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Draft Discussion Paper content – *Executive Summary, Chapters 1 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 considerations for enhancing connectivity and the related aspect of 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. 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 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.

Executive Summary

- 1 The advent of mandatory sustainability reporting, together with the frequent disconnect between the financial statements and sustainability disclosures, including through the underreporting of sustainability-related risks in the financial statements, and the duplication and inconsistencies of information across different reports, has increased stakeholders' focus on enhancing the connectivity of the reported information.
- 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 practical application, and suggestions made thereof for its enhancement. The findings are based on a review of current reporting practices, a set of selected practical illustrations, whose reporting was done under the currently applicable Set 1 of ESRS, ISSB Standards and other voluntary reporting frameworks (e.g. TCFD recommendations), and discussions with expert stakeholders including EFRAG CAP members and outreach feedback. Below are several key messages made in the DP:
 - (a) *A multi-dimensional concept*: due to the multiple dimensions of the connectivity concept, its practical application will help further crystallise the meaning of the concept, and it will also clarify the aspects of connectivity and mechanisms of connectivity that should be prioritised. As detailed in Chapter 4, EFRAG's outreach has provided initial indications of the relative priority of different mechanisms, and this DP further seeks constituents' views on this aspect.
 - (b) *Early stages of journey*: As detailed in Chapter 4, companies are in the early stage in the journey of preparing connected reports. To help in the practical application, preparers have called for illustrative examples such as those presented in this DP.
 - (c) *Usefulness to users 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. Early-stage academic studies also present evidence ascertaining the usefulness of connectivity towards reducing information asymmetry between companies' management and investors.
 - (d) *Usefulness of connectivity ought to be reporting framework-agnostic*: seeking the connectivity of reported information is important regardless of the underlying regime of financial statements/accounting or sustainability reporting requirements (i.e. connectivity should be reporting-framework-agnostic), and it encapsulates

connectivity to other parts of the annual report (rest of the management report, governance reports etc).

- (e) *Further clarification of borders/differentiating features of different reports contributes to connectivity:* As detailed in Chapter 5, further clarification by standard setters is needed for the location, information content, and connectivity of a set of identified, specific grey areas (i.e., areas where information could be both in the sustainability statement/disclosures and the financial statements). For example, unrecognised sustainability-related intangibles, and capital commitments related to sustainability-related matters. Such clarification can help ensure reasonable expectations on what information can be connected across different reports.
- (f) *Importance of connectivity in process/integrated thinking:* As detailed in Chapters 4 and 5, stakeholders view connectivity as a core reporting principle that 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 model. Several preparers have pointed out how integrated thinking/less-siloed departments has helped to enhance their internal risk management. It has also been suggested that connectivity 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.
- (g) *Technology’s role:* As detailed in Chapters 4 and 5, EFRAG’s outreach feedback indicates that the role of technology (via creating structured data through digital tagging and the application of AI) towards enhancing the connectivity of reporting information seems to be currently underexplored.

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 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.

Introduction

- 1 Following its 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 (hereafter referred to as ‘EFRAG research project on connectivity’).
- 2 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. The conceptual and practical content has been developed based on the foundational work by the PTF-NFRS, ongoing engagement with EFRAG CAP and EFRAG’s FR pillar and SR pillar technical governance bodies and working groups, and dialogue with stakeholders through targeted outreach and a series of EFRAG-hosted events.
- 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 Set 1, 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 9 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, 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 SR-related anchor points are likely to be modified.
- 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 (such as the financial statements, sustainability statement/disclosures and other parts of the management report)”. Chapter 2 details the enabling attributes and types and mechanisms of connectivity, where it can be seen that connectivity of reported information is attained through common principles such as materiality, as well as the incorporation of information by cross-referencing to avoid potential inconsistencies, duplication, or information gaps.
- 8 The connectivity of reported information (including coherence² and interlinkage of sustainability statements/disclosures and financial statements 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, including having a similar basis of preparation of the financial statements and the sustainability statement.
- 9 **Role and importance of connectivity:** The connectivity of reported information is to ensure that financial and non-financial information are complementary, and enable informed decision-making by users, in particular investors and regulators. Connecting reported information across and within different reports (including general purpose financial

² 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 16 is more narrowly defined (i.e. of data, assumptions, units of measurement and narrative information).

