Forvis Mazars contribution to the EFRAG Consultation on the Discussion Paper "Connectivity of Financial and Sustainability Reporting"

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Dear Mr. Klinz,

Forvis Mazars Group provides audit & assurance, tax, advisory and consulting services in over 100 countries and territories, including 26 European member states. We are dedicated to delivering an unmatched client experience to help our clients prepare for what's next.

Forvis Mazars is pleased to comment on the EFRAG Discussion Paper (DP) *Connectivity of financial and sustainability reporting* issued in December 2025.

We commend EFRAG for its work in collecting, analysing and promoting all conceptual and experimental contributions relating to connectivity, that is useful for ensuring the consistency and credibility of information in corporate reporting.

We praise the EFRAG's initiative in that DP in organising a discussion around these issues with a view to developing new concepts on connectivity. Based on the initial (limited) provisions in the ESRS, EFRAG's discussion paper introduces useful conceptual building blocks. In this context, we have made suggestions to present their interactions in a practical, educational manner. With regard to qualitative characteristics, we suggest isolating "complementarity" and grouping 'coherence' and 'consistency'. We identify other types of connectivity: (i) distinguishing between "materiality assessment of IROs" and "anchor points", and (ii) identifying additional levels of connectivity such as "internal monitoring" and "relations with stakeholders". We believe that the 'anticipated financial effects' may still attract particular attention as they are likely to be one of the most eagerly awaited outcomes of all the work on connectivity.

We welcome the illustrations that demonstrate that connectivity and meaningful links can already be achieved in practice. We analyse these illustrations in detail, identifying their expected connectivity qualities and discussing the complexities of topical issues such as provisions and impairment testing.

Consistently with our comment letters (EFRAG DP – Better information on intangibles, which is the best way to go?, IASB ED on Climate-related and Other Uncertainties in the Financial Statements – proposed illustrative examples) and our study on Financial reporting of European compagnies on sustainability issues, we believe that the current accounting requirements already permit relevant disclosures. We also note that, although IFRS Accounting Standards have not yet addressed the accounting treatment of carbon-related instruments, other accounting standards already provide compatible solutions. At this stage, we therefore do not encourage the introduction of new, broad accounting standard-setting requirements.

Regarding the anticipated financial effects (AFEs) in the sustainability reporting (SR), our observations confirm that practice remains limited, largely due to transitional provisions and the practical challenges of isolating, measuring and explaining such effects. However, we have identified useful emerging practices in the financial statements (FS), including climate-related notes, disclosure of sustainability commitments, internal carbon pricing, and governance supporting the monitoring of transition plans and Carbon (or water) footprint. There are also increasing references to sustainability matters in segment reporting and impairment analyses. The emergence of communalities rooted in practice (in SR as well as in FS, where more examples can be found) could help define the right way to improve reporting guidance in terms of connectivity.

We would be pleased to discuss our comments with you and are at your disposal should you require clarification or additional information.

Yours sincerely,

Édouard Fossat

Corporate Financial Reporting

Carole Masson

Corporate Sustainability Reporting

Appendix

Question 1 CHAPTER 2: UNDERPINNING CONCEPTS

a) What is your view on Chapter 2's description of different types and mechanisms of connectivity of information across different reports (based on ESRS, ISSB Standards, the IFRS MCPS, and other publications), which include providing explanations that tell a story/integration of information; coherence via giving a more complete picture or explaining inconsistencies; consistency of data, assumptions, and narrative; connection of quantitative information via cross referencing and reconciliation; disclosure of current financial effects, and intertemporal (across reporting periods) connectivity via the disclosure of anticipated financial effects)?

b) If any, what other types or mechanisms of connectivity can be applied or are applied by companies that you consider useful but are not included in Chapter 2?

c) In paragraph 2.24 of Chapter 2, it is suggested that, as done under ESRS, ISSB Standards, and the 2025 IFRS MCPS, the IASB should develop explicit connectivity-related requirements for information within and outside the financial statements. If you either agree or disagree with this suggestion, please explain why.

Forvis Mazars' response

a) Comments on EFRAG's analysis

1. We commend EFRAG for its work in collecting and analysing all the conceptual contributions made with regard to Connectivity. We also praise the EFRAG's initiative in that DP in organising a discussion around these issues with a view to developing new concepts that **pave the way for a future conceptual framework on connectivity**.

2. We support EFRAG's contribution to gradually equipping the framework with conceptual tools designed to facilitate a better understanding and analysis of connectivity. Based on the initial (limited) provisions in the ESRS, EFRAG's DP has thus developed **conceptual building blocks** like:

    3. **Types of linking techniques/mechanisms**: ESRS 1.123-129 [Set 1] sets out the different types of mechanisms linking information between the sustainability report (SR) and other reports, primarily the financial statements (FS).

    4. **Conceptual boundaries of component reporting**: EFRAG fundamentally recognises the distinct characteristics of each self-sufficient component within the corporate reporting. We support the approach of adding and linking different perspectives rather than combining them into a single "integrated" report. Recognising the conceptual differences and boundaries of each component of the corporate reporting safeguards the quality and internal consistency of each framework. The consequence of this design is however that it requires links to be established between these components, and therefore connectivity.

    5. **Dynamic materiality**: The SR and the FS have virtually identical definitions of the financial materiality. However, different conceptual perspectives (see § 24) can result in this definition having different practical consequences in the two reports. These conceptual differences suggest that the scope of financial effects in the SR is broader and more forward-looking than its reflection in the FS. In other words, a financial effect is more likely to be considered material in the SR than in the FS (and may not appear at all in the latter). One can deduce an evolving materiality in both reports, referred to as 'dynamic materiality', and a 'direction' of connectivity. In a broader sense, dynamic materiality is also used in the SR to describe situations where impact materiality today could become financial materiality tomorrow. Primary users of general-

purpose financial reports are very keen to obtain such predictive information (where its basis is clear and reliable).

6. **Anchor points**: at a more detailed level, EFRAG has also developed the concept of "anchor points" addressing which information (narrative information, quantitative data or monetary amounts) within the SR and/or FS may be connected across the different reports. Anchor points can therefore be identified either from the datapoints in the SR (see also § 28) or from the information required (or, in practice, provided) in the FS. Our study on "Financial reporting of European companies on sustainability issues"[1] ("Our Study") may be useful in the identification of such anchor points. Provided the enabling attributes are met (see § 20), connecting anchor points can be done in many different ways depending on the **quality** of the connection i.e. whether it is merely a consistency check or whether it genuinely adds value by offering a new perspective (see § 13).

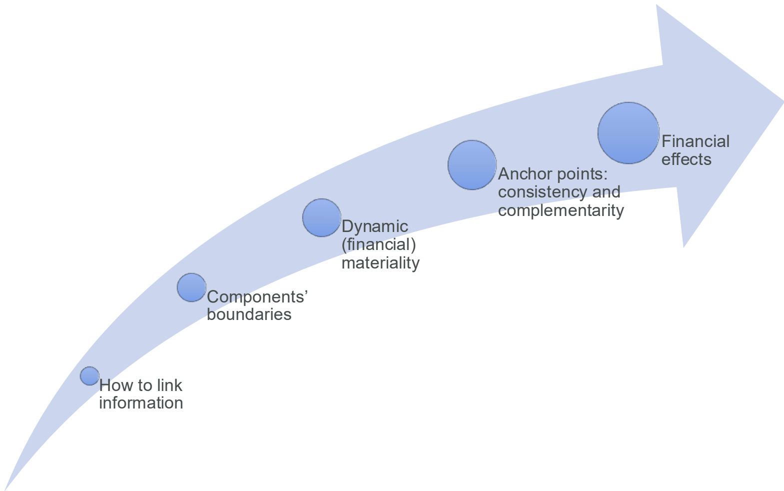
7. The **identification** of anchor points is key, because it acknowledges that connectivity is not pervasive or homogenous through the various statements but is best understood by tying it to certain issues or events. In other words, this may not result in a complete analysis of all possible financial effects but rather a partial picture that is more relevant and reliable if the whole cannot easily be disaggregated. For example, a disclosure focused on a specific major project — such as solar panels or insulation being fitted across an estate, by assets or operating costs over multiple years of forecasts — is likely to be more useful than requiring all green projects to be costed. The latter approach may either discourage disclosure or result in information that relies on too many assumptions to provide a meaningful picture, whereas the former would provide specifically identifiable and predictable information. We therefore believe that the concept of identifiability is useful balancing against completeness or comparability or an extension of the understandability concept (at § 15).

