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## **Draft Discussion Paper content – *Updated***

### ***Chapters 1 (BACKGROUND READING ONLY) and 2***

The forthcoming EFRAG 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 a roadmap for enhancing connectivity and its closely related aspect of the definition of the boundaries of financial statements and other 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. As noted, EFRAG is only 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 supervision of EFRAG's financial reporting pillar governance bodies (EFRAG FR TEG and EFRAG FRB) with invaluable input and guidance from the EFRAG SR pillar team and governance bodies. 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 CAP<sup>1</sup>), 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.

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<sup>1</sup> 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.

## **DRAFT CHAPTERS 1 AND 2**

## **Chapter 1: Background**

*“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 ESRB Report*

*“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*

*“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*

## Introduction

- 1 The advent of mandatory sustainability reporting, coupled with the often observed disconnect between the reporting of sustainability-related risks in the financial statements and the sustainability statement/disclosures (i.e. underreporting in financial statements or potential duplication across these reports), has resulted in a heightened focus by corporate reporting stakeholders on enhancing the connectivity of the information reported across different parts of the annual report. For this reason, following its agenda consultation in 2021, whereby connectivity was the top-ranked topic for EU stakeholders, after the approval of the EFRAG FRB in 2022, EFRAG initiated a research project on the connectivity between financial reporting and sustainability reporting (EFRAG research project on connectivity).
- 2 This Discussion Paper (hereafter referred to as the “DP”) aims to contribute to the thought leadership on connectivity in terms of its concepts and current practical application, and suggestions made thereof for its enhancement. The DP has been developed further to an interim deliverable (EFRAG connectivity project’s initial paper- [Connectivity Considerations and Boundaries of Different Annual Report Sections](#)) (hereafter referred to as the 2024 EFRAG connectivity publication) that laid out the conceptual foundations of connectivity and dimensions of the boundaries of different reports.
- 3 *ESRS revision implications:* 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, ISSB Standards and other voluntary reporting frameworks (e.g. TCFD recommendations).

- 4 It is acknowledged that reporting under the Revised ESRS will likely only be available after 2027. However, given the benefits of connectivity mentioned in paragraphs 8 to 10, stakeholders have emphasised the usefulness of EFRAG publishing a Discussion Paper at this time instead of waiting until possibly 2028 to assess the Revised ESRS reports.
- 5 In addition, the DP highlights implications for connectivity and which of the SR-related anchor points (included in Chapters 2 and 5 of the DP) are likely to be modified due to the [Draft] Revised ESRS, based on the information that is available at the DP's publication date.
- 6 Moreover, addressing the connectivity of reported information and contributing to the debate on the boundaries of the financial statements can occur irrespective of the prevailing accounting or sustainability requirements (i.e. connectivity should be reporting-framework-agnostic).

#### *Connectivity- What it is, and why it is important?*

- 7 **High-level connectivity definition:** In the absence of a commonly applied definition across the different literature, for this DP, similar to the 2024 EFRAG connectivity publication, at a high level, connectivity of information is defined 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". The connectivity of reported information is interrelated with the 'connectivity in process' (including the standard setting process for different reporting domains and interdepartmental coordination within companies), and connectivity in reporting requirements. Chapter 2 details the enabling attributes and types of connectivity.
- 8 **Why is connectivity important?** Connecting reported information across and within different reports (including general purpose financial reports) enhances investors' and other stakeholders' understanding of an entity's prospects in the short, medium, and long-term (financial position, financial performance, and progress). At its heart, connectivity is about preparers enhancing the strategic-oriented communication of how management's strategy and business model are deployed in response to the entity's impacts, risks, and opportunities (hereafter referred to as IROs) and how that affects the entity's prospects and future cash flows.

- 9 Coherence<sup>2</sup> and interlinkage of sustainability and financial reporting information also enable preparers to align their operations across various departments and processes, consequently resulting in better depiction of their activities and improved communication to investors.
- 10 As conveyed in EFRAG’s outreach (including during EFRAG’s April 2025 multi-stakeholder roundtable), the connectivity of reported information contributes to users’ valuation of companies as it allows investors and other users to better predict the future cash flows of the reporting entity, considering the sustainability-related information disclosed outside the financial statements. 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.
- 11 **Connectivity and boundaries of different sections of the annual report:** Across several standard-setting projects, including in the responses to the IASB ED on *Climate-related and Other Uncertainties in the Financial Statements* (COUFS)<sup>3</sup>, the 2024 IFRS IC agenda decision on climate-related commitments, the IASB project on Business Combinations- Disclosure, Goodwill and Impairment (BCDGI), and the IASB project on intangibles, there has been a growing chorus amongst stakeholders (including EFRAG) for the enhancement and clarity in the definition of the boundaries of financial statements. Enhancing the definition of boundaries of the financial statement and other sections of the annual report is important because;
- (a) it will help preparers avoid unnecessary duplication of information across different reports;
  - (b) differences in how the boundaries of different reports are defined may affect the ease/difficulty of connecting information across different reports;
  - (c) it can help users and other stakeholders identify information gaps<sup>4</sup> that need to be addressed to facilitate the analysis of reporting entities; and

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<sup>2</sup> For some stakeholders, coherence is used interchangeably with consistency. As affirmed in the glossary of terms, in this DP coherence is equated to complementarity, drawing from the updated MCPS and the ISSB Standards, while consistency, discussed in paragraph 51 is more narrowly defined (i.e. of data, assumptions, units of measurement and narrative information).

<sup>3</sup> The COUFS project, via the IASB ED’s illustrative examples, (a near-final version of which was published in July 2025, with the final examples expected in October 2025), aims to strengthen the connections and consistency between information within and outside financial statements, and it was initiated due to the perceived underreporting of climate-related uncertainties in the financial statements. It has been apparent that the perception of missing climate-related information in the financial statements in part stems from a lack of clarity amongst several stakeholders about the objectives and boundaries of financial statements (the so-called expectation gap).

<sup>4</sup> 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

- (d) it can lessen the expectation gaps. Notably;
  - (i) there are varied expectations among stakeholders on the extent to which forward-looking information ought to be disclosed in the financial statements; and
  - (ii) some stakeholders expect that the financial statements recognition criteria ought to be amended to allow reporting climate-related impacts and externalities (e.g. GHG emissions) in the financial statements. These latter stakeholders have pointed to the nascent initiatives<sup>5</sup> conceptualising the monetisation and internalisation of these impacts/externalities into the financial statements. In effect, there is an expectation gap regarding the purpose of the financial statements.