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 relation 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.

- 10 As conveyed in EFRAG's outreach (including during EFRAG's April 2025 multi-stakeholder roundtable), the connectivity of reported information (i.e. financial statements and sustainability statement/disclosures information) contributes to users' decision making as it allows investors and other users to better predict companies' future cash flows, their sustainability-related IROs and contribution to transition with respect to climate-related risk³. 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 of reported information and clear borders/differentiating features of different annual report sections:** As detailed in Chapter 5, clearly defined borders of different annual report sections have a bearing on the connectivity of reported information. At the same time, across several IASB projects⁴, there has been a call from stakeholders (including EFRAG) for further clarification of the borders/differentiating features of the financial statements. As a result, 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 borders/differentiating features of different reports.

³ It links financial and sustainability information across three main dimensions: (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.

⁴ The IASB ED on *Climate-related and Other Uncertainties in the Financial Statements* (COUFS), 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.

- 12 It is also emphasised that this DP has been developed on the assumption that the current borders/differentiating features of financial statements will be retained for the foreseeable future.

Importance of connectivity- other standard setters and other regulatory initiatives

- 13 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 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).
- 14 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 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 report, [Appendix A4 Interconnection between Financial and Non-Financial Information](#), suggested the notions of direct and indirect connectivity.
- 15 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) framework⁵ 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.

⁵ 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.

- 16 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 and standard setter publications⁶ (AMF-France, Norway Finanstilsynet, ANC-France) 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.

Objectives and overview of content in DP

- 17 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 11).
- 18 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.
- 19 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.
- 20 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

⁶ 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](#).

review/simplification. For this reason, Chapter 5 does not provide any recommendations for reviewing sustainability reporting requirements.

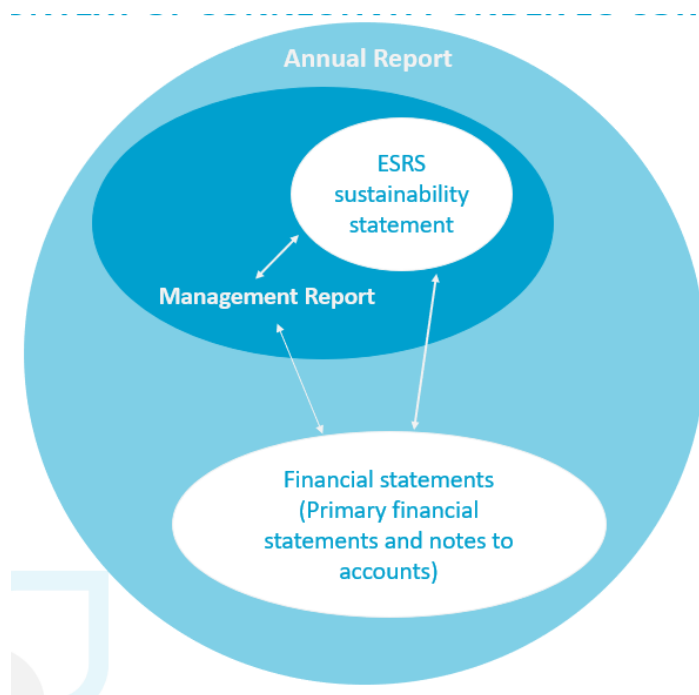
Scope of DP: What information is being connected, and what cannot be connected?

Connectivity across reports- EU Context

- 21 As shown in Figure 1.1 below, given the EU context, the EFRAG connectivity project focuses on the connection of information across reports⁷. 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 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* under certain conditions (e.g., having at least the same level of assurance as the sustainability statement).
- 22 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.

⁷ 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.

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



Source: EFRAG

Connectivity across reports- IFRS general purpose financial reports

- 24 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,⁸ 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](#)).

⁸ 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.

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?*

- 25 Location-agnostic sustainability-related financial disclosures: Similar to ESRS, ISSB Standards allow for the inclusion of 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.
- 26 Notwithstanding the difference⁹ 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 placement principles of IFRS general purpose financial reports are pertinent for EU stakeholders.

