIVES AND STRUCTURE OF DP (PARAGRAPHS 1.9 TO 1.10)

SCOPE (PARAGRAPHS 1.11 TO 1.22)

Introduction- Importance of connectivity of reported information

- 1.1 The connectivity of the information reported in the financial statements and sustainability statement/disclosures enhances preparers' communication of how their strategy and business model are deployed in relation to the entity's material impacts, risks, and opportunities (hereafter referred to as IROs) and how that affects the entity's prospects and future cash flows. As conveyed by the quotes at the beginning of this Chapter, at its heart in essence, connectivity enhances the information content and credibility of companies' Annual Reports.
- 1.2 During EFRAG's outreach (including during EFRAG's April 2025 multi-stakeholder roundtable), a key message has been that the connectivity of reported information contributes to users' decision making as it allows better prediction of reporting companies' future cash flows. It also allows users to understand sustainability-related IROs and how companies are contributing to the transition to net-zero targets with respect to climate-related risk¹³. Users have described the quality of reporting, including whether a company has a connected, relevant, and coherent annual report, as the "body language" that guides users' decisions about any company.
- 1.3 **Connectivity of reported information and borders of different reports in the Annual Report:** As detailed in Chapter 5, clearly defined borders of different reports have a bearing on the connectivity of reported information. At the same time, across several IASB consultative documents (2024 IASB Exposure Draft- *Business Combinations- Disclosure, Goodwill and Impairment*, and 2024 IASB ED *Climate-related and Other Uncertainties in the Financial Statements*, which will be updated to Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples), there has been a call from stakeholders (including EFRAG) for further clarification of the borders/ of the financial statements under certain circumstances (e.g., if and when forward-looking information can be disclosed in the financial statements).
- 1.4 Relatedly, as part of preliminary thinking about future possible reporting issues that should be addressed by the IASB, stakeholders (including IFASS members) have highlighted the need to clarify the borders of different reports in the annual reports, with a particular call for clarifying the borders of financial statements with respect to the disclosure of forward-looking information in the notes to the accounts. This DP can influence any future work to be done in this regard.

¹³Connectivity links financial statements and climate-related information in sustainability reports across several dimensions including (i) investments, such as new decarbonised assets acquired during the year; (ii) impairments, including former carbon-intensive assets whose value may be affected by climate-related risks; and (iii) contractual commitments, such as CapEx, OpEx, asset decommissioning, restructuring, environmental remediation, or related to GHG reduction targets in transition plans aiming for net zero by 2050.

Other initiatives

- 1.5 Connectivity has also been on the radar of other financial reporting and sustainability reporting standard setters and regulators. The IASB and ISSB (as highlighted in the IFRS Foundation [connectivity website](#) page) have underscored that enhancing the connectivity of information is foundational to their work. This has been evident in the objectives of several recent IASB projects, including the IASB near-final illustrative examples on Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples and the 2025 IFRS MCPS.
- 1.6 As detailed in Chapter 2, there are explicit connectivity/connection requirements in both ESRS and ISSB Standards. Connectivity was also identified as an essential concept of improving corporate reporting in several publications that were part of the preparatory work for these sustainability reporting standards (i.e. the 2021 EFRAG PTF-NFRS publications and the 2021 IFRS Foundation Technical Readiness Working Group prototype document). Notably, the 2021 EFRAG PTF-NFRS publication noted that the absence of a formal interconnection between different sections of the annual report could lead to potential gaps, overlaps (i.e. duplication) and a lack of coherence in reported information. It recommended requirements for connectivity from a two-way perspective (i.e. sustainability statement/disclosures to financial statements and vice versa). The supplemental 2021 PTF-NFRS report on the interconnection between financial and non-financial information put forward the notions of direct and indirect connectivity (linking monetary amounts and other quantitative data in the sustainability statement to the related financial statements information).
- 1.7 Connectivity is also embedded within several initiatives that are under the umbrella of the IFRS Foundation. For instance, it was one of the guiding principles in the original (2013) and updated (2021) Integrated Reporting (IR) framework¹⁴ published by the International Integrated Reporting Council (IIRC), and it was implicitly included in the 2017 Taskforce for Climate-related Financial Disclosures (TCFD) recommendations¹⁵, i.e., via the call for entities to disclose the financial impact of climate-related risks and opportunities on the organisation. Moreover, a definition and guidance on coherence are included in the 2025 IFRS MCPS.

¹⁴ In this DP, the reference to connectivity in the context of the IR framework is limited to the external reporting aspects (i.e. external reporting that aims to show a holistic picture of the combination, interrelatedness, and dependencies/relationships between different items of information).

¹⁵ With the formation of the ISSB in 2021, both the IIRC (and its IR framework) and the TCFD recommendations fell under the umbrella of the IFRS Foundation

- 1.8 From an EU perspective, the findings in the [April 2024 European Systemic Risk Board \(ESRB\) publication *Climate-risks and accounting*](#), the [October 2023 ESMA report on Disclosures of Climate-related matters in the Financial Statements](#), [2024 ESMA Common Enforcement Priorities](#), and several other regulatory and standard setter publications¹⁶ (AMF-France, Finanstilsynet-Norway, 2025 ANC-France report) have similarly underscored the importance of enhancing connectivity in reporting. Outside the EU, other national standard setters (UKEB-UK, AASB-Australia, New Zealand XRB) have also issued publications¹⁷ with illustrations and recommendations to enhance connectivity.

Objectives and structure of DP

- 1.9 Following its proactive research agenda consultation in 2021, whereby connectivity was the top-ranked topic for EU stakeholders, EFRAG initiated a research project on the connectivity between financial reporting and sustainability reporting.
- 1.10 This DP aims to enhance stakeholders' understanding of the concepts and practical application of the connectivity of reported information. As noted in the Executive Summary and detailed in Appendix A, the content in the DP has been informed by discussions with expert groups within EFRAG, the review of multiple publications, the review of reporting practices, and EFRAG's outreach to multiple stakeholders. The rest of the DP is structured as follows:
- (a) Chapter 2 outlines the different types and mechanisms of connectivity as well as the anchor points that underpin the illustrations of connectivity.
 - (b) Chapter 3 and the ~~supplementary documents~~[Supplemental document](#) outline 17 practical illustrations ~~of different types of connectivity and anchor points~~.
 - (c) Chapter 4 provides aggregated observations based on a review of the illustrations, outreach conducted with stakeholders and other publications.
 - (d) Chapter 5 provides considerations for enhancing the connectivity of reported information and related aspects, drawing on the feedback from EFRAG's outreach.

¹⁶ a) ESMA, March 2023, *Report- [2022 Corporate reporting enforcement and regulatory activities](#)*.

b) Finanstilsynet, March 2023, *[Report on Information on climate-related matters in annual financial reports](#)*.

c) Autorité des Marchés Financiers – AMF, 2022, *[Overview of the information provided in the 2021 financial statements on the effects of climate change and the commitments made by companies](#)*.

d) Autorité des Normes Comptables – ANC, 2025, *[Enjeux climatiques : Quels liens entre les états financiers et l'état de durabilité? Contribution à la réflexion](#)*.

¹⁷ FRC UK, July 2023, *[CRR Thematic review of climate-related metrics and targets](#)*

UKEB, September 2023, *[A Study in Connectivity: Analysis of UK Company 2022 Annual Reports](#)*;

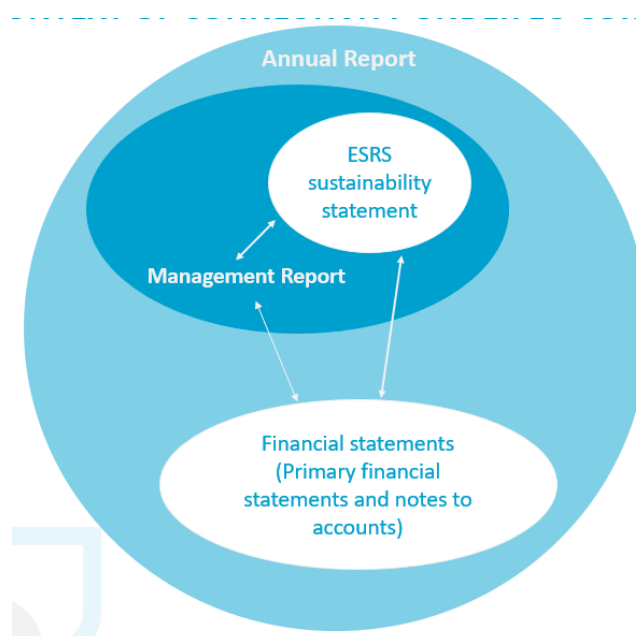
NZ XRB staff guidance, November 2023, *[Climate-related matters in Financial Statements](#)*

Scope of DP: What information is being connected?

Connectivity across reports- EU Context

- 1.11 As shown in Figure 1.1 below, given the EU context, within the scope of the DP are connections between the financial statements of EEA companies prepared under IFRS Accounting requirements or local GAAP, the sustainability statement (including Taxonomy-Article 8 disclosures) in the management report under ESRS, and the rest of the information in the management report guided by the Accounting Directive. Relevant information within other annual report sections (e.g. remuneration report, corporate governance report) is also in scope. This can be the case when such information has been incorporated into the sustainability statement by referencing, as allowed by ESRS 1 *General requirements* under certain conditions (e.g., having at least the same level of assurance as the sustainability statement) or even when such relevant information is in another report besides the sustainability statement. For example, one of the illustrations in the Supplemental document connects the information about the entity's workforce and the human rights issues it faces in the governance report to the share-based payment disclosure in the financial statements.

Figure 1.1: What is being connected under the EU reporting



Source: EFRAG

ESRS revision implications

- 1.12 Given the EFRAG connectivity research project's time horizon (project was initiated in 2022), the illustrations of connectivity in this DP are also prepared based on companies reporting in 2024 and prior years, with reporting done under the currently applicable ESRS Set 1, ISSB Standards and voluntary reporting frameworks (e.g. TCFD recommendations).
- 1.13 Reporting under the Revised ESRS will likely only be available in early 2027. Hence, given the benefits of connectivity mentioned above, stakeholders have emphasised the usefulness of EFRAG publishing a Discussion Paper at this time instead of waiting until possibly 2027 to assess the Revised ESRS reports. Moreover, addressing the connectivity of reported information can occur irrespective of the prevailing accounting or sustainability requirements (i.e. benefits of the connectivity of reported information do not depend on the underlying reporting framework).

- 1.14 In Chapters 2 and 5, based on the [Draft] Revised ESRS ED proposals, the DP highlights the possible changes in connectivity requirements and which of the sustainability reporting-related anchor points are likely to be modified. **THIS CONTENT WILL BE UPDATED AFTER EFRAG’S TECHNICAL ADVICE TO THE EC ON THE REVISED ESRS IS ISSUED IN NOVEMBER 2025.**

Connectivity in the context of IFRS general purpose financial reports

- 1.15 With the importance that EC and EU stakeholders have accorded to the interoperability between ESRS and ISSB Standards, and to draw insights from reporting practices from jurisdictions outside the EU that apply ISSB Standards, the DP also considers connectivity of reporting in the context of IFRS general purpose financial reports (i.e., IFRS financial statements, the management commentary and the IFRS sustainability-related financial disclosures, which are depicted in dark blue, light blue and red in Figure 1.2 below). Notably, one of the illustrations in the supplemental document and Chapter 3 is on the disclosure of anticipated financial effects under ISSB Standards.



Source: 2023 IFRS Foundation article - Connectivity - what is it and what does it deliver?

- 1.16 Location-agnostic sustainability-related financial disclosures: Unlike the CSRD/ ESRS’s clear placement¹⁸ requirements for the sustainability statement within the management report, the ISSB Standards’ sustainability-related financial disclosures are location-agnostic. In effect, a sustainability-related financial disclosure under ISSB Standards could be located in the notes within the financial statements. Though stakeholders have indicated that such a disclosure in the financial statements is likely to be rare.
- 1.17 Also, the 2025 MCPS’s guidance on coherence and the IFRS S1 (paragraph 21) connection requirements emphasise the importance of connections within and across IFRS general purpose financial reports.

Prioritisation of the sustainability statement under ESRS and the financial statements under IFRS Accounting requirements

- 1.18 Though a reporting framework-agnostic approach is taken, the DP’s primary focus is on connectivity between the sustainability statement under ESRS and financial statements prepared under IFRS Accounting requirements (applied by EU-listed companies).

¹⁸ Another key difference between the ISSB Standards and ESRS is the lack of a mandatory assurance requirement under ISSB standards within the EU.

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

Implications of location-specific sustainability statement under ESRS versus location-agnostic sustainability disclosures under ISSB Standards

- 1.20 Some stakeholders have suggested that connectivity in the context of a separate sustainability statement under ESRS that is prepared from a double materiality perspective (material information from financial and/or impact perspective) may differ from connectivity in the context of the location-agnostic ISSB sustainability-related financial disclosures that exclusively focus on material information from an investor perspective. Thus, **this DP seeks constituents' views on whether the presence or absence of clear placement requirements for sustainability reporting information outside the financial statements, along with the materiality perspective applied (double materiality or materiality) for reporting this information, has any implications for the connectivity of the financial statements and the sustainability statement/disclosures information.**

Information that is expected to be (but is not) connected across different reports

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

Connectivity in process and reporting requirements

- 1.22 Although the focus of the DP is connectivity of reportingreported information, other aspects of connectivity (i.e. connectivity in organisational process, including governance and connectivity in assurance) are addressed in Chapter 5 as part of the considerations to enhance connectivity in-reporting.of reported information. Connectivity in reporting requirements, including the basis of preparation of different reports (i.e., scope of consolidation, reporting entity, qualitative characteristics of information, etc.), is also addressed in Chapter 2.

CHAPTER 2: UNDERPINNING CONCEPTS

CHAPTER STRUCTURE

ENABLING ATTRIBUTES FOR THE CONNECTIVITY OF REPORTED INFORMATION (PARAGRAPHS 2.1 TO 2.8)

TYPES AND MECHANISMS OF CONNECTIVITY OF REPORTED INFORMATION (PARAGRAPHS 2.9 TO 2.22)

ANCHOR POINTS (PARAGRAPHS 2.23 TO 2.28 AND TABLE 2.1)

With the multiple meanings associated with the notion of connectivity, a stakeholder labelled it as a “Porte Manteau” term (i.e., a hanger on which any coat can hang). That said, there is ample guidance and descriptions of the term in both authoritative and non-authoritative literature. And this chapter lays out the concepts (enabling attributes, and different types and mechanisms of connectivity of reported information) that inform the illustrations of connectivity in Chapter 3. These concepts have been drawn from the 2024 EFRAG connectivity publication, ESRS Set 1, ISSB Standards, the 2025 IFRS MCPS, and a selection of regulator, auditor, national standard setter and academic publications.

Another essential aspect for developing the illustrations of connectivity is the identification of anchor points (defined by the 2021 PTF-NFRS EFRAG report¹⁹ as data and/or qualitative or quantitative information that allows the connection of sustainability disclosures and financial statements information). Said differently, an anchor point is information (narrative and data) that intersects sustainability statement/disclosures and financial statements information, and, as a result, can allow the connection of information in these different reports. The anchor points were identified based on the discussions of the EFRAG advisory and technical governance bodies (EFRAG CAP, EFRAG FR TEG and EFRAG SR TEG) and the findings from several thematic reviews of climate-related reporting practices.

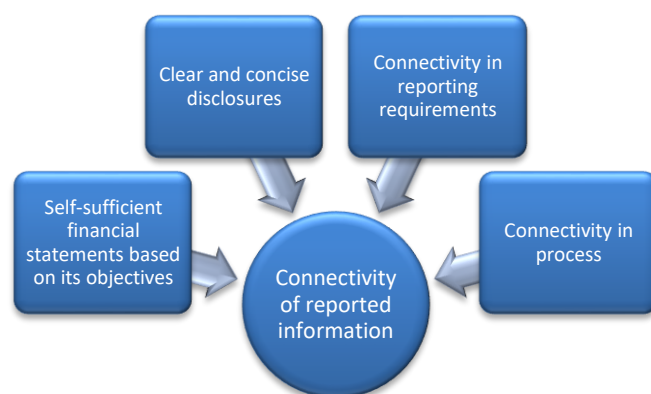
WITH RESPECT TO ESRS REQUIREMENTS, THIS CHAPTER’S REFERENCES TO ESRS PARAGRAPHS/REQUIREMENTS WILL BE UPDATED IN LATE NOVEMBER TO REFLECT EFRAG’S TECHNICAL ADVICE TO THE EC ON DRAFT REVISED ESRS. PARAGRAPHS THAT WILL BE REVIEWED/UPDATED ARE INDICATED IN YELLOW

Enabling attributes for the connectivity of reported information

- 2.1 Addressed below, as depicted in Figure 2.1, are four enabling attributes (i.e., self-sufficiency of financial statements for its stated purpose, clear and concise disclosures, connectivity in reporting requirements (basis of preparation), and connectivity in organisational processes.

¹⁹ EFRAG, PTF- NFRS, February 2021, [Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard- Setting](#).

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



Enabling attribute: Self-sufficiency of financial statements information for its stated purpose

2.2 The [October 2023 ESMA report](#) emphasised that financial statements are expected to be self-sufficient²⁰ in providing information related to their distinctive objective, as this contributes to a coherent annual reporting package comprised of complementary and distinctive sections. And the primary purpose of connectivity is to ensure the overall coherence and connectedness of the information across the annual report.

2.3 Self-sufficient financial statements may necessitate

- (a) repetition (e.g. pertinent aspects of an entity's strategy that affect an accounting policy choice). Such repetition could be for the reinforcement of the overall understandability of the information reported in the financial statements. Stakeholders (including EFRAG CAP members) have indicated that repeated narrative from other reports should be tailored to be suitable for the context of the related financial statements information (i.e. in the financial statements, entities should not just repeat the exact wording that was, for instance, disclosed in the management report).
- (b) incorporation of information from another report by cross-reference, in specific cases where such reference is explicitly permitted. However, except for some risk disclosures under IFRS 7 *Financial Instruments: Disclosures*, the IFRS Accounting Standards do not have explicit requirements on the incorporation of information into the financial statements by cross-reference to another report. IFRS 18. BC 370-371²¹ conveys that the incorporation of management-defined performance measures by cross-reference is not allowed. In this instance, the IASB did not include an explicit prohibition as the IASB

²⁰ Financial accounting has a long-established history running for hundreds of years and it primarily provides information to facilitate capital allocation and the assessment of the stewardship of reporting entities. In contrast, sustainability reporting is a relatively nascent form of reporting that complements financial statements by providing information (including an entity's impacts, non-financial metrics and forward-looking sustainability-related risks and opportunities) that cannot be encompassed within the financial statements based on the latter's objectives and materiality yardsticks. In some jurisdictions such as the EU, sustainability reporting is also a mechanism contributing to the pursuit of public policy objectives (e.g. the EU Green Deal goals).

²¹ BC370: 'The IASB considered allowing an entity to comply with the requirements by cross-referencing the required information in other documents. Allowing cross-referencing can help avoid duplication of information, which can increase the clarity of financial reporting. However, if an entity uses cross-referencing, information is fragmented between several locations, which can reduce transparency by making it more difficult for users of financial statements to locate information and understand the financial statements as a whole. To make information about management-defined performance measures transparent, the IASB decided not to specify that management-defined performance measure disclosures can be included in the financial statements by reference to another document.'

BC371: 'The IASB considered prohibiting an entity from complying with the requirements by cross-referencing to the information required by IFRS 18 included in another document. The IASB concluded it was unnecessary to include application guidance specifically prohibiting cross-referencing because in practice entities generally do not disclose information required to meet IFRS Accounting Standards by cross-reference unless an IFRS Accounting Standard specifically allows it. The IASB also concluded that including such a prohibition might have unintended consequences.'

observed that, unless an IFRS Accounting Standard specifically allows it, entities generally do not disclose information in the financial statements that is needed to meet IFRS Accounting Standards by cross-reference. Moreover, relative to the information in the management report or the sustainability statement/disclosures, there are particular obstacles towards incorporating that information into the financial statements by cross-reference²², including:

- (i) legal risk on forward-looking information;
- (ii) it could impair the understandability of information in the financial statements. Specifically, if done excessively, it could result in fragmented information and difficulties in users accessing or readily having a full picture (as similarly noted in paragraph BC 100 of the 2025 IFRS MCPS), and
- (iii) differences between the level of assurance provided for financial statements and other reports. A condition for including information by cross-referencing in the financial statements is that the information has the same level of assurance as other information in the financial statements (i.e. reasonable assurance). Currently, there is only limited assurance for the sustainability statement, and the recent EU Omnibus proposals for the CSRD revision no longer refer to possible reasonable assurance of the sustainability statement prepared under ESRS. Reasonable assurance is and remains possible, but will possibly not be required in the future.

Enabling attribute: Connectivity in organisational ~~process~~processes

- 2.4 Connectivity in organisational processes, which would facilitate the connectivity of reported information, is a practical rather than conceptual matter and is addressed in Chapter 5.

Enabling attribute: Connectivity in reporting requirements (basis of preparation):

- 2.5 There is alignment in the basis of preparation of the financial statements, the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards across several aspects, as described below:
- (a) ESRS Set 1 and ISSB Standards require reporting of information with **qualitative characteristics** consistent with those of the IFRS Conceptual Framework for Financial Reporting and the CSRD (i.e. relevance, *faithful* representation, comparability, verifiability and understandability). **Revised ESRS introduces the fair presentation principle, whereby companies are required to disclose relevant information on IROs and to represent it faithfully according to ESRS requirements.**

²² Paragraph 120 of ESRS 1 also explains the conditions under which information may be incorporated into the sustainability statement by reference: 'The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 119, provided that the disclosures incorporated by reference:

- (a) constitute a separate element of information and are clearly identified in the document concerned as addressing the relevant Disclosure Requirement, or the relevant specific datapoint prescribed by a Disclosure Requirement;
- (b) are published before or at the same time as the management report;
- (c) are in the same language as the sustainability statement;
- (d) are subject to at least the same level of assurance as the sustainability statement; and
- (e) meet the same technical digitalisation requirements as the sustainability statement.'

- (b) ESRS Set 1 and ISSB Standards require **the same reporting entity** (ESRS 1.62-63) as the financial statements, albeit with differences²³ in the scope of reporting (see paragraphs 6 and 7 below);
- (c) the **same reporting period** (ESRS 1.73) as the financial statements, albeit the differences in the typical time horizon²⁴ covered, as described in Chapter 5.
- (d) And the financial statements, the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards also have similar approaches for the **treatment of events after the reporting date, and changes in preparation and presentation practices as the financial statements**. The sustainability reporting requirements were influenced by IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and IAS 10 *Events after the Reporting Period*. Nonetheless, due to the different nature of the financial statements and sustainability reporting information, the basis for preparation of the sustainability statement under ESRS allows for greater flexibility to reflect uncertainties associated with future sustainability IROs.

2.6 ESRS Set 1 and ISSB Standards also include requirements for the presentation of comparative information for all quantitative metrics (as per ESRS) and amounts (under ISSB Standards-IFRS S1.70) disclosed in the current period, as well as for narrative disclosures when relevant. An entity shall also present comparative information in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target, unless a relevant Disclosure Requirement already defines how to report progress (ESRS 1.76).

2.7 Organisational reporting boundary (i.e., entities, assets, operations/sites reported on): In a general sense, the reporting entity represents the entity or group of legal entities that prepares the report, while the organisational reporting boundary is what is being reported on (entities, assets, operations/sites reported on). An alignment in reporting boundaries is another aspect of alignment in the basis of preparation. The following are the respective reporting boundaries of the financial statements, and the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards:

- (a) Under financial accounting requirements (IFRS 10 *Consolidated Financial Statements*), the consolidation of information occurs when the investor controls²⁵ the investee entity. And the equity method of accounting (under IAS 28 *Investments in Associates and Joint Ventures*) is applied when the investor has significant influence²⁶ or joint control and the

²³ While indeed, under ESRS, the sustainability statement shall be for the same reporting undertaking as for the financial statements (i) the reported information shall be extended beyond own operations to cover material IROs in the value chain, and (ii) some data points reported in the sustainability statement cover a different scope than the financial statements, notably by including data from entities, sites, or assets under the company's operational control in addition to the financial control perimeter.

²⁴ While indeed the reporting period of the sustainability statement shall be consistent with that of its financial statements: the sustainability statement is largely based on forward-looking elements, notably through the use of scenarios, as it reflects future rights and obligations that may not exist at the reporting date. In contrast, even though financial statements recognised amounts consider forward-looking information (e.g., fair value of assets and liabilities, assets impairment, goodwill), they require a past event, and consider reporting rights and obligations that exist at a given date. Similar to how financial statements are not just about the past, the sustainability statement or sustainability-related financial disclosures under ISSB Standards are not just about the future. For example, the disclosed current financial effects relate to the reporting period, and are an important item of information that needs to be connected to the financial statements.

²⁵ Under IFRS 10, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power is defined as existing rights (voting rights or embedded in contractual arrangements) that give the current ability to direct the relevant activities.