- 12 As a result of the above, the IASB has signalled that it may seek stakeholders' views on whether it should conduct a joint project with the ISSB which may include: a framework, such as a conceptual framework addressing connected reporting; clarifying boundaries between different general purpose financial reports; and covering sustainability reporting. This DP can influence such a potential IASB-ISSB joint project to enhance connectivity and clarify the boundaries of different reports.
- 13 It is also emphasised that this DP has been developed on the assumption that the current boundaries of financial statements will be retained for the foreseeable future (i.e. there is no need for a fundamental rethink of the Conceptual Framework for Financial Reporting and to radically revamp the existing recognition and measurement criteria for the financial statements elements, e.g. to report externalities or opportunities as assets in the financial statements).

#### *Importance of connectivity- other standard setters and other regulatory initiatives*

- 14 Besides EFRAG, 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

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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.

<sup>5</sup> Cohen, R and Serafeim, G. 2020, How to Measure a Company's Real Impact, Harvard Business Review <https://hbr.org/2020/09/how-to-measure-a-companys-real-impact>. 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

objectives of several recent IASB projects, including the IASB COUFS near-final illustrative examples and the revision of the IASB management commentary practice statement (IASB revised MCPS).

- 15 As detailed in Chapter 2, there are also explicit connectivity/connection requirements in both ESRS and ISSB Standards. And connectivity was 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 ([Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting](#)) noted 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 report, [Appendix A4 Interconnection between Financial and Non-Financial Information](#), suggested the notions of direct and indirect connectivity.
- 16 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) framework<sup>6</sup> and was implicitly included in the 2017 Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, 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 revised MCPS that was published in June 2025.
- 17 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](#) and several other regulatory publications<sup>7</sup> (AMF, Norway Finanstilsynet) have similarly underscored the importance of enhancing connectivity in reporting. Outside the EU, other national standard setters (UKEB, AASB, New Zealand XRB) have also issued publications with illustrations and recommendations to enhance connectivity.

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<sup>6</sup> In this paper, 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). We are not referring to integrated thinking.

<sup>7</sup> 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](#).



## Objectives and overview of content in DP

18 This DP aims to:

- (a) Enhance the understanding of connectivity in both conceptual and practical terms by illustrating different types of connectivity and highlighting the expectations and issues faced in implementing connectivity; and
- (b) contribute to thought leadership on connectivity and how to enhance the definition of boundaries of different reports and, in so doing, influence the ongoing financial reporting and sustainability reporting standard setting. For instance, if there is an IASB-ISSB joint project on the boundaries of reporting (as stated in paragraph 12).

19 For the above purposes, Chapter 2 builds on the foundations laid out in the 2024 EFRAG connectivity publication, and it delineates the different types and mechanisms of connectivity and defines the anchor points that underpin the illustrations of connectivity.

20 Chapter 3 outlines 17 practical illustrations of different types of connectivity and anchor points. Chapter 4 also provides aggregated observations based on a review of the illustrations, outreach conducted with stakeholders and other sources. This chapter aims to enhance stakeholders' understanding of what connectivity means in practical terms.

21 Finally, Chapter 5 provides considerations for enhancing the connectivity of reported information, drawing on the feedback from EFRAG's outreach and from the review of annual reports while developing the illustrations. It is acknowledged that ESRS Set 1 requirements, including connectivity requirements and guidance, are under review/simplification. For this reason, this Chapter does not focus on providing any recommendations for reviewing sustainability reporting requirements.

## Scope of DP: What information is being connected, and what cannot be connected?

### *Connectivity across reports- EU Context*

22 As shown in Figure 1.1 below, given the EU context, the EFRAG connectivity project focuses on the connection of information across reports<sup>8</sup>. Specifically, the connectivity of information in the financial statements of EEA companies prepared under IFRS Accounting requirements, the sustainability statement (including Taxonomy-Article 8 disclosures) in the management report under ESRS and the rest of the information in the management

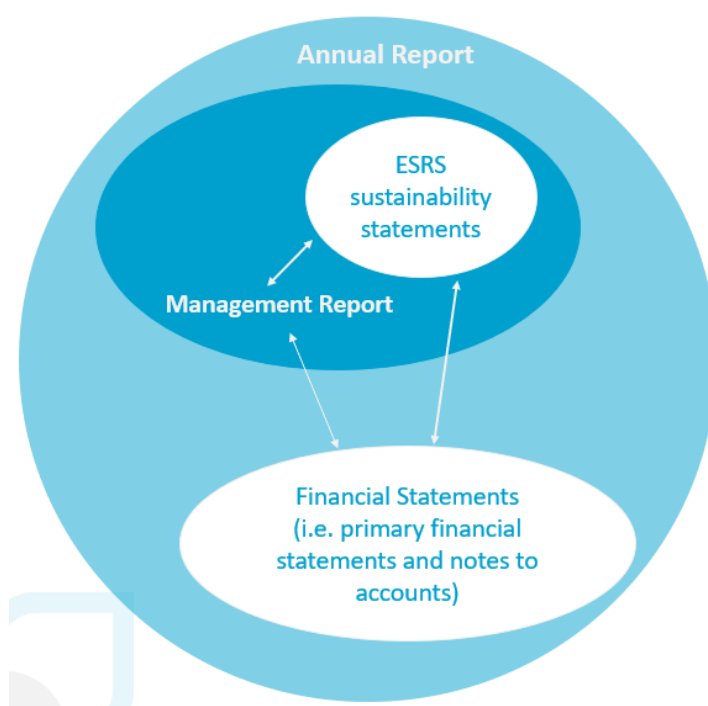
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<sup>8</sup> The IR framework states that the scope of applying connectivity includes connectivity between the integrated report, information in the organisation's other communications and information from other sources. The focus on connectivity across reports is consistent with EFRAG's mandate related to its role as the technical adviser to the EC in influencing IFRS Accounting Standards and developing ESRS.

report guided by the Accounting Directive. The EFRAG connectivity project also considers connectivity based on nature rather than the placement of information. Hence, relevant information within other sections of the annual report (e.g. remuneration report, corporate governance report) is in scope to the extent that such information has been incorporated in the sustainability statement by referencing as allowed by ESRS 1 *General requirements*.

- 23 Connectivity is considered from a GAAP-agnostic prism: Though the focus is on connections to (and from) financial statements prepared under IFRS Accounting requirements (as that affects EU-listed companies and EFRAG's influencing work on financial reporting is related to IFRS), there are similarities in underlying concepts and elements of IFRS and local GAAP. 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.