⁹ Another key difference between the ISSB Standards and ESRS is the lack of a mandatory audit requirement under ISSB standards.

Connectivity within reports

- 27 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 while allowing the incorporation of financial statements information by cross-referencing, the connection of information across the financial statements and the sustainability statement is an important point.

Information that cannot be connected

- 28 The information that cannot be connected across reports is addressed under the discussion of clarifying the definition of borders/different features of different annual report sections in Chapter 5.

Connectivity in process and requirements

- 29 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, and connectivity in assurance) are addressed in Chapter 5 as part of the recommendations to enhance connectivity in reporting.

DP structure

- 30 The rest of this DP will be structured as follows:
- (a) Questions to constituents (these are currently located within the Chapters);
 - (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 enhancing the connectivity of reported information and related aspects;
 - (f) Appendices
 - (i) Appendix A: Profile of reviewed companies and sources of outreach
 - (ii) Appendix B: Reporting requirements and materiality perspectives under the EU reporting framework & IFRS General Purpose Financial Reports;

- (iii) Appendix C: Glossary of Terms (Work in Progress); and
- (iv) Appendix D: References.

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

Chapter 2 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)¹⁰ that delineates mechanisms to attain the connectivity of reports was considered.

Another essential ingredient for developing the illustrations of connectivity is the identification of anchor points (defined by the 2021 PTF-NFRS EFRAG report¹¹ 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 information (narrative and data) that intersects sustainability reporting and financial statements information, and, as a result, can allow the connection or conjunctive evaluation of these two reporting domains. 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.

As noted in Chapter 1, based on the [Draft] Revised ESRS ED proposals, this Chapter highlights the possible changes in connectivity requirements and which of the SR-related anchor points are likely to be modified.

1 This chapter consists of descriptions of:

- (a) **Enabling attributes for the connectivity of reported information** (paragraphs 2 to 8)
- (b) **Types and mechanisms of connectivity of reported information** (paragraphs 9 to 22)
- (c) **Anchor points** (paragraphs 23 to 28)

¹⁰ 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.

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

Enabling attributes for the connectivity of reported information

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

- 2 The [October 2023 ESMA report](#) emphasised that financial statements are expected to be self-sufficient¹² 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.
- 3 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, 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 for incorporation by cross-reference into the financial statements. IFRS 18. BC 370-371¹³ conveys that

¹² 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).

¹³ 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

the incorporation of management performance 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 reference¹⁴, 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 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.

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.’

¹⁴ 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.’

Enabling attribute- Clear and concise disclosures

- 4 As required by both ESRS and IFRS S1 and emphasised in the October 2023 ESMA report, clear and concise disclosures¹⁵ 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, excessive cross-referencing can lead to confusing information, as noted in paragraph 33(b).

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

- 5 Alignment in the basis of preparation of financial statements and the sustainability statement/disclosures across several aspects, as described below:
- (a) Both the ESRS Set 1 and IFRS Sustainability Disclosures require reporting of some 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).
 - (b) Sustainability reporting standards also require **the same reporting entity** (ESRS 1.62-63) as the financial statements, albeit with differences¹⁶ 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 horizon¹⁷ covered, as described in Chapter 5.
 - (d) And the financial statements and the sustainability statement/disclosures 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**. The sustainability reporting requirements were influenced by IAS 1

¹⁵ ESMA, October 2023, [The Heat is on: Disclosures of Climate-related matters in the financial statements](#).

¹⁶ While indeed 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.

¹⁷ 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 are generally retrospective require a past event, and consider reporting rights and obligations that exist at a given date.

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 sustainability reporting allows for greater flexibility to reflect uncertainties associated with future sustainability IROs.

- 6 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 (under ISSB Standards) 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 ESRS¹⁸

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' requirements¹⁹.

- 7 Organisational reporting boundary: An alignment in reporting boundaries is another aspect of alignment in the basis of preparation. The following are the respective financial statements' and sustainability statement/disclosures' reporting boundaries:
- (a) Under financial accounting requirements (IFRS 10 *Consolidated Financial Statements*), the consolidation of line items in the primary financial statements occurs when the investor controls²⁰ the investee entity. And the equity method of accounting (under IAS 28 *Investments in Associates and Joint Ventures*) is applied

¹⁸ 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](#).