²⁶ According to IAS 28, the existence of significant influence by an entity is usually evidenced in one or more of the following ways: a) representation on the board of directors or equivalent governing body of the investee; b) participation in policy-making processes, including participation in decisions about dividends or other distributions; c) material transactions between the entity and its investee; d) interchange of managerial personnel; or e) provision of essential technical information. The existence and effect of potential voting rights

reporting entity's/investor's share of the net assets of its equity-accounted investees (joint venturers or associates) is deemed to be within the reporting boundaries of the reporting entity.

- (b) Under **ESRS (based on draft revised ESRS)**, except for some of the environmental standards, for the consolidation of metrics, the same reporting entity (i.e., consolidated group entities) is generally²⁷ applied for both the sustainability statement and the financial statements.

2.8 Under **ESRS Set 1²⁸ and the draft revised ESRS**, there are several differences between the reporting boundaries of the sustainability statement and financial statements, including:

- (a) In some cases, when a reporting entity is a group, some subsidiaries might not be material for the purposes of consolidated financial statements but material for the purposes of the consolidated sustainability statement. For example, if these subsidiaries have material sustainability-related IROs. The converse can occur (i.e., material subsidiaries for the consolidation of financial statements may have immaterial sustainability-related IROs).
- (b) Under the ESRS (E1 *Climate Change*), the notion of operational control²⁹ of an investee can be applied when reporting (i.e. consolidating GHG emissions). ESRS allows the application of the GHG protocol³⁰. When applying the operational control approach, the organisational reporting boundary can extend beyond that applied for the consolidation of financial statements information to include own operations (a term used under ESRS but not ISSB Standards) and the entity's upstream and downstream value chain. 'Own operations' is defined under draft revised ESRS ED proposals (i.e., associates, joint ventures, and unconsolidated subsidiaries for which the undertaking/entity has the ability to control the operational activities and relationships). Under IFRS Accounting Standards, there is only the notion of 'control', and there is no explicit mention of 'operational control', nor is a distinction made between 'financial control' and 'operational control'.
- (c) Under sustainability reporting, there is no equivalent to the equity method of accounting (i.e., there is no approach that includes the investor's share of the investee's aggregated

that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence.

²⁷ Under draft revised ESRS proposals, operational control is expected to apply only to GHG emissions in a limited number of sectoral cases within the framework of the simplification.

²⁸ [EFRAG Implementation Guidance- Value Chain \(IG 2\)](#)

²⁹ 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".

³⁰ The GHG protocol enables companies to measure and report their direct and indirect emissions (i.e. scope 1 and scope 2 emissions), as well as both their upstream and downstream scope 3 emissions. In the application of the notion of financial control (i.e. there is 100% consolidation of the GHG emissions of the entities whose financial statement line items are fully consolidated). However, there are differences including:

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

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

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

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

metrics within the sustainability statement/disclosures reporting boundary similar to how the investor's share of the investee's net assets and net income/loss are within the reporting boundary of the investor's financial statements). The equity share approach under the GHG protocol is akin to the proportional consolidation approach that is no longer allowed under IFRS Accounting Standards. A connectivity issue arises as some stakeholders have questioned the difference between significant influence applied for the equity method in the financial statements and the notion of operational control that could, in some cases, be applied for the metrics in the sustainability statement under ESRS.

Types and mechanisms of connectivity of reported information

- 2.9 In broad terms, the types and mechanisms (techniques related to types) described below allow the linkage of a) an entity's sustainability-related IROs, its commitments and other actions in response, which are disclosed in the sustainability statement under ESRS, and b) the related effects on financial position, financial performance, and cash flows. For instance, physical and transition risks³¹ associated with climate change, together with an entity's climate commitments and transition/adaptation plans, can have material financial implications on the entity's financial position, performance, and cash flows in the short, medium, and long term. That said, the need for connectivity is not restricted to climate-related matters, and in the discussion of anchor points (paragraphs 2.23 to 2.28 and Table 2.1), there is a more complete articulation of where and how connectivity could arise across a range of sustainability-related matters.
- 2.10 Also, it is noted that, unlike the IFRS Accounting Standards and Conceptual Framework for Financial reporting, the sustainability reporting Standards (ESRS and ISSB) and the 2025 IFRS MCPS have explicit connectivity-related requirements.
- 2.11 Figure 2.2 below diagrammatically represents the different types and mechanisms of connectivity, which are drawn from authoritative literature (ESRS Set 1 requirements, ISSB Standards, and the 2025 IFRS MCPS). Thereafter, an elaboration of each type of connectivity is provided. It must be emphasised that there are overlapping elements in the description of the different types and mechanisms of connectivity. Moreover, as noted in both Chapter 1 and the blue text boxes in this chapter, the [Draft] Revised ESRS may result in a change of the ESRS requirements for connectivity. That said, the ESRS Set 1 requirements are still relevant for this DP because many of the illustrations of connectivity in Chapter 3 have been excerpted from a selection of wave one ESRS adopters (i.e. large, publicly listed companies required to prepare a sustainability statement under ESRS for the 2024 reporting period, being the first required to do so).

Figure 2.2. Different types of connectivity

³¹ Physical risks stem from acute (e.g., storms, floods) and chronic events (e.g., sea level rise, droughts), while transition risks arise from regulatory, technological, market, or reputational changes in the shift to a low-carbon economy.

Overarching types of connectivity (ESRS Set 1, ISSB Standards, MCPS)

•**Integration of information:** An entity communicating and explaining how strategy, business model and IROs are linked to reporting outcomes (i.e. financial position, financial performance, cash flows, other metrics)

•**Coherence:** Providing information in a way that allows users to relate information about an entity's sustainability-related risks and opportunities to information in the entity's financial statements. Supports the completeness, clarity and comparability of reported information; explanation of apparent inconsistency across different IFRS general purpose financial reports

•**Consistency:** Consistent data, narrative/qualitative disclosures, assumptions and units of measurement (presentation currency)

•**Direct and indirect connectivity** by linking monetary and other quantitative data points – ESRS Set 1

Connectivity at current reporting period (including disclosures of current financial effects)

vs

Intertemporal (across reporting periods) connectivity/linkage (including anticipated financial effects disclosures and disclosures that enable users to understand migration of items across reports over time)

Source: EFRAG

Overarching types of connectivity

- 2.12 **Integration of information:** This entails an entity communicating and explaining how its strategy, business model and IROs are linked to its sustainability and financial performance, financial position, cash flows, and other metrics and targets in the short-, medium- and long-term (i.e. as required by **ESRS Set 1, ESRS 1.123**). In effect, it shows the interaction between an entity's strategic choices to IROs, and the information in the financial statements and the sustainability statement.
- 2.13 **ESRS Set 1, ESRS 1.123** notes that to allow users to assess connections in information, the undertaking might need, in particular, to explain the effect or likely effect of its strategy on its financial statements or financial plans, or on metrics and targets used to measure progress against sustainability performance. IFRS S1. B43 provides a similar example with slightly different wording.
- 2.14 Moreover, related to the above, IFRS S1. B44 indicates that connections can include:
- (a) An explanation of the combined effects of the entity's sustainability-related risks and opportunities and its strategy on its financial position, financial performance and cash flows over the short-, medium- and long-term.
 - (b) A description of the alternatives that an entity evaluated in setting its strategy in response to its sustainability-related risks and opportunities, including a description of the trade-offs between those risks and opportunities that the entity considered.
- 2.15 **Coherence:** With respect to IFRS general purpose financial reports (IFRS financial statements, sustainability-related financial disclosures under ISSB Standards, and management commentary), IFRS S1. D33 states that coherence requires an entity to provide information in a way that allows users to relate information about its sustainability-related risks and opportunities to information in the entity's financial statements. The 2025 IFRS MCPS indicates that coherence supports the completeness, clarity and comparability of reported information and conveys the following elements of this term:
- (a) Disclosure of information in a way that makes clear the relationships between related matters and allows readers to assess the implications of interrelated matters.

- (b) Presentation of information in a way that explains the relevant context and relationships with related information within the management commentary or across other IFRS general purpose financial reports to allow connections between the related information.
 - (c) Disclosure of information in a way that allows users to relate it to information in the financial statements or another general purpose financial report.
 - (d) Explanation of apparent inconsistency between information across different IFRS general purpose financial reports (e.g. management commentary/report and information in the financial statements).
- 2.16 In effect, IFRS literature deems coherence as described in the 2025 IFRS MCPS and connected information as described in IFRS S1 to be similar principles. For the purpose of this DP, it is acknowledged that there is broad conceptual alignment between the term coherence as described in the 2025 IFRS MCPS, connected information as described in IFRS S1, and the types of connectivity described in this DP. However, what is explicitly stated and the level of specificity in the description of these concepts differ. For example, as described below, in this DP, connectivity includes intertemporal connectivity (via the disclosure of anticipated financial effects, which is a disclosure under ESRS and ISSB Standards) and the ESRS notions of direct and indirect connectivity via linkage of quantitative data.
- 2.17 **Consistency** is another overarching type of connectivity. As described in **ESRS 1.127-128** and IFRS S1.23, it refers to the consistency of data, assumptions, units of measurement (e.g. presentation currency) and narrative information. It also entails disclosing information about significant differences between the data and assumptions used across reports. It is noted that the International Standards on Auditing (ISA) require an assessment of consistency as part of the assurance process (i.e. ISA states there should not be an inconsistency and there is a need to explain any significant differences). Similarly, the enforcers' thematic reviews often monitor the consistency of reporting. In the latter context and for many stakeholders, the term consistency may be synonymous with coherence as described elsewhere in this DP.
- 2.18 **Direct and indirect connectivity** (as described in ESRS Set 1) could be construed as the connection of monetary amounts and other quantitative data points.
- 2.19 **Intertemporal connectivity (connectivity over different reporting periods) and connectivity at the reporting date**

Mechanisms of connectivity of reported information identified in authoritative literature

- 2.20 Mechanisms of connectivity are the practical ways of implementing the types of connectivity described in paragraphs 2.12 to 2.19 above. These mechanisms, drawn from authoritative ESRS and IFRS literature, are considered in the illustrations of connectivity in Chapter 3 and the Supplemental document and in the observations of reporting practices in Chapter 4. The mechanisms of connectivity include:
- (a) **Cross-referencing** is linked to direct connectivity. ESRS 1 under ESRS Set 1 states that when the sustainability statement includes material monetary amounts or other quantitative datapoints that are presented in the financial statements, the undertaking/entity shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found. Cross-referencing also refers to the inclusion of sustainability-related information already disclosed elsewhere, by reference to those documents (e.g. management report, corporate governance statement, remuneration report).

- (b) The **reconciliation** of related quantitative datapoints is linked to indirect connectivity. ESRS 1 under ESRS Set 1 requires undertakings/entities to explain³² how amounts or datapoints in the sustainability statement relate to the most relevant amounts presented in the financial statements. Such disclosures could, for example, be related to assets at risk (amount and percentage of assets exposed to physical and transition risk), and Capex and Opex investments related to decarbonisation as required by ESRS E1. **Under draft revised ESRS ED, cross-referencing or reconciliation of monetary amounts or other quantitative information is no longer mandatory, and the GHG and energy intensity metrics for which reconciliation or cross-referencing of the denominator (i.e. IFRS 15 revenue) was necessary under ESRS Set 1 are no longer required.**
- (c) **Qualitative disclosures** can link/connect interrelated information within and across different corporate reports. For instance, describing the financial statement line items that are affected by a sustainability-related risk or opportunity if an entity is unable to provide quantitative disclosures of current or anticipated financial effects (IFRS S1.40).
- (d) **Disclosure of current financial effects:** The disclosure of current financial effects of sustainability matters is related to connectivity at the reporting date. This information is required to be disclosed in the sustainability statement under ESRS and sustainability-related financial disclosures under ISSB Standards.
- (e) **Disclosure of anticipated financial effects** in the sustainability statement under ESRS and in the sustainability-related financial disclosures as required by ISSB Standards (and elaborated in the August 2025 ISSB educational material³³) is part of intertemporal (across different reporting periods) connectivity. This disclosure is related to where the risks and opportunities can be linked to financial position, financial performance, and cash flows over the short-, medium- and long-term. **The requirements for this disclosure are under review under the ESRS revision.** During EFRAG's outreach, stakeholders highlighted that, when considering information disclosed as anticipated financial effects, it is important to distinguish between i) information that can be connected to financial statements at reporting date (~~i.e., information g., disclosure of short-term anticipated financial effects that overlap~~ overlap with disclosures ~~of in the financial statements of assumptions and sources of estimation uncertainty that may result in a material adjustment in the carrying value of assets and liabilities within the next financial year under IAS 1.125-;~~); ii) information that is likely to be connected to future period financial statements; and iii) information that will never crystallise in future period financial statements. **The requirements for this disclosure are under review under the ESRS revision.**
- (f) **Linking forecast information to past/present reported information:** **Under ESRS 1 of ESRS Set 1 requirements (ESRS 1.74³⁴),** another mechanism of intertemporal connectivity is captured by forecast information being related to retrospective information (past/present period reported information).
- (g) **Highlight differences in financial statements' and sustainability statement's scope of consolidation:** **ESRS 2.5-b under ESRS Set 1** requires ~~ai)~~ a confirmation that the scope of consolidation of the sustainability statement is the same as for the financial statements, ~~bi)~~ an indication of which subsidiaries included in the consolidation are exempted from

³² This disclosure shall include a reference to the line item and/or to the relevant paragraphs of its financial statements where the corresponding information can be found.

³³ ISSB, August 2025, [Disclosing information about anticipated financial effects applying ISSB Standards](#)

³⁴ The undertaking shall establish appropriate linkages in its sustainability statement between retrospective and forward-looking information when relevant to foster a clear understanding of how historical information relates to future-oriented information.

individual or consolidated sustainability statement, [€ iii](#)) to what extent the sustainability statement covers the undertaking's upstream and downstream value chain.

- (h) **Disclosure of qualitatively material information about exposures.** This disclosure could, for example, state that property, plant, and equipment (PPE) useful lives have not been impacted by climate risk. The IASB has mainly provided guidance on this disclosure through the July 2025 near-final³⁵ illustrative examples of reporting uncertainties, which included a disclosure of qualitatively material information about exposures as one of the illustrative examples (i.e. Illustrative Example 1). Furthermore, the 2025 IFRS MCPS notes that some matters might not be key for the entity even though investors and creditors would generally expect them to be key for entities operating in the industry or jurisdiction in which the entity operates. Material information can include an explanation of why the matter is not key for the entity in certain circumstances.
- (i) The disclosure of qualitatively material information about exposures can be part of the disclosure of current financial effects (i.e. a statement that a matter has no current financial effects). This disclosure is also an example of coherent reporting, as it explains an apparent lack of consistency across the sustainability statement and the financial statements. For instance, the discounted future cash outflows related to a provision for environmental remediation costs may be immaterial for the purposes of recognition in the statement of financial position in the financial statements, yet the undiscounted amounts/gross exposure could be material and disclosed in the sustainability statement/disclosures.
- (j) It is worth noting that, in its response to the IASB consultation on the illustrative examples on uncertainties, EFRAG supported the illustrative example related to the disclosure of qualitatively material information about exposures, but EFRAG also aired several stakeholders' reservations about this disclosure, as it may contribute to disclosure overload.
- (k) **Disclosure of the process and material topics under a double materiality assessment:** The disclosure of the materiality process is required by [ESRS³⁶ Set 1](#), but not by the IFRS Accounting Standards. Based on a review of EU companies 2024, it is noted that the disclosure of material topics under a double materiality assessment contextualises/influences the expectations of whether a sustainability matter ought to be reflected in the financial statements. Therefore, this disclosure is also considered a mechanism of connectivity in this DP.
- (l) **Content index (or similar):** [ESRS 2.56 under ESRS Set 1](#) requires undertakings to include a list of the Disclosure Requirements complied with in preparing the sustainability statement. This could be seen as a signposting tool that enhances the access, understandability, and consequently the connectivity of reported information.

³⁵ The final set of illustrative examples are expected to be published in late 2025.

³⁶ ESRS Set 1-[ESRS 1.29](#) states the undertaking shall always disclose the process to identify and assess material IROs. ESRS Set 1-[ESRS 2 SBM IFRS S2.B5](#) requires an entity to disclose information about the process the entity uses to identify, assess, prioritise and monitor those risks and opportunities."

Other mechanisms of connectivity of reported information

2.21 Academic paper Agrawal, Bayne, Hellman, and Wee (2025)-hereafter called Bayne et al (2025)³⁷, the findings, feedback from stakeholders, and observations of reporting practice, identify the following additional mechanisms³⁸ of connectivity:

- (a) **Explaining why certain information cannot be connected:** Although not mandated, stakeholders (including EFRAG CAP members) have indicated that in cases where there would be a reasonable expectation of information to be connected and that is not the case, a useful disclosure, albeit a voluntary one would be an explanation of why there is no connection (e.g. due to differing level of aggregation). Such an explanation is an aspect of connectivity. Of note, Chapter 5 has a review of the differentiating features of the financial statements and the sustainability statement/disclosures. For instance, more often, sustainability statement information has a higher level of uncertainty and a longer time horizon than the financial statements' information. As shown in one of the illustrations in Chapter 3, this could result in differences between the assumptions applied for scenario analysis and those applied in the asset impairment determination, and in this case, the company was transparent about the reasons for the differences in assumptions.
- (b) **Summary note of sustainability-related matters in the financial statements (e.g. climate note):** This disclosure, which is encouraged by regulators in some jurisdictions³⁹, has been suggested as a mechanism of connectivity in academic literature (Bayne et al, 2025). It is a form of signposting and, as noted in paragraph 2.3b, it aids users' navigation of information within the financial statements and their connection of reported information if it also refers to the location of disclosures in the sustainability statement/disclosures.

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

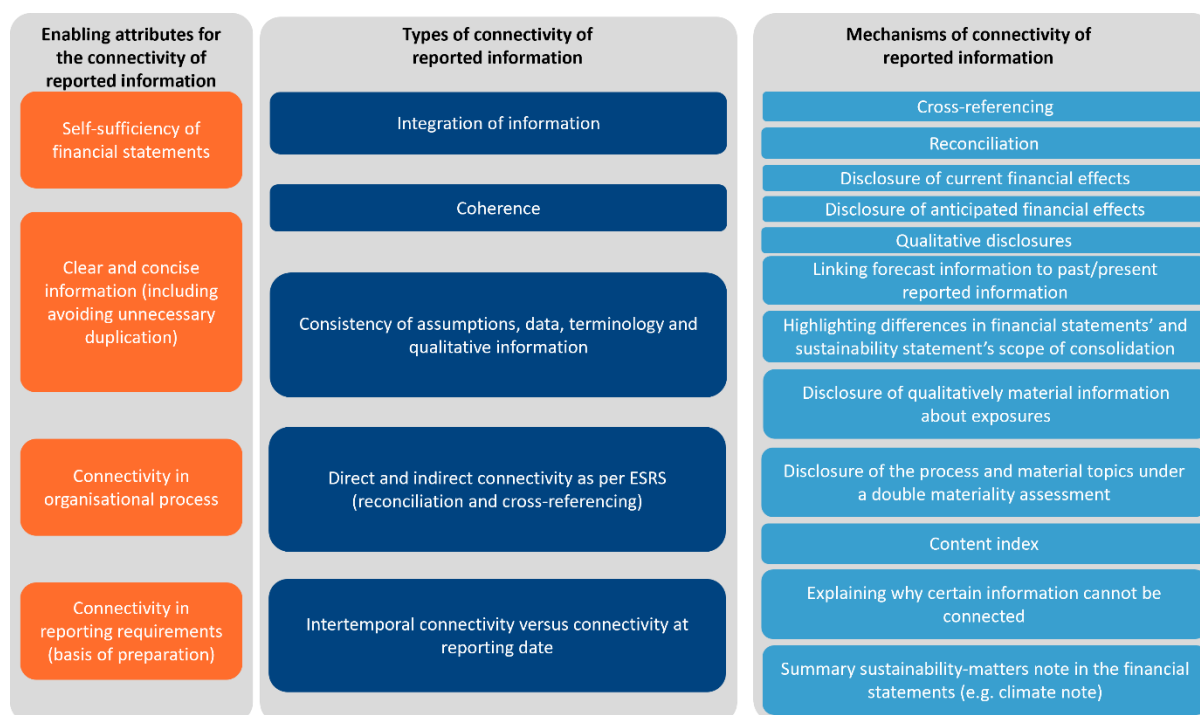
³⁷ Agrawal, P., Bayne, L., Hellman, N., and Wee, M., 2025. . Academic IAAER-KPMG Academic Research Working Paper. University of Western Australia, Stockholm School of Economics, and Australian National University

³⁸ Bayne et al (2025) delineate 21 mechanisms to attain connectivity of reports and these include the enabling attributes and types/mechanisms of connectivity articulated in paragraphs 2 to 21 (i.e. applying the coherence principle across reports, direct connectivity via cross reference, indirect connectivity via reconciliations to other reports, consistency in data and assumptions, explaining significant differences, intertemporal linkages, avoiding unnecessary duplication across reports). They also address mechanisms of connectivity in reporting process and connectivity in standard setting and regulation.

³⁹ In a Forvis Mazars 2024 study on the financial reporting of European companies on climate issues, 60% of the 72 entities studied, consisting of the entire CAC 40 and Euro Stoxx 50 indices, presented climate issues in a dedicated note in the financial statements.

Forvis Mazars, 2024, [Financial reporting of European companies on climate issues- Findings from 2022 financial statements](#). (Will be updated for 2025 version before DP publication)

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

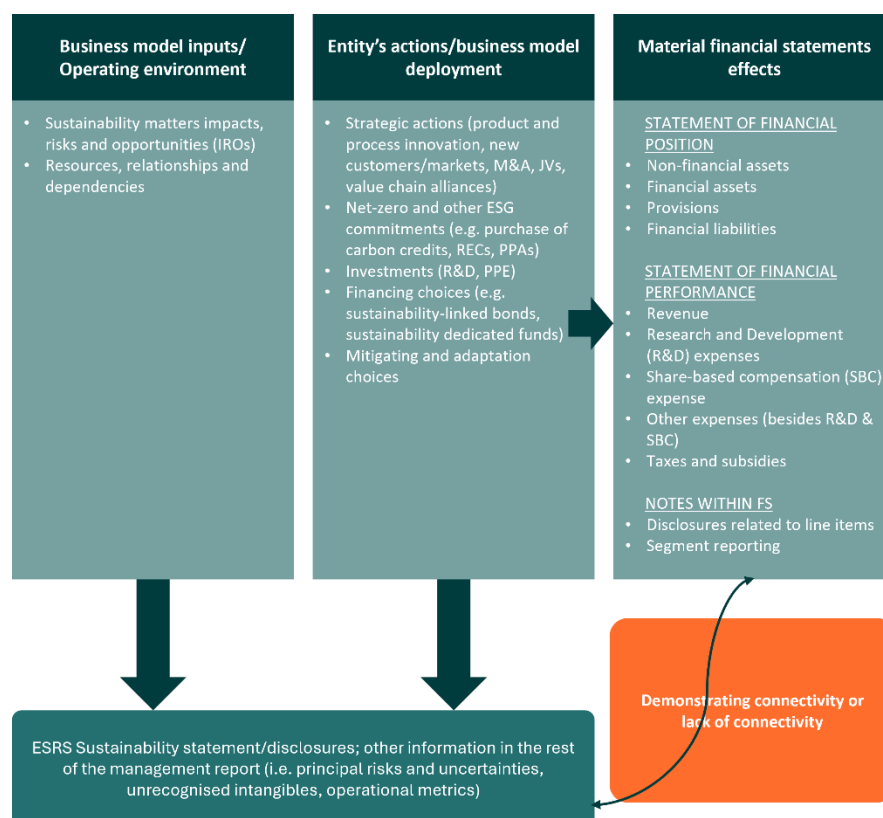


Source: EFRAG

Anchor points

- 2.23 At a high level, Figure 2.4 below depicts the interplay between an entity's operating environment (including its IROs), its actions (e.g. mitigating and financing), including its strategy and business model in response to the IROs, and the resulting reporting outcomes reflected in the sustainability statement/disclosures and financial statements.
- 2.24 The diagram below is a useful backdrop for identifying suitable anchor points (i.e. as defined in the preamble to Chapter 2, data and/or information that allows the connection or conjunctive evaluation of sustainability reporting and financial statements information) that enable the systematic identification of suitable illustrations of connectivity in Chapter 3.

Figure 2.4 Interplay of an entity's sustainability-related operating environment, its actions, and reporting effects



Source: EFRAG

- 2.25 The anchor points for illustrations of connectivity in Table 2.1 below are derived from discussions with the EFRAG CAP and EFRAG governance bodies. Also considered were the focal areas highlighted in thematic reviews of reporting practices done by ESMA and other related 2022-2025 publications (Mazars, E&Y, Other NSS, including ANC-France, UKEB, New Zealand XRB and Australia). In essence, this list of anchor points is not intended to be either exhaustive or to provide guidance, but was used to guide the development of illustrations in Chapter 3. Another detailed breakdown of points of connectivity between financial statements and the sustainability statement with respect to climate-related information can be found in Table 2 of the 2025 ANC-France report⁴⁰ on the reporting of climate issues.
- 2.26 A summary of the respective sustainability statement/disclosures and financial statements anchor points is presented below.