- 24 Figure 1.1: Connectivity project– what is being connected under the EU reporting



Source: EFRAG

#### *Connectivity across reports- IFRS general purpose financial reports*

- 25 The connection of information across IFRS general purpose financial reports for companies outside the EU is also in the scope of the EFRAG connectivity project. IFRS general purpose

financial reports, as defined across different IASB and ISSB literature,<sup>9</sup> consist of IFRS financial statements, the management commentary and the IFRS sustainability-related financial disclosures (depicted in dark blue, light blue and red in [Figure 1.2 below](#)).

Figure 1.2: EFRAG Connectivity project— what is being connected under IFRS general purpose financial reporting



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

- 26 Location-agnostic sustainability-related financial disclosures: Similar to ESRS, ISSB Standards allow including information by cross-reference. However, unlike the CSRD/ ESRS' clear placement requirements for the sustainability statement within the management report, the ISSB Standards' sustainability-related financial disclosures are location-agnostic. As we understand, this means that a sustainability-related financial disclosure under ISSB Standards could be located in the notes within the financial statements. That said, jurisdictional authorities within non-EU jurisdictions that adopt ISSB Standards may also have placement requirements for the information reported outside the financial statements in a manner that may or may not be comparable to EU placement requirements.
- 27 Notwithstanding the difference between the location of the sustainability statement under ESRS/sustainability-related financial disclosure under ISSB Standards, with EU-listed companies applying IFRS Accounting requirements and with the importance accorded to the interoperability of sustainability reporting reported under ESRS and ISSB Standards, the

<sup>9</sup> Appendix A of IFRS 18 *Presentation and Disclosure in the Financial Statements*, and Appendix A of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information indicate that general purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures. As part of its tentative decisions on the feedback to the ED to revise the management commentary practice statement, in Appendix A of the MCPS, management commentary is also defined as a general purpose financial report.

placement principles of IFRS general purpose financial reports are pertinent for EU stakeholders.

#### *Connectivity within reports*

- 28 The revised MCPS guidance on coherence and the IFRS S1 (paragraph 21) connection requirements emphasise the importance of connections within and across general purpose financial reports. For instance, under ISSB Standards, sustainability disclosures may be located in the financial statements. In such a case, connections within the financial statements will be important. On the other hand, in the EU, where the sustainability statement is a distinct section of the management report prepared on a double materiality basis, the connection of information across the financial statements and the sustainability statement is an important point.

#### *Information that cannot be connected*

- 29 The information that cannot be connected across reports is addressed under the discussion of clarifying the definition of boundaries of different annual report sections in Chapter 4.

#### *Connectivity in process and requirements*

- 30 Although the focus of the DP is connectivity in reporting, other aspects of connectivity (i.e. connectivity in organisational process, including governance and connectivity in reporting requirements) are addressed in Chapter 5 as part of the recommendations to enhance connectivity in reporting.

### **DP structure**

- 31 The rest of this DP will be structured as follows:
- (a) Questions to constituents;
  - (b) Chapter 2: Conceptual foundations of the DP's illustrations of connectivity;
  - (c) Chapter 3: Illustrations of connectivity;
  - (d) Chapter 4: Aggregated observations on connectivity of reported information;
  - (e) Chapter 5: Considerations for the enhancing the connectivity of reported information;
  - (f) Appendix 1: Materiality perspectives (EU & IFRS General Purpose Financial Reports);
  - (g) Appendix 2: Glossary of Terms; and
  - (h) Appendix 3: References.

## **Chapter 2: Concepts underpinning the illustrations of connectivity in the DP**

- 32 This chapter lays out the concepts (enabling attributes, and different types and mechanisms of connectivity of reporting information) that inform the illustrations of connectivity in Chapter 3. These concepts have been drawn from the 2024 EFRAG connectivity publication, which in turn was informed by various sources of guidance (ESRS Set 1, ISSB Standards, the IASB revised Management Commentary Practice Statement Exposure Draft, and a selection of regulator publications). Also, a recently published academic paper (Agrawal, Bayne, Hellman, and Wee, 2025)<sup>10</sup> that delineates mechanisms to attain the connectivity of reports was considered.
- 33 Another essential ingredient for developing the illustrations of connectivity is the identification of anchor points (defined by the 2021 EFRAG report<sup>11</sup> as data and/or qualitative or quantitative information that allows the connection of SR disclosures and financial statements information). Said differently, an anchor point is data and/or information that intersects sustainability reporting and financial statements information and, as a result, can allow the connection or conjunctive evaluation of these two reporting domains.
- 34 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 the thematic reviews of climate-related reporting practices.
- 35 As noted in Chapter 1, Chapter 2 also highlights implications for connectivity and which of the SR-related anchor points are likely to be modified due to the revised ESRS, as indicated by the [Draft] Revised ESRS.
- 36 The remainder of this chapter consists of descriptions of:
- (a) **Enabling attributes** (paragraphs 37-44)
  - (b) **different types/mechanisms of connectivity** (paragraphs 45-57)
  - (c) **Anchor points** (paragraphs 58-63)

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<sup>10</sup> Agrawal. P., Bayne. L., Hellman. N., and Wee. M., 2025. [Connectivity and Boundaries of Climate-related disclosures in Annual Reports](#). Academic IAAER-KPMG Academic Research Working Paper. University of Western Australia, Stockholm School of Economics, and Australian National University.

<sup>11</sup> EFRAG, PTF- NFRS, February 2021, *Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard- Setting*.

## Enabling attributes, different types and mechanisms of connectivity of reported information

### *Attributes that enable the connectivity of reported information*

#### *Self-sufficiency of financial statements information for its stated purpose*

- 37 The [October 2023 ESMA report](#) emphasised that financial statements are expected to be self-sufficient<sup>12</sup> in providing information related to their distinctive objective. In effect, the sustainability disclosures and management commentary should not be treated as alternative locations for information that ought to be reported and is material in the context of financial statements. Self-sufficient financial statements contribute 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.
- 38 Self-sufficient financial statements may
- (a) necessitate 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) necessitate the incorporation of information from another report by cross-reference. However, except for some risk disclosures under IFRS 7 *Financial Instruments: Disclosures*, the IFRS Accounting Standards do not have explicit requirements for incorporation by cross-reference into the financial statements. IFRS 18. BC 370-371<sup>13</sup> conveys that the incorporation of management performance

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<sup>12</sup> 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 fills a gap 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).

