United Nations TD/B/C.II/ISAR/118

United Nations Conference on Trade and Development

Distr.: General
21 July 2026

Original: English

Trade and Development Board
Investment, Enterprise and Development Commission
Intergovernmental Working Group of Experts on
International Standards of Accounting and Reporting
Forty-third session
Geneva 30 September–2 October 2026
Item 4 of the provisional agenda

Connectivity between financial and sustainability reporting*

Note by the UNCTAD secretariat

Summary

The global sustainability reporting landscape has evolved rapidly in recent years, and mandatory reporting has become a reality in an increasing number of jurisdictions. This has heightened attention on connectivity between financial and sustainability reporting as an important aspect of high-quality corporate reporting.

The discussion in this note centres on connectivity in reported information and its importance in enabling users to understand the relationships between sustainability-related risks and opportunities and an entity's financial position, financial performance and cash flows. Connectivity requirements at the international level, within the European Union and in selected countries are reviewed. In addition, the role of assurance in supporting connected reporting is discussed. Key challenges in achieving connectivity of reported information are examined, and considerations are presented with a view to policymaking and practical implementation for developing countries. Finally, issues for further discussion by delegates are outlined.

* Mention of any firm or licensed process does not imply the endorsement of the United Nations.

I. Introduction

1. The evolution of the global sustainability reporting ecosystem from voluntary to mandatory was accelerated with the establishment of the International Sustainability Standards Board (ISSB) in November 2021 and the endorsement by the International Organization of Securities Commission of its first standards, International Financial Reporting Standards (IFRS) S1, general requirements for disclosure on sustainability-related financial information, and IFRS S2, climate-related disclosures, for cross-border use in 2023. By May 2026, 41 jurisdictions had adopted, adapted or initiated consultations to issue standards aligned with the IFRS Sustainability Disclosure Standards. As countries increasingly focus on implementation, connectivity between financial and sustainability reporting (connected reporting) has emerged as an important issue for regulators, national standard setters, investors, preparers and academia.

2. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has a long-standing history of work on the links between environmental issues and financial reporting. In 1989, it began examining the impact of environmental issues on financial statements and subsequently identified ways to connect financial and environmental performance through eco-efficiency indicators. A methodology[1] for selecting and measuring these indicators was presented at its seventeenth session held in July 2000. Between the twenty-first session in 2004 and the twenty-fourth session in 2007, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting developed guidance on concise, comparable indicators for corporate responsibility reporting to promote comparability and avoid unreasonable burdens on enterprises in developing countries.[2]

3. Following the adoption of the 2030 Agenda for Sustainable Development, UNCTAD has supported countries through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, in strengthening their corporate reporting infrastructure to facilitate the implementation of international financial and sustainability reporting requirements and promote harmonization, financial stability, investment flows and sustainable development. To advance these efforts, an UNCTAD toolkit comprising the following has been in use: the revised Accounting Development Tool, which deals with financial and sustainability reporting requirements and promotes alignment with international standards and best practices; guidance on core indicators for sustainability and reporting on Sustainable Development Goal impacts[3] with 34 quantitative indicators, many of which link financial and sustainability data; a training manual for entity reporting on core Goal indicators;[4] online training courses on core indicators for reporting;[5] and a policy guide[6] on tackling sustainability reporting, which underscores that some preconditions of the financial reporting infrastructure can facilitate the establishment of a sound sustainability reporting infrastructure. In addition, the International Standards of Accounting and Reporting Honours Initiative[7] of UNCTAD recognizes and facilitates the sharing of best practices on sustainability reporting. UNCTAD has also supported the establishment and strengthening of five regional partnerships for the promotion of sustainability and Sustainable

[1] UNCTAD, 2000, *Integrating Environmental and Financial Performance at the Enterprise Level: A Methodology for Standardizing Eco-efficiency Indicators* (United Nations publication, Sales No. E.00.II.D.28, New York and Geneva).

[2] UNCTAD, 2008, *Guidance on Corporate Responsibility Indicators in Annual Reports* (United Nations publication, Sales No. 08.II.D.8, New York and Geneva).

