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## Accounting Standards Advisory Forum meeting

Date **May 2025**

Project **Climate-related and Other Uncertainties in the Financial Statements**

Topic **Connectivity**

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### Accounting Standards Advisory Forum, May 2025, Agenda Paper 1C

This paper was discussed at the International Accounting Standards Board's (IASB's) May 2025 meeting as Agenda Paper 14C. The agenda papers referred to in this paper are the other agenda papers for the IASB's May 2025 meeting.

## Introduction and purpose

1. The purpose of this meeting is to provide the IASB with the staff's preliminary analysis of the feedback on the [Exposure Draft](#) *Climate-related and Other Uncertainties in the Financial Statements*, published in July 2024.
2. Agenda Paper 14 sets out the structure of the agenda papers for this meeting.
3. This paper provides the staff's preliminary analysis of the feedback on connectivity, including our preliminary recommendations on how to address that feedback. Agenda Papers 14D–14F include our analysis of connectivity-related comments and suggestions on the specific examples.

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4. We are not asking the IASB to make any decisions at this meeting. However, comments from IASB members on the preliminary analysis included in this paper will help us develop our recommendations for the direction of this project.

## Structure of this paper

5. This paper includes:
- (a) a summary of staff's preliminary recommendations (paragraph 7);
  - (b) background information on connectivity considerations in developing the examples (paragraphs 8–17); and
  - (c) a summary of the feedback on connectivity and the staff's preliminary analysis of that feedback (paragraphs 18–40).
6. The appendix to this paper includes further explanations about respondents' feedback.

## Summary of staff's preliminary recommendations

7. The staff's preliminary recommendation is that the IASB seek feedback as part of its Fourth Agenda Consultation on the priority of additional work to facilitate connected financial reporting beyond the educational material the staff is exploring developing (see paragraph 25).

## 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;

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- (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 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;

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- (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.

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***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.<sup>1</sup>

**Summary of feedback and staff's preliminary analysis*****Main messages from the feedback***

18. Many respondents commented 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 emphasised the importance of connectivity and welcomed the IASB's efforts to strengthen connections between the information an entity provides in financial statements and the information it provides in sustainability disclosures.

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

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19. However, although some respondents said that the examples in the Exposure Draft will be helpful in that regard, most respondents said 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 specified whether such additional work should be undertaken as part of this project or as a separate project or activity.
  20. These respondents asked for further clarifications, explanations and illustrations on the connections and boundaries between financial statements and sustainability disclosures. For simplicity, this paper refers to the requests for further clarifications, explanations and illustrations as request for further ‘guidance’. However, some of those might require standard-setting.
  21. Most of these respondents said that additional guidance should be provided by developing additional examples, educational materials or improving the examples proposed in the Exposure Draft. A few respondents also suggested developing principles and requirements in IFRS Accounting Standards for connectivity between financial statements and sustainability disclosures. The appendix for this paper provides further information about respondents’ requests.
  22. Many respondents emphasised 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.

### ***Staff’s preliminary analysis***

23. We agree with respondents on the importance of connectivity, including connectivity between financial statements and sustainability disclosures, IFRS Accounting Standards and IFRS Sustainability Disclosure Standards, and the IASB and the ISSB and their technical staff.

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24. As explained in paragraphs 8–17, facilitating connected general purpose financial reports was one of the considerations in developing the illustrative examples proposed in the Exposure Draft. In particular, one of the objectives of this project is to address concerns about apparent inconsistencies between information in an entity’s financial statements and information in its other general purpose financial reports.
25. To further support achieving the project’s objective, and to support the IASB and the ISSB’s shared purpose of promoting connected financial reporting, we are exploring developing an educational material to provide some of the additional guidance requested by respondents. Specifically, we are exploring developing a written educational material based on the webcast series *Connectivity between financial statements and sustainability-related financial disclosures* (see paragraphs 28–34 for further explanations).
26. This written educational material would be developed and published separately from the illustrative examples being developed in this project. The illustrative examples focus on the information an entity discloses in the financial statements. In contrast, this educational material would cover information provided in an entity’s financial statements and in its sustainability-related financial disclosures applying IFRS Accounting Standards and IFRS Sustainability Disclosure Standards, respectively.
27. In addition, we recommend the IASB seek feedback as part of its Fourth Agenda Consultation on the relative priority of additional work to facilitate connected financial reporting beyond that educational material (see paragraphs 35–40).

*Written educational material based on the connectivity webcast series*

28. In December 2024, we published the [webcast series](#) *Connectivity between financial statements and sustainability-related financial disclosures*. The webcast series was based on a session of the same name presented at the [World Standard-setters Conference 2024](#). That session and the webcast series were jointly developed by

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IASB and ISSB technical staff in collaboration with IASB and ISSB members.<sup>2</sup> The webcast series:

- (a) discusses how IFRS Accounting Standards and IFRS Sustainability Disclosure Standards complement each other; and
- (b) walks through practical examples to illustrate how applying the Standards together results in complementary and connected reported information.