¹⁹ 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)

²⁰ 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.

when the investor has significant influence²¹ and the 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 Set 1, except for some of the environmental standards, for the consolidation of metrics, the same reporting entity (i.e., consolidated group entities) is generally²² applied for both the sustainability statement and the financial statements.

8 Under ESRS Set 1 and ISSB requirements²³, there are several key differences between the sustainability reporting and financial statements 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 control²⁴ 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 protocol²⁵. Under ESRS Set 1 requirements, an operational control approach could also be applied for the

²¹ 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.

²² 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.

²³ [EFRAG Implementation Guidance- Value Chain \(IG 2\)](#) and PwC, 2024, Chapter 3- Boundaries of sustainability reporting

²⁴ 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".

²⁵ 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.

consolidation of metrics reported under ESRS E2 *Pollution* and ESRS E4 *Biodiversity and Ecosystems*, and this is expected to change under the Omnibus simplification as outlined in the blue box below. 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).

- (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 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.

Implications of the [Draft] Revised ESRS

The [Draft] Revised ESRS 1 ED proposals clarify that:

- (a) the reporting boundary for the sustainability statement is the same as that of the financial statements. As was the case under ESRS Set 1, financially immaterial subsidiaries are only to be included if they expose the consolidated group to material IROs.
- (b) 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) 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.

POINTS OF NOTE

Change in the reporting boundary of GHG emissions and energy metrics: As noted in paragraph 7-b above, under ESRS Set 1, operational control could be applied for the consolidation of metrics related to E1, E2, and E4. For instance, emissions from assets under operational control, in addition to emissions from assets within the scope of consolidated financial statements, could be reported.

The ED ESRS E1 requires reporting based on financial control only, which is equivalent to the GHG Protocol's definition of financial control. In effect, under E1, the reporting of GHG emissions and energy consumption/mix metrics is done with reference to own operations based on the reporting boundaries defined in ESRS 1 (i.e., scope of the consolidated financial statements).

However, for Scope 1 and 2 GHG emissions, when, due to facts and circumstances, the financial control approach would fail to convey a fair presentation²⁶ of the GHG emissions derived from operated assets that are outside the reporting undertaking/entity, a separate disclosure of GHG emissions under operational control is required. This disclosure is expected to be applicable in limited cases. Additionally, the specific requirement to disclose the reporting boundaries for Scope 3 GHG emissions was removed.

Other points of note are stated below:

- (a) **Treatment of assets held by long-term employee benefit fund:** These assets should be reported as part of the upstream value chain.
- (b) **Treatment of associates, joint ventures and other investments** – These investments are to be included as part of an undertaking's business relationships, and therefore included in the materiality assessment and metrics connected to material IROs.
- (c) **New reliefs:** A relief is introduced for acquisitions, disposals and certain metrics.

²⁶ A review of the annual reports of some of the largest EU Oil & Gas companies shows they were already providing disclosures where the GHG emissions were based on both operational and financial control.