<sup>13</sup> 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

measures by cross-reference is allowed (not prohibited) but not required. In this instance, the IASB observed that entities generally do not disclose information by cross-reference to meet IFRS Accounting Standards unless an IFRS Accounting Standard specifically allows it. Moreover, relative to the information in the management report or the sustainability statement/disclosures, there are particular restrictions towards incorporating information into the financial statements by reference<sup>14</sup>, including:

- (i) legal risk on forward-looking information;
- (ii) it could obscure and impair the understandability of other material 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 June 2025 IASB 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 information outside the financial statements, and the recent EU Omnibus proposals for the CSRD revision no longer refer to possible reasonable assurance of the sustainability statement prepared under ESRS.

*Connectivity in reporting requirements (basis of preparation):*

39 Both the ESRS Set 1 and IFRS Sustainability Disclosures require reporting of some information with qualitative characteristics consistent with those of the IFRS Conceptual

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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.’

<sup>14</sup> 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.’



Framework for Financial Reporting and the CSRD (i.e. relevance, *faithful* representation, comparability, verifiability and understandability). These standards also require the same reporting entity (ESRS 1.62-63) and reporting period (ESRS 1.73) as the financial statements. And they also have similar approaches for the treatment of events after the reporting date, changes in estimates, and changes in preparation and presentation practices as the financial statements. They 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*.

- 40 The ISSB Standards and the ESRS Set 1 also include requirements for the presentation of comparative information for all quantitative metrics (as per ESRS) and monetary amounts disclosed in the current period, as well as for narrative disclosures when relevant (ESRS 1.83 and IFRS S1.70). 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).

#### Implications of the [Draft] Revised ESRS<sup>15</sup>

*Fair presentation principle and qualitative characteristics of information:* The introduction of the fair presentation principle requires companies to disclose relevant information on IROs and to represent it faithfully according to the ESRS Standards' requirements<sup>16</sup>.

- 41 Reporting boundary: EFRAG stakeholders (in the EFRAG governance bodies) have also underscored the importance of considering the respective sustainability reporting and financial statements reporting boundaries while assessing the connectivity of reported information.
- 42 Under financial *accounting* (e.g. IFRS 10 *Consolidated Financial Statements*), consolidation of line items in the primary financial statements occurs when the investor controls<sup>17</sup> the

<sup>15</sup> The sources for presenting the implications of the [Draft] Revised ESRS are the [ESRS One-pager briefing](#), the [Amended ESRS 1 and ESRS 2](#) and the [FAQ of the July 2025 ESRS Exposure Drafts](#).

<sup>16</sup> The fair presentation requires the undertaking to apply the qualitative characteristics of information, which are:

- (a) relevance and faithful representation (fundamental characteristics)
- (b) comparability, verifiability and understandability (enhancing characteristics)

<sup>17</sup> 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.

investee entity, while the equity method of accounting (e.g. under IAS 28 *Investments in Associates and Joint Ventures*) is applied when the investor has significant influence<sup>18</sup> and the reporting entity's/investor's share of the net assets of its equity-accounted investees (joint venturers or associates) are deemed to be within the boundaries of the reporting entity. Under sustainability reporting, in many cases (e.g. for several topical ESRS standards, including the social and governance standards), the scope of consolidation is the same as that of financial statements.

43 Under ESRS Set 1 and ISSB requirements<sup>19</sup>, there are several key differences between the sustainability reporting and financial statement reporting boundaries including:

- (a) Immaterial unconsolidated subsidiaries for the financial statements can be in the scope of consolidation of sustainability reporting if they have material sustainability-related IROs.
- (b) The notion of operational control<sup>20</sup> of an investee (which does not exist under IFRS Accounting Standards) can be applied when reporting (i.e. consolidating GHG emissions) under the ESRS (E1 *Climate Change*) and ISSB Standards. The former allows and the latter requires the application of the GHG protocol<sup>21</sup>. An operational control approach can also be applied for the consolidation of metrics reported under ESRS E2 *Pollution* and ESRS E4 *Biodiversity and Ecosystems*. When applying the

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<sup>18</sup> 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.

<sup>19</sup> [EFRAG Implementation Guidance- Value Chain \(IG 2\)](#) and PwC, 2024, Chapter 3- Boundaries of sustainability reporting

<sup>20</sup> 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".

<sup>21</sup> 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. When being initially developed, the GHG Protocol aimed for consistency of its consolidation approaches with accounting requirements. For this reason, it is aligned with IFRS accounting requirements 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). In contrast, the IFRS Accounting requirements do not have the notion of operational control.
- (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.

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.

- (c) There is no equity method of accounting under sustainability reporting.

#### Implications of the [Draft] Revised ESRS

The [Draft] Revised ESRS 1 ED proposes the following:

- (a) **Alignment of reporting boundaries:** The reporting boundaries for the sustainability statement are aligned with those of the financial statements.
  - (i) The same boundary (i.e. the boundaries for financial statements) applies to environmental metrics (which was not the case before). Under ESRS set 1, operational control is considered for the consolidation of metrics under E1, E2, and E4. Subject to fair presentation, there is a requirement for the separate disclosure of consolidation done based on operational control that is expected to be applicable in limited cases<sup>22</sup>.
  - (ii) As was the case under ESRS Set 1, financially immaterial subsidiaries are only to be included if they present material IROs.
- (b) **Own operations definition:** It is clarified that a group's own operations generally include the assets, liabilities, income and expenses of the parent company and its subsidiaries, whether based inside or outside the EU.
- (c) **Treatment of leased assets:** It is clarified that IROs related to the use of a leased asset do not depend on whether the asset is legally owned or leased. Impacts of a leased asset, such as pollution, energy, or water usage, must be reported by the lessee during the lease period, while the lessor reports the associated IROs as part of its downstream value chain.
- (d) **Treatment of assets held by long-term employee benefit fund:** These assets should be reported as part of the upstream value chain.
- (e) **Treatment of associates, joint ventures and other investments –** These investments are to be included as part of an undertaking's business

<sup>22</sup> It has been observed that Oil & Gas companies were providing disclosures based on both operational and financial control.

relationships, and therefore included in the materiality assessment and metrics connected to material IROs.

- (f) **New reliefs:** A relief is introduced for acquisitions, disposals and certain metrics. Where reporting boundaries differ from those in the financial statements, undertakings shall disclose this circumstance and the related reasons.

### *Clear and concise disclosures*

- 44 As required by both ESRS and IFRS S1 and emphasised in the October 2023 ESMA report, clear and concise disclosures<sup>23</sup> contribute to the understandability and, in turn, the connectivity of information. **Avoiding unnecessary duplication**, including through the use of cross-referencing (which can encompass the incorporation of information from another report by reference, and signposting information, i.e., referring to information from the same or another report to aid the reader's navigation through the report), is part of clear and concise communication. That said, too much cross-referencing might lead to confusing information, as noted in paragraph 38(b).