29. The webcast series explores various areas where respondents said further guidance is needed. In particular, the webcast series:

- (a) explains the boundaries of financial statements and sustainability-related financial disclosures by reference to the objectives of each report, highlighting:
  - (i) areas of potential overlap between the information an entity is required to provide in each report; and
  - (ii) why materiality judgements made in the context of each report's objective and in relation to reporting requirements applicable to each report will typically lead to different reported information;
- (b) explains how IFRS Accounting Standards enable connections with related sustainability-related financial disclosures and how IFRS Sustainability Disclosure Standards specifically require connections with the related financial statements (for example, through its connected information requirements and requirements related to the use of cross-references to avoid duplicated information);
- (c) illustrates how information provided in one report complements information provided in the other report—providing complementary perspectives on the reporting entity—and highlights different types of information provided in each report (for example, that sustainability-related financial disclosures provide more forward-looking information than financial statements); and

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<sup>2</sup> The session and the webcast series were subject to the board member review required for educational materials by paragraph 8.10 of the *Due Process Handbook*.



- (d) illustrate connections between sustainability-related risks and opportunities and their financial effects, between assumptions used in sustainability-related financial disclosures and those used in financial statements, and between information in sustainability-related financial disclosures and information in financial statements.
30. The comment period for the Exposure Draft ended before the publication of the webcast series. Therefore, respondents were unaware of the guidance in the webcast series when finalising their comment letters. Furthermore, the format we used to deliver the guidance (webcast) might have a more limited reach with, and be less accessible for, some stakeholders compared to a written educational material.
31. In our view, developing a written educational material based on the content of the webcast series would help respond to many of the stakeholders' requests for further guidance (see paragraphs A4–A12 of the appendix). Furthermore, because it would be based on an existing webcast series, developing this written educational material would not require substantial additional resources from both boards and their staff. We expect the written educational material could be published around the same time as the illustrative examples, if the IASB decides to issue the examples.
32. Financial statements prepared in accordance with IFRS Accounting Standards may be accompanied by disclosures about sustainability-related risks and opportunities prepared in accordance with IFRS Sustainability Disclosure Standards or other sustainability-related standards or frameworks. Although the written educational material would provide guidance for when an entity applies IFRS Accounting Standards and IFRS Sustainability Disclosure Standards together, we think that guidance could also be helpful for entities applying other frameworks to prepare sustainability-related information—for example, because the written educational material would illustrate how financial statements serve a different purpose compared to information included in other reports.
33. Furthermore, entities applying European Sustainability Reporting Standards (ESRS) could use the guidance in the written educational material together with the [guidance](#)

[on interoperability](#) between ESRS and IFRS Sustainability Disclosure Standards to better understand what they are required to report. For example, where the written educational material refers to a particular disclosure requirement in IFRS Sustainability Disclosure Standards, an entity might use the interoperability guidance to identify the corresponding disclosure requirement in ESRS and to understand the degree of alignment between these requirements.

34. Finally, although a few respondents suggested illustrating connectivity beyond sustainability disclosures by covering information an entity discloses in other reports (see paragraph A20), most respondents specifically commented on connectivity between financial statements and sustainability-related financial disclosures. Therefore, we think the focus on connectivity between these two general purpose financial reports in the webcast series would also be appropriate for the written educational material.

#### *Fourth Agenda Consultation and potential connectivity-related projects*

35. As discussed in [Agenda Paper 24](#) for the IASB's March 2025 meeting, the IASB has recently started its Fourth Agenda Consultation. This agenda consultation will help the IASB determine its work plan for a new period beginning in 2027. We expect the IASB to publish a request for information during the fourth quarter of 2025.
36. We think the IASB could use its Fourth Agenda Consultation to gather views from stakeholders on the relative priority of additional work to facilitate connected financial reporting beyond the educational material discussed in this paper. In particular, we think the request for information could describe two potential projects similar to those suggested by respondents, namely:
- (a) a project to explore adding to the *Conceptual Framework for Financial Reporting (Conceptual Framework)* or to IFRS Accounting Standards principles or requirements of connected information or coherence between financial statements and other general purpose financial reports (see paragraph A17 of the appendix); and