8. **Financial effects of sustainability issues**: All the concepts and tools developed previously could eventually help to identify and measure the financial effects (current or anticipated) to be disclosed in the SR. Financial effects are mentioned, amongst others, in the ESRS and the IFRS SDS as well as in the TCFD framework, but without specifying how they differ from the financial effects in the FS. The DP is particularly useful for addressing this topic, as it provides examples and examines possible methods and commonalities that already exist in practice. In our view, this is likely one of the most eagerly awaited outcomes of all the work undertaken on connectivity. (More detailed feedback on financial effects can be found in § 99)

[1] Financial reporting of European companies on sustainability issues - Forvis Mazars

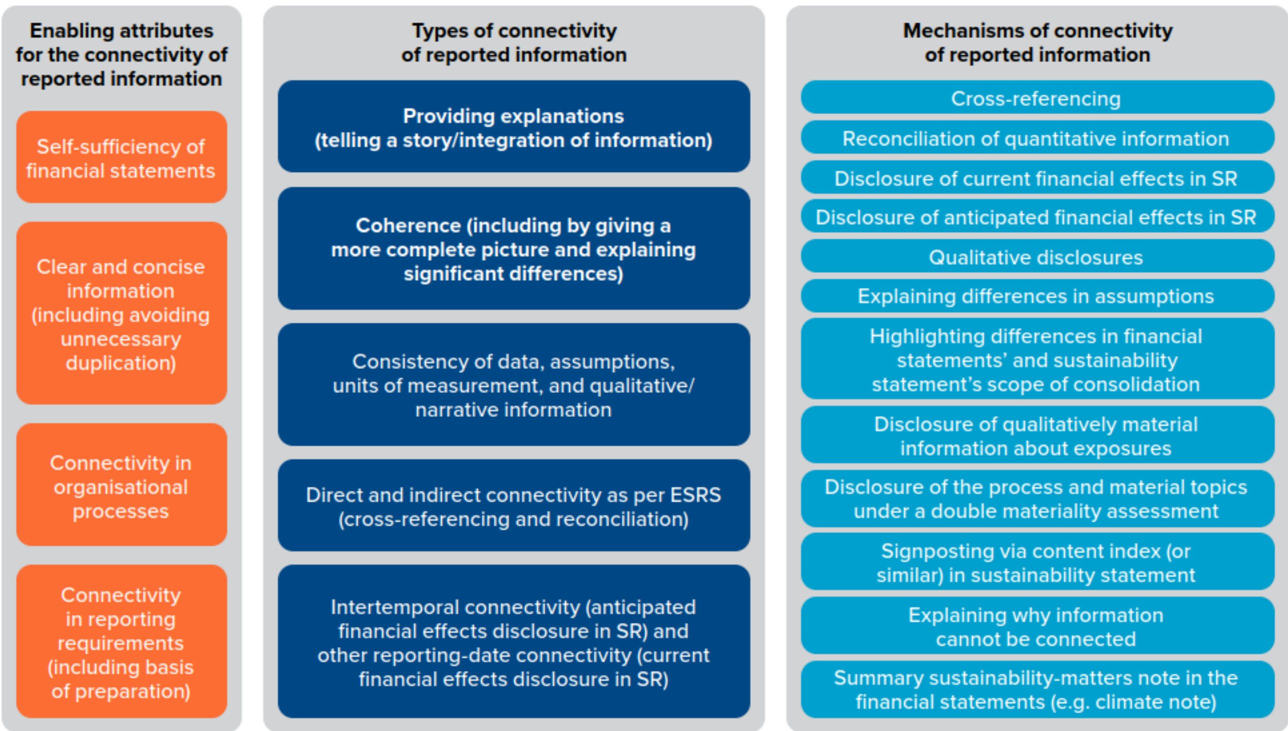
The development of the various concepts could be illustrated as follows (Forvis Mazars' illustration)

Scope extension of connectivity concepts



9. Many of the concepts introduced or clarified by EFRAG have been summarised in figure 2.3 of the DP:

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



Source: EFRAG

10. We agree that many of these concepts and clarifications are useful for addressing connectivity issues. However, we recommend making some changes to the organisation and classification of several of these concepts:

    a. The difference between 'type' and 'mechanism' is not self-explanatory, and 'type' is too broad a concept to be useful, particularly as it primarily refers to the expected "qualitative characteristics" of a connection (see § 11);

    b. In our view, the concepts of "coherence" and "consistency" are very similar. From our understanding of EFRAG's intention, coherence should be seen as a broader concept as it is about giving a full/complete picture of a given topic or indicating movement in the same direction; it is also about explaining the significant differences in reporting in areas where users could expect connectivity. While consistency should be seen as narrower as it targets shared data/assumptions between the two sets of information or merely not disagreeing with another statement or piece of information in the document(s). Should these two concepts be maintained, we recommend EFRAG clarify this distinction.

11. We believe that it would be useful to create a dedicated section listing the "qualitative characteristics[2]" expected of a connection. It could encompass:

12. **Consistency** (DP § 2.19) (or **Coherence** (DP § 2.20)): As highlighted above, both concepts seem to address the same quality, but at a different level: coherence would be observed at a broader/higher level, such as reporting level, whereas consistency would be checked at the level of an anchor point. We are unsure whether it is necessary to define two qualitative characteristics, given that only their application differs.

13. **Complementarity** is included in the 'coherence' defined in DP § 2.22, since the latter also encompasses 'providing a more complete picture'. However, we believe it would be useful to isolate complementarity as a distinct quality. For instance, ensuring that information is coherent (or even identical) by cross-referencing the same figure in two reports does not necessarily introduce complementarity and does not avoid unnecessary duplication, which is also one purpose of connectivity. Complementarity involves providing different perspectives on the same event, transaction or anchor point, to convey greater understanding, and recognises the importance of having different components in corporate reporting. Complementarity is inherent to the fact that financially material information in SR goes beyond financially material information in the FS[3].

14. **Comparability** is also included in the concept of 'coherence' defined in DP § 2.20. However, we believe there are merits in identifying it separately in the context of connectivity, given its role in setting the scene (using the same measurement units, the same methodology) for the disclosed information. Comparability over time and between undertakings, within a sector or geographical area, is essential for users to be able to rank companies (for example, within a portfolio or a benchmark), particularly when the data is not yet quantified sufficiently to be used directly.

15. **Understandability** maintains continuity and intelligibility of the story conveyed throughout the different components of the corporate reporting.

[2] This term is used in both the IFRS Conceptual Framework and the ESRS.
[3] ESRS 1 [Set 1]. BC 73. *Financial materiality of sustainability reporting goes beyond the lens of financial materiality of financial reporting. The former includes potential financial effects of significant risks or opportunities that are not captured or not yet fully captured by financial reporting at the reporting date and that result or are likely to result in financial effects for the undertaking*.

16. Once it is acknowledged that the reports have different conceptual frameworks and perspectives, it may not be useful to create new concepts for each and every difference in scope between SR and FS (such as, for instance: “other reporting-date connectivity” or “intertemporal connectivity”).

17. We believe that investigating the concept of 'anticipated financial effects' (AFEs) would be useful. At this stage, ESRS and ISSB Standards provide little detail on the scope, recognition criteria and measurement methods for AFEs. For example, are assumptions in future cash flow projections an anticipated financial effect when they eventually lead to an impairment in the FS, which is an actual/current financial effect? In what ways do the nature of anticipated financial effects differ in the SR from their reflection in the current or (possible) future FS? (More detailed feedback on financial effects can be found in § 99).

18. We note that the concept of ‘**dynamic materiality’**, mentioned in the 2024 EFRAG Connectivity initial paper, is no longer used in the final DP. We believe it is still a very important concept, as it covers the differences in scope and perspective between the two reports (SR & FS), and conveys the idea that connectivity has direction (as explained in § 5), and that existing uncertainties will evolve and potentially have material effects in the future.

19. As regards linking mechanisms, we believe that those listed in the DP could be grouped into four techniques, ranging from the “tightest” to the “loosest”:

    a. **direct** connectivity: cross reference or incorporation by reference;

    b. **indirect** connectivity: reconciliation and explanation of differences;

    c. **narrative**/qualitative/explanatory disclosures;

    d. **signposting**, in that it refers to another section without specifying which and to what extent information is linked.

20. We agree that connectivity between information at an anchor point (see § 6) is only required and relevant under specific circumstances that are summarised as “**enabling attributes**” in DP § 2.1 and defined as “the characteristics of the reporting process or the information in the annual report sections, which make it easier for readers to connect information”. We agree with the criteria listed in the DP that we suggest grouping in three categories:

    a. Those linked with the **conceptual frameworks** of the distinct components in the corporate reporting (as opposed to an “integrated” unique report), each of which has its own boundaries, purpose and conceptual framework and is “self-sufficient” (as commented above in § 4). In our view, the self-sufficiency criterion (DP § 2.3) is a consequence of the specific boundaries of each report, rather than a distinct criterion. As described in DP § 2.6, similar reporting requirements (scope and reporting period) are necessary to connect information;

    b. Those linked with **governance** as described in DP § 2.5, since adequate connectivity in organisational processes is required to coordinate the production, collection and connection of information within a group;

    c. Those linked with the necessary **quality of information** to be connected as described in DP § 2.4 and § 2.6.a-b, such as relevance, faithful representation, reliability or verifiability, clarity and conciseness etc.

b) Other types of connectivity

21. In addition to our previous comments on the types and mechanisms of connectivity in Question 1a), we believe that it is useful to distinguish two different approaches of connectivity:

    a. **Materiality assessment**: The assessment of the financial materiality of sustainability issues generally results from the conceptual approach in each report (FS & SR).

    b. **Anchor points**: datapoints and financial reporting requirements. According to our analysis of Set 1, around 60 ESRS datapoints relate to financial information. We suggest below a specific classification of them in relation to FS information. This list will be updated when Set 2 is finalised, but we are aware that some of the AFE will no longer be required.

22. The criteria used to analyse the connection at the materiality level differ from those used at the anchor point level and therefore the former deserves a dedicated approach.

Connectivity of (financial) materiality assessment

23. An issue may be (financially) material in the SR but shall not be yet reflected in the FS. Reasons for that generally stem from differing conceptual approaches.

24. Conceptual reasons for having a different assessment of the similar "financial materiality" are described in the ANC paper[4] and can be summarised as follows:

    a. **Scope**: the SR addresses (i) a wider range of users, and (ii) financial effects combined with those of the value chain,

    b. **Looking forward perspective**: the SR (i) takes future events into account and (ii) also covers a medium- to long-term horizon,

    c. **Granularity/Unit of account**: the SR (i) assesses (gross) risk separately from mitigation measures, (ii) has lower thresholds than those in FS (legal or probability criteria), and (iii) presents information in potentially finer units of account and without the possibility of offsetting sustainability issues.

25. Situations where an issue is financially material in the SR whereas it is described as non-material in the FS may, for instance, result from:

    a. The risk/materiality has been assessed gross (i.e. before prevention, mitigation and remediation measures);

    b. The horizon of the financial effects is longer than the one of the existing assets and liabilities. For instance, climate transition risks may be material but if the entity plans to reduce its GHG emissions by investing in more energy-efficient technology at the same pace as the risks emerge, these risks may not need to be reflected in the FS (similar to IASB Example 1a[5]).

    c. The risks and opportunities not only deal with the own operations, but also with those of the value chain.