Sustainability statement/disclosures anchor points

- 2.27 These anchor points are information in the sustainability statement/disclosures or other reports expected to be connected to the current period financial statements line items, or help to identify any differences in the basis of preparation for financial statements and the sustainability statement/disclosures. They include:
- Business model, strategy, material IROs, entity's actions, including its investments and transition plans;
 - Mandatory EU taxonomy Capex, Opex and revenue disclosures;

⁴⁰ AUTORITÉ DES NORMES COMPTABLES (ANC)- France, February 2025, [Enjeux climatiques : Quels liens entre les états financiers et l'état de durabilité ? Contribution à la réflexion.](#)

- (c) Anticipated financial effects disclosures;
- (d) Assets at risk, revenue at risk disclosures;
- (e) Environmental pollution narrative and metrics disclosures;
- (f) Human capital metrics, including employee benefits disclosures;
- (g) Sustainability-linked financing⁴¹ [disclosure](#); and
- (h) Scope of consolidation disclosure (related to consistency or otherwise of reporting boundary).

Financial statements anchor points

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

- (a) Capitalisation of expenditures
- (b) Impairment of non-financial assets, useful lives, and residual value;
- (c) Impairment of financial assets – expected credit loss for financial institutions;
- (d) Provisions and disclosures of contingent liabilities and provisions, including those related to asset retirement obligations, legal fines;
- (e) Disclosures of major sources of estimation uncertainty in the next 12 months;
- (f) Segment reporting;
- (g) Disaggregation of revenue disclosures;
- (h) Disaggregation of property, plant and equipment and R&D intangibles disclosures;
- (i) Disclosures of carbon credits; and
- (j) Disclosures of power purchase agreements (PPAs).

⁴¹ It is noted that sustainability-linked loans are different from green loans. Sustainability-linked loans are provided for any type of investment and required to fulfil certain sustainability-related KPIs, while green loans are used to finance investments in green projects.

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

Sustainability statement/disclosures (SR)- anchor points	Financial statements (FS) anchor points	Types/possible mechanisms of connectivity of reported information
GENERAL ANCHOR POINT (ALSO DEPICTED IN FIGURE 2.4 ABOVE)		
<p><u>Overarching anchor point-</u> ESRs 2 SBM-1, SBM 3 disclosure</p> <p>Material topics and material IROs</p> <p>SR disclosure of the entity's strategy, business model (SBM) (including funding and investments and other financial implications, entity's definition of applicable time horizon) in response to material IROs</p> <p>Disclosure of the current financial effects of an entity's material IROs and its actions in response to the IROs</p> <p>This is an overarching sustainability reporting anchor point as it is considered across all illustrations in the DP in Chapter 3 (i.e. as part of the scene setting). In other words, even for the specific SR anchor points reviewed below, there is a need to review the SBM and IROs.</p>	<p><u>A broad framework of possible financial statements' effects</u></p> <p>Sustainability-related SBM adaptation may lead to changes in the asset mix and useful economic lives of existing assets, and this will have implications for the information in the financial statements as depicted below.</p> <p><u>Balance sheet effects: assets recognition, measurement and related disclosures</u></p> <ul style="list-style-type: none"> • valuation of tangible, intangible assets, and other non-financial assets (goodwill and inventories), i.e., impairment, amortisation, write-offs, useful lives, and residual value • valuation of financial assets • R&D and other investment capitalisation • asset retirement obligations (e.g., changes to the useful life of current asset retirement obligations and the corresponding impact on the asset and liability, and assumptions of the useful life and repurposing of the asset for new asset retirement obligations) <p>Sustainability-related impacts and risks may lead to <u>BS effects-Provisions, contingent liabilities, and related disclosures,</u></p> <ul style="list-style-type: none"> • decommissioning and asset retirement obligations 	<p>Coherence and consistency of SR, FS and the rest of the management report information (for instance, consistency with principal risks, strategic and commercial risks described in the management report)</p> <p>Disclosure of current financial effects in SR with either direct or indirect connectivity to FS information via cross-referencing or reconciliation, and consistency of assumptions in SR and FS information</p> <p>Explaining any key differences between SR and FS assumptions (e.g., differences in time horizon, whether amounts are discounted, existence uncertainty/probability of occurrence, scenario analysis outcomes versus accounting estimates based on best management estimate)</p> <p>Disclosure of qualitatively material information about exposures: When there are no material effects in the financial statements, even though these would have been reasonably expected based on the sustainability statement/disclosures</p> <p>Disclosure of anticipated financial effects with accompanying explanations of the expected financial effects in future reporting periods (addressed further below under the specific anchor point of anticipated financial effect)</p>

Sustainability statement/disclosures (SR)- anchor points	Financial statements (FS) anchor points	Types/possible mechanisms of connectivity of reported information
	<ul style="list-style-type: none"> • potential litigation due to environmental damage, human rights and labour safety violations; • regulatory requirements to remediate environmental damage; • additional levies or penalties related to environmental requirements • onerous contracts • restructuring to achieve climate-related targets • disclosures of sources of estimation uncertainty (IAS 1.125) <p><u>Income statement effects (e.g. revenues, R&D expenses, deferred taxes, subsidies)</u></p> <p>Sustainability-related SBM adaptation may lead to changes in <u>key business segments</u></p> <p>Sustainability-related risks may influence the <u>mitigation tools, including carbon credits, RECs, and Power purchase agreements</u> and should be reflected in the financial statements. It is noted that environmental and climate policy instruments include decarbonisation instruments (including specific schemes for car manufacturers), instruments to develop renewable energy (including Certificate of renewable energy), or save energy (such as energy saving certificates), and sustainable finance (sustainability-linked financing, green bonds).</p>	

Sustainability statement/disclosures (SR)- anchor points	Financial statements (FS) anchor points	Types/possible mechanisms of connectivity of reported information
SPECIFIC ANCHOR POINTS		
<p>Article 8 Taxonomy investments disclosed in SR</p> <p>Cross-referencing or reconciliation to FS Assets, Revenue, and Opex (albeit Opex is not defined under IFRS)</p> <p>Narrative on the nature and purpose of sustainability-related investments ESRS E1-1.16</p>	<p>Balance sheet and income statement effects: Assets, Revenue, Opex</p>	<p>Direct/indirect connectivity- SR taxonomy disclosure that is either cross-referenced or provides a reconciliation to the related financial statements line items, including revenue, related Opex, assets- PPE and intangible assets.</p> <p>Coherence of SR narrative on sustainability-related investments and strategy articulated elsewhere in the management report.</p>
<p>SR-disclosed anticipated financial effects</p> <p>Anticipated financial effects requirements are drawn from ESRS E1 and other environmental standards. Future financial effects of sustainability matters may include:</p> <ul style="list-style-type: none"> • potential liabilities (net-zero commitments, environmental and decommissioning liabilities, health and safety liabilities) • potential assets (R&D in transition-related assets and products, circular economy/recycled materials, stranded assets, capex disclosed in SR); • potential expenses • potential <u>and</u> revenue 	<p>This may crystallise in future-period FS line items and disclosures.</p> <p>Possible overlap with assumptions related to current period FS line items (asset impairment, fair value of recognised assets and liabilities)</p> <p>Possible overlap with IAS 1.125 disclosures in FS (disclosure of assumptions and other sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next 12 months)</p> <p>Possible duplicative disclosures of forward-looking/long-term horizon investments and commitments</p>	<p>Dynamic dimension of connectivity/ disclosure of anticipated financial effects with clear accompanying explanations of expected financial effects in future periods (e.g. clear distinction of short-term, medium-term, and long-term financial effects)</p> <p>Explaining overlaps between anticipated financial effects and FS information (IAS 1.125 – IAS 8.31A)</p> <p>Explaining any key differences between SR and FS assumptions (e.g. differences in time horizon, whether amounts are discounted, existence uncertainty/probability of occurrence, scenario analysis outcomes versus accounting estimates based on best management estimate)</p>

Sustainability statement/disclosures (SR)- anchor points	Financial statements (FS) anchor points	Types/possible mechanisms of connectivity of reported information
Disclosures of revenues at climate transition risk and assets exposed to physical risk (climate) - classified as part of anticipated financial effects under ESRS E1-9	<p>Balance sheet effects: IAS 16 <i>Property, Plant and Equipment</i> PPE assets and IFRS 16 right-of-use/leased assets that may be at risk at a future date</p> <p>Income statement effects: IFRS 15 <i>Revenue Recognition</i> revenues that may be at risk at a future date</p>	Direct connectivity (via cross-referencing) or indirect connectivity (via reconciliations/explanation of linkage to financial statements)
Disclosure of environmental, social (own workforce and value chain/human rights), and business conduct incidents	<p>Balance sheet effects: Provisions recognised and/or disclosure of contingent liabilities in FS</p> <ul style="list-style-type: none"> disclosures of sources of estimation uncertainty under IAS 1.125 potential litigation due to environmental damage, human rights and labour safety violations; regulatory requirements to remediate environmental damage; additional levies or penalties related to environmental requirements <p>Income statement effects include share-based expenses in the income statement and incentives schemes (share-based payments, pension schemes) disclosed</p>	<p>Disclosure of current financial effects in SR with either direct or indirect connectivity to FS information via cross-referencing or reconciliation (FS information would fall under IAS 37, IFRS 2, and IAS 19 <i>Employee Benefits</i> requirements)</p> <p>Direct connectivity via incorporation by reference of information in the remuneration report into the sustainability statement</p> <p>Disclosure of anticipated financial effects in SR with accompanying explanations linked to expected financial effects in future periods</p>
Human capital and social capital metrics, Employee benefits/ obligations	Intangibles related to an entity's own workforce/human capital are not recognised in financial statements because the reporting entity does not control these resources. However, the expected benefits of these resources are subsumed into	Correlations of social and human capital KPIs/metrics to the entity's financial performance. ISSB's presentation at the March 2025 IFASS meeting highlighted that correlations with financial

Sustainability statement/disclosures (SR)- anchor points	Financial statements (FS) anchor points	Types/possible mechanisms of connectivity of reported information
Own and value-chain workforce metrics under ESRS	<p>the recognised goodwill, but valuation practices incorporate the characteristics of the entity's own workforce, with comparisons made to the human capital and social metrics disclosed outside the financial statements.</p> <p>In January 2025, the ISSB staff presented a paper on the instances where human capital matters may be presented or disclosed in the financial statements when applying IFRS Accounting Standards. For instance, human capital matters (restructuring severance payments and wrongful treatment lawsuits) may affect the recognition, measurement and disclosure of liabilities.</p>	<p>outcomes are well established for employee satisfaction, retention and development and working conditions in the value chain.</p> <p>Disclosure of current financial effects in SR with either direct or indirect connectivity to FS information via cross-referencing or reconciliation (FS information would fall under IFRS 2 <i>Share-based payment</i>, IAS 19, and IAS 37 requirements)</p>
SR mitigation actions – ESG-linked borrowing, use of carbon credits to mitigate GHG emissions	<p>Recognition and disclosure of ESG-linked bonds and carbon credits/emission trading schemes</p>	<p>Coherence and direct connectivity</p>
<p>SR basis of preparation/ reporting boundary</p> <p>Scope of consolidation/calculation of metrics under the GHG protocol, and implications of application of operational control</p>	<p>FS basis of preparation/ reporting boundary</p> <p>Application of control for consolidation</p>	<p>Indirect connectivity- reconciliation of the respective scope of consolidation of SR and FS</p> <p>Coherence and consistency: Issues of the value chain under Scope 3 could be highlighted here, sites or entities that are not controlled from an FR perspective, but controlled from an operational SR perspective</p> <p>Explain significant differences: For instance, scope of consolidation (in general + Scope 3)</p>

CHAPTER 3: CHAPTER 3: OVERVIEW OF ILLUSTRATIONS OF CONNECTIVITY

CHAPTER STRUCTURE

DOCUMENTATION OF THE CONNECTIVITY ILLUSTRATIONS (PARAGRAPHS 3.1 TO 3.2)

PROFILE OF THE CONNECTIVITY ILLUSTRATIONS (PARAGRAPHS 3.3 TO 3.7 ~~AND TABLE 3.1~~)

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

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

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

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

Documentation of the connectivity illustrations

- 3.1 The documentation of each illustration in the Supplemental document includes aspects of strategy, business model, IROs and entities' actions and governance responsibilities that contextualise the metrics or financial effects in the sustainability statement/disclosures and financial statements.
- 3.2 Each illustration specifies ~~reports (the~~ annual report sections) and anchor points being connected, the type of connectivity of reported information, and underlying sustainability reporting and accounting requirements. The aim is to ensure that the connectivity is viewed both from an integration of information standpoint, as well as highlighting the specific linkage of quantitative and narrative data.

Profile of the connectivity illustrations

3.3 Below is

- a) an overview of types of connectivity in the illustrations (Figure 3.1);
- b) the anchor points, types and mechanisms of connectivity per illustration (Table 3.1);
- ~~c) a) sustainability-related topics covered (Figure 3.2);~~
- ~~d) a) sector coverage (Figure 3.3).~~

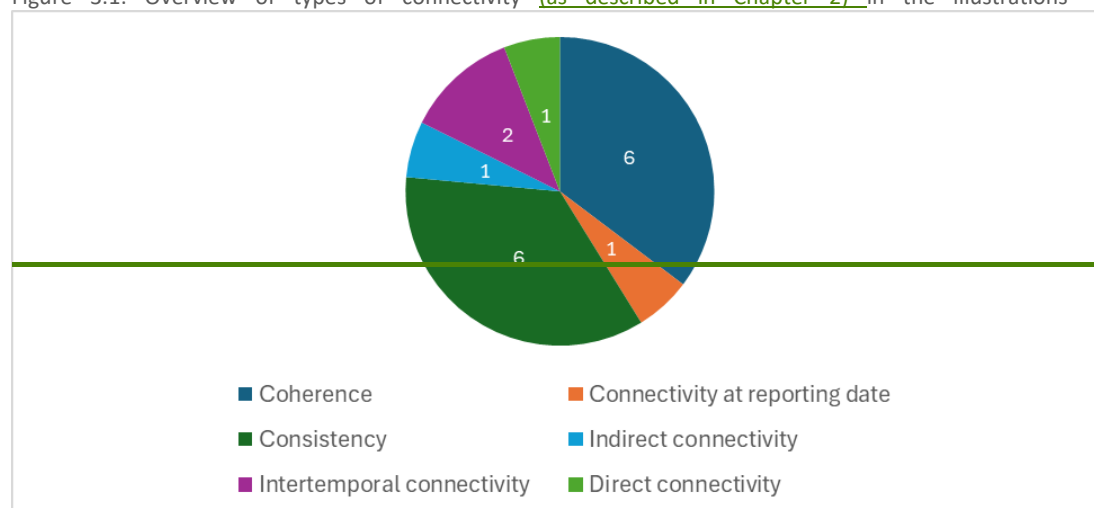
3.43.3 For their sustainability reporting, **12 of 15 companies reported under ESRS**, one under ISSB Standards, one under the TCFD recommendations, and one reported under NFRD and incorporated principles from other frameworks⁴².

3.4 Also, below is an outline of:

- a) types of connectivity and anchor points in the illustrations (Figure 3.1 and Table 3.1);
- b) sustainability-related topics covered (Figure 3.2);
- c) sector coverage (Figure 3.3).

3.1 Overview of types of connectivity and anchor points: Figure 3.1 shows the different types of connectivity of reported information for the 17 illustrations. There are some illustrations that have more than one type of connectivity illustrated. Integration of information is captured across all the illustrations. In addition, connectivity related to organisational reporting boundary (which is an enabling attribute for the connectivity of reported information) is considered in four illustrations. Table 3.1 shows the anchor points and type of connectivity per illustration.

Figure 3.1: Overview of types of connectivity (as described in Chapter 2) in the illustrations—⁴³



⁴² GRI, ISSB Standards, SASB, UNGC, and UN SDGs

⁴³ ~~The types of connectivity of reported information are described in Chapter 2.~~

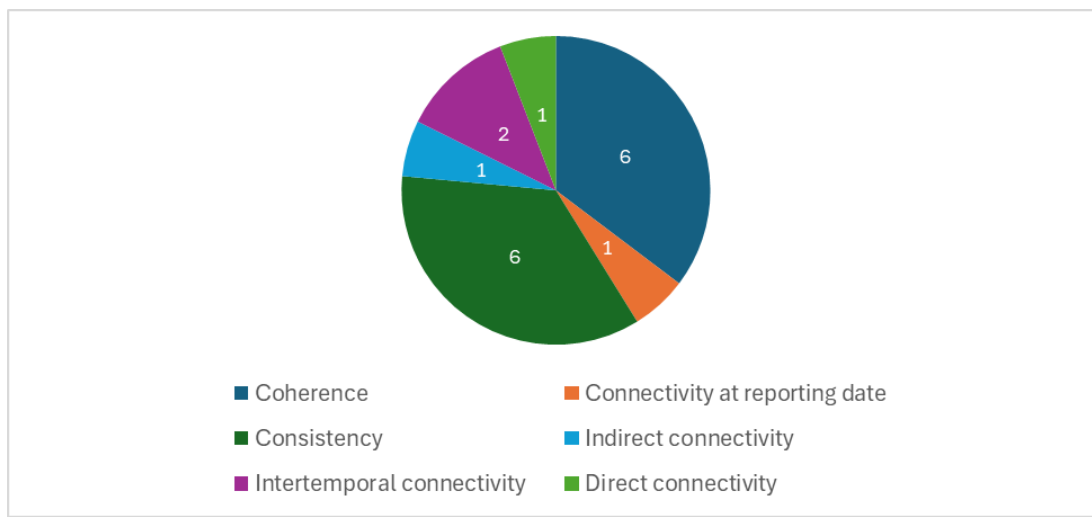


Table 3.1: SR and FS Anchor points, Type and mechanism of connectivity, sector covered for the 17 illustrations in the Supplemental document⁴⁴

Illustration #	Anchor Points - Sustainability Statement/disclosures (SR)	Anchor Points - Financial Statements (FS)	Type and mechanism of connectivity of reported information	Sector
1	Water pollution incident disclosures	Contingent liability disclosures	Coherence as SR disclosures on incident and remediation actions contextualise the FS disclosures	Paper and wood
2	Energy optimisation strategy	Power purchase agreement disclosures	Coherence as SR disclosures on energy optimisation strategy contextualise the FS disclosures	Dairy
3	Disclosure of qualitative material information about exposures regarding human rights and own workforce-related incidents	N/A- because the information is not material for the financial statements, and the connection is explained in the SR disclosure	Coherence as the SR disclosures clarify that no significant human rights and own workforce-related incidents occurred, there is no need for reconciliation with the financial statements.	Forest assets, packaging solutions, wood products
4	Greenhouse Gas ('GHG') emissions and mitigation	Emissions Trading Scheme ('ETS') Disclosures	Coherence as the company discloses in SR the share of emissions covered by emissions trading schemes, and the financial statements detail the accounting treatment of emissions rights.	Forest assets, packaging solutions, wood products

⁴⁴ ~~It is noted that~~ In some cases the illustrations covered sustainability statement/disclosures (SR) anchor points and not financial statements (FS) anchor points. because the connection to the financial statements was either evident from the SR anchor point or expected in future financial statements (i.e., intertemporal connectivity).

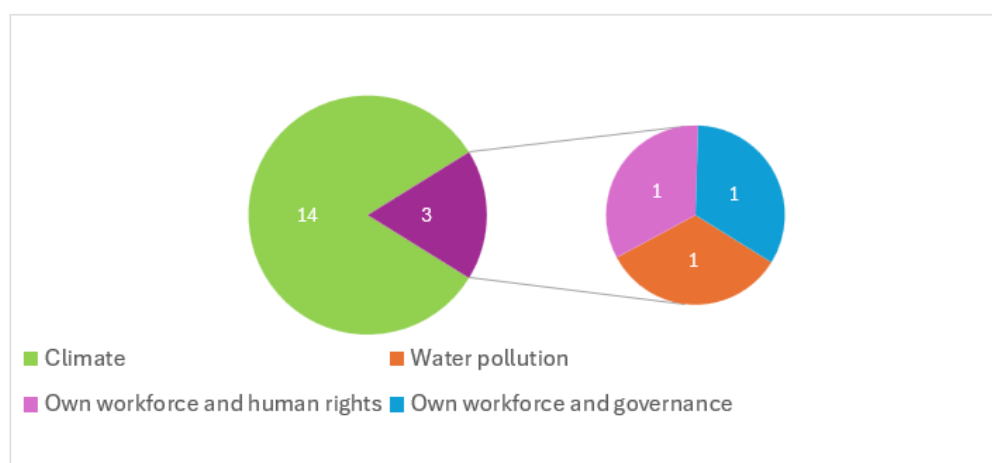
Illustration #	Anchor Points - Sustainability Statement/disclosures (SR)	Anchor Points - Financial Statements (FS)	Type and mechanism of connectivity of reported information	Sector
			Direct connectivity via cross-referencing	
5	Environmental, Social and Governance ('ESG') performance targets in the governance report	Share-based payments disclosure	Coherence as the Corporate Social Responsibility (CSR) performance condition for share-based payment plans is explained in the financial statements.	Information technology (IT) services and consulting
6	Potential impairment of non-financial assets derived from scenario analysis	Asset impairment disclosure	Coherence, as the company explains the significant difference in assumptions between potential asset impairment disclosed in the management report and asset impairment recognised in the financial statements.	Oil & gas
7	Strategy and actions on decarbonisation	Property, Plant and Equipment ('PP&E') disclosure	Consistency	Steel and mining
8	<ul style="list-style-type: none"> EU Taxonomy investments Disclosure of organisational reporting boundary differences 	<ul style="list-style-type: none"> PP&E N/A because the connection is explained in the SR disclosure 	Indirect connectivity via reconciliation	Oil & gas
9	<ul style="list-style-type: none"> GHG intensity metrics Disclosure of organisational reporting boundary differences 	<ul style="list-style-type: none"> Revenue in the consolidated income statement N/A because the connection is explained in the SR disclosure 	Consistency	Hospitality

Illustration #	Anchor Points - Sustainability Statement/disclosures (SR)	Anchor Points - Financial Statements (FS)	Type and mechanism of connectivity of reported information	Sector
10	<ul style="list-style-type: none"> Business segments disaggregation in the strategic report Disclosure of organisational reporting boundary differences (operational control versus financial control) 	<ul style="list-style-type: none"> Note on Operating Segment Disclosures Application of control for consolidation, under IFRS 10 	Consistency	Energy and petrochemical
11	<ul style="list-style-type: none"> Anticipated financial effects disclosures Sustainability-related IROs and business model, and strategy 	<ul style="list-style-type: none"> N/A- Not in current FS but may crystallise in future-period FS line items and disclosures N/A- the SR connection was to the principal risks in the management report 	<p>Intertemporal connectivity (connectivity over reporting periods)</p> <p>Coherence, as the information in the SR disclosures explains how climate change risk (identified as a principal risk) is linked to the entity's strategy.</p> <p>Consistency</p>	Packaging and paper
12	Anticipated financial effect disclosures	N/A- not reflected in current FS but may crystallise in future-period FS line items and disclosures	Intertemporal connectivity (connectivity over reporting periods)	Mining and energy
13	Sustainability-linked financing information	Note on Sustainability-linked financing information	<p>Consistency</p> <p>Coherence as the management report and the financial statements provide</p>	Real estate property

Illustration #	Anchor Points - Sustainability Statement/disclosures (SR)	Anchor Points - Financial Statements (FS)	Type and mechanism of connectivity of reported information	Sector
			narrative context on sustainability-linked financing and green bonds, respectively.	
14	Assets at risk	Statement of financial position – assets (corporate loans)	Coherence as the SR disclosures contextualise the disclosures on the notes to the financial statement on corporate loans, by disclosing the sensitivity of corporate loans to physical and transition risk. Consistency	Banking and financial services
15	Climate transition financing	Green assets disclosure	Consistency and Coherence as the entity is <u>measuring</u> <u>measures</u> the carbon intensity of its assets under management, in alignment with its strategy to have a net-zero emissions investment portfolio.	Insurance
16	Information on Sustainability-linked loans	Note on sustainability-linked loans	Consistency	Banking and financial services
17	Climate-related disclosure in ESG review	Expected Credit Loss ('ECL') note	Direct connectivity via cross-reference	Banking and financial services

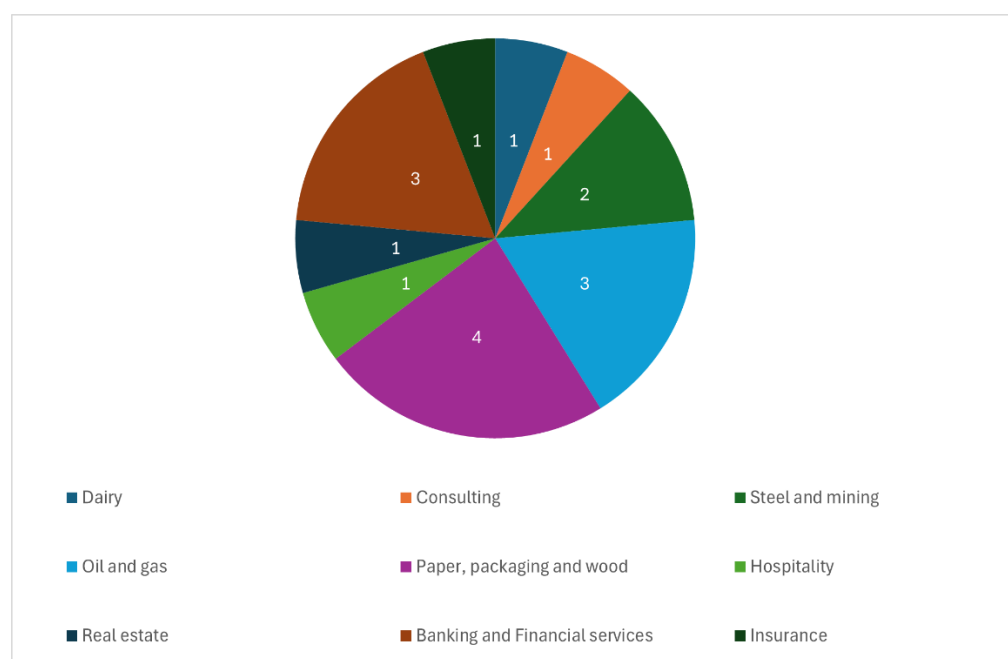
3.2 Sustainability-related topic covered: As shown in Figure 3.2 below, the connectivity illustrations cover a range of sustainability-related topics, albeit that most are related to climate-related matters. Hence, even ~~without prioritising climate-related matters and after~~ considering all sustainability-related topics without prioritising climate-related matters during EFRAG's selection of illustrations, only three of the ~~17 (18%)~~ illustrations in the Supplemental document (18%) were not climate-related. As observed in Chapter 4, relative to other sustainability matters, the reporting on climate-related matters is more mature in both the financial statements and sustainability disclosures. Thus, there are more readily observable related examples of connectivity of reported information.