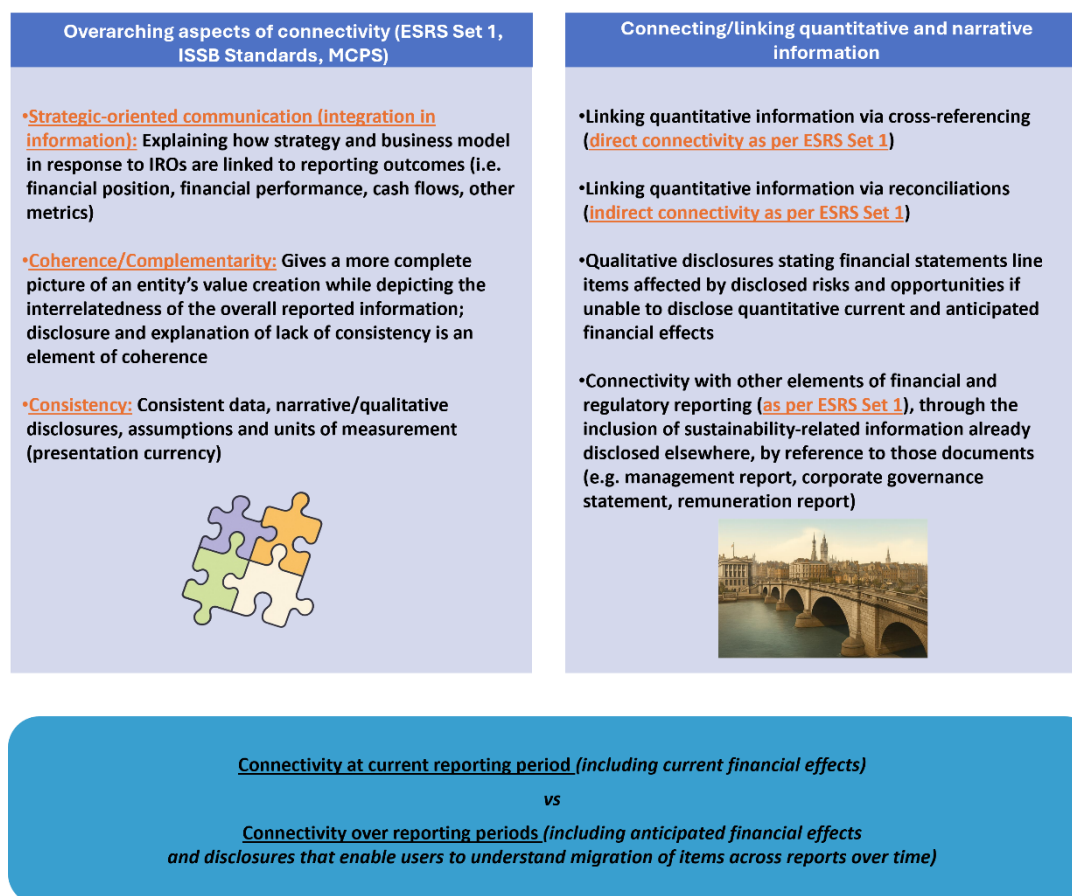
Types and mechanisms of connectivity of reporting

Types of connectivity of reporting as per authoritative literature

- 9 In broad terms, the connectivity types and mechanisms described below allow the linkage of a) an entity's sustainability-related IROs, its commitments and other actions in response, and the related financial effects, which are disclosed in the sustainability statements/disclosures, and b) the related financial statements' effects. For instance, physical and transition risks²⁷ associated with climate change, together with an entity's climate commitments and 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 23 to 28 and Table 1), there is a more complete articulation of where and how connectivity could arise across a range of sustainability-related matters. 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 June 2025 IASB IFRS 1: Management Commentary Practice Statement (June 2025 MCPS) have explicit connectivity-related requirements.
- 10 Figure 2.1 below diagrammatically represents the different types and mechanisms of connectivity, which are drawn from authoritative literature (ESRS Set 1 requirements, ISSB Standards, and the June 2025 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.

²⁷ 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.

Figure 2.1. Synthesis of different types of connectivity



Source: EFRAG

Overarching aspects of connectivity

- 11 **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.
- 12 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.
- 13 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.
- 14 **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 MCPS²⁸ 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).
- 15 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.
- 16 **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 14).

Linking/connecting interrelated quantitative and narrative information across reports

- 17 **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 3(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” via a reconciliation, which is related to either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking's financial statements.

Also, under ESRS Set 1, cross-referencing or reconciliation could be applied for GHG intensity and Energy intensity metrics, as the denominator would be the IFRS 15 revenue. Under the draft revised ESRS ED, these intensity metrics are no longer required. Hence, the requirement to either cross-reference or reconcile the denominator to the IFRS 15 revenue in the financial statements is no longer applicable.

- 18 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).
- 19 **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 as required by ISSB Standards (and elaborated in the August 2025 ISSB educational material²⁹) and ESRS Set 1, 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 migrate³⁰ 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 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 presented³¹:

- (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.

²⁹ ISSB, August 2025, [Disclosing information about anticipated financial effects applying ISSB Standards](#)

³⁰ 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).