### *Types of connectivity drawn from authoritative literature*

- 45 Figure 2.1 below diagrammatically represents different types/mechanisms of connectivity, and thereafter, an elaboration of each type of connectivity is provided. It must be emphasised that **there are overlapping elements across the different types/mechanisms of connectivity** described below. As noted in Chapter 1, **it is also acknowledged that the [Draft] Revised ESRS may result in a change of the ESRS requirements referred to hereafter, but the current ESRS are relevant for this DP and the illustrations of connectivity included in Chapter 3<sup>24</sup>.**

Figure 2.1. Synthesis of different types of connectivity

<sup>23</sup> ESMA, October 2023, [The Heat is on: Disclosures of Climate-related matters in the financial statements](#).

<sup>24</sup> It is noted that the types of connectivity portrayed in Figure 2.1 are drawn from the ESRS Set 1, the ISSB Standards and the MCPS.

Overarching aspects of connectivity (ESRS Set 1, ISSB Standards, MCPS)	Connecting/linking quantitative and narrative information
<p>•<b>Strategic-oriented communication (integration in information):</b> Explaining how strategy and business model in response to IROs are linked to reporting outcomes (i.e. financial position, financial performance, cash flows, other metrics)</p> <p>•<b>Coherence/Complementarity:</b> Gives a more complete picture of an entity's value creation while depicting the interrelatedness of the overall reported information; disclosure and explanation of lack of consistency is an element of coherence</p> <p>•<b>Consistency:</b> Consistent data, narrative/qualitative disclosures, assumptions and units of measurement (presentation currency)</p> 	<p>•Linking quantitative information via cross-referencing (<b>direct connectivity as per ESRS Set 1</b>)</p> <p>•Linking quantitative information via reconciliations (<b>indirect connectivity as per ESRS Set 1</b>)</p> <p>•Qualitative disclosures stating financial statements line items affected by disclosed risks and opportunities if unable to disclose quantitative current and anticipated financial effects</p> 

Connectivity at current reporting period (including current financial effects)

vs

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

Source: EFRAG

### Overarching aspects of connectivity

- 46 **Integration of information, strategic-oriented communication depicting the link between an entity's strategic actions and reporting effects:** 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 1.123). In effect, it shows the interaction between an entity's strategic choices to IROs and the financial statements and SR effects.
- 47 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 the same example with slightly different wording.
- 48 Moreover, related to the above, IFRS S1. B44 indicates that connections can include:
- 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.

49 **Coherence/complementarity:** 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 June 2025 revised IASB Management Commentary Practice Statement (MCPS)<sup>25</sup> indicates that coherence is related to the completeness, clarity and comparability of reported information and conveys the following elements of this term:

- (a) Disclosure of information to assess the implications of interrelated matters.
- (b) Presentation of information in a particular corporate report in a way that explains the context and relationships with information in the same or other reports to allow connections between the two sets of information.
- (c) Presentation 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 AR sections (e.g. management commentary/report and information in the financial statements).

50 In effect, coherence is an aspect of connectivity as it is related to the disclosure and presentation of information in a manner that allows users to get a comprehensive picture of the reporting entity's prospects and impacts and to understand the interrelatedness of information across the different reports.

51 **Consistency** is another aspect 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 in this DP (see paragraph 49).

### *Linking/connecting interrelated quantitative and narrative information across reports*

- 52 **Direct and indirect connectivity** (as described in ESRS 1.124-125) could be construed as the connection of quantitative datapoints. These two forms of connectivity are attained through cross-referencing (direct connectivity) and the reconciliation of related datapoints (indirect connectivity). As noted in paragraph 38(b), even though there are no explicit prohibitions, there are restrictions towards incorporating information from other reports into the financial statement by cross-reference.

#### **Implications of the [Draft] Revised ESRS**

Cross-referencing to the financial statements is no longer mandatory, both for “direct connectivity” (monetary amounts or other quantitative information) and “indirect connectivity” (either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking’s financial statements).

- 53 Qualitative disclosures can also 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 and anticipated financial effects (IFRS S1.40).
- 54 **Current period and across periods (intertemporal) linkages:** There is a static/current-reporting-period-related connectivity dimension (e.g. current financial effects disclosed in SR, or a sustainability matter that is disclosed in the sustainability statement/disclosures and also reflected in the financial statements). Via the disclosure of anticipated financial effects in the sustainability statement/disclosures, there is also a dynamic/intertemporal (across reporting period) dimension to connectivity where the risks and opportunities can be linked to financial statement effects over the short-, medium- and long-term. Moreover, reported IROs could migrate<sup>26</sup> across different reports (including general purpose financial reports) across different reporting periods. Correspondingly, entities that provide disclosures that enable users to monitor the migration of the information on risks and

<sup>26</sup> This could be due to the change in nature, quantifiability, magnitude/severity, or probability of occurrence of a particular risk or opportunity. It can also be due to impacts disclosed in one period translating into financial obligation at a future period (i.e. dynamic materiality).

opportunities across different reports over time can be a key element of connectivity across reporting periods.

#### **Implications of the [Draft] Revised ESRS**

*Anticipated financial effects:* Two options on anticipated financial effects are presented<sup>27</sup>:

- (a) Under 'Option 1' presented in ESRS 2 *General disclosures*, both qualitative and quantitative disclosures of the anticipated financial effects of material risks and opportunities remain required, noting that a relief substantially equivalent to the one available in IFRS S2 *Climate-related Disclosures* is proposed to be introduced, in addition to the general relief of undue cost or effort. This would allow for the reporting of qualitative information when the level of estimation uncertainty is so high that the resulting quantitative information would not be useful.

Under this option, the relief related to the skills, capabilities and resources available to the company included in IFRS S2 is not proposed to be included.

- (b) Under 'Option 2', only qualitative disclosure would be required, leaving the option to the undertaking to disclose quantitative information voluntarily and departing from the corresponding ISSB's IFRS S1 and S2 relief.

With respect to ESRS E1, the content of the disclosure requirements on anticipated financial effects has been significantly reduced.

- 55 **Linking forecast information to past/present reported information:** Under ESRS requirements (ESRS 1.74<sup>28</sup>), another aspect of linkage across periods is captured by forecast information being related to retrospective information (past/present period reported information).

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<sup>27</sup> Source : [FAQ of the July 2025 ESRS Exposure Drafts](#)

<sup>28</sup> 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.



