IASB–ISSB Joint Meeting

Date	**February 2025**
Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Connectivity**
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Introduction and purpose

1. In July 2024, the International Accounting Standards Board (IASB) published the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*. The Exposure Draft proposed eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements.

2. Agenda Paper 14 sets out the structure of the agenda papers for this meeting, the background of the proposed illustrative examples and an overview of the feedback on the Exposure Draft.

3. The Exposure Draft explains the IASB's considerations about how the examples could facilitate connected general purpose financial reports, but it does not include a specific question about connectivity. However, many respondents provide feedback on connectivity. This paper summarises that feedback.

4. We are not asking the IASB or the International Sustainability Standards Board (ISSB) to make any decisions at this meeting.

Note on terminology

5. In commenting on connectivity, respondents use various terms to refer to sustainability-related disclosures. In some cases, respondents refer to disclosures prepared applying a specific framework—for example, some refer to sustainability-related financial disclosures prepared applying IFRS Sustainability Disclosure Standards. However, in many cases it is unclear whether respondents are referring to sustainability-related disclosures prepared applying a specific framework or sustainability-related disclosures in general.

6. This paper uses the term 'sustainability disclosures' to refer to comments that appear to refer to sustainability-related disclosures in general and uses more specific terms when the feedback appears to be more specific about the framework used to prepare these disclosures.

Structure of this paper

7. This paper includes:

   (a) background information on connectivity considerations in developing the examples (paragraphs 8–17); and

   (b) a summary of the feedback on connectivity (paragraphs 18–40).

Connectivity considerations in developing the examples

8. The Basis for Conclusions on the Exposure Draft explains the overall considerations in developing the examples. One of these considerations relates to how the examples could facilitate connected general purpose financial reports. The explanations in the Basis for Conclusions on the Exposure Draft cover the following topics:

   (a) focus on apparent inconsistencies between information in financial statements and information in other general purpose financial reports;

(b) illustrating the provision of connected information;

(c) avoiding possible disclosure duplication; and

(d) the different objectives of each report.

9. The following paragraphs summarise the content from paragraphs BC19–BC27 of the Basis for Conclusions on the Exposure Draft.

Focus on apparent inconsistencies

10. As noted in Agenda Paper 14, one of the objectives of the project is to respond to concerns that information about the effects of climate-related risks in the financial statements sometimes appears to be inconsistent with information entities provide outside their financial statements, particularly information reported in other general purpose financial reports.

11. In responding to these concerns, the IASB decided to focus the examples on inconsistencies that might appear to exist between an entity's financial statements and other general purpose financial reports. The IASB concluded that this approach would help strengthen the connections between information an entity provides in these reports.

Illustrating the provision of connected information

12. In developing the examples, the IASB sought to illustrate the provision of connected information in general purpose financial reports and to reinforce compatibility with IFRS Sustainability Disclosure Standards based on the existing requirements in IFRS Accounting Standards. To achieve those goals, the IASB:

(a) illustrated in Examples 1–2 how requirements in IFRS Accounting Standards enable an entity to provide information in the financial statements that is connected with information it provides in other general purpose financial reports;

(b) used concepts and terminology consistent with those used in IFRS Sustainability Disclosure Standards, to the extent possible; and

(c) collaborated with ISSB members and technical staff in developing the examples.

13. In developing the examples, the IASB did not limit the consideration of connected information to the circumstances in which both sets of IFRS Standards are applied. However, the IASB specifically considered how the content of the examples relates to requirements in IFRS Sustainability Disclosure Standards.

Avoiding possible disclosure duplication

14. The IASB noted that the application of both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards in the fact patterns illustrated by the examples may, in some cases, result in an entity providing information in its financial statements that is similar to information it is required to provide in its sustainability-related financial disclosures. For example, this outcome might arise when an entity:

(a) in its sustainability-related financial disclosures, provides information about how sustainability-related risks and opportunities have affected an entity's financial position, financial performance and cash flows for the reporting period (financial effects); and

(b) in its financial statements, provides disaggregated information—for example, the information about property, plant and equipment illustrated in Example 8.

15. However, when applied together, IFRS Standards enable connected financial reports and avoid duplicated disclosures. IFRS Sustainability Disclosure Standards permit an entity, subject to specified criteria, to include information in its sustainability-related financial disclosures by cross-reference to another report published by the entity, for example, the entity's financial statements.

The different objectives of each report

16. The IASB observed that some requirements in IFRS Accounting Standards and IFRS Sustainability Disclosure Standards include similar language. For example, both sets of Standards:

   (a) have a conceptually aligned definition of material information; and

   (b) include a similar overarching requirement to provide additional information when compliance with specific requirements is insufficient to enable users to understand how various matters affect the entity.