³¹ Source : [FAQ of the July 2025 ESRS Exposure Drafts](#)

- 20 **Linking forecast information to past/present reported information:** Under ESRS requirements (ESRS 1.74³²), another aspect of linkage across periods is captured by forecast information being related to retrospective information (past/present period reported information).

Mechanisms of connectivity of reporting information

- 21 Mechanisms of connectivity are some of the practical ways of implementing the types of connectivity described in paragraphs 9 to 20 above. Based on ESRS and ISSB Standards, Bayne et al's (2025) findings, feedback from stakeholders, and observations of reporting practice, the following³³ 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 16. ESRS 1.123 states that when the sustainability statement includes monetary amounts or other quantitative datapoints that exceed a threshold of materiality and that are presented in the financial statements (direct connectivity between information disclosed in the sustainability statement and information disclosed 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.
- (c) Similarly, the **reconciliation** of related datapoints is linked to indirect connectivity. ESRS 1.124 states that the sustainability statement may include monetary amounts or other quantitative datapoints that exceed a threshold of materiality and that are

³² 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.

³³ 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.

either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking's/entity's financial statements (indirect connectivity between information disclosed in the sustainability statement and information disclosed in the financial statements). If this is the case, the undertaking/entity shall explain how these amounts or datapoints in the sustainability statement relate to the most relevant amounts presented in the financial statements. 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. 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.

(d) **Disclosure of qualitatively material exposures (e.g. climate risk has not affected the financial statements or 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-final³⁴ illustrative examples, which included a disclosure of qualitatively material exposures as one of the illustrative examples (i.e. Illustrative Example 1). Furthermore, the June 2025 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.

- (e) The disclosure of qualitatively material exposures is related to current financial effects (i.e. a statement that a matter has no current financial effects)³⁵. It is also an aspect of coherence described in paragraph 13, 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.

³⁴ The final set of illustrative examples are expected to be published in October 2025.

³⁵ 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.

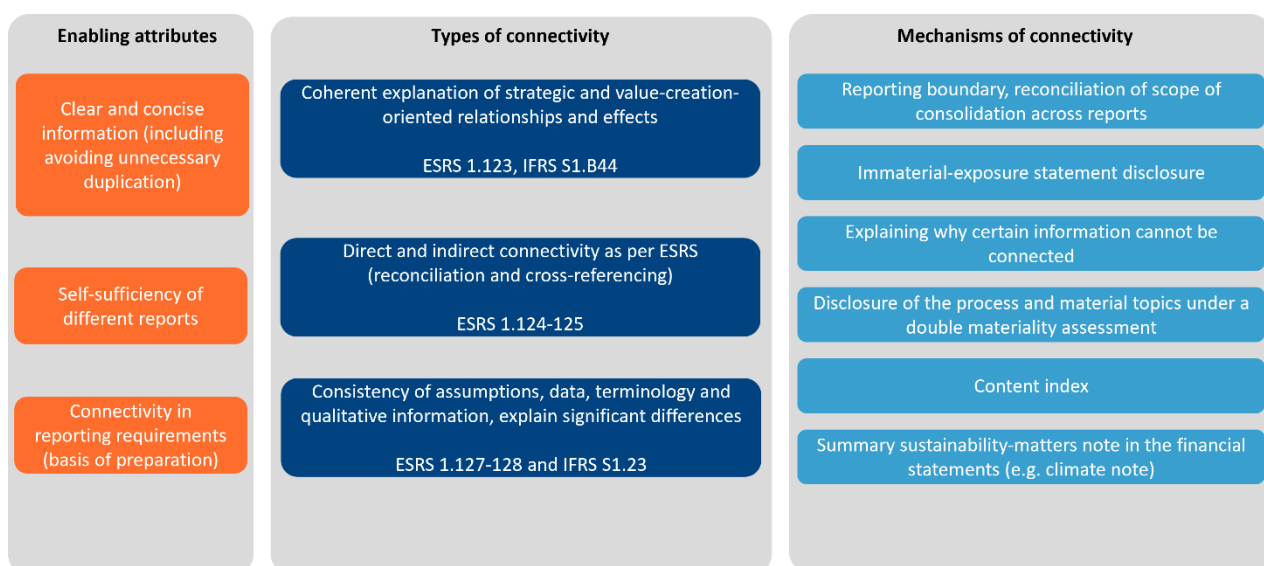
- (f) Finally, it is worth noting that, in its response to the IASB COUFS ED, EFRAG supported the illustrative example 1 related to the disclosure of qualitatively material exposures, but EFRAG also aired several stakeholders' reservations about this disclosure. These stakeholders called for the rare use of this disclosure so as not to obscure other material information in the financial statements.
- (g) **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, sustainability statement information has a higher level of uncertainty and a typical focus on 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.
- (h) **Disclosure of the process and material topics under a double materiality assessment:** The disclosure of the materiality process is required by ESRS and ISSB requirements³⁶, 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.
- (i) **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.