### Connectivity mechanisms

56 Based on Bayne et al's (2025) findings, feedback from stakeholders, and observations of reporting practice, the following<sup>29</sup> mechanisms of connectivity are considered in the illustrations of connectivity in this DP:

- (a) **Reconciliation of scope of consolidation across reports:** ESRS 2.5-b requires a) a confirmation that the scope of consolidation of the sustainability statements is the same as for the financial statements, b) an indication of which subsidiaries included in the consolidation are exempted from individual or consolidated sustainability reporting, c) to what extent the sustainability statement covers the undertaking's upstream and downstream value chain.
- (b) **Cross-referencing** as a mechanism of connectivity is linked to direct connectivity, as noted in paragraph 52.
- (c) Similarly, the **reconciliation** of related datapoints is linked to indirect connectivity, as described in the ESRS.
- (d) **Immaterial-exposure statement disclosure (general, e.g. climate risk has not affected the financial statements, and specific, e.g., PPE useful lives have not been impacted by climate risk):** The IASB has mainly provided guidance on this disclosure through the July 2025 COUFS near-final examples, which included an immaterial-exposure statement as one of the illustrative examples (i.e. Example 1). Furthermore, the June 2025 revised 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. The immaterial-exposure statement is related to the aspect of coherence described in paragraph 49, as it explains an apparent lack of consistency across the sustainability statement and the financial statements, and to current financial effects (i.e. a statement that a matter has no current financial effects)<sup>30</sup>.

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<sup>29</sup> 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 37 to 57 (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.

<sup>30</sup> Bayne et al's (2025) review of the reporting trends of 80 companies (across the EU, UK, Australia and South Africa) found that none of these companies had non-exposure statements in 2017, but 15 (19%) had these statements in 2022. That said, it is worth noting that, in its response to the IASB COUFS ED, EFRAG supported the immaterial-exposure statement example while also airing several stakeholders' reservations about the disclosure of this statement. These stakeholders called for its use to be rare so as not to obscure other material information in the financial statements.

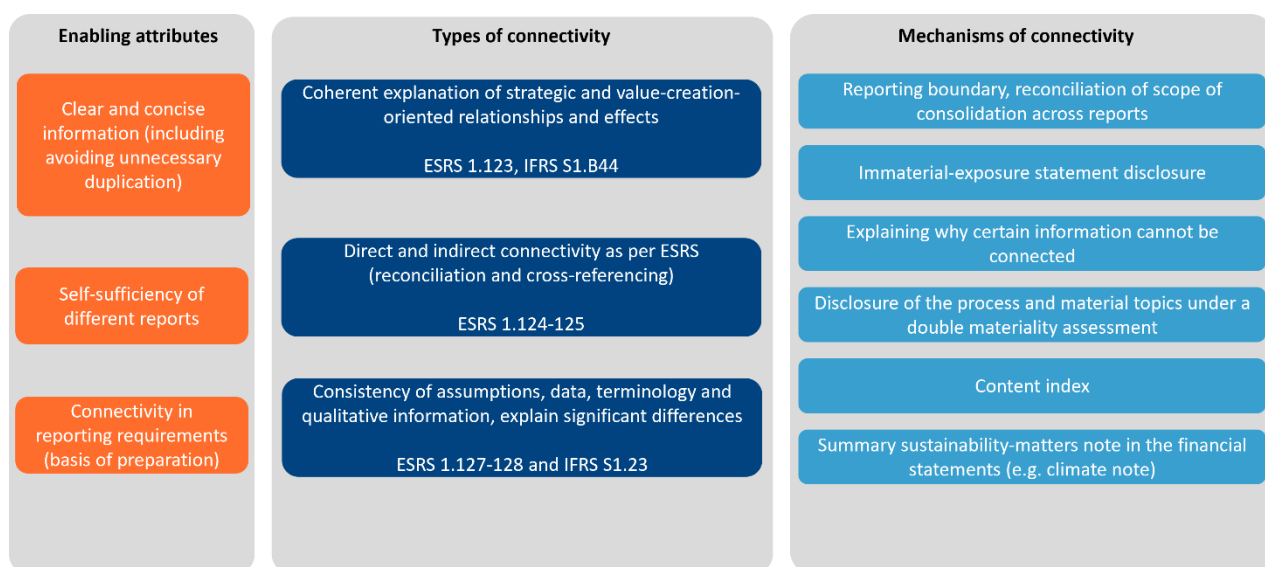
- (e) **Explaining why certain information cannot be connected:** Although not mandated, stakeholders (including EFRAG CAP members) have indicated that in cases where there would be a reasonable expectation of information to be connected and that is not the case, a useful disclosure (albeit) voluntary 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.
- (f) **Disclosure of the process and material topics under a double materiality assessment:** The disclosure of the materiality process is required by ESRS and ISSB requirements<sup>31</sup>, 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 and is therefore also considered a mechanism of connectivity in this DP.
- (g) **Content index (or similar):** ESRS 2.56 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.
- (h) **Summary sustainability-matters note in the financial statements (e.g. climate note).**

57 Figure 2.2 below is a summarised depiction of the attributes that enable connectivity and of the different types and mechanisms of connectivity of reported information.

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<sup>31</sup> ESRS 1.29 states the undertaking shall always disclose the process to identify and assess material IROs. 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. IFRS S1.75 requires an entity to disclose judgments including "identifying sustainability-related risks and opportunities that could be reasonably affected to affect the entity's prospects" and "identifying material information to include in the sustainability-related financial disclosures."