[4] § 1.4of ANC: Enjeux climatiques : Quels liens entre les états financiers et l'état de durabilité ? Contribution à la réflexion, February 2025

[5] https://www.ifrs.org/news-and-events/news/2025/11/iasb-issues-illustrative-examples-reporting-uncertainties-financial-statements

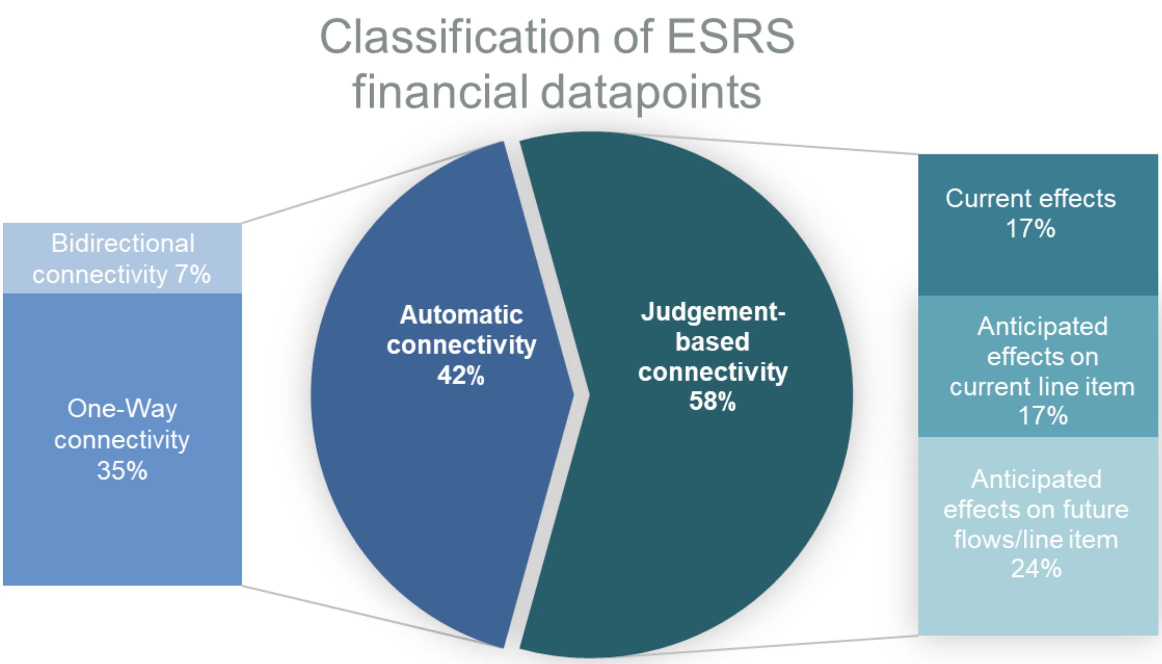
26. The difference in the financial materiality assessment is generally presented as temporary and subject to uncertainties that may evolve in the future, as reflected in the concept of dynamic materiality introduced by EFRAG (see § 5).

27. Then the question is whether an explanation of the difference is material enough to be required and, if so, whether it shall be provided in the SR, the FS or both. Requiring companies to explain why information cannot be connected (“**negative statement**”) could however be quite burdensome (DP § 2.29 a/figure 2.3). Information disclosed outside the FS may create expectations that then affect how the boundaries of financial reporting are perceived. Improving connectivity (e.g. via a cross-reference to the SR) may create pressure to extend the scope of FS so that anticipated financial effects are considered earlier or more explicitly. In that respect, we believe that IASB illustrative examples on reporting uncertainties provide useful guidance as to whether such information shall be provided into the FS[6] (see § 36 on what is “qualitatively material”).

Connecting anchor points

28. Since anchor points are, by definition, common to both reports (SR as well as FS), they may be identified from one side or the other. In the current ESRS Set 1, we have identified around 60 datapoints on financial information (hereafter called “financial datapoints”). It is expected that this amount will decrease in Set 2. Our suggested method consists of analysing their nature in order to classify them and determine whether they need to be linked to information in the FS. We observe that there are different levels of complexity in the ways to connect the datapoints with FS information depending on the (i) type of connection and the (ii) financial materiality of the connected information on one or the other statement:

Classification of ESRS financial datapoints (Forvis Mazars’ illustration)



[6] See IASB’s related press release of 28 November 2025 and materials available here.

29. The ways ESRS financial datapoints connect to FS can accordingly be divided into two main categories:

a. datapoints that can be **linked automatically** because there is little or no need to question their equivalent in the FS. We have subdivided these datapoints into two categories of connectivity: (i) one-way and (ii) bidirectional; and

b. datapoints that, on the contrary, involve **judgement** (depending on the assessment of financial materiality) to determine whether the information in the ESRS should find an equivalent in the FS. We have subdivided these datapoints into three categories of financial effects: (i) current, (ii) anticipated on current line items, and (iii) anticipated on future flows/line items.

30. Thus, for instance:

a. **One-way connectivity:** the calculation of GHG intensity directly links the IFRS 15 revenue in the FS to the denominator used by E1-6 § 53-55 in the Set 1. The link between these two amounts is "automatic" in that it does not require judgement. It is to be noted that such metric should be removed in the revised ESRS.

b. **Bidirectional connectivity:** information that is required simultaneously by the SR and the FS. This is the case, for example, with: (i) Uncertainties and risks of balance sheet adjustments in the next 12 months (current effects) [ESRS 2 SBM-3 § 48.d in the Set 1] & [IAS 1.125] or (ii) Provisions related to pollution issues [E2-6 § 40c in the Set 1 & IAS 37]. Please note that the revised ESRS stipulates that some of these financial datapoints will no longer be specifically required, as the provisions on anticipated financial effects will be removed from topical standards other than E1 and incorporated into the general provisions of ESRS 2.

c. **Current financial effects**: these effects have already been recognised and can therefore, in principle, be reconciled with the FS. However, judgement is required as to the information to be disclosed in the notes. Indeed, the recognition of these effects does not necessarily mean that they are material enough to be disclosed in the notes to the FS. These datapoints concern, for example, a subdivision (according to sustainability criteria) of certain accounting balances or flows. E.g.: Revenue from fossil fuel-related activities [ESRS 2 SBM-1 § 40.d.i in the Set 1].

d. **Anticipated financial effects on current items**: these correspond to current accounting treatments or assets (or other items) already recognised and exposed to short-, medium- or long-term sustainability issues. For these datapoints, the forward-looking (or "anticipated") part is therefore in the ESRS information/categorisation rather than in the accounting data. E.g.: Proportion of assets exposed to material physical risk subject to climate change adaptation actions [E1-9 § 66.b in the Set 1]

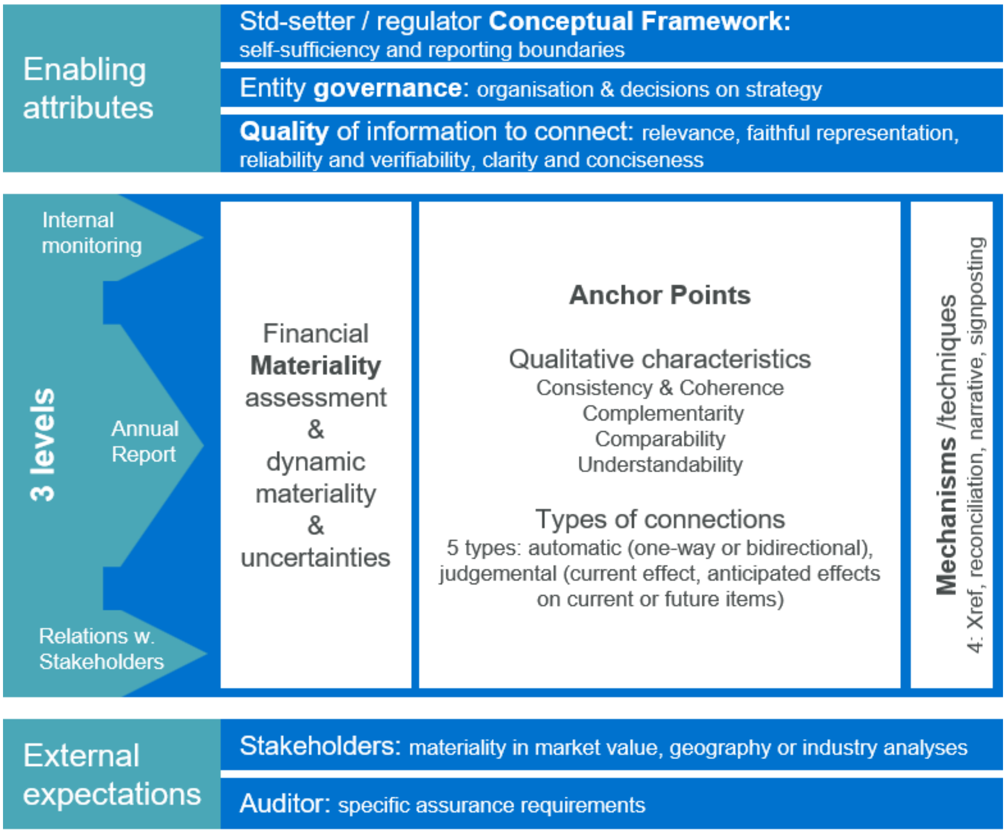
e. **Anticipated financial effects (AFE) of future flows/balances**: this is generally information that is not directly addressed by financial reporting standards, but which may overlap with information disclosed in other parts of the management report (e.g. the description of risk factors). E.g.: Anticipated financial effects of the company's material risks and opportunities on its financial performance and cash flows in the short, medium and long term [ESRS 2 SBM-3 § 48.e in the Set 1]. Some future cash flows/balances may be disclosed in the FS in the context of cash flow projections for impairment testing or in certain long-term environmental liabilities. In addition, some entities disclose in their FS forward-looking information on cash flows related to their climate transition plan, particularly with regard to their investment commitments. However, we note from EFRAG's feedback when preparing the revised ESRS that the quantitative assessment of these AFE is a challenge for preparers that have asked for additional reliefs in line with IFRS S1 (see § 7 on the merits of identifying the adequate anchor points instead of searching for providing too wide a picture). The revised ESRS would focus more on "*qualitative and quantitative information on how [an entity] expects its financial position, financial performance, and cash flows to change over the short, medium and long term, given its strategy to manage material risks and opportunities (anticipated financial effects)*."