³⁶ 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."

(j) **Summary sustainability-matters note in the financial statements (e.g. climate note).**

- 22 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.

Figure 2.2 Enabling attributes, types and mechanisms of connectivity

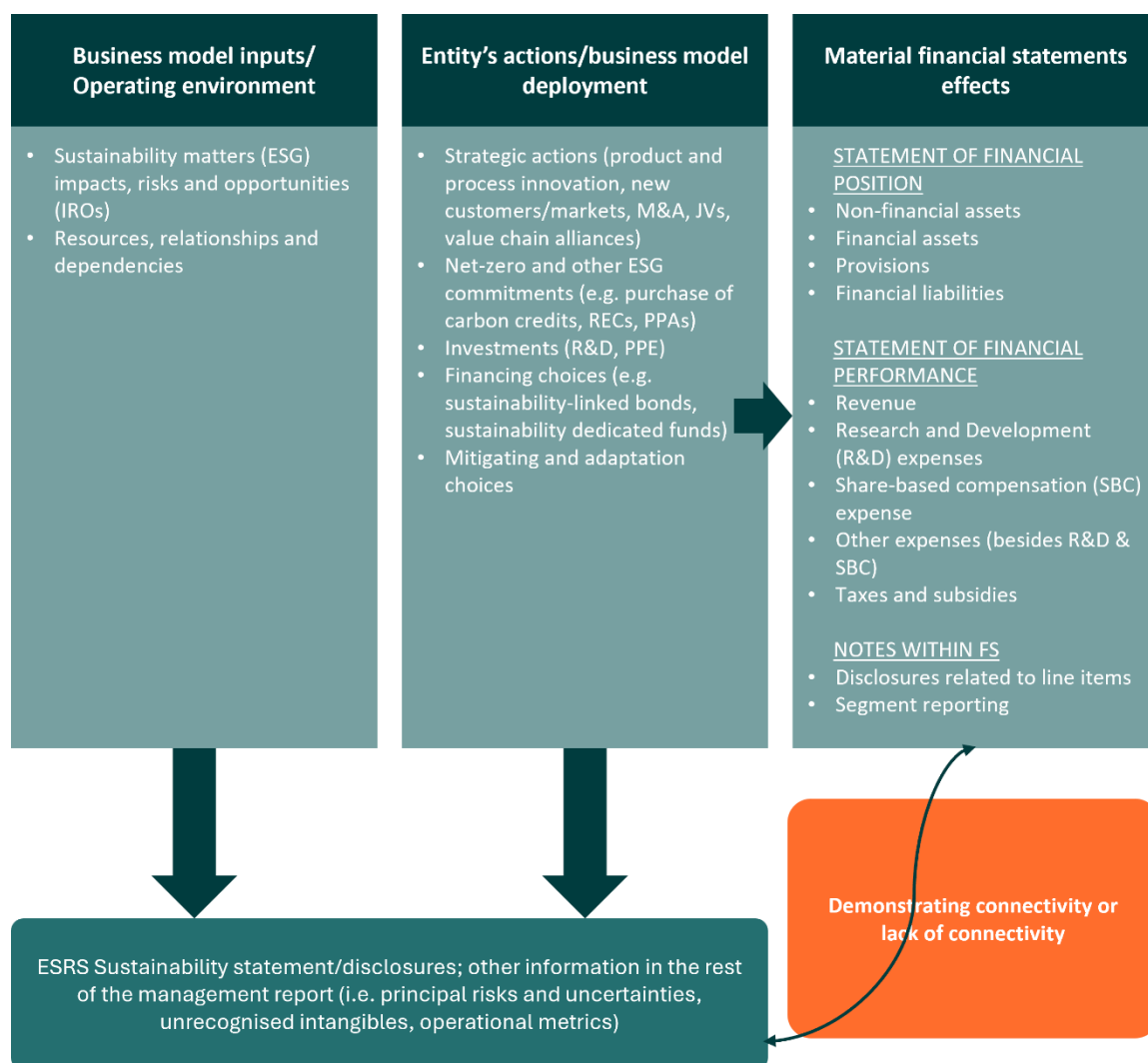


Source: EFRAG

Anchor points

- 23 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.
- 24 The diagram below is a useful backdrop for identifying suitable anchor points (i.e. as defined in paragraph0, 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

- 25 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 2022-2025 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 reporting can be found in Table 2 of the 2025 ANC-France report³⁷ on the reporting of climate issues.

³⁷ 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.](#)

- 26 A summary of the respective sustainability reporting and financial statements anchor points is presented below.

Sustainability reporting anchor points

- 27 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:
- (a) 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) Human capital metrics, including employee benefits disclosures;
 - (g) Sustainability-linked financing³⁸; and
 - (h) Scope of consolidation disclosure (related to consistency or otherwise of reporting boundary).

Financial statements anchor points

- 28 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).

³⁸ 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: Sustainability reporting and Financial statements anchor points

Sustainability reporting (SR)-anchor points	Financial statements (FS) anchor points	Types/ possible mechanisms of connectivity of reporting
GENERAL ANCHOR POINT (ALSO DEPICTED IN FIGURE 2.3 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 • potential litigation due to environmental damage, human rights and labour safety violations; • regulatory requirements to remediate environmental damage; 	<p>Coherence, including complementarity 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>Possible non-exposure statements: When there are no material effects in the financial statements, even though these would have been reasonably expected based on SR 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>

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	<ul style="list-style-type: none"> • 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</u> (e.g. revenues, R&D expenses, deferred taxes, subsidies)</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</u>, including <u>carbon credits</u>, <u>RECs</u>, and <u>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>	
SPECIFIC ANCHOR POINTS		