Figure 3.2: Breakdown of illustrations per sustainability-related topic:



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

Figure 3.3: Breakdown of illustrations per sector for the 17 selected illustrations



CHAPTER 4: AGGREGATED OBSERVATIONS ON CURRENT CONNECTIVITY OF REPORTED INFORMATION

CHAPTER STRUCTURE

OBSERVATIONS ON TRENDS AND AREAS OF FOCUS IN CONNECTIVITY OF REPORTED INFORMATION (PARAGRAPHS 4.1 TO 4.11)

OBSERVATIONS ON TYPES AND MECHANISMS OF CONNECTIVITY OF REPORTED INFORMATION (PARAGRAPHS 4.12 TO 4.35)

USEFULNESS OF CONNECTIVITY OF REPORTED INFORMATION – USERS’ AND OTHER STAKEHOLDERS’ PERSPECTIVES (PARAGRAPHS 4.36 TO 4.45)

*This chapter provides aggregated observations on the application of connectivity in current reporting practices based on a review of the annual reports from 72 companies (which includes the 15 companies from which the 17 illustrations of connectivity in the Supplemental document were selected), feedback from outreach to stakeholders, and a review of external publications (see Appendix A for the profile of reviewed companies, and sources of outreach feedback). **It is acknowledged that the observations based on the illustrations are not generalisable to the reporting of all companies.***

Complementing Chapter 3 and the Supplemental document with illustrations, the objective of this chapter is to convey what connectivity looks like in practical terms and to highlight positive observations and considerations (areas of attention) that could be addressed by stakeholders.

Overall, it is observed that connectivity of reported information is being applied, albeit companies are in the early stages of the journey, ~~and~~. The application of this concept is useful for ~~users~~, preparers, ~~users~~, securities regulators, and auditors ~~on a multiple-fold basis in different ways~~. Also, there are initial indications of stakeholders having a prioritisation of the types and mechanisms of connectivity of reported information ~~(i.e., Coherence, integration of information, and the consistency of data, narrative and assumptions, and, for users, were considered most important. Users also underscored the importance of disclosures of anticipated financial effects were considered most important).~~

~~Also~~ Furthermore, though the review aimed to cover the connectivity of reported information across the breadth of sustainability-related topics, the observable evidence cited in this chapter is largely climate-related because that is what is readily available in publications and observable in illustrations (as ~~shown~~ noted in the Supplemental document and Chapter 3). ~~It~~ This could reflect that climate-related IROs likely have more financial effects than other sustainability-related matters. That said, as ~~noted in the Executive Summary and through~~ shown by some of the illustrations in the Supplemental document, the relevance of connectivity of reported information is not confined to climate-related ~~matters~~ or sustainability-related matters.

Observations on trends and areas of focus in the connectivity of reported information

General trends in the connectivity of reported information

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

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

- (a) *Lack of connectivity of reported information:* There are no disclosures on climate-related matters in the financial statements.
- (b) *Weak connectivity of reported information:* There are disclosures on climate-related matters in the financial statements. However, disclosures are generic and do not explicitly state how climate-related risks impact the financial statements.
- (c) *Strong connectivity of reported information:* In the financial statements, climate-related disclosures are firm-specific and describe how climate-related matters impact the financial statements. This includes describing which items in the financial statements are impacted by climate-related matters, and whether climate-related matters have a significant impact on the financial statements. Also, when the information on climate-related matters is not material, but investors would reasonably expect otherwise, the firm explains why. And where to contextualise financial statement line items, sensitivity analysis and scenario analysis assumptions are included in the disclosures.

4.3 EFRAG's review⁴⁵ found that **49% of companies demonstrated strong connectivity in the reporting of climate-related matters within and outside the financial statements, 43% of companies demonstrated weak connectivity, while 8% of companies demonstrated no connectivity of reported information.** Other specific ~~findings~~ observations from EFRAG's review are captured in the descriptions of ~~other findings~~ positive observations and considerations below.

4.4 Relatedly, it is noted that Karlsson's (2025) review of the level of connectivity of climate-related reported information for 787 European firms showed that, for 2023 reporting, **29% of firms had strong connectivity, 33% had weak connectivity, and 38% had no connectivity.** The energy sector had the highest number of firms showing strong connectivity⁴⁶ (56% of firms), followed by utilities (41%) and materials (31%). Similarly, other academic studies, including (a) a May 2025 working paper⁴⁷ by M. Müller, G. Ormazabal, T. Sellhorn and V. Wagner; and (b) Bayne et al (2025)⁴⁸, which review disclosures related to climate-related matters in the financial statements, portray that companies are in the early stages of having connected disclosures.

⁴⁵ The higher level of connectivity observed in the 72 companies in EFRAG's review compared to the 787 companies in Karlsson's review reflects that the companies in EFRAG were companies where connectivity had been expected upfront.

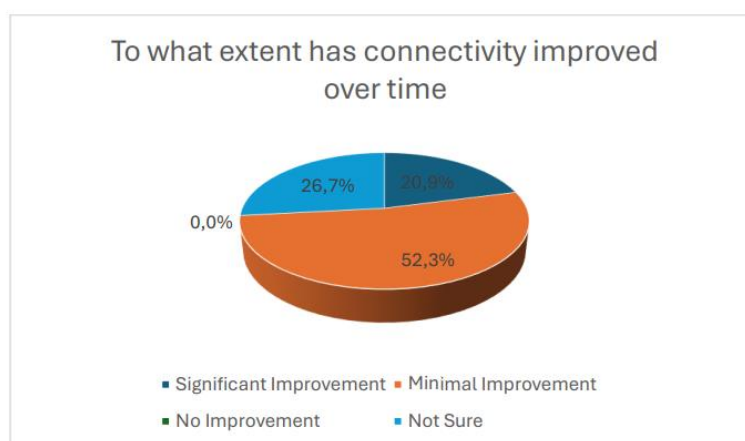
⁴⁶ Lowest proportion of strong connectivity were in the real estate sector (15% of firms), consumer discretionary (18%) and industrials (20%).

⁴⁷ [Climate disclosure in financial statements](#), TRR 266 Accounting for Transparency Working Paper Series No. 144, University of Cologne, IESE Business School, CEPR, ECGI, LMU Munich School of Management.

⁴⁸ [Connectivity and Boundaries of Climate-related disclosures in Annual Reports](#) 2024 review of 80 companies (from EU, UK, Australia, and Canada)

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

Figure 4.1: Extent of improvement of connectivity over time



Observations on areas of focus in connected reporting (anchor points)

- 4.6 *Connectivity of reported information is observed mainly with respect to climate-related matters:*
- (a) Though ESRS encompasses sustainability-related matters related to environmental, social and governance topics, across the reviewed annual reports of 72 companies, connectivity was mainly observed in respect of climate-related reporting. This likely reflects the ‘climate first’ approach underpinning most of the available sustainability-related reporting frameworks and guidance⁴⁹. Moreover, thematic reviews of reporting practices, including the reports of national standard setters, audit firms and profession associations (including a 2025 Acteo and IMA France study⁵⁰), and the signalled ESMA enforcement priorities, have typically focused on climate-related reporting.
 - (b) During EFRAG’s outreach discussions, preparers indicated that, from a connectivity perspective, it was generally easier for them to link climate-related information to financial statements compared to information on other sustainability matters, largely due to preparers having more practical experience with climate-related issues.

⁴⁹ For example, the 2019 IASB educational article, updated in a 2023 IASB educational article- [Effects of climate-related matters in the financial statements](#), IASB near-final staff draft on Disclosures about Uncertainties in the Financial Statements using Climate-related examples, ISSB Standards, TCFD recommendations.

⁵⁰ [Observations sur la connectivité](#) by IMA- France analysed 71 2024 annual reports from European companies, and climate-related disclosures emerged as the most developed area

- 4.7 *Challenges in finding connected reporting for some pre-identified financial statements and sustainability statement/disclosures anchor points*⁵¹: During EFRAG's review of the selected annual reports of 72 companies, it was challenging to find information on some of the pre-identified anchor points (i.e., those cited in Table 2.1 in Chapter 2). Specifically, it was challenging to match and connect the information in the sustainability statement/disclosures to the information in the financial statements related to the valuation of tangible and intangible non-financial assets (i.e., impairment, amortisation, useful economic lives, and impairment (ECL) of financial assets for financial institutions).
- 4.8 Conversely, it was also challenging to identify sustainability-related information in the financial statements related to the disclosure of sources of uncertainty in estimation of carrying value as per paragraphs 125 and 129 of IAS 1 *Presentation of Financial Statements* (paragraphs 31A and 31E of IAS 8), and the application of qualitative materiality assessment under paragraph 31 of IAS 1 (paragraph 20 of IFRS 18). Disclosures under the requirements of paragraph 31 of IAS 1 were observed with respect to disclosures of qualitatively material information about exposures as mentioned in paragraph 4.17 below. It is noted that stakeholders had expressed mixed views⁵² on the applicability of paragraph 31 of IAS 1. Some had the perception that it is not applied frequently enough in practice, whereas others were concerned about its stretched application and questioned the limits of such disclosures.
- 4.9 Other areas where it was challenging to find sustainability-related information in the financial statements were:
- (a) *Segment disclosures*: It was challenging to find information related to the disaggregation of revenues under IFRS 15 and segment disclosures of material sustainability-related matters. In only two of the 17 illustrations did material sustainability matters get depicted in the segment disclosures. Similarly, Karlsson (2025) showed that only 1% of firms (i.e. over a two-year period) disclosed climate-related matters in relation to segment reporting under IFRS 8.
 - (b) *Expected credit loss*: In some instances, it was not clear whether the measurement of ECL was actually affected by climate-related risks or how significant (if at all) the impact was.
- 4.10 As shown in Table 4.1, Karlsson's (2025) findings are indicative of the prevalence of the financial statements' anchor points in respect of climate-related matters. It also shows increased frequency of coverage of climate-related matters in the financial statements.

⁵¹ Anchor points are data and/or qualitative or quantitative information that allows the connection of sustainability reporting disclosures and financial statements information.

⁵² EFRAG's Final Comment Letter on the 2024 IASB Exposure Draft Climate-related and other uncertainties in the financial statements (which will be updated to Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples), the 2024 EFRAG initial connectivity paper [Connectivity considerations and boundaries of different annual report sections](#) and [the April 2024 IFASS report](#) highlighted multiple views on the applicability of IAS 1.31, including stakeholders who had concerns about the stretched application of IAS 1.31. It is noted that stakeholders' feedback was taken into account in the near-final staff draft on Disclosures about Uncertainties in the Financial Statements using Climate-related examples.

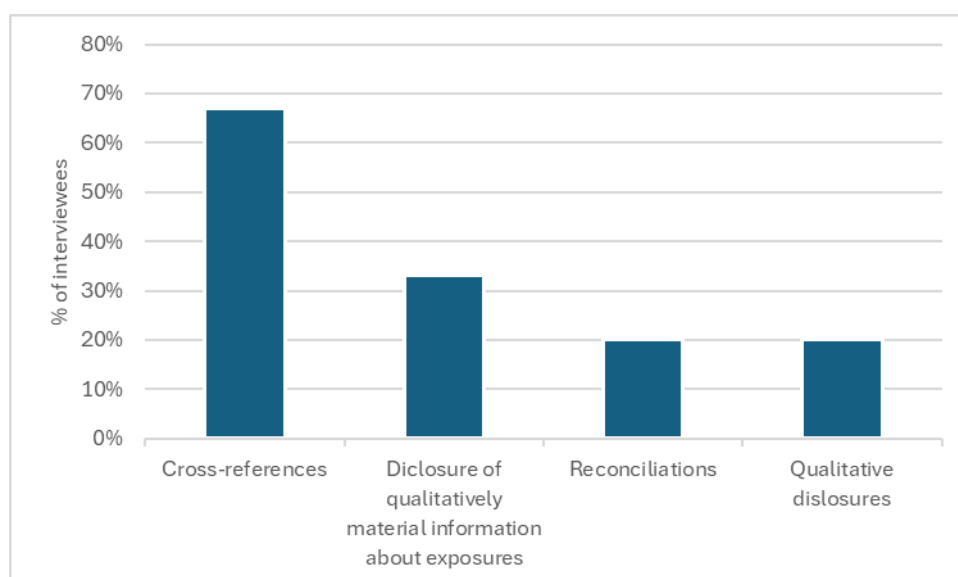
Table 4.1: Accounting area where climate risk is covered in entities' financial statements - as reported in Karlsson (2025)

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

Observations on the types and mechanisms of connectivity of reported information

- 4.11 Based on EFRAG's outreach interviews with preparers, auditors and users, the most used connectivity mechanisms indicated by the stakeholders were the following:

Figure 4.2: Most used connectivity mechanisms



Positive observations on connectivity types and mechanisms

- 4.12 *Some level of coherence and integration of information, importance of narrative explanations:* Illustrations on coherence were easily identifiable from the 72 companies' annual reports, albeit there being variation in how companies describe their strategy, business models, IROs actions, and targets (see paragraphs 4.33 and 4.34 below); and the linkage made of these aspects to the financial statements' information. For instance, six out of the 17 connectivity illustrations in Chapter 3 reflect coherence between financial statements and sustainability statement/disclosures information. At the same time, as noted in paragraph 4.32(a) below, the financial implications of the entity's sustainability-related actions were often not quantified, which posed a challenge to the coherence of information across reports. Stakeholders in EFRAG's outreach emphasised the importance of coherence across financial statements and sustainability disclosures for the reader to see how different parts interrelate. Moreover, stakeholders indicated that qualitative disclosures helped to provide context and link financial and non-financial information. Users viewed them as beneficial, particularly when used alongside reconciliations and/or quantitative information.

- 4.13 *Well-specified time horizon disclosures (as part of the communication of strategy and business model):* Time horizon description helps understanding the connection or otherwise of the information in the sustainability statement/disclosures and financial statements. For instance, why information may be material in the context of the sustainability statement/disclosures but not material for the financial statements. Relatedly, all 15 companies, from which the 17 illustrations in Chapter 3 were drawn, had a clear specification of what is meant by short-, medium-, and long-term.
- 4.14 *Consistency of information identified:* Illustrations of the consistency of quantitative data, assumptions, and narrative information were easily identifiable. This is unsurprising given the emphasis on consistency that pre-dated the inclusion of mandatory connectivity requirements, and as it is also a focus of assurance. Relatedly, in the ESMA 2024 Report on Corporate Reporting Enforcement and Regulatory Activities, based on a sample of 27 EU/EEA entities, 77% of the reviewed entities provided qualitative and/or quantitative disclosures regarding material climate-related matters within financial statements and the management report, non-financial statement as sometimes referred to in some EU/EEA jurisdictions or (where applicable) the prospectus. The ESMA report indicated that there were no significant inconsistencies identified between the assumptions used in estimations and measurements related to climate matters applied, either within the financial statements or across the different parts of the annual report.
- 4.15 *Cross-referencing is the most commonly used connectivity mechanism currently applied:* EFRAG's outreach feedback indicated that the most used connectivity mechanism is cross-referencing, as indicated by 67% of the interviewees (shown in Figure 4.2 above). The interviewees viewed cross-referencing, when used appropriately⁵³, as a pragmatic method for avoiding duplication across different report sections. The outreach findings are confirmed by the [2025 EY CSRD Barometer](#), whereby incorporation by reference to the sustainability statement, of sustainability-related information included in the management report, was found to be applied by 99% of the entities studied⁵⁴. In addition, Karlsson (2025) showed that cross-referencing of climate-related matters between the financial statements and other parts of the annual report occurred in 26% of the observations (i.e. over a two-year period). The lower proportion of entities applying cross-referencing in the latter is because there are more constraints to the incorporation of information into the financial statements by cross-referencing (e.g., due to the need to have reasonable assurance of such information).
- 4.16 *Application of direct and indirect connectivity mechanisms (i.e. cross-referencing and reconciliation):* Across the reviewed annual reports of 72 companies, the direct and indirect connectivity mechanisms of cross-reference or reconciliation of information in the sustainability statement to the financial statements were observed mainly for cases of EU taxonomy investment-related disclosures. It is noted that, **under the revised ESRS Exposure Draft, cross-referencing (direct connectivity) and reconciliation (indirect connectivity) (including those related to EU taxonomy investments) are proposed to be optional**. 20% of the interviewees from EFRAG's outreach explicitly considered reconciliations helpful in aligning financial and sustainability data, despite frequent challenges caused by differences in reporting methodologies.

⁵³ For example, when providing sufficient narrative or context

⁵⁴ Mandatory metrics and information were included in other parts of the annual reports. A referencing of SBM-1 and GOV-1 to 4 disclosure requirements of ESRS 2 was noted.

- 4.17 *Disclosure of qualitatively material information about exposures*⁵⁵: Disclosures of qualitatively material exposures, e.g., an entity explaining that there is no material effect on its financial position and financial performance for the current reporting period, were readily identifiable in the annual reports reviewed, and they are a point of discussion among stakeholders, as shown below.
- (a) 33% of the stakeholders from EFRAG's outreach considered these disclosures to be useful, even though some preparers did not consider this mechanism to be the most appropriate, as there was a risk of being generic and covering non-material information or irrelevant information (for example, misleading users to interpret immaterial data as material). These statements were frequently observed in the reviewed annual reports.
 - (b) The academic study (Bayne et al, 2025), which reviewed the 2022 reporting of a sample of 80 entities (including 20 entities from the EU), found that there were these disclosures of qualitatively material exposures in 19% of the companies.
- 4.18 *Anticipated financial effects*: The observations on anticipated financial effects are based on reporting under ESRS Set 1, ISSB Standards and TCFD. Based on the review of 72 annual reports, disclosures on anticipated financial effects are rare due to transitional provisions under ESRS⁵⁶ and ISSB Standards. This was also supported by a study conducted by Acteo and IMA France, whereby 85% of companies applied exemptions related to anticipated financial effects and less than 20% of companies produced this disclosure.
- 4.19 As noted in Chapter 2, based on the revised ESRS ED, this disclosure requirement is under review for ESRS reporters, and more comprehensive feedback from stakeholders will be obtained from ESRS ED feedback. Nonetheless, during EFRAG's outreach, users and several other stakeholders have indicated that the disclosures of anticipated financial effects in the sustainability statement/disclosures are useful for the analysis of the companies' prospects and risk profile. Users have noted that even if this type of disclosure is currently rare, if disclosed by a reporting entity, they can use it to seek similar information from the management of the reporting entity's competitors. For illustrations which had some disclosures on anticipated financial effects, the following is noted:
- (a) *Misalignment of anticipated financial effects with the information in the financial statements*: For some illustrations, there was a misalignment between the significant amounts of potential impairment in the anticipated financial effects disclosure (which covers short, medium and long-term) and the companies concurrently conveying that there was no material impairment in the current period financial statements. Whereas this could be as a result of the time horizons considered and differences in what is material for the sustainability disclosure versus what is material for the financial statements, the disclosures did not have any contextualising narrative information to help a reader understand the misalignment.
 - (b) *Understandability of information*: There was unclear terminology being used, for example, financial impacts/financial effects, and it was difficult to gauge the methodology used to quantify the numbers and/or whether the effects related to future balance sheet items, expenses, cash items or non-cash items; or whether they refer to maximum exposure or expected value of the financial impact.

⁵⁵ Refer to Example 1 of the IASB Near-final staff draft [Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related Examples - Illustrative Examples](#) for an explanation of these disclosures (to be updated depending on timing)

⁵⁶ Under ESRS Set 1, Companies may limit their disclosures on anticipated financial effects to qualitative disclosures for the first three years of reporting (with limited exceptions and, in the case of climate-related financial effects only if it is impracticable to prepare quantitative disclosures).

- 4.20 *Navigation tools, including ESRS content indexes and dedicated sustainability-related (mostly climate-related) notes in the financial statements:* Though not included in the illustrations in Chapter 3, these were included in several annual reports to help with the navigability across different parts of annual reports. Relatedly, a few entities presented a concise summary of topics (usually in a tabular format) that intersect information in the financial statements and the sustainability statement or the rest of the management report.
- 4.21 *Explanation of similarities or differences between the financial statements and sustainability statement/disclosures:* Across all 15 companies, from which the illustrations of connectivity in Chapter 3 were excerpted, there were dedicated notes explaining the boundaries between the sustainability statement and the financial statements. These disclosures were useful to understand the differences in the reporting boundaries across these two different reports and also to identify immaterial subsidiaries for the purposes of consolidation in the financial statements that may have material IROs.
- 4.22 Moreover, based on the reviewed annual reports of 72 companies, there were observed cases of companies explaining why the assumptions applied for asset impairment in the financial statements differed from those for potential asset impairment in the scenario analysis disclosed outside the financial statements. Such explanations are useful and are a part of coherent reporting.
- 4.23 There were also cases where the sustainability disclosure had more granular information than the financial statements (e.g. loans that were subject to physical risks, that represent a small percentage of a financial institution's total loan portfolio). In these cases, the disaggregated information was material in the context of the sustainability report, and a similar level of disaggregation in the financial statements would likely risk obscuring material information.
- 4.24 *Some insightful governance disclosures (connectivity in reporting process):* For eight of the 15 companies from which the illustrations were drawn, there were disclosures about the governance structure showing the different responsibilities, at the management and operational level, for managing sustainability matters. EFRAG's outreach has indicated that these disclosures are useful for investors as they give comfort that sustainability-related risks are being well managed by the entity.

Considerations (areas for further attention) to enhance the connectivity of reported information

- 4.25 Chapter 5 has a broader examination of considerations to enhance the connectivity of reported information and related aspects. Below are some considerations based on the review of the annual reports of 72 companies, from which the 17 illustrations were drawn. Some of the points of attention arise because connections can only be made when the respective information in the financial statements and sustainability statement is high-quality information (i.e., complete and having the qualitative characteristics of useful information).
- 4.26 *Progress in ensuring coherent and integrated communication:* From the illustrations reviewed, there are enhancements to be made in ensuring coherent communication that allows readers to link strategy, IROs, entity actions and reported metrics and financial effects. For instance:
- (a) *Limited quantification of financial implications and financial effects:* In general, in the sustainability disclosures, there was limited quantification of the financial implications and financial effects of actions, including commitments, investments.