31. A list of anchor points may also be established based on the information already provided in the FS. In that respect, we refer to Our Study which provides for many examples of anchor points grouped in 75 topics.

Other connections

32. In addition to our previous comments, we suggest the following presentation based on the EFRAG's one, which summarises the different concepts that are useful for addressing connectivity issues and introduces some supplementary ideas (such as 'the levels' of connectivity).

Concepts around connectivity (Forvis Mazars' illustration)



Levels of connectivity

33. **Three levels** of connectivity: the DP mainly focuses on the connectivity within the annual report (or corporate reporting). We however note that two other levels of connectivity could also be considered:

a. The "**internal monitoring**" level relates to how an entity has developed its process for monitoring certain sustainability targets at an operational level. A common example is the use of an internal carbon price allocated to products, activities, or investment decisions. Therefore, the connection is more likely to relate to budget and controlling figures than to general accounting and ESRS information. Nevertheless, it is a governance tool for allocating responsibilities in order to achieve objectives set at entity level and for deciding and directing the action plan. It may eventually affect the FS (see also Question 6b)).

b. The level of the “**relations with stakeholders**” refers to how stakeholders read information provided by the entity for their own purposes. For example, investors may consider the additional information provided by the entity in the SR to help them assess the market value of its shares more accurately, or to provide predictive information on the evolution of its specific environment and business model. Some of this information comes from the entity’s own reporting, but stakeholders may also consider sector- or geography-level reporting in order to place the entity within a portfolio or identify the ‘best in class’ in which to invest. Users may find it helpful to read about the connections between SR and other types of report (other than FS), such as financial communications (e.g. alternative performance measures) or information requested by stakeholders. This is particularly relevant if the additional information is not standardised.

Other items in the diagram

34. Among the categories presented in the diagram and discussed previously:

a. Enabling attributes: Conceptual framework (see § 24) and reporting boundaries (§ 4), Entity governance (see below Question 6b));

b. Material assessment and dynamic materiality (see § a) as well as Question 4d) on uncertainties;

c. The four categories of expected qualitative characteristics of the connectivity at an anchor point are discussed in § 11;

d. The five types of connections at anchor points are discussed in § 30;

e. The four mechanisms or linking techniques are discussed in § 19;

f. Specific features of connectivity for auditors are further discussed in Question 8.

c) Suggestion that IASB develops requirements to connect information within and outside the FS

35. The suggestion made in DP § 2.24 raises two questions. The first is whether it is necessary for the FS to refer to information outside the scope of the IFRS FS. The second is whether it is desirable to encourage cross-references in the FS.

36. IASB partially addressed the first question in the first example of the "*Disclosures about Uncertainties in the Financial Statements – Illustrative examples*" [7] illustrated using climate-related examples. The IFRS FS do not explicitly require or prohibit the referencing of information from outside the FS. As the FS should be readable on a stand-alone basis, the question is whether information is required due to material uncertainties relevant to the FS, rather than because it is mentioned elsewhere. However, it is also acknowledged that sustainability information could help identify what might be "**qualitatively material**" in the FS. Users who are already aware of this information through other means may have greater expectations of the information contained within the FS.

37. Regarding the second question, concerning cross-references from the IFRS FS to other sections of the annual report, we agree with the statement in IFRS 18.BC370-371 that too many **cross-references** may obscure and fragment the FS information, which must be understandable as a whole. While we acknowledge that the IASB does not prohibit cross-references, we believe that limited, focused cross-references could be helpful for users of FS.

38. Finally, both questions are a matter of judgement, and we do not believe that standard-setting is required in that regard.

[7] https://www.ifrs.org/news-and-events/news/2025/11/iasb-issues-illustrative-examples-reporting-uncertainties-financial-statements

Question 2 CHAPTER 3: OVERVIEW OF ILLUSTRATIONS, AND ILLUSTRATIONS IN THE SUPPLEMENTAL DOCUMENT

a) Do you have any comments on the practical usefulness of the 17 illustrations on connectivity in the Supplemental Document? Are you aware of any obstacles that your company or other companies you are familiar with may face in applying the mechanisms of connectivity illustrated in the Supplemental Document?

b) Table 3.1 in Chapter 3 outlines the types and mechanisms of connectivity of reported information for the different illustrations in the Supplemental Document. Which of these do you consider most useful and why? If you have a view on this, please indicate under what circumstances it would be suitable or unsuitable to apply any of the mechanisms of connectivity shown in the illustrations.

Forvis Mazars' response

39. We strongly support EFRAG providing illustrative examples. It is a helpful tool in visualising various situations of connectivity. It also demonstrates that it is already possible to provide practical and inspiring ideas on how to disclose information, even if guidelines are limited.

40. We also acknowledge the limits of the existing examples. As the ESRS statement is new and has been a moving target with the omnibus amendments and because of the phase-in of the disclosures of anticipated financial effects, connectivity is still in progress and reveals significant differences between jurisdictions and among industries. In that respect, we believe that real-life illustrative examples excerpted from existing annual corporate reporting are even more important to unveil what is possible, even if the expectations may still be more demanding.

41. In this regard, one might expect more references to be added to the SR to facilitate connection with the FS, which is currently rarely the case despite being encouraged by ESRS 1.124-125.

42. In our view, illustrations are mapping existing practices rather than leading practice through clear benchmarks. We therefore support EFRAG highlighting what they consider useful to enhance and extend connectivity in practice.

a) Comments on the practical usefulness of EFRAG's illustrative examples

#1 – Water pollution & remediation (ESRS E2-6 § 40.b&.c) ↔ Contingent liabilities (IAS 37)

43. Example 1 is very useful for illustrating the qualitative characteristics of the connection between the SR and the FS at the anchor point of a past water pollution incident. This event leads:

    a. in the SR, to a detailed depiction of the environmental incident and the entity's subsequent actions and commitments in remediation through the removal of the pollutants discharged with wastewater from the natural environment and prevention of the recurrence of such type of incident in the future.

    b. in the FS, to an IAS 37 analysis and explanation of the accounting treatment (disclosed as a contingent liability). Such disclosures provide helpful information about the litigation risks, and more broadly, the financial risks of non-compliance.

44. Both angles are consistent and complementary. There is no redundancy in the information provided.

45. After the phase-in of disclosures on anticipated financial effects, one may expect adding a reference in the SR to the relevant note in the FS and explaining the connection with the ESRS requirements [E2-6]

on expenditures linked with major incidents as well as provisions for environmental protection and remediation costs.

#2 – Power Purchase Agreements (ESRS E1-6 § AR 45.d) ↔ PPA commitments (IFRS 7.30A)

46. Example 2 is useful for illustrating the qualitative characteristics of the connection between the SR and the FS at the anchor point of contracted power purchase agreements (PPAs). These transactions lead:

    a. in the SR, to contextualise PPAs in the narrative information on the entity's decarbonisation strategy as well as informing on the portion of electricity from renewable sources (ESRS E1-5 § 37c).

    b. in the FS, to disclose the amount and terms of the related financial commitments as well as the accounting analysis performed.

47. Information given in both reports is consistent and complementary. There is no redundancy in the information provided.

#3 – Materiality of financial effects of own workforce (ESRS S1) ↔ current effects (IAS 19/IAS 37)

48. Example 3 is useful for illustrating the difference in the materiality assessment between the SR and the FS with respect to the financial effects of social issues. This analysis leads:

    a. in the SR, to a qualitative as well as quantitative assessment of the financial materiality of risks linked with human rights issues or incidents.

    b. in the FS, nothing has been reported since this issue was concluded non-financially material in the SR. Accordingly, no related current effects have been accounted for and disclosed in the FS.

49. This example illustrates explicit disclosure of the materiality assessment of human rights issues or incidents in the SR. We note that this conclusion is limited to specific effects and should not be interpreted as indicating that social matters are not financially material.

50. The linking mechanism is a narrative one, stating explicitly that no effect has been reported in the FS, despite users' expectations regarding the disclosure of such effect. This illustrates well the IASB's Example 1 of a "qualitative" materiality assessment, highlighting that it is useful to consider reporting on a 'non quantitatively' material issue that is disclosed as 'qualitatively' material in the SR.

#4 – Carbon allowances in EU ETS (ESRS E1-6) ↔ Allowances (assets, provision, free allocation) (IAS 38/IAS 37)

51. Example 4 illustrates the qualitative characteristics of the connection between the SR and the FS at the anchor point of Carbon allowances. These transactions lead:

    a. in the SR, to information on the proportion of scope 1 emissions regulated by the European mechanism (as required by ESRS E1 § AR 74 in the Set 1);

    b. in the FS, to a dedicated note explaining the accounting treatment retained for these transactions (as no IFRS Accounting Standard currently address them), and providing details on the changes in rights obtained, sold and redeemed.

52. Both approaches are consistent and complementary. There is no redundancy in the information provided. The SR information usefully provides for a cross-reference to the relevant note in the FS.