Figure 2.2 Enabling attributes, types and mechanisms of connectivity

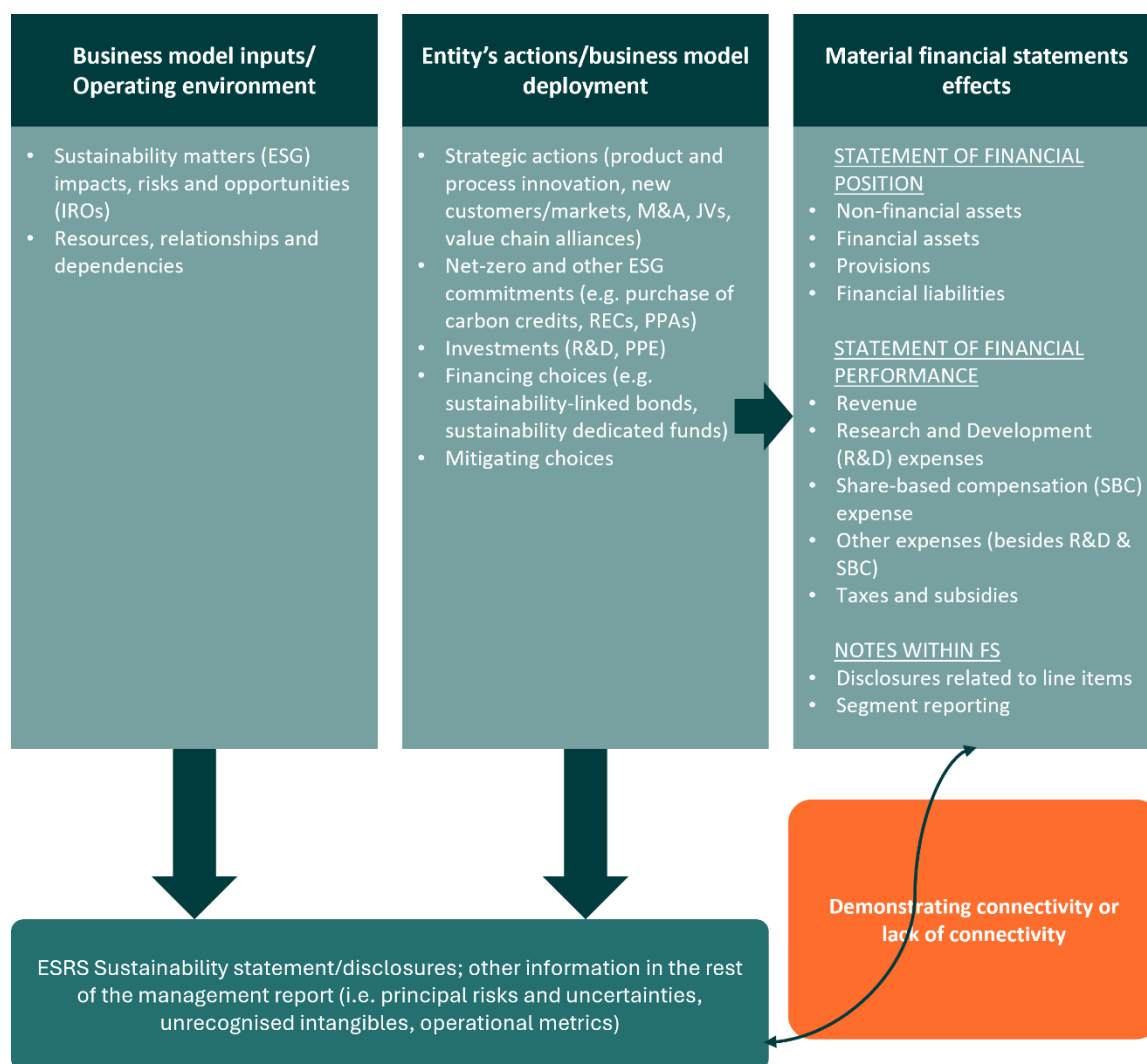


Source: EFRAG

### Anchor points

- 58 At a high level, Figure 2.3 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.
- 59 The diagram is a useful backdrop for identifying suitable anchor points (i.e. as defined in paragraph 33, 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 2.3 Interplay of an entity's operating environment, its actions, and reporting effects



Source: EFRAG

- 60 The anchor points for illustrations of connectivity in Table 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 2022-2024 publications (Mazars, E&Y, Other NSS, including UKEB, New Zealand XRB and Australia). In essence, this list of anchor points is neither intended to be exhaustive nor a guide, but was used to guide the development of illustrations in Chapter 3.
- 61 A summary of the respective sustainability reporting and financial statements anchor points is presented below.

#### *Sustainability reporting anchor points*

- 62 These are data/information in the sustainability statement/disclosures or other reports expected to be connected to the current period financial statements line items, or current period basis of preparation or future period financial statements. They include:
- Business model, strategy, material IROs, entity's actions, including its investments and transition plans;

- (b) Mandatory EU taxonomy Capex, Opex and revenue disclosures;
- (c) Anticipated financial effects disclosures;
- (d) Assets at risk, revenue at risk disclosures;
- (e) Environmental pollution narrative and metrics disclosures;
- (f) GHG and Energy intensity metrics based on revenue disclosures;
- (g) Human capital metrics, including employee benefits disclosures;
- (h) Sustainability-linked financing<sup>32</sup>; and
- (i) Scope of consolidation disclosure (related to consistency or otherwise of reporting boundary).

*Financial statements anchor points*

63 These are the data/ information in financial statements expected to be connected with the information in the sustainability statement/disclosures. They include:

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

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<sup>32</sup> 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 1: SR and FS anchor points

Sustainability reporting (SR)-anchor points	Financial statements (FS) anchor points	Types/ possible mechanisms of connectivity of reporting
<b>GENERAL ANCHOR POINT (ALSO DEPICTED IN FIGURE 2.3 ABOVE)</b>		
<p><b>Overarching anchor point-</b> ESRS 2 SBM-1, SBM 3 disclosure</p> <p><b>Material topics and material IROs</b></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 current financial effects of an entity's material IROs and its actions in response to the IROs</p> <p><b>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.</b></p>	<p><b>A broad framework of possible financial statements effects</b></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><b>Balance sheet effects: assets recognition, measurement and related disclosures</b></p> <ul style="list-style-type: none"> <li>• valuation of tangible, intangible assets, and other non-financial assets (goodwill and inventories) i.e., impairment, amortisation, write-offs, useful lives, and residual value</li> <li>• valuation of financial assets</li> <li>• R&amp;D and other investment capitalisation</li> <li>• 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)</li> </ul> <p>Sustainability-related impacts and risks may lead to <b>BS effects-Provisions, contingent liabilities, and related disclosures,</b></p> <ul style="list-style-type: none"> <li>• decommissioning and asset retirement obligations</li> <li>• potential litigation due to environmental damage, human rights and labour safety violations;</li> <li>• regulatory requirements to remediate environmental damage;</li> </ul>	<p><b>Coherence</b> including <b>complementarity and consistency</b> of SR, FS and rest of management report information (for instance, consistency with principal risks, strategic and commercial risks described in the management report)</p> <p><b>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</b></p> <p><b>Explaining any key differences between SR and FS assumptions</b> (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><b>Possible non-exposure statements:</b> When there are no material effects in the financial statements even though these would have been reasonably expected based on SR disclosures</p> <p><b>Disclosure of anticipated financial effects with accompanying explanations of the expected financial effects in future reporting periods</b> (addressed further below under specific anchor point of anticipated financial effect)</p>