- (b) *Investment disclosures*: Investment disclosures (including the taxonomy disclosures) rarely shed light on the entity's strategic objectives and its net-zero commitments. Moreover, these disclosures are often not adequate to assess the return on invested capital by the company, which users have signalled would also be useful for them.
- (c) *Reporting on research and development ('R&D') expenditures*: In the sustainability disclosures, it was challenging to identify narrative or quantitative information about the sustainability-related R&D expenditures that were not recognised as assets. Moreover, these were neither presented as a separate line item/expense in the income statement nor disclosed in the notes to the financial statements.
- 4.27 *Varied quality in the reporting of entities' strategies and business models*: The narrative descriptions of entities' strategies and business models were sometimes generic. As noted in the 2021 EFRAG European Lab PTF-RNFRO publication⁵⁷, an explanation of the sustainability of the business model and its potential to continue beyond the current period is often not part of the business model description.
- 4.28 *Varied quality in the reporting on IROs, actions and targets*: Based on the annual report review of 72 companies, there was varied quality in the reporting on IROs, which were sometimes not clearly described or were challenging to identify. Moreover, in some cases, for material topics identified, there were generically worded risks and opportunities. An ESMA report, [Results of a fact-finding exercise on 2024 corporate reporting practices under ESRS Set 1](#), based on a sample of 91 issuers from 23 Member States, had similar findings, whereby they indicated that some disclosures were boilerplate and did not provide meaningful insight on the judgements made regarding the materiality of their IROs, in particular for impacts. This ESMA report also indicated that 71% of the issuers disclosed either the targets or a negative statement⁵⁸; however, a number of targets were of a generic nature or expressed as high-level commitments.
- 4.29 There was also varied information for actions and targets, and in some cases, they were generically worded. This is also reflected in the 2025 Acteo and IMA France study, whereby 79% of companies reviewed had no targets or indicators in place. This was similar for actions and targets. Also, based on EFRAG's review of 72 companies, there were limited cases whereby entities focused on opportunities in addition to risks of an entity. That said, it is discernible that the sustainability standards are helping in getting common terminology (e.g., IROs, description of materiality). Entity-specific, clear and concise IROs that are linked to potential financial effects would be helpful.
- 4.30 *Connections of reported information in the sustainability statement/disclosures and the financial statements were not easily identifiable*: Based on 72 annual reports reviewed, in general, connections of reported information in the sustainability statement/disclosures and the financial statements were not easily identifiable because, in a lot of cases, the reported information was too generic. For example, there would be information on impairment of non-financial assets in the financial statements, but very high-level sustainability-related information in the sustainability statement/disclosures related to an entity's decarbonisation strategy. Another example is detailed information in the financial statements on carbon credits, but quite generic information in the sustainability statement/disclosures.

⁵⁷ [Towards Sustainable Business: Good Practices in Business Model, Sustainability Risks and Opportunities Reporting in the EU.](#)

⁵⁸ESRS 2 Metrics and Targets section whereby if an undertaking cannot disclose information on targets required under the topical ESRS, it should disclose this and provide reasons why.

- 4.31 *Inconsistent terminology*: Sometimes the same term was used for different concepts (e.g. the term ‘commitments’ disclosed in the sustainability statement/disclosures could mean ‘intent’, whereas in the financial statements the term refers to specific contractual commitments), whereas different terms were used to describe the same concept (e.g. financial impact and financial effects). In this vein, during outreach, stakeholders emphasised the role of connectivity of reported information towards enhancing effective communication, including by the harmonisation of terms applied across the annual report and related requirements (e.g., alignment in the terms applied in the Conceptual Framework for Financial Reporting and those applied in IFRS S1 and ESRS 1).
- 4.32 *Challenges with signposting and cross-referencing were noted*:
- (a) *Uninformative signposting*: Based on the review of the possible illustrations of connectivity, there was uninformative mutual cross-referencing (i.e., sustainability disclosures which refer to a specific note in the financial statements and that note in turn only stated that it considered the sustainability disclosures).
 - (b) EFRAG’s outreach with stakeholders acknowledged the following challenges:
 - (i) *Excessive referencing*: This, particularly when lacking methodological clarity, could confuse rather than provide clarity.
 - (ii) *Lack of cross-referencing resulting in duplication*: Cross-referencing between the sustainability statements, financial statements and other reports has been seen as complicated. This is because there may be duplication of sustainability-related information in the financial statements, as cross-referencing under IFRS Accounting Standards is generally limited.
- 4.33 *Preparer challenges*: Preparers pointed to the following additional challenges towards connecting financial statements and sustainability statement/disclosures information:
- (a) *Lack of clear guidance and illustrative examples*: This makes the reporting process particularly difficult.
 - (b) *Uneven implementation of the CSRD across EU member states*: In some jurisdictions, the directive has yet to be transposed into national law and audit practices vary considerably.
 - (c) The need for *knowledge-building* across teams.
 - (d) *Meeting diverse audience needs* – some preparers found it challenging to identify the target user of the annual report, which has evolved due to sustainability reporting.

Usefulness of connectivity of reported information – users’ and other stakeholders’ perspectives

- 4.34 The importance of the connectivity of reported information for users has been highlighted through the feedback from users received during EFRAG’s outreach, including through interviews, outreach events, and the user panel (see Appendix A for a detailed profile of the users who provided feedback) and in a few academic studies.

Users' feedback received during EFRAG's outreach

Feedback on sources and use of companies' information

- 4.35 The interviewed users indicated that they rely on annual reports, other publicly available information (e.g. corporate governance reports, press releases) and information by data providers to gather information for their analytical purposes and for engaging with an entity's management. Some of the interviewed users also noted that they use proprietary questionnaires to assess how an entity manages sustainability-related matters.
- 4.36 One user, representing a technology-driven investment firm, signalled that they primarily receive data from data providers extracted from annual reports, rather than directly analysing annual reports themselves. Nonetheless, this user underscored that the attributes and quality of annual reports, including the connectivity of reported information, affect the quality of information available from third-party data providers and their own proprietary databases.
- 4.37 *Integration of users' analytical processes:* There was no indication that the interviewee users had unified functional teams (akin to some of the preparers) that jointly consider both the traditional financial information and the sustainability statement/disclosures for analytical purposes. Such a unified approach would be expected to increase the demand for connected information.

Usefulness of identified types and mechanisms of connectivity

- 4.38 Users provided the following feedback on the following enabling attributes, types, and mechanisms of connectivity of reported information:
- (a) *Avoidance of duplication:* Users confirmed that avoiding duplication, which supports the connectivity of reported information, also minimises the risk of them double-counting information during their valuation and assessment of the risk profile of companies.
 - (b) *Coherence and integration of information:* Users confirmed that coherence and integration of information enhance their understanding of the entity's value creation story, and convey that a company has incorporated sustainability-related matters into its strategy and business model.
 - (c) *Consistency:* Consistency of data, assumptions and narrative information was confirmed as crucial for ensuring the credibility of reported information. This confirmatory role enhances the annual report's faithful representation and verifiability/reliability (e.g. by avoiding greenwashing risk).
 - (d) *Direct connectivity (cross-referencing):* Cross-referencing enhances the understandability and navigability of the annual report, and it also lessens the risk of double-counting of information. However, users confirmed that excessive cross-referencing impairs understandability.
 - (e) *Indirect connectivity (reconciliation):* Reconciliation was viewed as a mechanism that can ensure the verifiability and faithful representation of reported information.
 - (f) *Forward-looking or future-oriented information:* The importance of the connectivity of reported information in the context of forward-looking or future-oriented information was underscored. For instance, the link between sustainability-related matters (environmental pollution in the sustainability statement) and the disclosed contingent liabilities in the financial statements.

- (g) *Anticipated financial effects (inter-temporal connectivity mechanism)*: Although this type of information has been rarely reported previously, users were generally positive about the potential usefulness of anticipated financial effects disclosures within the sustainability statement/disclosures as noted above in paragraph 25, albeit indicating that they were not yet monitoring these newly introduced disclosures across reporting periods. They also noted the lack of comparability and unclear terminology (which was also observed in EFRAG's review of companies - see paragraph 37), and the inherent uncertainty of the disclosed amounts. According to users, these limitations affect the usefulness of these disclosures for valuation and other analytical purposes. Nonetheless, users considered that these disclosures can signal that companies' management has considered risks that may crystallise in the long term, and they can be a useful starting point for users to engage with companies' management. The importance of Standards to further ensure the usefulness of these disclosures was also highlighted.
- (h) *Anticipated business impacts disclosures*: Relatedly, for contextual purposes, users underscored the importance of the disclosure of the anticipated business impacts that precede the occurrence of the anticipated financial effects.
- (i) *Disclosure of qualitatively material information about exposures*: Users viewed these disclosures as helpful since they help explain why certain information is not disclosed and enable more targeted engagement with companies' management. They considered that these disclosures could be located either in the financial statements, the sustainability statement/disclosures, or the rest of the management report.
- (j) *Other mechanisms of the connectivity of reported information*: Users considered other mechanisms of the connectivity of reported information, such as dedicated sustainability-related matter notes in the financial statements and content indices, as less helpful.

4.39 *Relative priority of mechanisms of the connectivity of reported information*: Users underscored the importance of the overarching types of connectivity (consistency, coherence and integration of information). They also considered mechanisms of connectivity of reported information, such as cross-referencing and reconciliation, moderately helpful. As noted above, other mechanisms were seen as less helpful. Anticipated financial effects disclosures were highlighted as potentially very helpful.

Other user perspectives

4.40 During the outreach discussions, which included feedback on a selection of the illustrations in Chapter 3, users provided additional perspectives on the following:

- (a) Connectivity/dis-connectivity in the economic information content. In this regard, users highlighted the importance of:
 - (i) ensuring that there is no disjointed consideration of information disclosed in both the financial statements and sustainability statement/disclosures information in a manner that risks are double-counted, or risks are ignored due to not being reflected in either of the reports (carbon credits); and
 - (ii) considering the offsetting effects of various factors disclosed in both the financial statements and the sustainability statement/disclosures (e.g. rising employee injuries may occur in tandem with increased profitability due to both factors occurring as a result of increased production time).
- (b) Level of disaggregation:

- (iii) Users pointed to the insufficient disaggregation as sometimes being an issue with respect to both financial statements and the sustainability statement/disclosures. For instance, they pointed to the difficulty in linking the information about an entity's operating segments disclosed in the financial statements to information about its transition plans disclosed in the sustainability statement/disclosures (e.g. asset retirement plans due to transition to green products).
 - (iv) Disaggregated information provides insight into the extent and significance of sustainable activities within a business. For instance, a large conglomerate may only have 2% of its operations making a strong contribution to sustainability, while the remainder of its activities are neutral or negative.
 - (v) Users signalled that they consider Capex to be one of the most important sustainability-related metrics. Where possible, it should be quantified in order for the users to understand and assess these expenditures. Users highlighted that it was essential to understand whether CapEx and capital commitments related to, e.g., green activities or transition activities, and they indicated that this disaggregation was not consistently provided.
 - (vi) Some users suggested that many renewable energy businesses have different return on invested capital ('ROIC') prospects and risk profiles, and information that enables a valuation of these businesses separately from existing businesses would be helpful. They also suggested that a greater disaggregation of human capital information (e.g. employee attrition rates, employee satisfaction) can enable investors to better assess the long-term prospects of companies (i.e. distinguish between short-term fixes from long long-term solutions).
- (c) *Role of connectivity of reported information in enhancing users' engagement with companies*: They noted that the connectivity of reported information (e.g., business segments that are sustainability-related) and disclosure of related information (e.g. individuals that are responsible for governance) facilitates users' engagement with companies' management and ability to ask the right questions. This could be the case where there is a disconnect between anticipated financial effects (e.g. material, significant amount of potential impairment/amortisation of assets) and current financial effects (immaterial impairment/amortisation of assets)⁵⁹.

Empirical academic evidence on the usefulness of the connectivity of reported information

- 4.41 The working paper by Karlsson (2025) tested the relationship between the level of connectivity of reported information and information asymmetry (i.e. a gap of information about the company that exists between insiders/management and outsiders of the company, including investors), ~~and this~~. Information asymmetry could be ~~due to~~ caused by the limited transparency ~~and understandability of a company's communication to capital markets, including through its reporting by the reporting company~~. As noted in paragraph 4.5, the level of connectivity of reported information was measured by manually scoring entities into three different categories depending on their climate-related disclosures within and outside the financial statements. The stock's bid-ask spread served as a proxy for investors' perceived risk and information asymmetry.

⁵⁹ Anticipated financial effects could relate to the possible impairment of assets, which may only become obsolete at a future date subject to the enactment of particular regulation, whereas those assets may be economically viable when considered in the context of current period financial statements.

- 4.42 Karlsonn (2025) found that increased levels of connectivity of reported information reduced the information asymmetry. Similarly, an academic working paper (Wang, Chua, Simnett, and Zhou, 2024)⁶⁰, based on assessing the quality and connectivity of sustainability disclosures of 428 UK-listed companies, found that increased connectivity of reported information resulted in lower bid-ask spreads (and lower cost of capital). These results suggest that increased connectivity of reported information has the potential to reduce information asymmetry between investors and companies' management.
- 4.43 However, neither of the two studies, which are early-stage studies, found there to be a significant relationship between the levels of connectivity of reported information and analysts' earnings forecast dispersion (which is another proxy measure for information asymmetry commonly applied in academic studies). Hence, there ought to be caution in interpreting these initial findings, and this is an area where further evidence would be helpful.

⁶⁰ Wang, R., Chua W.F., Simnett, R., and Zhou, S., 2024. [Is greater connectivity of financial and non-financial information valued by market participants?](#) The British Accounting Review. The University of Sydney and Deakin University.

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

CHAPTER STRUCTURE

OVERVIEW (PARAGRAPHS 5.1 TO 5.6)

CONSIDERATIONS TO BE ADDRESSED BY STANDARD SETTERS

- FURTHER CLARIFYING THE BORDERS OF FINANCIAL STATEMENTS FOR NOTE DISCLOSURES (PARAGRAPHS 5.7 TO 5.35)
- ADDRESSING DIFFERENCES IN LEVEL OF DISAGGREGATION ACROSS DIFFERENT REPORTS (PARAGRAPHS 5.36 TO 5.41)

CONSIDERATIONS TO BE ADDRESSED BY MULTIPLE STAKEHOLDERS

- ASSESSING DIFFERENCES IN ORGANISATIONAL REPORTING BOUNDARIES BETWEEN DIFFERENT REPORTS (PARAGRAPHS 5.42 TO 5.46)
- ENHANCING CONNECTIVITY IN PROCESS (PARAGRAPHS 5.47 TO 5.49)
- EXPLORING DIGITISATION/AI TO ENHANCE CONNECTIVITY (PARAGRAPHS 5.50 TO 5.59)

*To wrap up the DP, this chapter draws from the feedback obtained during EFRAG's outreach on where connectivity challenges may arise, and it provides largely conceptual and some practical considerations for enhancing the connectivity of information across different reports in the Annual Report and related aspects (e.g. further clarifying the borders (i.e., differentiating features) of the financial statements). **In contrast to the considerations (points of attention) related to observed reporting practices in Chapter 4, which can already be addressed by stakeholders (preparers, users, auditors) under current reporting requirements, the considerations highlighted in this chapter are either longer-term in nature or go beyond a discussion of reported information.***

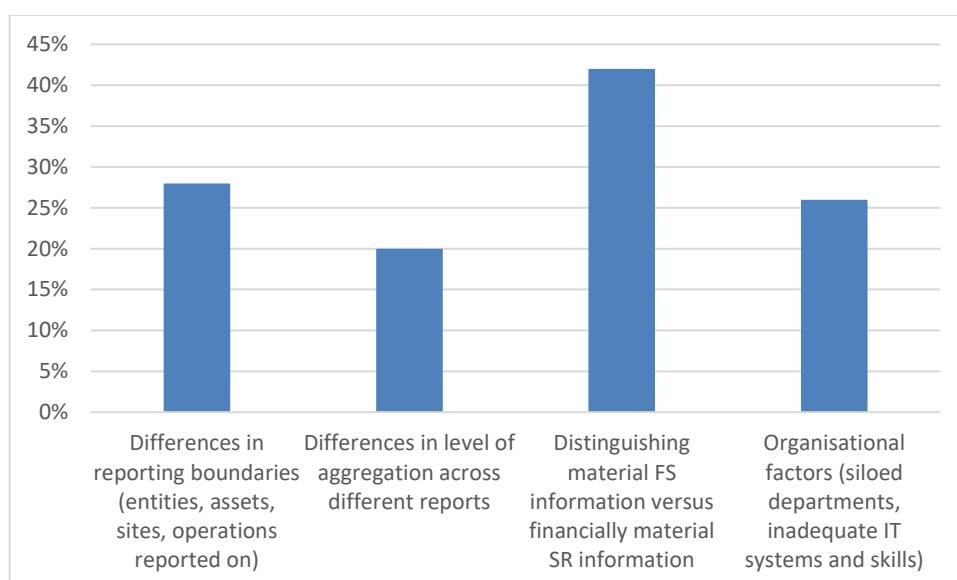
*Some of the considerations in this chapter are primarily aimed at standard setters, while other considerations, such as enhancing connectivity in process and exploring digitisation, are to be addressed by multiple stakeholders. **Of note, given the context of the ESRS revision, no suggestions for reviewing sustainability reporting requirements and other guidance are made in this chapter.***

Overview

Connectivity-enhancing considerations

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

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



- 5.2 Some of the connectivity challenges identified by stakeholders (e.g., distinguishing material information in the financial statements versus financially material sustainability statement information; differences in level of aggregation across different reports; differences in organisational reporting boundaries across different reports) relate to where information across different reports would be reasonably be expected⁶¹ to be connected but is not rather than where connectivity of information across different reports should not be expected due to the distinctive nature of information⁶² within the different reports.

Related aspect: clarifying the borders of the financial statements

- 5.3 Across several IASB projects⁶³, circumstances have arisen where, in responding to consultative documents, stakeholders have called for further clarification of the borders of financial statements (see **paragraphs 5.7 to 5.35** below). A particular focus on further clarifying borders of financial statements is appropriate because, relative to other annual report sections, there is a higher threshold for including information in the financial statements (i.e. for recognition in the financial statements; a past event is required, only resources controlled by the reporting entity are reported on, and the measurement and existence uncertainty of the items being reported on is considered). In addition, there is a longer tradition of reporting, reasonable assurance is required, and there is a more established primary audience for financial statements. These factors could explain the expectations from some stakeholders (outlined in paragraph 5.4 c-i) that more information should be reported in the financial statements than is currently the case under IFRS accounting requirements.

⁶¹ This could be **due to underreporting of information that would be reasonably expected to be reported within and thereafter connected across different reports during a reporting period.** For example, if material investments related to sustainability-related risks and opportunities are reported in the sustainability statement/disclosures, but without corresponding information on either the asset capitalisation or expense or impairments in the financial statements, and vice versa.

⁶²

Information of a distinctive nature within a particular annual report section that cannot be connected to information in other annual report sections. For instance, material information in the context of the financial statements' objectives and recognition criteria may differ from material information in the context of sustainability reporting. The reasons for such differences (e.g., materiality in the context of the time horizon considered).

⁶³ For instance, the IASB ED on Climate-related and Other Uncertainties in the Financial Statements (which will be updated to Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples), the 2024 IFRS IC agenda decision *Climate-related Commitments* (IAS 37), the IASB ED on Business Combinations- Disclosure, Goodwill and Impairment (BCDGI), and the IASB research project on intangibles.

5.4 *Border of the financial statements, connectivity and expectation gaps*: Further clarifying the borders of financial statements is related to the connectivity of reported information. This is because clarity on the borders of different reports affects the reported information and the ability to connect information across different reports. Moreover, clarifying the borders of financial statements

- (a) will help avoid unnecessary duplication of information across different reports and enable the connectivity of reported information (as noted in Chapter 4).
- (b) can help identify any information gaps⁶⁴ that need to be addressed within different reports and could contribute to the enhancement of the reported and connected information across different reports.
- (c) can lessen the expectation gaps among stakeholders on what ought to be reported and connected across reports. Below is a description of the types of expectation gaps and how they can be addressed:
 - (i) some stakeholders expect that the recognition criteria of financial statements ought to be amended to allow reporting externalities/impacts, including climate-related impacts (e.g. GHG emissions), and resources not controlled by companies, including nature-related intangibles/resources⁶⁵ within the financial statements. And there are nascent initiatives⁶⁶, which conceptualise the possible monetisation and inclusion of impacts/externalities and uncontrolled resources within the financial statements. That is, the current borders of the financial statements are perceived to be “too narrow” by these stakeholders. The development of educational material on the objectives and requirements of the different reports in the Annual Report would address this particular expectation gap.
 - (ii) there are instances of some companies underreporting material information (e.g., due to the failure to consider qualitative materiality⁶⁷), which then leads to disconnected information. This situation could be lessened by educational material and illustrative examples, such as those that have been provided by the IASB. Underreporting of material information in the financial statements could also arise due to the misinterpretation of existing IFRS Accounting requirements. This could also be addressed by standard setting clarifications in a few areas, as noted in EFRAG’s response⁶⁸ to the IASB Exposure Draft *Climate-related and Other*

⁶⁴ For instance, a question of possible gaps arose in respect of disclosure of environmental liabilities. The EFRAG SR pillar’s Secretariat reviewed relevant academic literature and conducted a desktop review of the reporting of environmental and decommissioning liabilities by a sample of Oil and Gas companies. Their analysis showed that the reviewed companies did not disclose the triggering event of the decommissioning provisions, the disclosure of the estimated retirement date was missing, and it was difficult to identify the asset for which an asset retirement obligation or decommissioning provision is recognised. Concurrently, the enacted sector-agnostic ESRS do not require this information. This raised the question of whether these disclosures should be considered as part of IAS 37 Provisions requirements.

⁶⁵ Capitals coalition has a “[Nature on Balance Sheet Initiative](#)” and had a 2020 publication “[Improving nature’s visibility in financial accounting](#).”

⁶⁶ Cohen, R and Serafeim, G. 2020, [How to Measure a Company’s Real Impact, Harvard Business Review](#). Stakeholders have shared examples of initiatives in certain jurisdictions on how to monetise and incorporate CO2 into financial reporting standards (e.g., expenses and carbon liabilities). The 2021 EFRAG PTF-NFRS publication Chapter lists several other experimental initiatives.

⁶⁷ For example, the effects of a sustainability-related risk on financial statement line items may not be quantitatively material yet users (investors and other stakeholders) would have reasonably expected otherwise based on the information reported in other annual report sections and users’ expert knowledge of the companies’ business model/sector. In such a case, an explanation of why there are no financial statement effects could be deemed qualitatively material information.

⁶⁸ [EFRAG Comment letter](#), 28 November 2024 noted that, for instance, standard setting clarification may be necessary with respect to paragraphs 34 and 35 of IAS 36 in relation to the value in use calculation and the applicable time horizon for climate-related fact patterns

- (iii) there has been a concern voiced by some stakeholders about what they perceive to be the “stretched” current borders of the financial statements (e.g., disclosing information in the notes to the accounts because such information is deemed useful to investors even when not related to the defined assets, liabilities, income, expenses, and equity). In effect, some stakeholders expect the disclosure of information in the financial statements/notes to the accounts that is only related to the defined assets, liabilities, income, expenses, and equity (this concern was raised on the proposed disclosure of business combinations, post-acquisition performance and expected synergy information in the financial statements- see **paragraphs 5.30 to 5.32**). Yet, other stakeholders expect that, in certain circumstances, certain sustainability-related forward-looking information ought to be disclosed in the notes to the accounts (see **paragraphs 5.33 to 5.45**). These conflicting expectations on disclosure of forward-looking information in the notes to the accounts are further addressed in this chapter.

Summary of focus points

5.5 Based on the above, the following considerations are further addressed in this chapter:

Considerations for standard setters

- (a) **Clarifying the borders of financial statements with respect to the disclosure of some grey areas⁶⁹ related to forward-looking information in the notes to the accounts:** This is further detailed in **paragraphs 5.7 to 5.35**. The analysis focuses on the disclosures of sustainability-related intangibles (which include human capital/resources and relationships (own workforce and value chain workforce), relational and social capital, and intellectual and organisational capital) and sustainability-related commitments for future Capex.
- (b) **Addressing differences in level of disaggregation across different reports:** The analysis in **paragraphs 5.36 to 5.41** assesses arising from the observed differences in the levels of aggregation across different reports.
- (c) The highlighted challenge of distinguishing between material information in the financial statements and financially material information in the sustainability statement based on ESRS or material information of sustainability-related financial disclosures under ISSB Standards is not separately addressed in this chapter. This is because the assessment of materiality is incorporated into the discussion of the above two considerations, which touch on location and disaggregation, ~~and~~. Apart from perhaps anticipated financial effects, which are not further analysed in this chapter due to their being reviewed under the revised ESRS, no other fact patterns have been highlighted to the EFRAG Secretariat that would backsupport a separate additional analysis. Moreover, stakeholders can draw on the available educational resources, including the [May 2024 EFRAG IG1: ESRS Materiality Assessment Implementation Guidance](#) (EFRAG MAIG), ~~and the November 2024 ISSB publication- Sustainability-related risks and opportunities and the disclosure of material information, and the August 2025 ISSB publication, Disclosing information about anticipated financial effects applying ISSB Standards~~ while grappling with to address the challenge of materiality judgments across different reports. For instance, in the ISSB publication, it is noted that sustainability-related financial disclosures that provide information about sustainability-related risks and opportunities are not limited

⁶⁹ A grey area is where there is a debate on the appropriate location and information content that should be reported on a phenomenon/phenomena or matter

~~to information about whether those risks and opportunities have affected or relate to an entity's assets, liabilities, equity, income or expenses.~~

Considerations for multiple stakeholders

- (d) **Assessing differences of organisational reporting boundaries ~~between of the~~ financial statements and ~~the~~ sustainability statement/disclosures** (i.e. entities, operations, and assets reported on). Given that the draft revised ESRS proposals further align the organisational reporting boundary of the sustainability statement with that of the financial statements. Hence, the analysis in **paragraphs 5.42 to 5.46** is limited to a review of the implications for the connectivity of reported information, of any remaining⁷⁰ differences in the respective organisational reporting boundaries of the financial statements and sustainability statement/disclosures.
- (e) **Enhancing connectivity in ~~process~~organisational processes** (including governance within organisations). As noted in Chapters 1 and 2, 'connectivity in ~~process~~organisational processes' contributes to the connectivity of reported information. During EFRAG's outreach, stakeholders have underscored the importance of and the steps that could enhance 'connectivity in process', as detailed in **paragraphs 5.47 to 5.49**.
- (f) **Exploring digitisation via structured data and AI to enhance connectivity**. Currently, the conversation about connectivity is largely framed through the lens of PDF reports. The analysis in **paragraphs 5.50 to 5.59** provides considerations for digitisation based on structured data provision and AI developments, which could foster connectivity of reported information.