#5 – Sustainability linked performance conditions in shares granted – Governance report ↔ SR ↔ FS (IFRS 2)

53. Example 5 illustrates the qualitative characteristics of the connection between the SR and the FS at the anchor point of share-based compensation linked to sustainability performance criteria. These transactions lead:

    a. in the SR, to information on GHG emission reduction intensity target (per employee) set by the entity;

    b. in the governance report, to information on gender diversity targets used to grant shares to the executive leadership;

    c. in the FS, to the IFRS 2 note providing details on the conditions to be achieved to be entitled to that specific compensation and the related weight in the 2024 share plan (IFRS 2.50).

54. The information is consistent and complementary throughout the different reports. In our view, information on share-based payment as per IFRS 2 rather pertain to governance than to the underlying sustainability criteria (here climate change mitigation and gender diversity targets).

#6 - Coherence and current financial effects disclosure via cross-reference – asset impairment, and discontinued operations

55. Example 6 Excerpt 2 illustrates the connection between the SR and the FS at the anchor point of achieving decarbonisation targets and whether they could reduce the useful life of assets or turn them into stranded assets. This leads:

    a. in the SR, to information on progress made toward carbon neutrality;

    b. in the FS, to a statement that decarbonisation targets are achievable and therefore that no impairment or earlier cessation of assets have been identified.

56. In our view, it is not self-explanatory in the comments proposed that progress made in achieving the emission reduction objectives «explains» why there is no additional asset impairment.

#7 – Strategy & CapEx for decarbonisation ↔ PPE (IAS 16), impairment (IAS 36)

57. Example 7 illustrates the connection between the Sustainability information in the management report (ESRS was not applied) and the FS at the anchor point of financial effects related to decarbonisation and tangible assets regarding the useful life /depreciation rate (excerpt 1) and CapEx (excerpt 2). The information is the same in both components of the corporate reporting.

58. In our view, the illustration reflects the consistency in narrative and amounts between the management report and the FS. It shows that disclosures on decarbonisation investments and their execution timeline are aligned with PPE-related disclosures (e.g. no immediate impact on depreciation or useful lives).

59. Regarding Excerpt 1, we appreciate that the exposure and sensitivity of the existing assets to a change in the decarbonisation pace depicts a useful "anticipated financial effect". This effect is currently presented qualitatively but may be estimated quantitatively in the future.

60. In Excerpt 2, the connection could be further illustrated by linking the CapEx with the corresponding PPE line items in the FS as well as mapping it to the EU Taxonomy's sustainability-related investments.

61. Users may expect connectivity to help them understand how disclosed transition plans translate into concrete resources allocation decisions and eventually financial effects in the FS. We therefore believe that the illustration could more explicitly highlight this link by showing how specific actions (e.g. energy efficiency programmes, fuel switching, technological upgrades) are connected to capital expenditure and, where relevant, financing decisions taking into account the practical challenges arising from differences in aggregation.

#8 – EU Taxonomy Capex ↔ PPE (reconciliation)

62. Example 8 illustrates the connection between the SR (EU Taxonomy) and the FS at the anchor point of Capex in the form of a reconciliation.

63. In our view, the connection could be further illustrated by linking the CapEx with the corresponding PPE (as it is actually made in the notes to the FS of that entity).

#9 – Revenue for GHG intensity metric

64. Example 9 illustrates the connection between the SR and the FS at the anchor point of revenue.

65. In our view, the connection could be further illustrated by linking the CapEx with the corresponding PPE (as it is actually made in the notes to the FS of that entity).

66. The calculation of the GHG intensity in the SR matches the revenue in the FS, but it is not explicit in the excerpt that does not reflect on the amount that is probably provided elsewhere in the SR and which would facilitate the reconciliation required by ESRS E1.43.

#10 – Definition differences (segment reporting and GHG emissions)

67. Example 10 Excerpt 1 illustrates the way an energy company connects its Strategic Report and FS at the anchor point of IFRS 8 segment reporting. The example discloses:

    a. in the Strategic Report, IFRS 8 segment operating expenses grouped by energy;

    b. in the FS, the list of IFRS 8 segment.

68. This example illustrates how energy categories (as required by E1 § 67.e) can be reconciled with IFRS 8 segments.

69. We note that it is quite unusual for IFRS 8 segments to correspond to the ESRS sectors as the reconciliation in ESRS 2 § 40.b will often not be possible. However, we observe that this does happen in the energy industry and it could be useful to add an illustration.

70. Example 10 Excerpt 2 illustrates that GHG emissions in the SR may have a different scope (e.g. operational control) from the consolidation scope in the FS. These disclosures help users understand how sustainability metrics relate to segment reporting, even where full alignment is not appropriate.

71. In our view, a full alignment between sustainability sectors and IFRS 8 segments is not always achievable nor necessarily desirable, given their different objectives and underlying principles (see also Question 5b). Instead, the focus should be on ensuring transparent explanation of differences,

including (i) consolidation approaches (financial control vs operational control), (ii) scope of activities included, (iii) use of alternative performance metrics.

#11 – Anticipated financial effects of climate change-related transition risks on asset impairment

72. Example 11 Excerpt 1 illustrates the connection between the TCFD matrix and FS at the anchor point of the assets' exposure to climate change-related transition risks. The example discloses:

    a. in the TCFD risk matrix, a quantitative assessment of the average yearly asset impairment risk with a scenario sensitivity as well as a time horizon (medium-long term);

    b. in the FS (mentioned in the illustration but not directly presented), the disclosure of no asset impairment due to climate risks.

73. The illustration provides a rare example of quantitative information on the risk of asset impairment due to transition risks. Information provided seems to be similar to the one required by E1-9 § 67(a) and (b). We highlight that these requirements are however slightly different because they address (a) "the monetary amount and proportion (percentage) of **assets at material transition risk** over the short-, medium- and long-term **before** considering climate mitigation actions"; and (b) "the proportion of assets at material transition risk addressed by the climate change mitigation actions".

74. In our view:

    a. even if the illustration does not specify whether cash flows are considered 'before' or 'after' climate mitigation actions, the SR disclosure is probably a 'net' financial risk since impairment testing in the FS considers all projected cash flows.

    b. The model disclosed in the TCFD matrix is useful in that it provides sensitivity analysis for decarbonisation scenarios. The more ambitious the scenario is in terms of limiting global warming, the higher the risk of impairment due to transition risk is. Conversely, failing to achieve global decarbonisation ('BAU' scenario) would increase physical risk, the potential effects of which could be even greater. It seems that, in the TCFD matrix, transition risk is expected to have more financial effects than physical risk.

    c. It would have been interesting to include an excerpt from the FS to compare whether sensitivity analyses are expressed in the same way.

    d. E1-9 does not refer to 'impairment risk', an accounting concept that differs from 'transition risk' in that the former considers all future (discounted) cash flows, whereas the latter is not defined in accounting terms. The following issues may indicate differences between the two risks:

        i. Forecasts used for impairment testing do not necessarily match those used for scenario analysis when transition risk is being assessed. Scenarios are not intended to represent the most likely outcomes, and even if they did, their respective weighting would be required to produce a weighted average. Assuming that the AFEs range from the lowest estimate in the lowest-impact scenario to the highest estimate in the highest-impact scenario, would provide a range, but this does not account for scenarios being mutually incompatible. While the scenarios can provide guidance, they cannot be used to produce an average for impairment forecasts;

ii. When addressing the financial effects of the transition, the elasticity of revenue in relation to costs is an additional factor to consider. If costs increases can be passed in prices, even large increases will not drive impairments.

iii. If there is a risk to future cash flows, this should be reflected immediately in the impairment test. It does not depend on the time horizon of the projected cash flows, as the impairment test considers all future cash-flows. Therefore, it would be useful to provide a more detailed explanation of the lack of short-term impairment risk in the SR and its consequences on current FS.

#12 – Anticipated financial effects

75. Example 12 Excerpt 1 illustrates in the SR anticipated financial effects (AFEs) linked to **transition** risks that are not (yet) reflected into the FS. These AFEs are quantified and relate to (i) future costs of carbon schemes from 2030 onward, (ii) the present value of CapEx planned to mitigate these risks, and (iii) R&D costs anticipated in that regard.

76. In our view, the amounts disclosed provide a very rare and complete picture of the financial effects linked with transition risks, their accounting treatment and the horizon of their cash-flow effects (short/medium or long term).

77. Example 12 Excerpt 2 further illustrates the AFEs of **physical** risks that are not (yet) reflected in the FS. A detailed explanation is provided, stating that, due to related uncertainties, such effects cannot be quantified in IFRS sustainability disclosures. However, the main PPE exposures are quantified, in line with the requirements of ESRS E1-9 [Set 1] §66. Finally, a sensitivity analysis of revenue and adjusted EBITDA in the event of an operational shutdown helps to assess the possible financial effects of a reduction in the entity's production.

78. In our view, the illustration provides a rare and comprehensive overview of the anticipated financial effects, such as the amount of existing assets exposed to higher physical risks, as well as an evaluation of uncertainty and an explanation of what can or cannot be disclosed in this regard.

79. Example 12 Excerpt 3 finally illustrates the AFEs of transition risks in the SR that are not (yet) reflected in the FS. These AFEs relate to the future costs of carbon schemes for international shipping from 2027 onwards. A disclosure explains that estimates could not be made due to recent regulation but provides the actual freight costs for reference. Finally, the estimated R&D costs required to decarbonise the fleet are provided, which would reduce the transition risk associated with the new carbon scheme.

80. In our view, the illustration provides a rare and comprehensive overview of the financial effects linked with the new regulation.

#13 – Green finance (SLL/green bonds) ↔ debt/IFRS 7

81. Example 13 illustrates the connection between the SR and the FS at the anchor point of green financings received. It illustrates the consistency of narrative and amounts between sustainability-related commitments (e.g. targets underlying sustainability-linked loans or green bonds) in the SR and FS in line with IFRS 7 requirements. The information is very similar in both components of the corporate reporting.

82. In our view, information excerpted in the SR part is mainly financial and would be more complementary if it would detail the relevant KPIs used to measure progress against selected transition priorities, including reductions in GHG emissions intensity and improvements in energy performance.