Article 8 Taxonomy investments disclosed in SR	<u>Balance sheet and income statement effects:</u> Assets, Revenue, Opex	Direct/indirect connectivity- SR taxonomy disclosure that is either cross-referenced or provides a reconciliation to the related financial

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<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</p> <p>ESRS E1-1.16</p>		<p>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. Sustainability matters with future financial effects 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 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 sources of estimation uncertainty 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</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>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>	<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>	<p>Direct connectivity (via cross-referencing) or indirect connectivity (via reconciliations/explanation of linkage to financial statements)</p>

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<p>Disclosure of environmental, social (own workforce and value chain/human rights), and business conduct incidents</p>	<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: 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 Employee Benefits requirements)</p> <p>Indirect connectivity: reconciliation with remuneration report (via incorporation by reference in SR)</p> <p>Disclosure of anticipated financial effects in SR with accompanying explanations linked to expected financial effects in future periods</p>
<p>Human capital and social capital metrics, Employee benefits/ obligations</p> <p>Own and value-chain workforce metrics under ESRS</p>	<p>Intangibles from 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 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>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 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 Share-based payment, IAS 19, and IAS 37 requirements)</p>

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SR mitigation actions – ESG-linked borrowing, use of carbon credits to mitigate GHG emissions	Recognition and disclosure of ESG-linked bonds and carbon credits/emission trading schemes	Coherence and direct connectivity
SR basis of preparation/ reporting boundary Scope of consolidation/calculation of metrics under the GHG protocol, and implications of application of operational control	FS basis of preparation/ reporting boundary Application of control for consolidation	Indirect connectivity- reconciliation of the respective scope of consolidation of SR and FS 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 Explain significant differences: For instance, scope of consolidation (in general + Scope 3)