Sustainability reporting (SR)-anchor points	Financial statements (FS) anchor points	Types/ possible mechanisms of connectivity of reporting
	<ul style="list-style-type: none"> <li>• additional levies or penalties related to environmental requirements</li> <li>• onerous contracts</li> <li>• restructuring to achieve climate-related targets</li> <li>• disclosures of sources of estimation uncertainty (IAS 1.125)</li> </ul> <p><b>Income statement effects</b> (e.g. revenues, R&amp;D expenses, deferred taxes, subsidies)</p> <p>Sustainability-related SBM adaptation may lead to changes in <b>key business segments</b></p> <p>Sustainability-related risks may influence the <u>mitigation tools 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>	
<b>SPECIFIC ANCHOR POINTS</b>		
<p><b>Article 8 Taxonomy investments disclosed in SR</b></p> <p>Cross-referencing or reconciliation to FS Assets, Revenue, and Opex (albeit Opex is not defined under IFRS)</p>	<p><b>Balance sheet and income statement effects:</b> Assets, Revenue, Opex</p>	<p><b>Direct/indirect connectivity-</b> SR taxonomy disclosure that either cross references or provides a reconciliation to the related financial statements line items including revenue, related opex, assets- PPE and intangible assets.</p>

Sustainability reporting (SR)-anchor points	Financial statements (FS) anchor points	Types/ possible mechanisms of connectivity of reporting
<p>Narrative on the nature and purpose of sustainability-related investments</p> <p>ESRS E1-1.16</p>		<p><b>Coherence</b> of SR narrative on sustainability-related investments and strategy articulated elsewhere in the management report.</p>
<p><b>SR-disclosed anticipated financial effects</b></p> <p>Anticipated financial effects requirements are drawn from ESRS E1 and other environmental standards. Sustainability matters with future financial effects may include:</p> <ul style="list-style-type: none"> <li>• potential liabilities (net-zero commitments, environmental and decommissioning liabilities, health and safety liabilities)</li> <li>• potential assets (R&amp;D in transition-related assets and products, circular economy/recycled materials, stranded assets, capex disclosed in SR);</li> <li>• potential expenses</li> <li>• potential revenue</li> </ul>	<p><b>This may crystallise in future-period FS line items and disclosures.</b></p> <p><b>Possible overlap</b> with assumptions related to current period FS line items (<b>asset impairment, fair value of recognised assets and liabilities</b>)</p> <p><b>Possible overlap</b> with <b>IAS 1.125 disclosures in FS (disclosure of sources of estimation uncertainty in the next 12 months)</b></p> <p><b>Possible duplicative disclosures</b> of forward-looking/long-term horizon investments and commitments</p>	<p><b>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)</b></p> <p><b>Explaining overlaps between anticipated financial effects and FS information</b></p> <p><b>Explaining any key differences between SR and FS assumptions</b> (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><b>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</b></p>	<p><b>Balance sheet effects:</b> 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><b>Income statement effects:</b> IFRS 15 <i>Revenue Recognition</i> revenues that may be at risk at a future date</p>	<p><b>Direct connectivity (cross reference) or indirect connectivity (via reconciliations/explanation of linkage to financial statements)</b></p>
<p><b>Disclosure of environmental, social- own workforce and value chain/human rights, and business conduct incidents</b></p>	<p><b>Balance sheet effects:</b> Provisions recognised and/or disclosure of contingent liabilities in FS</p>	<p><b>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)</b></p>



Sustainability reporting (SR)-anchor points	Financial statements (FS) anchor points	Types/ possible mechanisms of connectivity of reporting
	<ul style="list-style-type: none"> <li>disclosures of sources of estimation uncertainty under IAS 1.125</li> <li>potential litigation due to environmental damage, human rights and labour safety violations;</li> <li>regulatory requirements to remediate environmental damage;</li> <li>additional levies or penalties related to environmental requirements</li> </ul> <p><b>Income statement effects:</b> share-based expenses in the income statement and incentives schemes (share-based payments, pension schemes) disclosed</p>	<p><b>Indirect connectivity: reconciliation with remuneration report (via incorporation by reference in SR)</b></p> <p><b>Disclosure of anticipated financial effects in SR with accompanying explanations linked to expected financial effects in future periods</b></p>
<p><b>Human capital and social capital metrics, Employee benefits/ obligations</b></p> <p><b>Own workforce and workers in value chain metrics under ESRS</b></p>	<p>Intangibles from own workforce 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 the recognised goodwill, but valuation practices incorporate the characteristics of own workforce with comparisons done to the human capital and social metrics disclosed outside the financial statements.</p> <p>In January 2025, <a href="#">the ISSB staff presented a paper</a> 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><b>Correlations of social and human capital KPIs/metrics to entity's financial performance.</b> ISSB's presentation at the March 2025 IFASS meeting highlighted that correlations with financial outcomes are well established for employee satisfaction, retention and development and working conditions in the value chain.</p> <p><b>Disclosure of current financial effects in SR with either direct or indirect connectivity to FS information via cross-referencing or reconciliation</b> (FS information would fall under IFRS 2 <i>Share-based payment</i>, IAS 19, and IAS 37 requirements)</p>

Sustainability reporting (SR)-anchor points	Financial statements (FS) anchor points	Types/ possible mechanisms of connectivity of reporting
<b>SR mitigation actions – ESG-linked borrowing, use of carbon credits to mitigate GHG emissions</b>	Recognition and disclosure of ESG-linked bonds and carbon credits/emission trading schemes	<b>Coherence and direct connectivity</b>
<b>SR basis of preparation/ reporting boundary</b> Scope of consolidation/calculation of metrics under the GHG protocol, implications of application of operational control and the entity's definition of own operations	<b>FS basis of preparation/ reporting boundary</b> Application of control for consolidation  Consolidated IFRS 15 revenue is an input in the calculation of GHG intensity and Energy intensity metrics.	<p><b>Direct or indirect connectivity</b> via cross-referencing or reconciliation to IFRS 15 revenue,</p> <p><b>Indirect connectivity-</b> reconciliation of the respective scope of consolidation of SR and FS</p> <p><b>Coherence and consistency:</b> 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><b>Explain significant differences:</b> highlighting the difference in the scope of consolidation of numerator and denominator of GHG and Energy Intensity metrics (i.e. denominator is IFRS 15 revenue based on FS consolidation (financial control), whereas GHG consolidation may be based on operational control. Scope of consolidation (in general + Scope 3)</p> <ul style="list-style-type: none"> <li>• Inclusion of sites/assets/entities under operational control at 100% in the impact metrics</li> <li>• Illustration of how the value chain is different from the scope of consolidation for narrative and quantitative disclosure</li> <li>• Definition of own workforce: workers in the value chain where the company exercises control (addressed in ESRS S1)</li> </ul>