17. However, applying the definition of material information and the requirement to provide additional information, in the context of financial statements and in the context of sustainability-related financial disclosures, could result in an entity providing different information in each of those reports because those reports serve different objectives.[1]

Summary of feedback

Overview of the feedback

Main messages

18. Many respondents comment on connectivity, including connectivity between financial statements and sustainability disclosures, between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards and between the IASB and ISSB. Many of these respondents emphasise the importance of connectivity and welcome the IASB's efforts to strengthen connections between the information an entity provides in financial statements and the information it provides in sustainability disclosures.

[1] See also paragraphs BC68–BC69 of the Basis for Conclusions on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

19. However, although some respondents say that the examples in the Exposure Draft will be helpful in that regard, most respondents say more should be done to improve connectivity in general purpose financial reports and address inconsistencies that might appear to exist between those reports. In some cases, respondents specify whether such additional work should be undertaken as part of this project or as a separate project or activity.

20. These respondents ask for further clarifications, explanations and illustrations on the connections and boundaries between financial statements and sustainability disclosures. Most of these respondents say that additional guidance should be provided by developing additional examples, educational materials or improving the examples proposed in the Exposure Draft.[2] A few respondents also suggest developing principles and requirements in IFRS Accounting Standards for connectivity between financial statements and sustainability disclosures.

21. Many respondents emphasise the importance of continued and enhanced collaboration between the IASB and ISSB to strengthen connectivity between financial statements and sustainability-related financial disclosures and ensure alignment between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.

22. Some respondents also make connectivity-related comments in commenting on specific examples. Agenda Paper 14D summarise these comments.

Structure of the feedback summary

23. The following paragraphs further explain respondents' comments. We organised feedback in the following categories:

    (a) areas on which respondents seek further guidance, namely:

        (i) the connections between financial statements and sustainability disclosures (paragraphs 24–26); and

[2] For simplicity, we will refer to the requests for further clarifications, explanations and illustrations as request for further 'guidance'. However, some of those might require standard-setting.

(ii) the boundaries between these reports (paragraphs 27–32).

(b) ways in which to provide that additional guidance, namely:

(i) developing additional examples and educational materials (paragraphs 33–34); and

(ii) improving the examples proposed in the Exposure Draft (paragraphs 35–36).

(c) requests for principles and requirements on connectivity (paragraphs 37–38).

Areas on which further guidance in needed

Connections between financial statements and sustainability disclosures

24. Many respondents suggest further illustrating, clarifying and explaining the connections between financial statements and sustainability disclosures. For example, respondents refer to:

(a) *the connections between sustainability-related matters and their financial effects*—for example, connections between climate-related transition plans disclosed in sustainability disclosures and the effects of those plans on an entity's financial position, financial performance and cash flows for the reporting period.

(b) *the connections between assumptions used in sustainability disclosures and those used in financial statements*—for example, connections between assumptions used in a climate-related scenario analysis and assumptions used in impairment testing (including illustrating reasons for when and why using different assumptions is appropriate); and

(c) *the connections between information in sustainability disclosures and information in financial statements*—for example, connecting information in financial statements and information in sustainability disclosures to demonstrate 'connected thinking' and avoid unnecessary duplication.

25. In addition, a few respondents make various specific suggestions, including:

    (a) illustrating the application of IFRS Accounting Standards and IFRS Sustainability Disclosure Standards together, including illustrating the interaction between the requirements in the two sets of IFRS Standards and illustrating which information an entity would disclose in financial statements and which it would disclose in sustainability-related financial disclosures. Some of the respondents that make this suggestion say the IASB and ISSB should work together to develop such illustrations.

    (b) reconciling or explaining the differences between information in sustainability disclosures about sustainability-related matters and information in financial statements about their financial effects. For example, explaining why sustainability-related commitments (such as emission reduction targets) might not have affected an entity's financial position, financial performance and cash flows for the reporting period.

    (c) clarifying how information disclosed in sustainability disclosures—for example, information about an entity's climate-related transition plan—affects the information an entity discloses in financial statements.[3]

26. A few respondents also suggest illustrating interactions between IFRS Accounting Standards and other sustainability-related reporting requirements and frameworks, such as the European Sustainability Reporting Standards (ESRS) and the Global Reporting Initiative (GRI) Standards.

Boundaries between financial statements and sustainability disclosures

27. Many respondents say stakeholders need greater clarity about the boundaries of financial statements and sustainability disclosures—that is, what information belongs in financial statements and what information belongs in sustainability disclosures. A

[3] Some respondents also specifically commented on the interaction between sustainability disclosures and the disclosures in financial statements illustrated in Examples 1 and 2. See Agenda Paper 14D for further details.

few of these respondents also refer to the boundaries of other general purpose financial reports, such as management commentary.

28. A few respondents expressed concerns that the examples might have further blurred these boundaries and could result in entities disclosing in financial statements information that in their view belongs in other reports (including in sustainability disclosures). For example, a few respondents say the examples seem to require, through the application of paragraph 31 of IAS 1 *Presentation of Financial Statements*, entities to include in financial statements risk-related disclosures that are usually provided in management commentary.