5.6 Other points to consider but not further addressed in the DP: Besides the above considerations, it is noted that both the June 2024 EFRAG connectivity publication and the February 2025 ANC-France report called for the alignment/connectivity in the auditing of financial statements and the assurance of the sustainability statement. In addition, in its past commentary⁷¹, EFRAG has called for the development of a sustainability reporting conceptual framework. Nonetheless, these aspects are not further analysed in this Chapter. This is because audit/assurance is beyond the scope of the DP. Also, as noted in the preamble, this chapter takes into account the ongoing revision/streamlining of ESRS and, therefore, no further analysis of a sustainability reporting conceptual framework is done.

Considerations to be addressed by standard setters

Standard setter consideration: Further clarifying the borders of financial statements on note disclosures

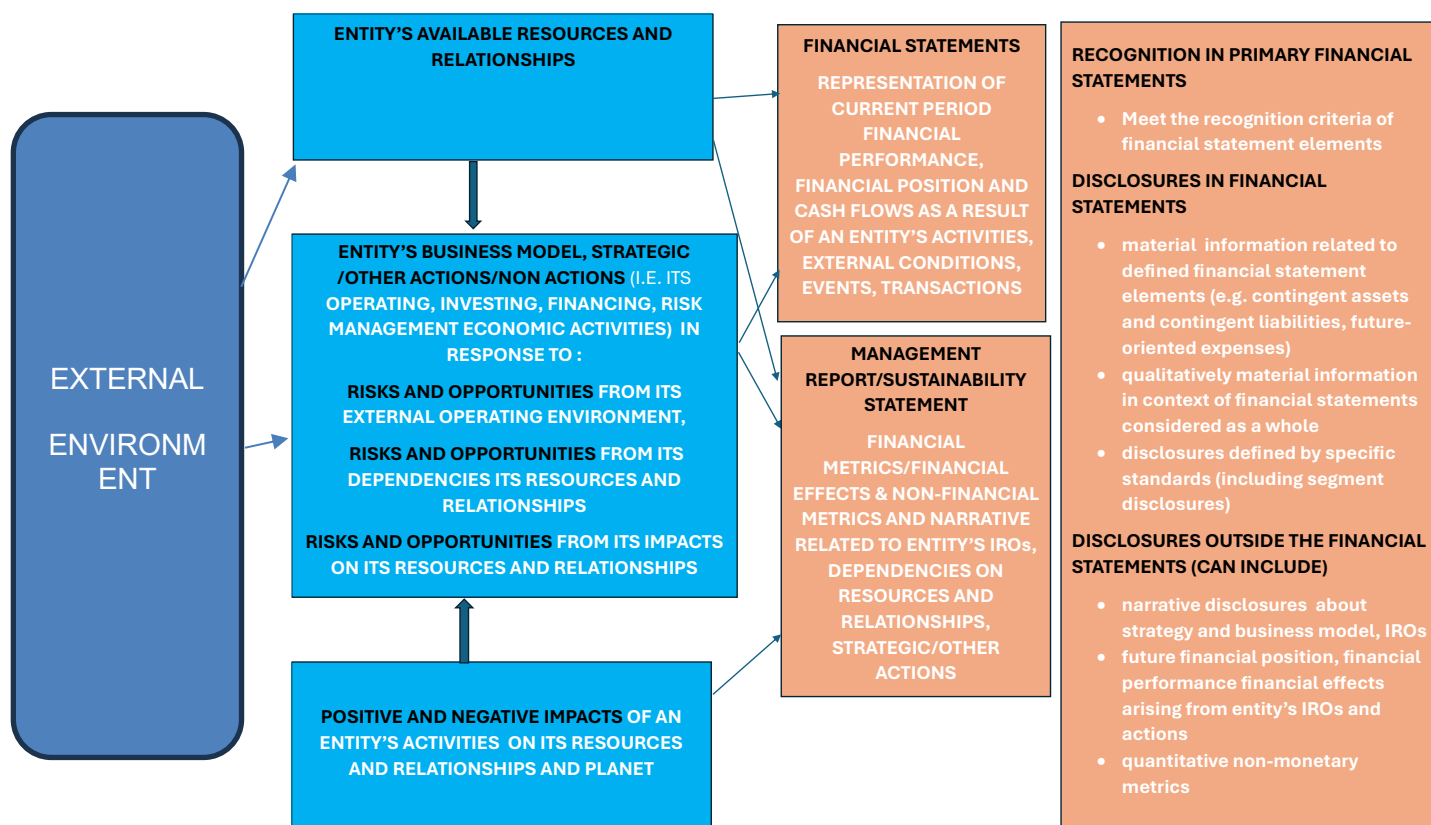
- 5.7** As a backdrop to the analysis of borders of financial statements, the diagram below (Figure 5.2) outlines the interplay between an entity's reported information and its
- (a) available resources and relationships,
 - (b) impacts,

⁷⁰ 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.

⁷¹ The call for a Sustainability Reporting conceptual framework was made in EFRAG responses to the 2024 International Accounting Standards Board (IASB) ED on Climate-related and Other Uncertainties in the Financial Statements (to be updated to Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples) and the 2023 International Sustainability Standards Board (ISSB) agenda consultation, and in the June 2024 EFRAG connectivity research project initial paper '[Connectivity considerations and boundaries of different Annual Report sections](#)'.

- (c) strategy, business model, actions in response to the risks and opportunities that arise from its external environment,
- (d) strategy, business model, actions in response to the risks and opportunities that arise from its dependencies on its available resources and relationships, and
- (e) strategy, business model, actions in response to the risks and opportunities that arise from its impacts on its resources and relationships.

Figure 5.2 Factors influencing reporting outcomes



Source: EFRAG⁷² - Reporting outcomes (including financial effects reported within and outside the financial statements) are depicted in beige-coloured boxes.

⁷² Below is a definition of some of the terms applied in Figure 5.2: An **entity's external environment** encompasses: (a) its direct environment—the industries and markets in which the entity interacts with its customers, suppliers, and competitors; and (b) the wider environment including the legal, regulatory and economic environment; the political, technological, social and cultural landscape; and the natural environment (Sourced from 2025 MCPS).

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

Dependencies- How an entity directly or indirectly depends on resources and relationships to generate future cash flows (Source: November 2024 ISSB educational material).

5.8 Different literature⁷³ (standard setters', audit firms', and academic literature⁷⁴) identifies the following differentiating dimensions of the information within different annual report sections (and with a summary diagram- Figure 5.3 below and the respective requirements in Appendix A):

- (a) *Nature of information*, for instance, several metrics measured using non-currency units (e.g. GHG emissions) would primarily be reported outside the financial statements; there is greater emphasis on narrative information in the sustainability statement/disclosures relative to the financial statements, and strategy, business model, and governance disclosures would typically be disclosed outside the financial statements.
- (b) *Different materiality perspectives* are applied for information in the financial statements and the sustainability statement/disclosures. For financial statements (where materiality is gauged relative to defined elements of financial statements- assets, liabilities, income, expenses, and equity with consideration of the financial position, financial performance, and cash flows at the reporting date) and sustainability reporting information (where materiality is gauged relative to an entity's/undertaking's IROs, and the financial position, financial performance, cash flows of future periods can be considered).
- (c) *Differences in recognition criteria for the reporting of transactions*, events, and conditions. Notably, the occurrence of a 'past event', having control of resources, and meeting a threshold of occurrence/existence and measurement certainty are 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. Hence, sustainability-related risks that are expected to result in future cash outflows⁷⁵ may fail to meet the criteria for recognition as provisions or disclosure as contingent liabilities. And sustainability-related opportunities⁷⁶ without a 'past event' do not qualify to be recognised as assets or disclosed as potential revenue in the financial statements.
- (d) *Organisational reporting boundary* (i.e. entities, operations, and assets reported on) (see Chapter 2 and Paragraphs 5.42 to 5.46).

⁷³ 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).

⁷⁴ 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**.

⁷⁵ 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).

⁷⁶ 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.

- (e) *Differences in presentation/level of aggregation between financial statements and the sustainability statement/disclosures* (see paragraphs 5.36 to 5.41 for further analysis).
- (f) *Application of the accrual principle and preparation of summary/aggregated primary statements*: As outlined in an academic paper (Wagenhofer⁷⁷, 2023), unlike for financial statements, in mandatory sustainability reporting, there is no ‘stocks and flows’ representation of information, and the accruals principle for the intertemporal allocation of amounts is not applied. There are also no mandated summary statements with aggregated line items (akin to the primary financial statements).
- (g) *Time horizon covered* (e.g. extent of orientation towards forward-looking or retrospective information in a report, and extent of coverage of anticipated financial effects).
- (h) *Extent to which forward-looking information is incorporated*: Both financial statements and sustainability reporting have forward-looking estimates. However, financial statements information is primarily focused on the future consequences of past actions on existing assets and liabilities, whereas sustainability-related information also encompasses future consequences of future actions. That said, financial statements’ information can also reflect future consequences of future actions (e.g., goodwill impairment tests that necessitate estimates of the terminal value of groups of cash-generating units, or the incorporation of future, committed restructurings in the value-in-use calculation).

Figure 5.3: 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)
Reflects financial position, financial performance at reporting date (present assets and liabilities)	Reflects entity’s performance, position and development; it is traditionally a part of <u>general purpose</u> financial reporting with financial materiality perspective	It is a section of the management report
Primary audience of financial capital providers	Under CSRD, management report can be deemed to be part of <u>general purpose</u> sustainability reporting	Discloses entities’ sustainability impacts, risks and opportunities
Includes information material to FS users	Provides description of principal risks and uncertainties	Discloses financial effects of IROs in short, medium and long term
Recognition depends on financial control, separability of items, existence/occurrence and measurement uncertainty considered	Primary audience is knowledgeable user	Audience of stakeholders including investors and other users with interest in entity’s impacts on planet and economy
Reporting entity- entities in scope of consolidation depend on financial control	Implicit that it has same reporting entity as FS	Financially and/or impactfully material information included Same reporting entity as FS, consideration operational control in calculation of environmental metrics
Observations <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

⁷⁷ Alfred Wagenhofer (2023), Sustainability Reporting: A Financial Reporting Perspective, Accounting in Europe.

- 5.9 Discussions within EFRAG and amongst stakeholders on the borders/differentiating features of financial statements have been held in relation to the disclosure in the notes to the accounts of a set of identified, specific grey areas outlined below (i.e., areas where there is a debate on whether and which information could be reported/disclosed in the notes to the financial statements).
- (a) Sustainability-related intangibles (e.g. own workforce), a subset of unrecognised intangibles (i.e. intangible resources, are not recognised as assets in the statement of financial position). That said, some stakeholders have signalled the need for a better depiction of the financial implications of sustainability-related intangibles that may be disclosed through narrative disclosures and other KPIs outside the financial statements (see paragraphs 5.12 to 5.21 below);
 - (b) Sustainability-related commitments, including those on climate-related transition plans (see paragraphs 5.22 to 5.29 below);
 - (c) Business combinations' strategic performance and synergies, where there have been questions of why it is being proposed to have certain information that some consider to be forward-looking in the financial statements (see paragraphs 5.30 to 5.32 below).
- 5.10 Clarification on what information (in respect of the items in the above paragraph) ought to be respectively reported in the financial statements and outside the financial statements, including the sustainability statement/disclosures, could enhance the reported information and connectivity of information across different reports.
- 5.11 The final aspect of this consideration relates to the triggers of migration over time of items from the management report and/or sustainability statement/disclosures into the financial statements (see paragraphs 5.33 to 5.35 below).

Reporting of sustainability-related intangibles

- 5.12 **Statement of financial position recognition:** IAS 38 Intangible Assets specifies the definition and recognition criteria for recognising an intangible resource as an intangible asset as follows:
- (a) *Definition of an intangible asset:* An intangible resource is an intangible asset if it is identifiable⁷⁸, the entity has control over the resource, and there are future economic benefits (IAS 38.10-17).
 - (b) *Recognition criteria of an intangible asset:* An intangible asset shall be recognised if, and only if: it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably (IAS 38. 21).

⁷⁸ IAS 38.12 states that an asset is identifiable if it either:

(a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

- 5.13 **Statement of financial performance and goodwill recognition:** If an item within the scope of IAS 38 does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date (IAS 38.10).
- 5.14 **Disclosures in financial statements:** IAS 38.118-127 outlines detailed disclosure requirements related to intangible assets. IAS 38. 128-b encourages but does not require a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the IAS 38 recognition criteria.
- 5.15 **Location of unrecognised intangibles:** In response to EFRAG’s 2021 EFRAG Discussion Paper⁷⁹ *Better Information for Intangibles*, stakeholders provided mixed feedback⁸⁰ on what they considered to be the appropriate location for the disclosure of unrecognised intangibles.
- 5.16 Figures 5.4 and 5.5 below represent the views that were subsequently expressed on the placement of unrecognised intangibles during discussions held by EFRAG’s technical governance bodies and working groups. It is noted that these views have not been previously published as official EFRAG positions.

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

YES

- If information related to the asset appears in the statement of financial position
- If expenses related to the asset appear in the statement of profit or loss

explain

- why the asset had not been capitalised (e.g. because it was research activity)
- when the asset is expected to generate income

YES

- Information on expenses recognised in a period that could be considered to relate to benefits that will be recorded in future periods ('future-oriented expenses')

⁷⁹ EFRAG 2021, [Better information on intangibles - Which is the best way to go?](#)

⁸⁰ EFRAG 2023, [Better information on intangibles- Which is the best way to go?- Recommendations and Feedback Statement](#). In response to question 9 on the placement of information, 8 of 22 comment letter respondents suggested unrecognised intangibles should be disclosed outside the financial statements, several comment letter respondents supported having these disclosures in the financial statements, and several respondents favoured having disclosures of both recognised and unrecognised intangibles in one location.

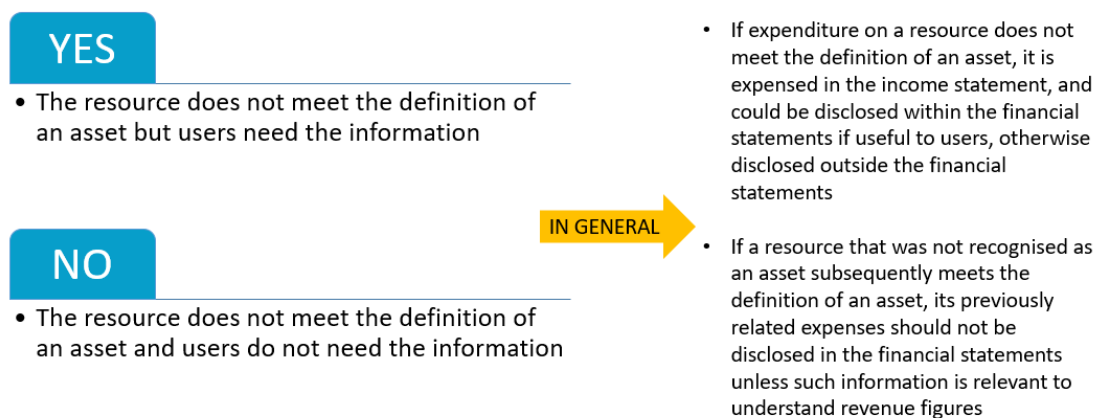
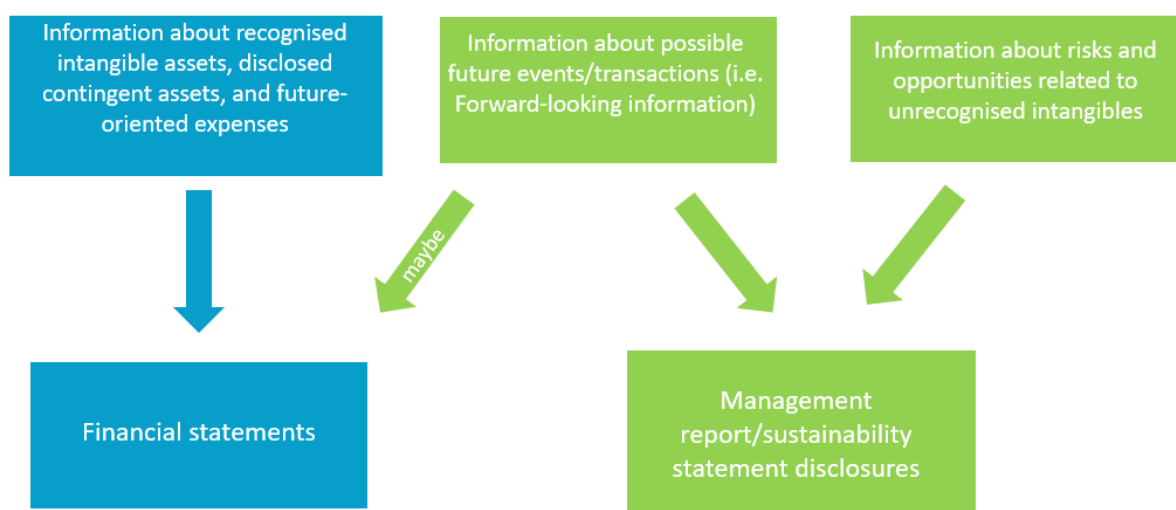


Figure 5.5: Synthesis of placement considerations



5.17 In effect,

- if expenditure on a resource does not meet the definition of an asset, it is expensed in the income statement, and it could be disclosed within the financial statements if useful to users⁸¹; otherwise, it is disclosed outside the financial statements
- information on ‘future-oriented expenses’ should be disclosed in the financial statements if it relates to benefits of future periods (e.g., this could be for sustainability-related research and development expenditures on carbon capture technologies that are not recognised as assets).

Sustainability-related intangibles reporting and connectivity implications

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

- Sustainability reporting/management report guidance:** Recital (32) of the EU Accounting Directive notes that certain information on intangible resources is intrinsic to sustainability matters and should therefore be part of sustainability reporting. The

⁸¹ This is consistent with paragraph 3.6-b of the Conceptual Framework for Financial Reporting

Directive provides examples⁸² that illustrate how, in some cases, it is not possible to distinguish information on intangible resources from information on sustainability matters. This point was also made in the 2021 EFRAG Discussion Paper, *Better Information for Intangibles- Which way to go?* And the 2021 EFRAG PTF-NFRS report⁸³.

- (b) Article 19 (1) of the EU Accounting Directive⁸⁴ requires entities to disclose in the management report how key intangible resources underpin business models and drive the entity's value creation, and this necessitates a distinction between sustainability-related intangibles and other intangibles. Under sustainability reporting requirements, consonant with recital 32 of the Accounting Directive, the disclosure of sustainability-related intangibles is encompassed within several ESRS topical standards, including ESRS- S1 *Own Workforce*, S2 *Workers in the Value Chain*, S3 *Affected Communities* and S4 *Consumers/End Users*.
- (c) Internationally, the ISSB has an ongoing research project exploring the necessity and feasibility of developing ISSB requirements for disclosure of information about particular human capital-related matters within the sustainability-related financial disclosures. With respect to the management commentary, the 2025 IFRS MCPS, which is voluntary guidance, includes disclosure requirements for resources and relationships (i.e., sustainability-related, intangibles, and other resources and relationships) as one of the content elements.
- (d) **Financial statements:** The 2021 EFRAG Discussion Paper *Better Information for Intangibles- Which way to go?* and EFRAG's 2021 PTF-NFRS publication on connectivity: *Interconnection between Financial and Non-Financial Information*⁸⁵ pointed to the limitations of IFRS requirements (IAS 38 and IFRS 3) in respect of reporting human capital, organisational capital and relationship capital. For example, even if a company can identify the incremental staff skills derived from training, which lead to future economic benefits, the company is unlikely to have sufficient control over the attributable expected future economic benefits and therefore, under IAS 38, the company cannot recognise an asset. The same can be concluded for customer relationships⁸⁶ unless there has been an exchange transaction. It is also noted that, under IFRS 3 requirements, the value of an acquired assembled workforce is subsumed into the recognised goodwill amount because it is not separately identifiable.
- (e) The above observation does not mean there is no information related to sustainability-related intangibles reported in the financial statements. Notably, a January 2025 ISSB staff paper⁸⁷ highlights instances in which the application of IFRS accounting standards

⁸² For example, information about employees' skills, competences, experience, loyalty to the undertaking and motivation for improving processes, goods and services, is sustainability information regarding social matters that could also be considered as information on intangible resources. Likewise, information about the quality of the relationships between the undertaking and its stakeholders, including customers, suppliers and communities affected by the activities of the undertaking, is sustainability information relevant to social or governance matters that could also be considered as information on intangible resources.

⁸³ [Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting](#)

⁸⁴ Undertakings shall report information on the key intangible resources and explain how the business model of the undertaking fundamentally depends on such resources and how such resources are a source of value creation for the undertaking.

⁸⁵ [https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/EFRAG PTF-NFRS A4 FINAL.pdf](https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/EFRAG%20PTF-NFRS_A4_FINAL.pdf)

⁸⁶ In the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (e.g., portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets.

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

⁸⁷ <https://www.ifrs.org/content/dam/ifrs/meetings/2025/january/issb/ap3a-ap4-ifrs-accounting-standards-presentation-disclosure-bees-human-capital.pdf>

might result in information directly relating to human capital-related matters being presented or disclosed in the financial statements. For instance,

- (i) IAS 24 *Related Party Disclosures*, where an entity is required to disclose key management personnel compensation in total and by several subcategories, including short-term employee benefits, post-employment and other long-term benefits, termination benefits, and share-based payments (IAS 24.17).
- (ii) IAS 19 *Employee Benefits*, workers health and well-being is linked to employee benefits provided by employers, and IAS 19 has requirements for the disclosure of employee benefit expense, contributions to and expense for defined contribution plans, and characteristics, risks, financial statement amounts of defined benefit plans as well as how these plans may affect the amount, timing, and uncertainty of an entity's future cash flows (IAS 19.25, 53,54, and 135).
- (iii) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, for example, this may be related to legal proceedings initiated by employees for wrongful treatment, or severance payments to employees when restructuring.
- (iv) IFRS 2 *Share-based Payment*, where an entity is required to describe each type of share-based payment arrangement and to disclose information that enables users of financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position (IFRS 2.45 (a) and IFRS 2.50).
- (v) IFRS 3 *Business Combinations* requires the qualitative description of the factors that make up goodwill, including intangible assets that do not qualify for separate recognition (e.g., an acquired assembled workforce, whose value is not separately identifiable and thus any value attributed to it is subsumed into goodwill (IFRS 3.B37).

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

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

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

- (a) a forestry company that discloses in the sustainability statement that there is no material legal exposure related to its workers' human rights, and
- (b) a technology consultancy firm whose share-based payments disclosed in the financial statements are linked to ESG performance factors disclosed in the sustainability disclosures.

Possible disclosure of sustainability-related commitments in the financial statements

- 5.22 The importance of Capex disclosures for users is underscored in Chapter 4. In this regard, a question has arisen on the extent to which sustainability-related commitments, including those on transition-plan-related investments, ought to be reported in the financial statements. Illustratively, the 2025 ANC report on climate reporting highlights the type of significant investments that could be related to climate change mitigation, such as
- (a) capital commitments related to energy efficiency,
 - (b) renewal of transport fleets with alternative fuels,
 - (c) development of carbon-capture and storage technologies, and
 - (d) investment in renewable energy or nuclear infrastructure.
- 5.23 The 2025 IASB near-final set of illustrative examples on Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples, the [2019 IASB educational article](#) and [\(updated in a 2023 IASB educational article- Effects of climate-related matters in the financial statements\)](#), confirm that IFRS Accounting Standards have requirements⁸⁸ for entities to report material climate-related and other uncertainties (including other sustainability-related uncertainties) in the financial statements⁸⁹. The aforementioned IASB literature collectively relates to the recognition, measurement, presentation, and disclosures of these uncertainties.

⁸⁸ This was stated in the 2019 IASB education article by Nick Anderson and the 2023 update.