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- (b) a project to address sustainability-related financial disclosures in the *Conceptual Framework* and to clarify the boundaries between these disclosures and financial statements (see paragraph A18 of the appendix).
37. Both of these potential projects would be larger projects that would go beyond the narrow scope of this project. Therefore, the IASB would need to consider the relative priority of adding such projects to its work plan as part of its Fourth Agenda Consultation.
38. Any such potential project would involve collaboration between members of the IASB and the ISSB and their technical staff. Feedback on the IASB's Fourth Agenda Consultation might also suggest the need for the IASB and the ISSB to work together on a joint project. [Agenda Paper 24](#) for the IASB's March 2025 meeting explains our proposed approach to possible joint projects.
39. A few respondents also suggested that the IASB clarify whether an entity is allowed to use cross-referencing to comply with disclosure requirements in IFRS Accounting Standards or develop a framework for this use of cross-referencing (see paragraph A19). The topic of whether, and under which circumstances, an entity is allowed to comply with disclosure requirements in IFRS Accounting Standards by including information in financial statements by cross-reference to information outside financial statements is complex and not specific to this project. Therefore, we think that addressing this matter would require substantial additional work and go beyond this project's scope.
40. Furthermore, we think the IASB should not describe a project on the use of cross-references to comply with disclosure requirements in IFRS Accounting Standards as a potential project in the request for information for the IASB's Fourth Agenda Consultation. We note that the IASB has already considered developing general requirements for this use of cross-referencing as part of its Principles of Disclosure project. After considering feedback from stakeholders on the Discussion Paper *Disclosure Initiative—Principles of Disclosure*, it decided not to develop such

requirements.<sup>3</sup> In our view, the feedback in this project does not provide sufficient evidence to suggest that the IASB should reconsider developing such requirements. Nonetheless, the IASB will consider feedback from stakeholders if that feedback suggests that developing such requirements should be described as a potential project in the Request for Information.

## Question for the IASB

### Question for IASB members

Do you have any comments on the staff's preliminary analysis included in this paper?

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<sup>3</sup> See [Agenda Paper 11F](#) for the IASB's July 2028 meeting for further information.

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## Appendix—Further explanations about respondents’ feedback

- A1. Paragraphs 18–40 of this paper include a summary of the main messages from respondents’ feedback on connectivity and our analysis of that feedback.
- A2. This appendix includes further explanations about respondents’ feedback. It reproduces details of feedback summarised in [Agenda Paper 14C](#) for the IASB–ISSB February 2025 meeting.
- A3. We organised feedback in the following categories:
- (a) areas on which respondents sought further guidance (paragraphs A4–A12);
  - (b) ways in which to provide that additional guidance (paragraphs A13–A16);
  - (c) requests for principles and requirements on connectivity (paragraphs A17–A18); and
  - (d) other comments (paragraphs A19–A20).

### ***Areas on which further guidance is needed***

#### *Connections between financial statements and sustainability disclosures*

- A4. Many respondents suggested further illustrating, clarifying and explaining the connections between financial statements and sustainability disclosures. For example, respondents referred 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.

A5. In addition, a few respondents made 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 made this suggestion said 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.<sup>4</sup>

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<sup>4</sup> 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.

- A6. A few respondents also suggested 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*

- A7. Many respondents said 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 few of these respondents also referred to the boundaries of other general purpose financial reports, such as management commentary.
- A8. 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 said 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.
- A9. These respondents suggested clarifying the boundaries of financial statements and sustainability disclosures. In particular, respondents suggested clarifying that financial statements and sustainability disclosures:
- (a) *have different objectives*—a few respondents noted 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 noted 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 said 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.

- A10. In addition, a few respondents suggested 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.<sup>5</sup>
- A11. Respondents said that the clarifications described in paragraphs A9–A10 could help minimise uncertainty, narrow the expectation gap amongst stakeholders, and avoid unnecessary duplication of information in sustainability disclosures and financial statements.
- A12. A few respondents also suggested 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***

- A13. Some respondents suggested 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

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<sup>5</sup> 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.



respondents suggested the IASB works with the ISSB in developing additional examples and educational materials.

A14. A few respondents, mainly accountants, made 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’ disclosure looks like.

*Improving examples to address connectivity-related matters*

A15. Some respondents made 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–14F.

A16. In addition, a few respondents also made 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***

A17. A few respondents said 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 suggested:

- (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

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*Management Commentary*.<sup>6</sup> In particular, one regulator suggested 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 said that this would enhance the consistent application and enforceability of IFRS Accounting Standards and the auditability of the information disclosed in financial statements.

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

A18. A few respondents also suggested clarifying the boundaries between different general purpose financial reports in the *Conceptual Framework* and, in the future, developing a conceptual framework for sustainability reporting.

### ***Other comments***

A19. 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 suggested:

- (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

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<sup>6</sup> 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 June 2025.

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- (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.

A20. A few respondents suggested illustrating connectivity considerations beyond sustainability disclosures by covering information an entity discloses in other general purpose financial reports.