#14 – Exposure of loans to physical and transition risks

83. Example 14 shows how the SR and the FS are connected at the climate risk anchor point for loans granted. The SR provides a detailed breakdown of the exposure of loans to physical and transition risks, categorising the loan population by NACE (sub-sector) code and evaluating the level of risk (low, medium or high). The total amount of loans is reconcilable with the gross amount in the FS.

84. In our view, the illustration, which is currently limited to gross loans, could be linked more closely to the financial effects of this risk assessment on ECL in the FS.

#15 – Portion of assets under management for which GHG emissions are measured

85. Example 15 illustrates the connection between the SR and the FS at the anchor point of assets under management. The SR indicates which portion of the assets under management are covered by a GHG measurement methodology. The total amount of assets in the SR is reconcilable with their carrying value in the FS.

86. In our view, this straightforward reconciliation with the FS ensures consistency with the investment portfolio analysed in the SR, which explains the extent to which GHG emissions are measured.

#16 – Sustainability linked loans

87. Example 16 shows the basic reconciliation of the amount of SLL between the FS and the Board of Directors' report.

#17 – Financial effects of climate risks on ECL

88. Example 17 illustrates the connection between sustainability disclosures and the FS at the anchor point of the Expected Credit Loss (ECL) assessment. The example discloses:

    a. in the sustainability information, that the uncertainty created by climate risks (applied to several scenarios) has no material financial effects on the FS;

    b. in the FS, the same conclusion is expressed in a similar wording.

89. Additional information (Excerpt 2) from a "risk review" document concludes that the worst-case scenario would not increase the ECL by more than 25%.

90. In our view, the illustration could draw further on the information disclosed in the "risk review" (document shown in Excerpt 2) to explain how materiality was assessed, so that a 25% change in ECL would support the conclusion on immateriality set out in the FS.

b) Types and mechanisms of connectivity (Figure 3.1)

Most useful illustrations

91. Among the most useful illustrations, we especially appreciate illustration 1 that goes beyond the mechanisms of coherence and consistency of narrative and amounts and illustrates the complementarity of both reports.

92. Illustration 4 is also a useful example of complementary information with a direct reference.

93. Illustration 11 is a rare example of a quantitative anticipated financial effect. It also provides an opportunity to discuss the limitations of comparing scenarios in the SR with impairment assumptions retained in the FS.

94. We believe that illustration 12 is very useful in providing several examples of the anticipated financial effects in a clear and convincing way. It also addresses the difficulty of assessing uncertainty, which is paramount for AFEs, and provides useful qualitative guidance when uncertainty is so high that no quantitative assessment can be made.

Other possible illustrations

95. It would be interesting to also add an example of "opportunity". The ISSB provides in examples D and E of mock-up illustrations[8] a case of business opportunities identified in connection with climate change (e.g. growing market demand for more sustainable products and services).

96. Our Study shows that one third of the scoped issuers mention commercial opportunities resulting from the competitive advantage they gain from effectively adapting to climate risks. Some issuers state that climate change may present opportunities because (i) their business is to help others adapt or mitigate their impact; (ii) they adapted their business model before their competitors did, giving them a competitive advantage; or (iii) transition technologies may prove to be more efficient so that decarbonised energy does not necessarily cost more.

97. Some sectors illustrate market opportunities in connection with (i) the decarbonisation of the industry, (ii) low-carbon mobility leading to renew fleet (for more efficient models); (iii) construction/renovation, for greater energy efficiency; (iv) development of renewable energies, exploration of new strategic mining resources associated with them, exploitation of certain materials (e.g. steel) which prove to be more favourable than others in terms of emissions when recycling is taken into account. However, no quantitative financial effect was disclosed for these examples.

[8] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/disclosing-information-anticipated-financial-effects.pdf

Question 3 CHAPTER 4: AGGREGATED OBSERVATIONS ON THE CONNECTIVITY OF REPORTED INFORMATION

a) What is your view on the aggregated positive observations, observations on anticipated financial effects, and areas of attention to enhance the connectivity of reported information reflected in paragraphs 4.12 to 4.35? If any, what other observations or points of attention for the connectivity of reported information have you noticed with respect to current reporting practices?

b) How can the areas of attention, in paragraphs 4.27 to 4.35, related to the connectivity of reported information be addressed? What would be the required efforts to improve the connectivity of reported information?

c) If you are a user of the information in the annual report, if you agree or disagree with the preliminary feedback received on the usefulness of the connectivity of reported information, which is reflected in paragraphs 4.36 to 4.45, please explain why. If at all, how does the connectivity of reported information enhance your analysis of companies?

Forvis Mazars' response

a) Comments on EFRAG's feedback

Comments on EFRAG's positive observations (DP § 4.12-§ 4.23)

98. We agree with EFRAG's feedback:

    a. DP § 4.13 and .19, that financial effects are generally consistently connected but rarely quantified. We however believe that, at this stage, it is more useful to have narrative information helping to understand the context than quantified data;

    b. DP § 4.14, that the (medium or long term) time horizon description helps readers to understand why information may be material in the context of the SR but not material for the FS;

    c. DP § 4.21 refers to Our Study identifying that 2/3rd of the scoped issuers had a dedicated climate note in their FS (90% for the CAC40).

Comments on EFRAG's observations on anticipated financial effects (DP § 4.24-§ 4.26) in the SR

99. We agree with EFRAG's findings regarding the limited amount of information disclosed on anticipated financial effects (AFEs) in the SR, due to the very widespread application of the transitional provisions set out in ESRS 1 in this regard. According to a (non-published) benchmark that we performed, the 2024 ESRS SR of the companies in the Euro Stoxx 50 index (65 SRs analysed) showed that more than 80 % had applied the provisions under the DR E1-9 (anticipated financial effects of climate-related risks and opportunities). This trend will probably be confirmed with the 2025 reporting as the phase-in measures still apply.

100. Though we acknowledge the difficulties for companies in providing quantitative information about AFEs, for instance in isolating these effects with respect to a given material risk or opportunity, we have expressed our support to "Option 1" when answering to EFRAG's consultation on Exposure Draft related to revised ESRS (i.e. requirement for both quantitative and qualitative disclosures, with additional reliefs) as it best preserves a high level of interoperability with IFRS SDS, while still allowing companies to withhold quantitative information if they are unable to provide such information. In this context, we concur with the limitations highlighted by users and listed in DP § 4.25(c). We can also add the risk of "misinterpretation" by the market of quantitative information on AFEs in terms of how these

effects could ultimately affect the company's resilience, which also explains why preparers may be reluctant to provide this information.

101. Given the above considerations and in our view, EFRAG's efforts should focus primarily on developing guidance on AFEs, while considering the different levels of maturity regarding the calculation of such effects and the learning curve in reporting on them. This is why we strongly support EFRAG's preliminary orientation to provide, as a priority, implementation support on this area for companies reporting under ESRS, to the maximum extent possible jointly with the ISSB, as highlighted in EFRAG's draft 2026 work program approved by the SRB on 25 March 2026.

Financial effects of sustainability issues in the FS

102. In the FS, the financial effects of sustainability issues may encompass a broader range of information than is covered by the (new) ESRS definition which distinguishes between "financial effects" and the "financial resources" used to manage them[9].

103. The revised ESRS[10] define **financial effects** as the "*effects from risks and opportunities that affect the undertaking's financial position, financial performance and cash flows over the short, medium or long term*". They may be 'gross', before considering the company's actions (generally by allocating financial resources), or 'net', taking such actions into account. They may result in gains or losses in value (assets or liabilities) or in performance (revenue or profit). The revised ESRS refers to **financial resources**[11] as "*operational or capital expenditure [that] have been or are expected to be allocated to the implementation of the key actions*".

104. In Our Study, we observed that financial effects related to sustainability issues were addressed in many different ways in the FS, without necessarily being explicitly connected to the corresponding information in the SR. Nevertheless, they provide useful insights into what could also be considered a financial effect (or a financial resource) in the SR. For instance, they reflect on the entity's exposure to risks as well as to environmental public policies (e.g. taxes and subsidies, carbon allowances, support for renewable energy and green financing). The information is generally narrative and provides contextual information on industry-specific IROs, entity commitments and the long-term evolution of the business model. Disclosures on OpEx and CapEx are generally linked to an action plan, sustainability-related performance conditions of share-based payments granted to management, or EU Taxonomy reporting.

b) Comments on EFRAG's considerations to enhance connectivity (DP § 4.27-§ 4.35)

105. We have compared the analyses in Our Study with those provided in chapter 4 of the DP:

106. DP § 4.28.a states that there is limited quantification of financial implications and financial effects: we concur with this statement (see § 99);

107. DP § 4.28.b notes "rare" information on the company's sustainability-related strategic objectives and its net-zero commitments. In Our Study, however, we found that rd. 4/5th of the issuers in our statistical scope[12] disclose sustainability commitments in their FS. 2/3rd of these issuers provide details.

108. DP § 4.28.b highlights the usefulness of information that helps to assess a company's return on invested capital (ROIC). We believe that such information will only be available once quantified data on

[9] ESRS E1.AR 10
[10] ESRS set 2 Glossary in Annex II.
[11] ESRS 2 set 2 §46.
[12] CAC40 and ESTX50: 72 issuers

the AFEs is available. This is far from the case (see § 99) and the data may be subject to such wide uncertainty that it would be of little use.

109. DP § 4.28.c notes that only rare information is provided on sustainability-related research and development (R&D) expenditures. In Our Study, we identified that 13 % of the scoped issuers disclose their innovation expenditure dedicated to climate issues, indicating the volume of dedicated R&D or detailing the type of projects carried out and how they contribute to the decarbonisation objectives of the group or its value chain. One in three issuers detail the investments made during the financial year or that they plan to make.