⁸⁹ Below is a non-exhaustive list of requirements related to climate-related matters:

- (a) IAS 1: This Standard includes overarching disclosure requirements for information not presented elsewhere in the financial statements but is relevant for their understanding. Entities will therefore need to consider whether to provide additional disclosures to enable investors to understand the impact of climate-related matters on the company. In addition, climate-related matters may give rise to estimation uncertainty and other significant judgements made.
- (b) IAS 2: The selling price of inventories or their completion cost.
- (c) IAS 12: Estimates of future taxable profits and the recognition of deferred tax assets.
- (d) IAS 16/38: Climate-related matters may prompt expenditure to adapt operations (including R&D). They may affect the recognition of costs as assets and estimations pertinent to residual values and useful lives of assets.
- (e) IAS 36: Estimates of recoverable amounts, impairment assessment for assets and goodwill, impairment indicators, and disclosures of key assumptions leading to the recognition of impairment.
- (f) IAS 37: The recognition, measurement and disclosure of liabilities, the nature of provisions or contingent liabilities; and any uncertainties on the timing or amount of outflows of economic benefits.
- (g) IFRS 7: The nature and extent of risks and the concentration of market risk for types of financial instruments.
- (h) IFRS 9: Climate-related contractual terms may affect the classification and measurement of financial instruments and the measurement of expected credit losses (ECL).
- (i) IFRS 13: Fair value measurement of assets and liabilities and related disclosures.
- (j) IFRS 17: Assumptions used to measure insurance contract liabilities and disclosures about significant judgements and risk exposure.

- 5.24 Nonetheless, amongst stakeholders, there remains a question of whether information on sustainability-related commitments that is forward-looking in nature (i.e., not related to defined assets, liabilities, income and expenses within the reporting period) should be disclosed in the financial statements. Of note, the April 2024 IFRIC agenda decision⁹⁰ clarified that a provision can only be recognised or a contingent liability disclosed if there is a ‘past event’ and an expected outflow of economic resources, but the agenda decision did not address other possible related disclosures (i.e., besides contingent liabilities).
- 5.25 Also, the feedback from EFRAG’s outreach and the 2025 ANC report has highlighted the challenge of aligning the Capex and Opex amounts disclosed in the sustainability statement/disclosures to the financial statements’ classification categories. Notably, these terms are not defined within IFRS Accounting Standards, and/or the related amounts are not necessarily incorporated into the asset impairment tests.

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

- 5.26 In their response to the April 2024 IFRIC agenda decision’s consultative documents, stakeholders made suggestions for enhancing disclosures on a) management’s assumptions and b) information about capital expenditure projects required to fulfil climate-related commitments and capital already committed to purchasing assets to fulfil those commitments. Moreover, during EFRAG’s outreach, users have indicated that the disclosure of a time series of likely costs would be useful even if such commitments do not qualify to be recognised as provisions or disclosed as contingent liabilities.
- 5.27 It has been suggested by some stakeholders that disclosures of forward-looking climate-related commitments could be done based on the IFRS Accounting general disclosure requirements (Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18]) and paragraph 3.6 of the Conceptual Framework for Financial Reporting, which requires consideration of whether information is useful for users.

⁹⁰ 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.

- 5.28 During outreach and the discussions held at EFRAG, there have been mixed views on the circumstances under which paragraph 31 of IAS 1 (paragraph 20 of IFRS 18) can be applied. In this regard, to some extent, the clarification of the application of this paragraph has been provided by the 2025 IASB illustrative examples. Specifically, under Example 1⁹¹ (disclosure of qualitatively material exposure⁹²), 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 because the clarification of the IFRS Accounting requirements should not be primarily done through illustrative examples. It is also noted that the illustrative example relates to a disclosure that there is no quantitatively material exposure. Thus, there is a need for application guidance related to when qualitatively material incremental information is disclosed.
- 5.29 Some stakeholders have called for less emphasis on the location of sustainability-related commitments and more emphasis on the connectivity of information across different reports. That said, as materiality is determined in the context of the objective of different reports, it could be argued that the location of information matters as it affects what is reported (presented or disclosed).

Disclosure of business combinations' strategic performance and expected synergy information

- 5.30 This aspect is briefly addressed in this Chapter because the considerations of connectivity and the debate on the location of information outside the financial statements are applicable to other annual report sections besides the sustainability statement/disclosures. In response to the IASB's Exposure Draft (ED) on Business Combinations-Disclosures, Goodwill and Impairment (IASB BCDGI ED), which was published in 2024, several stakeholders (including EFRAG) expressed concerns about the proposal for the disclosure of the strategic post-acquisition performance and expected synergy from business combinations in the financial statements. In summing up the feedback to the ED, a March 2025 IASB staff agenda paper⁹³ noted that stakeholders had concerns, including that such information was
- (a) forward-looking information (by some jurisdictional definitions), and this could result in litigation risk;
 - (b) commercially sensitive;

⁹¹ Fact pattern- 2024 IASB Climate-related and Other Uncertainties in the Financial Statements ED (to be updated to Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples) 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.

⁹² 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.

⁹³ IASB BCDGI March 2025 agenda paper [ap18a-conceptual-analysis.pdf](#)

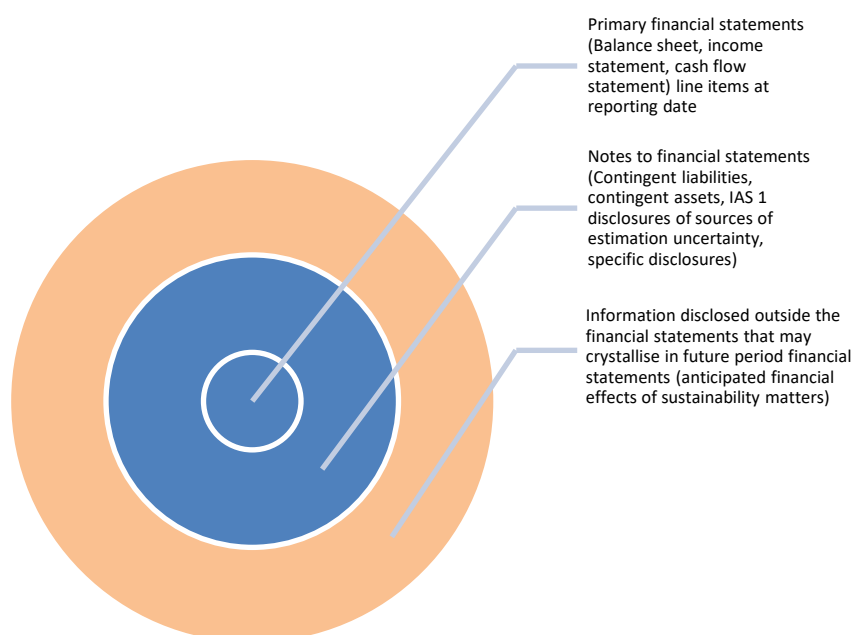
- (c) not related to the defined assets, liabilities, income, or expenses; and
- (d) financial statements cannot provide all the information users need.

- 5.31 Discussions held at EFRAG during the IASB's redeliberation on the feedback to the ED, it was observed that similar performance information was not required for other acquisitions, and it was questioned why this information was needed for business combinations. A view was expressed that what some describe as 'non-financial information' did not belong in the financial statements, and in some jurisdictions, some information (e.g., workforce-related information) was prohibited from public disclosure until regulatory requirements were met.
- 5.32 On the other hand, the aforementioned IASB staff agenda paper indicates that the disclosure of forward-looking information in the financial statements cannot be precluded. The IASB staff note that it is not uncommon⁹⁴ for IFRS Accounting Standards to require entities to disclose expected or possible future transactions or events based on information available at the reporting date (hedge-accounting related risk disclosures and going concern disclosures).

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

- 5.33 Chapters 2 and 3 highlight the dynamic/intertemporal dimension of connectivity. In this regard, as depicted in Figure 5.5, 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 5.5 Schema of possible financial effects in future reporting periods



⁹⁴ For example, IFRS 7.21A requires an entity to disclose information about risk exposures for which the entity hedges and applies hedge accounting, which according to IFRS 9.6.3.1 could include forecast transactions

- 5.34 As a result, the consideration of the borders/differentiating features 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.
- 5.35 For instance, this could be in respect of what an academic working paper⁹⁵ refers to as ‘intangible liabilities’, albeit that this term is a bit of a misnomer as all liabilities, including financial liabilities, are de facto ‘intangible liabilities’ (i.e. there are no tangible liabilities), even though the term intangible liabilities does not exist in accounting literature. The working paper characterises the so-called ‘intangible liabilities’ as potential, unrecognised liabilities or what is referred to as possible obligations. These include pending or potential lawsuits; product warranties; infringement of contracts, copyrights, or patents; environmental liabilities (e.g., due to hazardous wastes and pollution); and pending investigations. For instance, firms face or could face lawsuits from: (i) competitors for infringements of patents or copyrights; (ii) communities regarding environmental matters, pollution, and waste management; (iii) regulators for violating laws; and (iv) (a group of) individuals for being injured (financially or personally) because of using the company’s products or services. **This DP seeks constituents’ views on the possible indicators of possible obligations becoming liabilities, and any other indicators of future period financial statements’ line items.**

Standard setter consideration: Addressing differences in the level of disaggregation across different reports

Requirements for aggregation or disaggregation across different reports

- 5.36 For both the financial statements and sustainability statement/disclosures, as outlined below, there are overarching requirements to aggregate information based on similar characteristics, disaggregate based on dissimilar characteristics, and ensure that the aggregation and disaggregation do not obscure other material/relevant information. Below is a high-level summary of the aggregation and disaggregation requirements under IFRS Accounting Standards, ISSB Standards and ESRS.
- (a) *IFRS Accounting Standards*: As described in paragraph 41 of IFRS 18 *Presentation and Disclosure in Financial Statements*, in the primary financial statements, the financial statement elements are classified⁹⁶ and aggregated⁹⁷ 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.

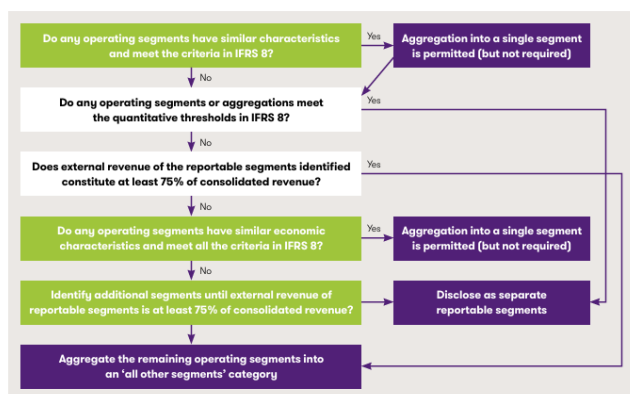
⁹⁵ Boustanifar. H. and Verriest. A., 2023, Intangible Liabilities, Working Paper, EDHEC Business School and KU Leuven https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4543436

⁹⁶ 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)

⁹⁷ 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)

- (b) Under IFRS 8 *Operating Segments*, Paragraph 12 indicates that two or more operating segments may be aggregated into a single operating segment⁹⁸ if aggregation is consistent with the core principle of this IFRS, the segments have 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.’

Figure 5.6: Aggregating operating segments



Source-Grant Thornton

- (c) *ISSB Standards*: For sustainability-related financial disclosures, paragraphs B29 and B30 of IFRS S1 indicate that information shall be aggregated if items of information have shared characteristics and shall not be aggregated if they do not have shared characteristics. The entity might need to disaggregate information about sustainability-related risks and opportunities, for example, by geographical location or in consideration of the geopolitical environment. 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 revised 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.

⁹⁸ In addition, paragraph 13 of IFRS 8 states that: An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

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

- 5.37 During EFRAG's outreach, stakeholders observed that, relative to the financial statements, sustainability disclosures often require 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. They also 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 disclosures but not for the financial statements, particularly if there is a limited impact of such investments on the financial indicators related to the loan portfolio of the related entity (such as net interest income). In addition, it was noted that training expenses may not be material for presentation as a separate line item in the financial statements, but, as noted in paragraph 5.20, may be material for the sustainability statement for users to assess whether the company is actively training on anti-corruption or other sustainability-related matters.
- 5.38 The above differing levels of aggregation are likely a reflection of the application of materiality within the context of the respective objectives of the financial statements and sustainability statement/disclosures (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, **except for the possible issue with segment reporting** addressed in paragraphs 5.40 and 5.41 below, **there is no indication of any shortfall in existing 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.**

Gross versus net exposure presentation

- 5.39 Several stakeholders observed that sustainability disclosures typically depict 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 agreement⁹⁹ and disclosures of risk management strategy under hedge accounting disclosures¹⁰⁰).
 - (c) In other commentary (e.g., EFRAG's response to the IASB Climate-related and Other Uncertainties in the Financial Statements ED, to be updated to Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related examples), 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

⁹⁹ 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."

¹⁰⁰ 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.

financial statements to be useful¹⁰¹. On this basis, it could be inferred that gross exposure disclosures can be useful.

Possible issue with the requirements for segment disclosures

- 5.40 As noted in Chapter 4¹⁰² (*aggregated observations of connectivity in reporting practices*), material sustainability-related items are rarely disclosed in the segment breakdown. 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 information¹⁰³.
- 5.41 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 setters¹⁰⁴ 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 72 companies analysed as part of EFRAG's connectivity project, as highlighted in Chapter 4. That is, sustainability-related matters, which have a long-term horizon, may not fall within the scope of what management monitors regularly for operational purposes.

¹⁰¹ 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.

¹⁰² For instance, across the 17 illustrations of connectivity in Chapter 3, of which sustainability 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.

¹⁰³ 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.

¹⁰⁴ 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](#).

Considerations to be addressed by multiple stakeholders

Multiple stakeholder consideration: Assessing differences in the organisational reporting boundaries of different reports

5.42 The respective organisational reporting boundary and scope of consolidation for the reporting entity applied for financial statements and sustainability statement/disclosures (i.e., an aspect of basis of preparation) affects the connectivity of reporting information. As noted in Chapter 2, unlike the financial statements, under ESRS, the organisational reporting boundary encompasses the value chain. Moreover, the notions of 'own operations' and 'operational control'¹⁰⁵ applied in ESRS are not explicitly articulated within the IFRS accounting requirements' description of control. It is noted that, under IFRS 10, control occurs when an investor, exposed or having rights to variable returns from its involvement with the investee, has the ability to affect those returns through its power over the investee. Power is defined as existing rights (voting rights or embedded in contractual arrangements) that give the current ability to direct the relevant activities. Also, during EFRAG's outreach, some stakeholders have questioned how operational control differs from the notion of significant influence¹⁰⁶ in financial statements.

5.43 As detailed in Chapter 2, under the draft Revised ESRS, the scope of consolidation of sustainability reporting will be the same as that of financial statements, except for the following:

(a) The application of operational control for sustainability reporting is still permissible in certain circumstances¹⁰⁷.

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

5.44 Under the Revised ESRS ED proposals, the GHG and Energy intensity metrics that were in place under ESRS Set 1 are no longer mandatory. However, during EFRAG's review of companies' reporting, it was observed that these metrics are sometimes disclosed. Therefore, from a connectivity standpoint, the issue of the numerator and denominator of these metrics having differing scopes of consolidation could still be a point of attention.

¹⁰⁵ 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.

¹⁰⁶ According to IAS 28, the existence of significant influence by an entity is usually evidenced in one or more of the following ways: a) representation on the board of directors or equivalent governing body of the investee; b) participation in policy-making processes, including participation in decisions about dividends or other distributions; c) material transactions between the entity and its investee; d) interchange of managerial personnel; or e) provision of essential technical information. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence.

¹⁰⁷ 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. Of note, a 2025 KPMG study of 270 European companies, whereby 45% of them reference operational control as an additional consideration when setting the reporting boundary under ESRS. [Further analysis of the KPMG finding reader](#)

- 5.45 An explanation of any differences in the scopes of consolidation (e.g., the immaterial subsidiaries for financial statements have material IROs) would be helpful¹⁰⁸ for users of the reported information to identify what information cannot be connected across these different reports.
- 5.46 Based on the above, even though this aspect was raised as a connectivity concern during EFRAG's outreach, there is no identified area for standard setting from either the financial or sustainability reporting standpoint. Hence, **this DP seeks constituents' views on whether there are any other issues related to reporting boundaries that affect the connectivity of information between the financial statements and the sustainability statement/disclosures.**

Multiple stakeholder consideration: Enhancing connectivity in process organisational processes

- 5.47 ~~Though~~As noted earlier, connectivity in organisational ~~process~~processes supports the connectivity of reported information. Nonetheless, except for the information disclosed about the governance and controls within an organisation, 'connectivity in ~~process~~couldorganisational processes' can be inferred but ~~cannot be meaningfully~~not observed from reported information. Hence, the views on this matter are drawn from EFRAG's interviews with preparers and auditors, where the following points of note were raised.
- (a) *Need for supporting organisational structure and inter-departmental collaboration:* Stakeholders mentioned the importance of organisational structures and internal controls underpinning the financial and sustainability reporting functions.
- (b) *Importance of governance disclosures for users:* Users also emphasised the importance of effective governance in ensuring the long-term prospects, and they gave weight to disclosures about the governance, which highlight individual responsibilities. On this aspect, it is noted that both ESRS and ISSB Standards have requirements for governance disclosures related to sustainability-related matters. And 8 out of the 15 companies from which illustrations in the DP were drawn had disclosures about the governance structure that showed the different responsibilities for managing sustainability matters.
- 5.48 Integrated thinking: Several stakeholders pointed out how integrated thinking/less-siloed departments have helped to enhance their internal risk management. It was also suggested that the connectivity of reported information could be seen as a step on a broader trajectory towards integrated thinking (i.e. connectivity of reported information is a precursor to 'integrated reporting', which then leads to 'integrated thinking'). At the same time, it was noted that 'integrated thinking' lies beyond the remit of reporting standard setters, since it cannot realistically be mandated through reporting requirements.
- 5.49 **This DP seeks stakeholders' views on the above and what other aspects of connectivity in process could enable connectivity of reported information.**

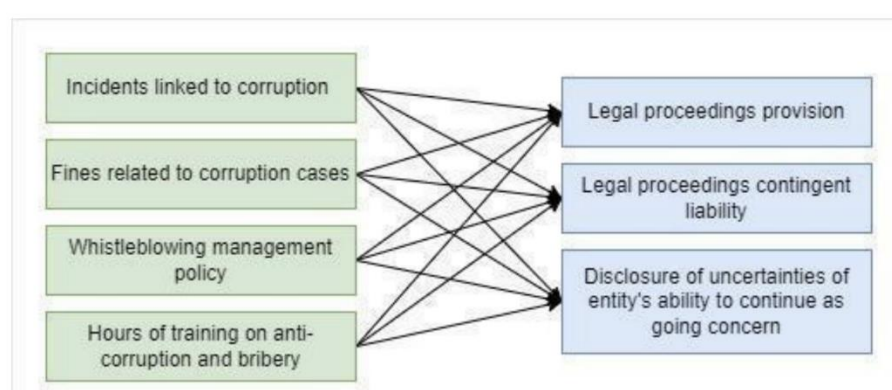
Multiple stakeholder consideration: Exploring digitisation/AI to enhance connectivity in the provision and consumption of reported information

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

¹⁰⁸ In this regard, as noted in Chapter 4, 13 out of the 15 illustrations included in the Supplemental document indicated the extent to which there were similarities or differences in the scope of consolidation between the sustainability statement/disclosures and the financial statements.

- 5.51 *Structured data:* XBRL tagging provides a standardised and machine-readable format for the information in the financial statements and the sustainability statement/disclosures. This enhances consistency in terminology, enables comparability across data sets, and supports reconciliation between financial statement line items and sustainability disclosures. It also improves usability and automation within reporting processes. With the CSRD mandating sustainability data in digital format, the ESMA European Single Electronic Format (ESEF), and the European Single Access Point (ESAP) under development, a structured data reporting ecosystem that could facilitate connectivity is beginning to take shape within the EU.
- 5.52 According to a 2022 XBRL Europe white paper¹⁰⁹, there are various options through which XBRL can represent the interconnection between the financial statements and sustainability statement/disclosure taxonomies. For instance, linkages that could be designed for exploration (i.e. when there is consensus that data about a sustainability-related matter is linked/contributes to a financial statement line item, but there is no consensus on the exact linkage/contribution), such as those shown in Figure 5.7.

Figure 5.7- Possible links of sustainability disclosures and financial statements taxonomies data



- 5.53 Moreover, in the 2024 EFRAG Connectivity publication, it was noted that XBRL could provide connection points as the need to tag information requires the use of shared terminology, such as on the definitions of revenue, provisions, segments and entity, and it enables the use of consistent terminology. Some potential aspects to be focused on are:
- (a) creation of individual elements or even their specific data type classification (i.e. monetary elements such as 'assets at physical risk') within the sustainability statement/disclosures taxonomy will facilitate the access and usability of data connected to the financial statements;
 - (b) potential creation of interoperability between the financial statements and sustainability statement/disclosures taxonomies (e.g., through the reuse of elements from the accounting taxonomy, e.g. Revenue/Turnover and Assets);
 - (c) presentation of anticipated financial effects of sustainability matters (ESRS), by combining financial statement line items with an ESRS dimension; and
 - (d) reconciliation between financial statement items and operating segments with ESRS Sectors and related data points (e.g., Revenue in ESRS SBM-1).

¹⁰⁹ XBRL Europe, 2022, [Interconnectivity enabled through XBRL](#)

- 5.54 The interoperability between financial statements and sustainability disclosures 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.
- 5.55 *Complementary role of Artificial Intelligence (AI) and structured data:* AI adds an additional layer of analytical value by enabling the processing of both structured and unstructured information. AI can identify patterns, extract insights, and support activities such as risk assessment and valuation when integrating financial and sustainability disclosures. However, early-stage academic research¹¹⁰ shows that while AI models are good at classifying financial facts in documents, they struggle dramatically with the precise semantic understanding that tagging (and financial analysis) requires. The academic study looked at US filings and found that when it comes to linking extracted numbers and text to correct concepts in the full US GAAP taxonomy (the list of digital definitions used for US reporting), even the best models achieve only 17% accuracy. Hence, **as of now, AI and structured data via XBRL have to be deemed as complementary tools, and AI cannot be seen as a substitute for XBRL.**
- 5.56 In effect, digital tagging provides reliable and structured data points, while AI enhances the analytical and interpretative processes built upon them. Together, these technologies create a more transparent, accessible, and comparable reporting environment, ultimately strengthening the decision-making capabilities of investors, regulators, and other users of reported information.

Learnings from outreach

- 5.57 During EFRAG's outreach, preparers and auditors saw digital tagging as beneficial for both reporting and audit processes once further developed, although such tagging could make comparing entities challenging because it is inherently specific to each company (via extensions). Stakeholders considered that digital taxonomies had potential for enhancing connectivity, with clearer guidance on the scope and methodologies of key concepts such as anticipated financial effects and materiality frameworks.
- 5.58 On the other hand, users, some of whom applied algorithmic trading and AI-driven scraping of information across multiple sources whilst analysing companies, expected a minimal incremental role (beyond what is currently in place) of technology in enhancing the connectivity and their consumption of reported information. This could perhaps reflect the current challenges of obtaining comparable digital structured data (e.g. due to companies applying extensions when tagging information) and also there being some way to go before tools that apply AI analysis based on structured reporting data emerge, as noted in paragraph 5.54. **This DP seeks constituents' views on the state-of-play described above and what could be done to change this situation.**
- 5.59 Finally, it is noted that the concepts of connectivity of reported information have generally been formulated in the context of current reporting channels (which include information reported in PDF documents). With the digitisation (including AI tools) still evolving, it remains unclear if and to what extent the thinking about connectivity may evolve in a world of fully digitised provision and consumption of reported information.

¹¹⁰ This research is referred to in an article by XBRL International Chair, John Turner- [Beyond the Hype- How Structured Data Can Save AI Financial Analysis](#)

APPENDIX 1: PROFILE OF REVIEWED COMPANIES AND OUTREACH OVERVIEW

Profile of 72 companies reviewed

A1.1 Below is a profile of the reviewed companies, covering their country, sector and application of ESRS and ISSB Standards.