29. These respondents suggest clarifying the boundaries of financial statements and sustainability disclosures. In particular, respondents suggest clarifying that financial statements and sustainability disclosures:

    (a) *have different objectives*—a few respondents note that the objective of financial statements of providing information about assets, liabilities, equity, income and expenses is different from the objective of sustainability disclosures.

    (b) *involve different materiality judgements*—for example, a few respondents note that materiality judgements for sustainability-related financial disclosures prepared applying IFRS Sustainability Disclosure Standards will differ from those for financial statements, and that those judgements should be made in the context of the objective of each report.

    (c) *provide information of a different nature*—for example, a few respondents say that, because of their different objectives, sustainability disclosures include more forward-looking information and might require an entity to consider financial implications over longer time periods than financial statements.

30. In addition, a few respondents suggest clarifying that some of the information in sustainability disclosures prepared in accordance with particular requirements and

frameworks, such as the ESRS, address information needs of users beyond users of general purpose financial reports.[4]

31. Respondents say that the clarifications described in paragraphs 29–30 could help minimise uncertainty, narrow the expectation gap amongst stakeholders, and avoid unnecessary duplication of information in sustainability disclosures and financial statements.

32. A few respondents also suggest clarifying that an entity should disclose in financial statements information that is material in the context of financial statements irrespective of whether the entity also discloses that information elsewhere.

How to provide further guidance

Developing additional examples and educational materials

33. Some respondents suggest developing additional examples or developing educational materials to illustrate, clarify and explain the connections and boundaries between financial statements and sustainability disclosures. Many of those respondents suggest the IASB works with the ISSB in developing additional examples and educational materials.

34. A few respondents, mainly accountants, make specific suggestions about the format of such materials. These suggestions include:

    (a) developing walk-through examples—that is, examples illustrating broader fact patterns and several requirements in each Board's set of Standards; and

    (b) developing illustrative disclosures to show preparers what 'good' disclosures looks like.

[4] For example, the double materiality assessment of what is decision-useful in ESRS considers both investors and other stakeholders (including in relation to impact materiality), while in IFRS Sustainability Disclosure Standards this assessment is focused on the information needs of investors. Despite ESRS being designed to also meet the information needs of other stakeholders, the definition of information that is considered material for users of general purpose financial reports is aligned between the two sets of standards.

Improving examples to address connectivity-related matters

35. Some respondents make suggestions about how to improve some of the examples proposed in the Exposure Draft to better illustrate connectivity between financial statements and sustainability disclosures. Further information about these comments is included in Agenda Paper 14D.

36. In addition, a few respondents also make overall suggestions for the set of examples, including referring to specific sustainability disclosure requirements and illustrating cross-references between the reports.

Requests for principles and requirements on connectivity

37. A few respondents say the IASB should undertake standard-setting to develop principles and requirements on how entities should connect the information in financial statements with information in other general purpose financial reports, including sustainability disclosures. In particular, these respondents suggest:

    (a) developing connectivity principles and requirements that are similar to those in sustainability reporting requirements and frameworks, like IFRS Sustainability Disclosure Standards and ESRS, and those in the IASB's Exposure Draft *Management Commentary*.[5] In particular, one regulator suggests explicitly referring in IFRS Accounting Standards to the concepts of connectivity, consistency and coherence between financial statements and other general purpose financial reports, instead of such concepts being implicitly captured in the application of paragraph 31 of IAS 1. This respondent says this would enhance the consistent application and enforceability of IFRS Accounting Standards and the auditability of the information disclosed in financial statements.

[5] The IASB completed redeliberations of the targeted refinements to its proposals in the Exposure Draft *Management Commentary*, including targeted refinements to the proposed notion of coherence of information, in December 2024. The IASB expects to issue revised IFRS Practice Statement 1 *Management Commentary* in the first half of 2025.

(b) requiring entities to consider the information that needs to be provided in the financial statements in the light of information disclosed in their other general purpose financial reports, similar to the requirement for auditors to ensure consistency between those reports.

38. A few respondents also suggest clarifying the boundaries between different general purpose financial reports in the *Conceptual Framework for Financial Reporting* and, in the future, developing a conceptual framework for sustainability reporting.

Other comments

39. A few respondents commented on including information in financial statements by cross-reference to information outside the financial statements (such as information in sustainability disclosures). Some of these respondents suggest:

(a) clarifying whether such cross-referencing is allowed when it is not explicitly permitted in IFRS Accounting Standards, such as it is in IFRS 7 *Financial Instruments: Disclosures*; and

(b) collaborating with the ISSB and the International Auditing and Assurance Standards Board (IAASB) to develop a framework for cross-referencing that balances users' needs with assurance considerations.

40. A few respondents suggest illustrating connectivity considerations beyond sustainability disclosures by covering information an entity discloses in other general purpose financial reports.

Question for the IASB and ISSB

Question for IASB and ISSB members
Do you have any comments on the summary of feedback included in this paper?