110. Overall, we agree with the findings highlighted in DP § 4.30 on the varied level of quality in the reporting on IROs, actions and targets in the SR:

    a. **On reporting on IROs (ESRS 2, DR SBM-3):** the widespread use of the list of sustainability issues set out in ESRS 1. AR 16 has improved comparability, but mapping to ESRS topics was sometimes unclear. Significant variation was also observed in the format, level of detail and location of information relating to DMA results. Most results were presented in the form of tables or narrative text, with few double materiality matrices;

    b. **On reporting on actions (ESRS 2, MDR-A)**: few issuers report on planned CapEx or OpEx associated with their action plans on sustainability topics other than climate. Some explain that they have no significant investments associated with these actions, while others do not provide any information;

    c. **On the reporting of social-related politics, actions and targets (PAT)**: overly narrative nature of social-related PAT disclosures. Many issuers rely on general wording, high-level ambitions, or reaffirmations of principles (e.g. alignment with international frameworks or « commitment to diversity ») without providing operational details. We also note the lack of explicit linkage between these social-related PAT disclosures and the related material impacts, risks, and opportunities (IROs).

111. DP § 4.31 notes a rare focus on company's opportunities in the SR: overall, we have also found little information about sustainability-related opportunities in the SR. Our non-published benchmark (referred to in § 99 above) confirms that the proportion of material opportunities identified out of the total number of material IROs was relatively low (6 material opportunities on average out of an average total number of material IROs of 48). This study has also shown that, on average, financial institutions tend to identify more material opportunities than non-financial institutions (e.g. 5 material opportunities identified in relation to ESRS S1 for financial institutions, compared to 3 for non-financial institutions). In rare cases, information was disclosed on the difference between the assessment methodologies for risks and for opportunities (identified as a good practice).

112. We observed some of the situations depicted in DP § 4.32-34 such as connections that are not always easily identifiable and limited cross-referencing that leads to duplicative reporting. We believe that providing illustrations is the best way to inspire and improve information in both reports.

c) Specific user's perspective (DP § 4.36-§ 4.45)

113. [n.a.]

Question 4 CHAPTER 5: CONSIDERATIONS FOR ENHANCING THE CONNECTIVITY OF REPORTED INFORMATION AND RELATED ASPECTS

Standard setter consideration: Clarifying the borders of the financial statements with respect to disclosures in the notes to the financial statements (analysed in paragraphs 5.12 to 5.43) a) In paragraphs 5.12 to 5.43, it is argued that clarifying the borders of financial statements with respect to the disclosure of unrecognised sustainability-related intangibles, sustainability-related commitments for future investments, and synergies from business combinations in the financial statements would be an enabler of connectivity. If you either agree or disagree with this view, please explain why. b) Paragraphs 5.20 to 5.22 outline suggestions for determining when information on sustainability-related unrecognised intangibles should be disclosed in the financial statements (i.e. if such information meets the needs of users). If you either agree or disagree with these suggestions, please explain why. c) Paragraphs 5.31 to 5.35 outline the mixed views that EFRAG has heard on whether forward-looking information (e.g. climate-related commitments on future Capex), which is not related to the defined elements of the financial statements, should be disclosed in the financial statements. In this regard, some stakeholders have suggested that application guidance for paragraph 31 of IAS 1 (paragraph 20 of IFRS 18), which is related to qualitatively material information about exposures, should be developed in addition to the existing IASB educational material and illustrative examples. What is your view on whether such disclosures should be in the financial statements and on the suggested development of application guidance for paragraph 31 of IAS 1 (paragraph 20 of IFRS 18)? d) In paragraphs 5.39 to 5.43, it is suggested that identifying indicators (including event triggers) of the change in the nature or level of measurement uncertainty of items disclosed in the sustainability statement/ disclosures and the rest of the management report, such that they could qualify to be recognised as assets or liabilities or disclosed as contingent assets or contingent liabilities in future period financial statements, could be helpful for the assessment of intertemporal (across reporting periods) connectivity. Based on your experience with the information disclosed in annual reports, if you agree with this view, do you have any suggestions for indicators that items disclosed outside the financial statements may change their nature and level of measurement certainty and qualify to be recognised or disclosed in future-period financial statements? If you disagree with this view, please explain why.

Forvis Mazars' response

a) Views on EFRAG's arguments for expanding or narrowing Financial Statement Boundaries

114. We observe that current practice already allows for relevant disclosures. We therefore do not consider that there is a need for standard setting to expand FS boundaries or to narrow them by excluding forward-looking information.

b) Disclosure of unrecognised sustainability-related intangibles (DP § 5.17-26)

115. As we commented[13] in the EFRAG's consultation on its DP "Better information on intangibles", we support encouraging disclosures on intangibles in the notes to the FS. To the extent that unrecognised sustainability-related intangibles are "sources of possible economic benefits" they pertain to FS as well

[13] https://www.forvismazars.com/group/en/content/download/1148932/file/06%202022%20-%20Mazars%20CL%20EFRAG%20DP%20Intangible.pdf

as to non-financial reporting. We therefore encourage EFRAG to address disclosures on intangibles in a coordinated manner in both reports.

116. To avoid these disclosures being boilerplate, we suggest not to address all types of intangibles but to focus on those that play a key role in the business model. We thus suggest scoping in expenditures (i) from which the management expects benefits beyond the period in which they were incurred; (ii) that are material in business plans / key to the business activity, and (iii) that are accounted for at no or low value, but would be highly valued in case of a separate asset deal or business combination.

117. For these intangibles, we suggest requiring (i) a brief description (ii) and how they contribute or will contribute to the entity's business and over what period these benefits are expected to arise.

118. In Our Study, we have identified disclosures on expenditures that provide useful information on the investment or innovation effort. We observe that regardless of whether they are treated as operating expenses or capital expenditure, the presentation of innovation costs ultimately serves the same purpose as that of investments, namely to show the issuer's commitment to tackle climate issues. The accounting distinction between asset and costs is therefore not always relevant to measure the expenditures and the innovation effort made, and disclosures are more important.

119. By mentioning them in the notes, the issuer implicitly acknowledges that investments are significant (within the meaning of IAS 1), i.e. relevant to the understanding of the FS, which is not always assessed quantitatively but qualitatively according to: (i) their role in the transition (electrification of production facilities, acquisition of renewable energy production units, purchase of an innovative company); (ii) the need to comply with new regulatory requirements (such compliance sometimes being necessary to maintain the future economic benefits of existing facilities); (iii) the way in which they contribute to the group's strategy.

120. We further observed that certain development costs are ultimately capitalised as fixed assets insofar as they: (i) create intangible assets (patents), (ii) contribute sustainably to decarbonisation objectives (of the group or its customers) by maintaining or increasing the value of certain tangible assets (gas, thermal), or (iii) are invested via an innovation fund.

c) Forward-looking information (DP § 5.27-35)

121. We note that many companies are already voluntarily[14] disclosing their sustainability commitments regarding future capital expenditure and decarbonisation plans, particularly in the energy sector. In our view, the question regarding the inclusion of such forward-looking information in the FS is not whether current IASB standard provisions allow for it, but rather (i) whether there is a need to streamline such information thanks to guidelines and (ii) to what extent this information is connected to financial resources in ESRS 2 § 46[15].

122. We believe that information on future commitments is especially relevant to FS users when it relates to a transition plan that mitigates a financial risk, which would otherwise threaten the value of assets or the continuity of an activity. In this regard, it would also supplement disclosures on the recoverability of tested assets (e.g. IAS 36.134.e).

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[14] even though it is not yet contractually required by IAS 16.74(c).

[15] "*Where significant financial resources (operational or capital expenditure) have been or are expected to be allocated to the implementation of the key actions, the undertaking shall:*
(a) describe the type of current and future significant financial resources allocated to the key actions, and whether the ability to implement these key actions depends on specific preconditions (e.g., granting of financial support or public policy and market developments);
(b) disclose the amount of significant financial resources allocated to the key actions in the reporting period (if any), and indicate the corresponding line items or notes where they are included in the financial statements; and
(c) provide an indicative range of future financial resources expected to be allocated for the implementation of the key actions."

123. We believe that the value of assets and the continuity of activities in the FS are key anchor points to be connected with the double materiality assessment (gross and net) and the financial resources dedicated to the transition plan in the SR (see also § 25a).

d) Uncertainty and dynamic materiality (DP § 5.39-43)

124. As mentioned previously, dynamic materiality (See § 5) has a direction since a financial effect is more likely to be considered material in the SR than in the FS (and may not appear at all in the latter). As explained in DP § 5.39, before a financial effect has crystallised into the FS it may already be an "uncertainty" that is detailed in the SR in the form of (i) an unquantified/qualitative RO or (ii) an anticipated financial effect.

125. We welcome EFRAG's proposal to develop application guidance for assessing when sustainability information that is 'qualitatively material' requires disclosure in the notes even in the absence of accounting recognition (IAS 1.31/IFRS18.20). Some useful examples could relate to:

    a. Climate stress tests affecting impairment assumptions (IAS 36) or useful life (IAS 16) without immediate quantitative triggers;

    b. Regulatory risks (ETS, CBAM) with expected effects on inventory measurement or provisions (IAS 2, IAS 37), to be explained qualitatively with sensitivity analysis;

    c. Anticipated financial effects disclosed in the SR could be linked to sources of estimation uncertainty in the FS, including disclosure of ranges and triggers that could lead to recognition or measurement changes in future periods.

126. The recently issued IASB guidance[16] does promote connectivity between the FS and SR but does not cover areas outside of estimates and judgments. We note finally that, beyond uncertainties, the financial effects of sustainability issues are also useful for assessing their contribution to the performance of business activities, their impact on changes in the business model and on investments made or planned.

127. We believe that the work performed by EFRAG on AFEs is a starting point for further clarification of the definition, as well as providing a critical analysis of emerging practices (to be continued). AFE is one of the most awaited and challenging issues in connectivity. On the one hand, it provides insights into resilience and business model evolution. On the other hand, it is hard and burdensome to model due to its prospective and systemic nature, and it is full of uncertainties.