Figure 1: Breakdown of companies per country:

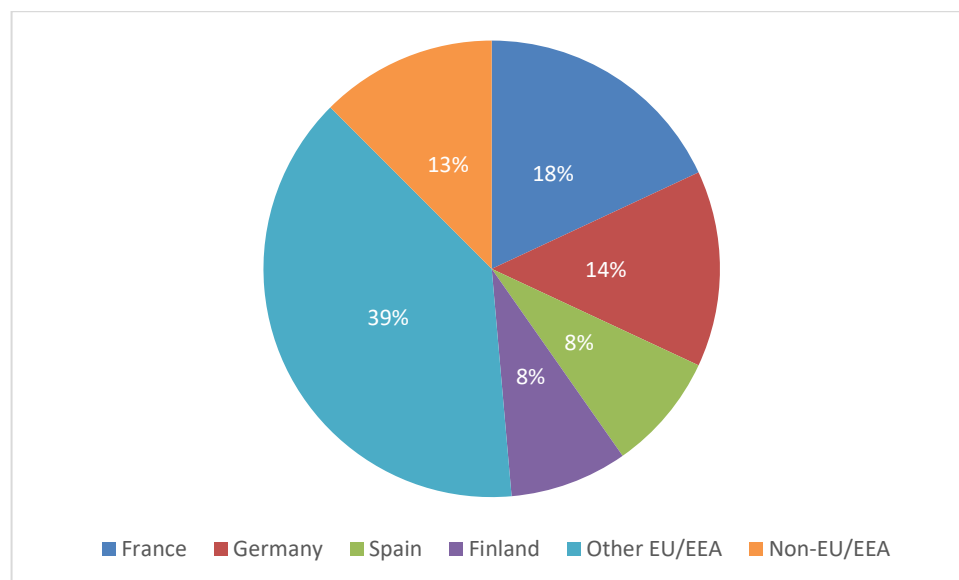
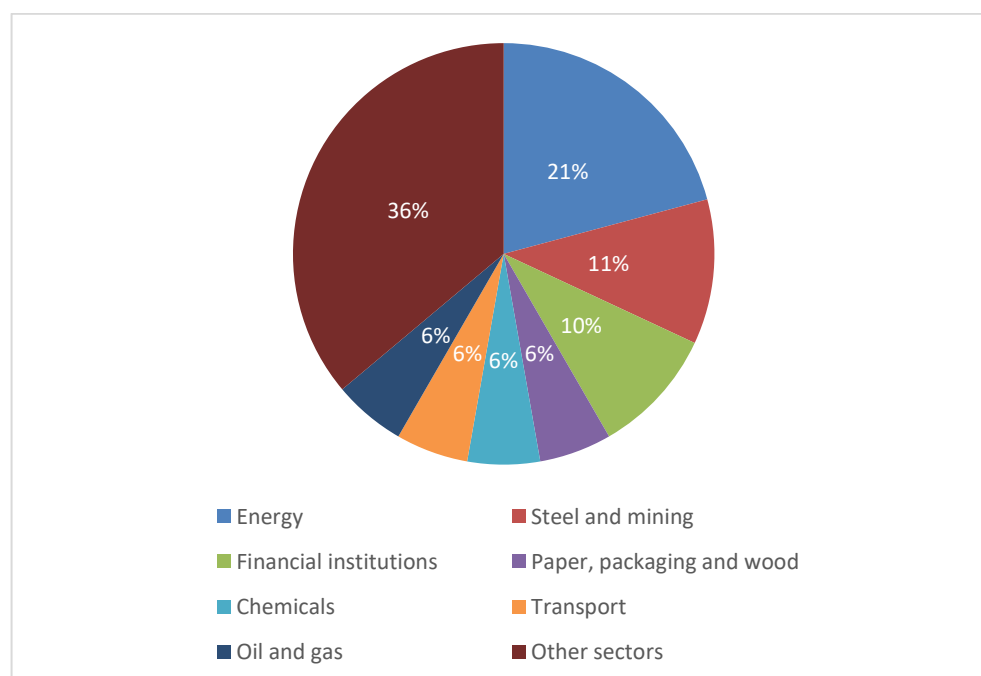
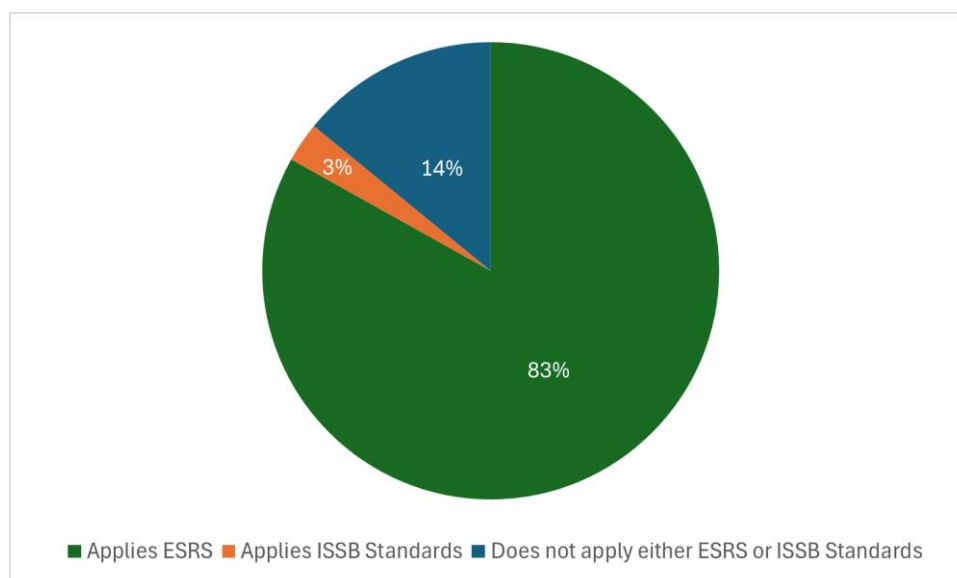


Figure 2: Breakdown of companies per sector¹¹¹:



¹¹¹ Other sectors include various other sectors such as hospitality, telecommunications, consulting and food and retail.

Figure 3: Extent of application of ESRS and ISSB Standards¹¹²



Profile of stakeholders who provided feedback

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

- (a) **Preparers (Eight preparers):** Seven preparers were interviewed based on a pre-meeting questionnaire, and one preparer provided written responses to the questionnaire. These preparers represented European entities with a global presence, of which six were non-financial institutions operating in the energy, pharmaceuticals, and fashion sectors, and two were financial institutions.
- (b) **Auditors:** Representatives of three of the largest audit firms were interviewed, including those focusing on auditing financial statements and providing assurance on sustainability reporting
- (c) **Five users representing key user institutions** were interviewed, representing
 - (i) two global asset managers employing multiple investment strategies across asset classes (i.e. equities, public and private fixed income, real estate, multi-asset investments), with one being primarily technology-driven/algorithmic (managing approximately 561 and 165 billion euros of assets, respectively),
 - (ii) one long-only equity investment firm (managing approximately 5 billion pounds of assets) focusing on stewardship and engagement with management,
 - (iii) an investor organisation for responsible investment, and
 - (iv) the ESG rating agency arm of one of the largest rating agency firms.

A1.3 Users', preparers', auditors', securities regulators', national standard setters', and academics' views were also gathered from discussions during a) meetings of the EFRAG FR and SR technical governance bodies, EFRAG CAP, EFRAG TEG-CFSS, EFRAG user panel, EFRAG academic panel, EFRAG FIWG and IAWG; and b) across several EFRAG-hosted or co-hosted connectivity events or those where EFRAG participated, including

¹¹² Of the entities not applying either the ESRS or ISSB Standards, some report under NFRD, some report in line with TCFD and one reports under the GRI and SASB Standards.

- (a) 2025 EFRAG multi-stakeholder webinar report ([*Practical considerations for connecting financial and sustainability reporting*](#))
- (b) [2024 OIC-EFRAG](#) event
- (c) [April](#) and [September](#) 2024 IFASS meetings
- (d) 2023 EFRAG-hosted symposium at 45th EAA Congress ([Multi-stakeholder Perspectives on Connectivity](#))
- (e) [2022](#) and [2023](#) EFRAG conferences

APPENDIX 2: GLOSSARY OF TERMS

TERM	DESCRIPTION
CONNECTIVITY-RELATED AND CROSS-CUTTING TERMS	
Anchor Point	Refers to Data and/or information that intersects the sustainability statement/disclosures and financial statements and, as a result, can allow the connection of information across these reports.
Annual report	<p>Annual Report, which, depending on jurisdiction, is also referred to as the Integrated Annual Report, Universal Registration Document, etc. Paragraph 2 of Article 4 of the Transparency Directive (Directive 2004/109/EC) indicates that the Annual Financial Report comprises the audited financial statements, the management report, and statements related to the information made by the responsible issuing persons.</p> <p>The International Standards of Auditing (ISA) 720 (Revised) defines it as ‘a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters.</p>
Borders of Different Reports and Organisational Reporting Boundaries	<p>Borders/differentiating features of different reports is the dividing line between information included and excluded within different corporate reports (i.e., financial statements, management report, the sustainability statement/disclosures, and other reporting sections in the AR). For example, the recognition criteria for the elements of the financial statements.</p> <p>Organisational reporting boundary: entities, operations, and assets reported on</p>
Coherence	Coherence (a term included in the 2025 IFRS Practice Statement 1 – Management Commentary <u>MCPS</u>) entails the presentation and disclosure of information by a reporting entity in a manner that gives a more complete picture of value creation and shows the interrelatedness of its overall reported information, and this includes explaining inconsistencies across different reports.
Complementarity versus Supplemental Reported Information	Based on the dictionary definition of the words complementary and supplementary, in a reporting context it can be inferred that complementary information to a particular information is information that is likely to be of a different nature relative to the particular information, and when taken together with the particular information helps to depict a more complete and holistic aggregate picture of the reporting entity’s prospects,

TERM	DESCRIPTION
	financial condition and impacts. Supplementary information is additive/enhancing to the particular information, but not necessarily part of the portrayal of a holistic picture of the reporting entity.
Connectivity	For the purposes of this Discussion Paper, connectivity is described as the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different corporate reports. Different types of connectivity of reported information include consistency of data, narrative and assumptions; coherence and integration of information across different reports; direct or indirect connectivity (i.e., linkage of quantitative information via cross-referencing or reconciliations).
Consistency	In this DP, informed by <u>Consistent with</u> ESRS, this refers to the consistency of data, assumptions, units of measurement (e.g., presentation currency) and narrative information. It also entails disclosing information about significant differences between the data and assumptions used across reports.
Dependencies	As defined in the ESRS, dependencies relate to the situation of an undertaking being dependent on natural, human and/or social resources for its business processes. As per the ISSB 2025 educational material on materiality, dependencies refer to how an entity directly or indirectly depends on resources and relationships to generate future cash flows.
Digital XBRL Taxonomy	XBRL taxonomies are dictionaries for reporting. Taxonomies are usually specific to particular areas of reporting. They are a way to capture a set of reporting rules in digital form, ensuring that all reports are consistent, comparable and computer-readable. (XBRL website) ESRS XBRL Taxonomy tagging was developed by EFRAG under the mandate of the European Commission. It is noted that the ESRS XBRL Taxonomy is a digital transposition of the human-readable ESRS. Preparers can use the ESRS XBRL Taxonomy to better structure their sustainability statements, and users benefit from the digital tagging as they will be able to use ESRS data more easily.
Distinction between: Disclosure, Reporting, and Information	Information is the broadest concept, encompassing both data and narrative that provide context, support understanding, and aid decision-making. Disclosures represent a specific subset of reported information, typically provided in a structured, regulated format. Reporting refers to the overall process of delivering information, including disclosures, to stakeholders.

TERM		DESCRIPTION
Entity's environment	External	<p>An environment that encompasses:</p> <ul style="list-style-type: none"> - its direct environment—the industries and markets in which the entity interacts with its customers, suppliers, and competitors; and - the wider environment including the legal, regulatory and economic environment; the political, technological, social and cultural landscape; and the natural environment. <p>(2025 IFRS MCPS)</p>
Financial effects		ESRS defines this as effects from risks and opportunities that affect the undertaking's financial position, financial performance and cash flows over the short, medium or long term.
Financial reporting		<p>Financial reporting (e.g., reporting related to an entity's financial performance, financial position, and cashflows) occurs across different annual report sections, albeit primarily being done in the financial statements. <u>IFRS literature refers to general purpose financial reports, which include the financial statements, management commentary, and sustainability-related financial disclosures.</u></p> <p>(2024 EFRAG Connectivity publication)</p>
Forward-looking information		<p>Securities regulators define forward-looking information as disclosure regarding possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action and includes future-oriented financial information with respect to prospective financial performance, financial position or cash flows that is presented either as a forecast or a projection.</p> <p>The 2025 IFRS MCPS defines forward-looking information as information relating to possible future transactions, other events or conditions. Forward-looking information includes:</p> <ul style="list-style-type: none"> a) management forecasts or targets; and b) other information that helps users assess the entity's prospects—for example, information about management's strategy for sustaining and developing the entity's business model.
IFRS General Purpose Financial Reports		<p>A report that provides financial information about the reporting entity's economic resources, claims against the entity and changes in those economic resources and claims that is useful to primary users in making decisions relating to providing resources to the entity. <u>(IFRS Conceptual Framework).</u></p> <p>(IFRS Conceptual Framework for Financial Reporting)</p> <p>General purpose financial reports include - but are not restricted to - an entity's management commentary, general purpose financial statements and sustainability-</p>

TERM	DESCRIPTION
	related financial disclosures (Management Commentary Practice Statement). <u>2025 IFRS MCPS</u>).
Intangible resources	These are broader than intangible assets and are, for example, know-how or other intellectual capital, customer information, brands or reputation. (2025 IFRS MCPS)
Integration in Reporting	According to the ISSB 2023 agenda consultation, integration in reporting is a broader notion than connectivity. It not only encompasses where, what and how information on value creation can be connected through conceptual and operational linkages (for example, in terms of compatibility of language and assumptions). It also includes the collective consideration of the interdependencies, synergies and trade-offs between: <ul style="list-style-type: none"> - various resources and relationships reported on in general purpose financial reports; and - how the value that an entity creates for itself and for its investors is inextricably linked to the value the entity creates for other stakeholders, society, and the natural environment.
Integrated Reporting	According to the 2021 Integrated Reporting framework the purpose is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report and to explain the fundamental concepts that underpin them. The IR <u>The 2021 Integrated Reporting (IR) framework</u> defines an integrated report as a concise communication about how an organisation's strategy, governance and performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short-, medium- and long-term.
Integration of Information	<u>As applied</u> in this DP, integration of information is a type of connectivity (i.e., linking an entity's strategic responses/other actions in response to IROs and reporting effects).
Interoperability of Reporting Requirements	This is a <u>term used by standard-setting term, which finds its use in specific reporting domains</u> <u>setters with respect to requirements</u> (e.g., sustainability reporting requirements)). <u>It refers to ensure the compatibility of their respective different requirements to help or guidance or voluntary reporting frameworks, which helps</u> reduce the reporting burden faced by <u>entities eligible to apply these requirements</u> <u>entities</u> . <u>In this DP, interoperability is not considered to be a type of connectivity of reported information.</u>
Management Commentary	A particular form of <u>IFRS</u> general purpose financial reports <u>report</u> that provide <u>provides</u> information that: (a) enhances users' understanding of the entity's financial performance and financial position reported in its financial statements; and

TERM	DESCRIPTION
	<p>(b) provides management’s insight into factors, including sustainability-related factors, that could affect the entity’s ability to create value and generate cash flows across all time horizons, including in the long term. (2025 IFRS MCPS)</p> <p>It is noted that different terms are used for management commentary across jurisdictions (e.g. management discussion & analysis in the US, strategic report in the UK and management report in the EU).</p>
Primary users of IFRS General Purpose Financial Reports	The IFRS Conceptual Framework for Financial Reporting defines primary users as existing and potential investors, lenders and other creditors.
Resources and Relationships	<p>Resources include, but are not restricted to, those recognised as assets in the entity’s financial statements, e.g., intangible resources and human resources.</p> <p>Relationships include relationships with parties directly involved in the entity’s cycle of creating value and generating cash flows—for example, with suppliers; and wider relationships—for example, with governments or regulators.</p> <p>(2025 IFRS MCPS)</p>
Metrics	<p>A measure used to monitor a quantitative or qualitative aspect of an entity’s financial or non-financial performance or position.</p> <p>(2025 IFRS MCPS)</p>
FINANCIAL STATEMENTS TERMS	
<u>Terms related to the valuation of assets</u>	

TERM	DESCRIPTION
Amortisation	IAS 16 <i>Property, Plant and Equipment</i> defines amortisation as the systematic allocation of an intangible asset's depreciable amount over its useful life.
Impairment	The Conceptual Framework states that impairment occurs when the carrying amount of an asset exceeds its recoverable amount. In such cases, the carrying amount must be reduced to the recoverable amount, and an impairment loss recognised. Expected credit loss ('ECL'): IFRS 9 <i>Financial Instruments</i> defines ECL as the weighted average of credit losses with the respective risks of a default occurring as the weights. An entity shall recognise in profit or loss, as an <i>impairment gain or loss</i> , the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.
Useful life/lives	IAS 16 <i>Property, Plant and Equipment</i> describes impairment as: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.
Residual value	IAS 16 defines residual value as an estimated amount that an entity would currently obtain from disposal of an asset at the end of its useful life, after deducting estimated disposal costs.
Consolidated financial statements	IFRS Conceptual Framework for Financial Reporting ('hereafter called 'The Conceptual Framework') defines it as Financial statements of a reporting entity that comprises both the parent and its subsidiaries. <u>(IFRS Conceptual Framework).</u>
Control	IFRS Conceptual Framework for Financial Reporting states that an entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource. Under IFRS 10, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power is defined as existing rights (voting rights or embedded in contractual arrangements) that give the current ability to direct the relevant activities.
Contingent Liability	As per IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> , a contingent liability is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the entity's control.

TERM	DESCRIPTION
Contingent Asset	A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
Provision	IAS 37 defines a provision as a liability of uncertain timing or amount.
Elements of Financial Statements	<p>The IFRS Conceptual Framework defines the elements of financial statements as follows:</p> <p><u>Asset</u>: A present economic resource controlled by the entity as a result of past events.</p> <p><u>Liability</u>: A present obligation of the entity to transfer an economic resource as a result of past events.</p> <p><u>Equity</u>: The residual interest in the assets of the entity after deducting all its liabilities.</p> <p><u>Income</u>: Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.</p> <p><u>Expenses</u>: Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p>
Equity Method of Accounting	IAS 28 <i>Investments in Associates and Joint Ventures</i> describes defines the equity method, which is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss, and the investor's other comprehensive income includes its share of the investee's other comprehensive income.
Significant influence	IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.
Financial assets	IAS 32 <i>Financial Instruments</i> states that financial assets are cash, equity instruments of another entity, or contractual rights to receive cash or another financial asset from another entity.
Financial liabilities	IAS 32 defines financial liabilities as any liabilities that are either contractual liabilities to deliver cash or other financial assets or exchange financial assets or financial liabilities under unfavourable conditions, or contracts that will or may be settled in the entity's own equity instruments (non-derivatives or derivatives).
Goodwill	IFRS 3 <i>Business Combinations</i> defines goodwill as an intangible asset arising in a business combination, representing future economic benefits from the acquisition that are not individually identifiable or separately recognised. Goodwill is recorded when the purchase price exceeds the fair value of identifiable net assets acquired.

TERM	DESCRIPTION
Material Information for IFRS financial statements	<p>For IFRS financial statements, IAS 1/IFRS 18 states that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis make on the basis of those financial statements, which provide financial information about a specific reporting entity.</p> <p>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.</p>
Measurement Basis	<p>An identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured.</p> <p>This measurement basis determines how assets, liabilities, income, and expenses are quantified.</p> <p>A financial reporting standard may also need to explain how to apply the chosen measurement basis. This could involve:</p> <ul style="list-style-type: none"> • Specifying estimation techniques, • Offering simplified approaches that yield similar results, • Or modifying the basis, such as adjusting fulfilment value to exclude own credit risk. <p>(IFRS Conceptual Framework for Financial Reporting)</p>
Primary Financial Statements and Financial Statements	<p>IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> describes the financial statements as a complete set of financial statements which comprises:</p> <ol style="list-style-type: none"> a statement (or statements) of financial performance for the reporting period (see paragraph 12 of the standard); a statement of financial position as at the end of the reporting period; a statement of changes in equity for the reporting period; a statement of cash flows for the reporting period; notes for the reporting period; comparative information in respect of the preceding period as specified in paragraph 31-32 of the standard; a statement of financial position as at the beginning of the preceding period if required by paragraph 37 of the standard. <p>The statements listed from (a) to (d) (and their comparative information) are referred to as the primary financial statements</p>
Primary users (of IFRS general-purpose financial reports)	<p>Existing and potential investors, lenders and other creditors.</p> <p>(IFRS Conceptual Framework for Financial Reporting)</p>

TERM	DESCRIPTION
Recognition	<p>The IFRS Conceptual Framework for Financial Reporting describes recognition as the process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements—an asset, a liability, equity, income or expenses.</p> <p>Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items— in words and by a monetary amount, and including that amount in one or more totals in that statement.</p> <p>Recognition links the elements, the statement of financial position and the statement(s) of financial performance.</p> <p>(IFRS Conceptual Framework for Financial Reporting)</p>
Reporting Entity	<p>An entity that is required, or chooses, to prepare general purpose financial statements</p> <p>(IFRS Conceptual Framework for Financial Reporting))</p>
Research and Development	<p>These are activities undertaken with the objective of innovating or improving existing products, processes or services.</p> <p>IAS 38 <i>Intangible Assets</i> states:</p> <p>Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.</p> <p>Research is an original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.</p> <p>The research and development expenditure is recognised as an expense during the period.</p>
Share-based Payments	<p>Transactions in which an entity receives goods or services as consideration for its own equity instruments (e.g. shares or share options), or incurs liabilities based on the price of such instruments. (IFRS 2 <i>Share-based Payment</i>)</p>
Tangible and Intangible Assets	<p>Tangible assets: Resources with physical substance, controlled by an entity as a result of past events, from which future economic benefits are expected to flow.</p> <p>Intangible asset: According to IAS 38 <i>Intangible Assets</i>, it is an identifiable non-monetary asset without physical substance. It is an intangible resource and is recognised if it is identifiable, the entity has control over the resource, and there are future economic benefits. An asset is identifiable if it either:</p> <p>(a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or</p>

TERM	DESCRIPTION
	(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
SUSTAINABILITY REPORTING RELATED TERMS	
Anticipated financial effects	<p>The ESRS glossary defines anticipated financial effects as the financial effects that do not meet the recognition criteria for inclusion in the financial statement line items in the reporting period and that are not captured by the current financial effects.</p> <p>As stated in IFRS S1, 'The anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how sustainability-related risks and opportunities are included in the entity's financial planning.'</p>
Climate adaptation and mitigation	<p>As per ESRS, climate change adaptation is the process of adjustment to actual and expected climate change and its impacts.</p> <p>Climate change mitigation is the process of reducing GHG emissions and holding the increase in the global average temperature to 1.5 °C above pre-industrial levels, in line with the Paris Agreement.</p>
Terms on (climate-related) physical and transition risks	
Climate-related physical Risk	ESRS defines it as risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. Acute physical risks arise from particular hazards, especially weather-related events such as storms, floods, fires or heatwaves. Chronic physical risks arise from longer-term changes in the climate, such as temperature changes, and their effects on rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.
Climate-related Transition Risk	ESRS defines it as risks that arise from the transition to a low-carbon and climate-resilient economy. They typically include policy risks, legal risks, technology risks, market risks and reputational risks.
Current Financial Effects	<p>As defined in the ESRS glossary, financial effects for the current reporting period that are recognised in the primary financial statements.</p> <p>As stated in IFRS S1, the effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period.'</p>
EU Taxonomy	The European Commission defines EU taxonomy as a cornerstone of the EU's sustainable finance framework and an important market transparency tool. It provides a common classification system that defines criteria for economic activities aligned with a net-zero trajectory by 2050 and broader environmental goals beyond climate. By offering a clear and shared definition of 'sustainable,' the taxonomy helps direct investments toward the activities most needed for the transition, supporting the objectives of the European

TERM	DESCRIPTION
	Green Deal. This clarity also builds investor confidence, prevents greenwashing, and reduces market fragmentation.
Impacts	In the ESRS glossary, impacts are defined as the effect the undertaking has or could have on the environment and people, including effects on their human rights, connected with its own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. The impacts can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible. They can arise over the short-, medium-, or long-term. Impacts indicate the undertaking's contribution, negative or positive, to sustainable development.
Material information for sustainability reporting	<p>ESRS Double Materiality: Per ESRS, double materiality involves two dimensions: impact materiality and materiality. A sustainability topic meets the criterion of double materiality if it is material from the impact perspective or the financial perspective, or both.</p> <p>Financial Materiality: ESRS glossary defines it as a sustainability topic that is material from a financial perspective if it generates risks or opportunities that affect (or could reasonably be expected to affect) the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term.</p> <p>Impact Materiality: ESRS describes it as a sustainability topic that is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term. A material sustainability topic from an impact perspective includes impacts connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships.</p> <p>Material Information for sustainability-related financial disclosures: IFRS S1 states that 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.</p>
Non-Financial Reporting	Non-financial reporting is defined as disclosing information that goes beyond the usual financial figures, but which nevertheless gives your stakeholders an understanding of the essential areas of value creation in your business that goes way beyond your financial statements.
Operational control	ESRS defines operational control as the situation in which the undertaking has the ability to direct the operational activities and relationships of the entity, site, operation or asset.

TERM	DESCRIPTION
Own operations	The draft revised ESRS Exposure Draft (ED) proposals state that own operations include the assets, liabilities, income, and expenses of the parent company and its subsidiaries, whether based inside or outside the EU.
Scenario	ESRS glossary refers to a plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces (e.g., rate of technological change, prices) and relationships.
Scenario Analysis	a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty.
Sustainability report	Sustainability statement as required under the EU CSRD/ESRS, or sustainability-related financial disclosures under the ISSB Standards, or sustainability disclosures.
Sustainability statement	ESRS describes it as the dedicated section of the undertaking's management report where the information about sustainability-related matters is reported.
User of sustainability statements	ESRS defines users of sustainability statements are primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.
Value Chain	<p>A value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include:</p> <ul style="list-style-type: none"> - those in the undertaking's own operations, such as human resources; - those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and - the financing, geographical, geopolitical and regulatory environments in which the undertaking operates. <p>Source ESRS</p>