128. We support EFRAG in providing direction by helping to assess not only the effects, but also the necessary contextual uncertainties in which they are embedded. In our view, uncertainty is not a shortcoming in AFEs but rather provides the necessary contextual information for their disclosures. In other words, it does not reflect a lack of confidence, but rather the range of possible future pathways that could be explored. Forcing a reduction in uncertainties by narrowing the range of possible outcomes may prove ineffective and could limit the flexibility needed by companies to implement their actions when communicating their AFEs. Users do not expect impairment disclosures to explain retrospectively how and why prior-year projections have evolved into the current year's actual figures. Similarly, we do not support an expectation to reconcile prior-year AFEs with actual financial effects, unless targets or the business model have materially changed. This could be clarified by EFRAG to prevent expectation gaps.

[16] https://www.ifrs.org/news-and-events/news/2025/11/iasb-issues-illustrative-examples-reporting-uncertainties-financial-statements

Question 5 CHAPTER 5: STANDARD-SETTER CONSIDERATION: DIFFERENCES IN LEVEL OF DISAGGREGATION

a) Some stakeholders (including users) have observed differences in the level of disaggregation in the FS and the sustainability statement/disclosures. The analysis in paragraphs 5.44 to 5.47 suggests that these are mainly a result of differences in what is material in the context of each of these reports. Thus, it should not be seen as a problem. If you either agree or disagree with this view, please explain why.

b) The analysis in paragraphs 5.49 to 5.54 suggests that the observed underrepresentation of sustainability-related revenues and profitability-related metrics in segment disclosures could be a result of the IFRS 8 aggregation being done based on the management approach, and this supports the need for the IASB to review segment reporting requirements. Conversely, the failure by a sample of companies to link the business activities in the sustainability statement to IFRS 8 segments could be because these companies were in early stages of implementing ESRS, including the related ESRS 2 requirements. If you agree or disagree with either or both of these views, please explain why.

Forvis Mazars' response

a) Differences in the level of aggregation across different reports (DP § 5.44-§ 5.47)

129. We are not aware of difficulties caused by differences in the level of (dis)aggregation in the FS and SR, so we agree with EFRAG that it should not be seen as a problem.

b) Level of aggregation and segment reporting (IFRS 8) (DP § 5.49-§ 5.54)

130. The observations in DP § 5.49 to 5.54 report that sustainability-related metrics (on revenue and profitability) are rarely included in the segment disclosures in the FS.

131. In Our Study, we observed that such disclosures remain limited. However, an increasing number of entities were reporting on sustainability issues in their IFRS 8 segment reporting in the FS (compared with our 2022 study). Some issuers have adapted their segment disclosures to take climate issues into account: energy companies devote a segment to their renewable energy activities; others have reorganised their activities (and therefore their segments) to enhance the visibility of their products and better seize development opportunities. More generally, the segments (and, at a finer level, the CGUs) selected for the IFRS 8 disclosures in the FS highlight certain financial characteristics of an activity (sustainability, performance, innovation) that determine the exposure of the companies' assets to climate risks. These can thus be detailed sector by sector. For example, infrastructure and network activities (e.g. gas) are particularly exposed to transition risk (asset adaptation), and their sustainability is a key factor in determining the value of any goodwill on the asset side.

132. It is suggested in DP § 5.49 to 5.54 that the limited disclosures could be explained by either (i) shortcomings in IFRS 8 or (ii) the fact that companies were still in the early stages of implementing the ESRS. Both explanations imply an expected similarity in segmentation between the SR and the (IFRS 8) FS. However, we are not convinced by either of these suggestions as we do not believe there is a necessary correspondence between SR segments and IFRS 8 segments.

133. SR and FS offer distinct perspectives on an entity's assets and activities, so they may not use the same criteria to define 'segment' information even if they have the same reporting scope. The

aggregation and disaggregation criteria in the SR are specific to the IROs[17]. This means that they may differ not only from the IFRS 8 segments but also from one sustainability standard to another. Depending on factors such as geography (e.g. water), regulatory environments (e.g. social issues), supply chain structures (e.g. the circular economy) and stakeholders' expectations (e.g. biodiversity), the level of aggregation may be different.

134. However, where the sustainability information is intended to be used by investors to value businesses as managed by the CODM, we believe that the financial effects on operating segments are usefully disclosed, at least to some extent, by segment. This would allow to reflect on how the different ESG risk profiles across regions translate into financial performance, capital allocation decisions and future prospects.

135. We do not believe that IFRS 8 needs to be revised to take greater account of sustainability issues. IFRS 8 presents performance as analysed by management, and the presentation will evolve if sustainability issues become a driver of profitability that is monitored separately by the CODM.

[17] ESRS 1 [Set 2] § 52 : "*The undertaking shall aggregate or disaggregate the information in a way that reflects the level at which significant variations of material impacts, risks or opportunities arise, such as by topic, sector, subsidiary, geography, asset. The undertaking shall consider relevant facts and circumstances to determine the level of aggregation that supports faithful representation of its impacts, risks or opportunities.*"

Question 6 CHAPTER 5: CONSIDERATIONS TO BE ADDRESSED BY MULTIPLE STAKEHOLDERS

Do you have any additional suggestions or comments for the following considerations? a) Assessing differences in reporting boundaries (i.e. the entities, assets and sites/operations reported on) between different reports (analysed in paragraphs 5.55 to 5.60) b) Enhancing connectivity in organisational processes (analysed in paragraphs 5.61 to 5.63)

Forvis Mazars' response

a) Other suggestions and comments regarding differences in reporting boundaries

136. [n.a.]

b) Governance and connectivity (DP § 5.61-§ 5.63)

137. As explained in DP § 5.61, 'connectivity in organisational processes' can be inferred but not observed from reported information. FS of some issuers depict two main areas where governance supports connectivity:

    a. Organisation of the relation between departments;

    b. the "internal monitoring" level, as described above (see § 33).

138. Regarding a., Our Study shows that nearly 20% of issuers specify in their FS the governance structure put in place to define and direct their action plan. In their FS, they present how governance is involved in managing non-financial performance, in particular by (i) providing a reminder of the company's mission or purpose; (ii) defining the responsibility (body and scope) and monitoring the climate strategy and its implementation within the various activities; (iii) measuring non-financial performance using recognised indicators (e.g. SBTi), taking climate factors into account when making expenditure decisions (OpEx or CapEx), generally using a price per tonne of CO_2, or carrying out a detailed risk analysis (particularly in financial institutions); (iv) taking these indicators into account when determining performance-related compensation (e.g. share-based compensation); (v) recognising the group's ESG performance, particularly through independent ratings.

139. Regarding b., we note that entities develop internal processes and tools to measure and monitor their sustainability targets. A common example of this is the use of an internal carbon price, which can be allocated to an activity or a product, or considered in investment decisions. This creates a connection between sustainability targets and metrics (as defined by the ESRS) and budget and controlling figures (which may eventually affect the FS).

140. It seems to us that entities are becoming increasingly interested in measuring the carbon (or water) footprint of individual products, which could be an effective way of tackling the decarbonisation of scope 3 emissions upstream in their supply/value chain. The European Carbon Border Adjustment Mechanism (CBAM) could help them establish a more reliable benchmark for the emissions embedded in goods.

Question 7 CHAPTER 5: EXPLORING DIGITISATION TO ENHANCE CONNECTIVITY OF REPORTED INFORMATION

In the analysis in paragraphs 5.64 to 5.74, it is concluded that the use of structured data has yet to meet its full potential for enhancing connectivity in the provision and consumption of reported information. What is your view on this observation? If you agree, how could this situation be changed?

Forvis Mazars’ response

141. Standardising digital tagging (e.g. XBRL) could ease the connectivity between data in cross-references and reconciliations without overloading the presentation of the FS or the SR.

142. Since tagging may be burdensome, a phased and proportionate approach could prioritise some industries (e.g. energy, utilities transportation, financial institutions) and use cases where the financial effects are more imminent (e.g. impairments, transition CapEx/OpEx, provisions, covenants).

143. Finally, it is questionable whether there is a need to tag or cross-reference non-specific information (e.g. total revenue) in order to make it visible and systematic in the SR. This aim could also be achieved by relying on the auditor's procedures to ensure that the information is actually connected. (see also Question 8).

Question 8 OTHER

If any, what aspects of connectivity that are not addressed in the DP would you like to raise?

Forvis Mazars' response

Specific assurance issues concerning connectivity

144. We believe that there are several steps to be specifically addressed by auditors, following the audit methodology. Some of them have already been referred to previously and are addressed by the entity (such as step 1 and 2), others may be supplemented with additional requirements to become fully "audit-ready" (step 3), and another is more specific to auditors (step 4):

a. Step 1: **materiality assessment** (see also § 23) considering the coordination between different auditors of the SR and FS vs. an integrated team, and the different levels of assurance (reasonable assurance in the FS vs. limited assurance in the SR);

a. Step 2: **points** to consider when addressing certain anchor points (see also § 28) such as (i) asset valuation and impairment testing (see also § 74), (ii) provisions and contingent liabilities, and (iii) (in)direct connectivity regarding payment terms to suppliers, number of employees;

b. Step 3: **connectivity mechanism** and minimum traceability requirements (audit trail between narrative, data and statements), and the use of consistent digital tagging (XBRL) for cross-references and reconciliations (see also § 141);

c. Step 4: ensuring that auditing standards properly address the issues (the EU sustainability assurance standard is expected to be adopted by July 2027). This involves aligning assurance requirements across reporting components and reporting on Key Audit Matters (if applicable). It also involves adapting the audit /limited assurance **opinion** to the specific context (including considering incorporation by reference). Based on the European Accounting Directive (transposed in each EU country), the auditor considers the consistency with the management report in its audit opinion on FS.