[3] UNCTAD, 2022, *Guidance on Core Indicators for Sustainability and SDG Impact Reporting* (United Nations publication, Sales No. E.22.II.D.39, Geneva); UNCTAD, 2021–2022, *Practical Implementation of Core Indicators for Sustainable Development Reporting*, vols. 1–3 (United Nations publication, Sales Nos. E.21.II.D.7 and E.22.II.D.4, Geneva).

[4] UNCTAD, 2020, *Core SDG Indicators for Entity Reporting: Training Manual* (United Nations publication, Sales No. E.20.II.D.17, New York and Geneva).

[5] See https://unctad.org/node/41669/training.

[6] UNCTAD, 2023, *Tackling the Sustainability Reporting Challenge: A Policy Guide* (United Nations publication, Geneva).

[7] See https://unctad.org/isar/honours.

Development Goal reporting in Africa, Asia, the Gulf States and Latin America, as well as the Eurasian region.

4. For the forty-first session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the UNCTAD secretariat prepared a note on integrating reporting on the financial and sustainability performance of entities and leveraging digitalization.[8] In concluding its deliberations at the forty-second session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting proposed connectivity between financial and sustainability reporting as one of the two main agenda items for the forty-third session. Accordingly, this note is aimed at facilitating discussions at the forty-third session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on connectivity between financial and sustainability reporting. Chapter II contains a discussion on the definition and requirements of connectivity of reported information at the international level, in selected countries and within the European Union, as well as connectivity and assurance. An overview is provided in chapter III of the effects of sustainability-related matters on financial statements. Chapter IV contains an outline of key challenges and considerations for policymaking and practical implementation. Conclusions and issues for further consideration by delegates are presented in chapter V.

II. Connectivity between financial and sustainability reporting

A. Evolution

5. The concept of connectivity has evolved significantly in recent years. Historically, the Integrated Reporting Framework[9] issued by the International Integrated Reporting Council promoted connectivity of information and integrated thinking. Under the Integrated Reporting Framework, an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to creation, preservation or erosion of value over the short-, medium- and long-term. Connectivity of information is one of the seven guiding principles of the Integrated Reporting Framework. The International Integrated Reporting Council has transitioned into the Integrated Reporting and Connectivity Council of the IFRS Foundation.[10]

6. Integration in reporting is a broader concept than connectivity. According to an ISSB agenda consultation,[11] integration in reporting not only encompasses where, what and how information on value creation can be connected through conceptual and operational linkages, but also includes the collective consideration of the interdependencies, synergies and trade-offs between (a) the various resources and relationships reported on in general purpose financial reports and (b) how the value that an entity creates for itself and for its investors is inextricably linked to the value the entity creates for other stakeholders, society and the natural environment. More recently, connectivity is used as a narrower concept that refers to the provision of coherent, consistent and linked information across financial and sustainability reporting. Its objective is to enhance the relevance, faithful representation and overall usefulness of information by enabling users to understand the relationships between sustainability-related risks and opportunities and an entity's financial position, financial performance and cash flows.

[8] TD/B/C.II/ISAR/110.

[9] See https://www.ifrs.org/issued-standards/integrated-reporting/framework/.

[10] See https://www.ifrs.org/issued-standards/integrated-reporting/international-integrated-reporting-council/.

[11] IFRS Foundation, 2023, *Request for Information: Consultation on Agenda Priorities*, London.

7. The development of global sustainability reporting standards and increased investor demand for sustainability-related information have focused the discussion on the connections between sustainability disclosures and financial statements, including the effects of climate-related and other sustainability-related matters on recognition, measurement and disclosure in financial statements. In this regard, the ISSB introduced requirements in IFRS S1 and S2 to connect sustainability disclosures and financial statements, and in its consultation on agenda priorities[12] in May 2023, the ISSB highlighted the need for ensuring connectivity between the respective requirements of the two IFRS Foundation boards, namely, the International Accounting Standards Board (IASB) and the ISSB. The consultation on agenda priorities document also stated that the IFRS Foundation works towards creating an integrated, coherent and comprehensive system of corporate reporting that provides a holistic and transparent view of how an entity creates value over time. The UNCTAD response,[13] on behalf of experts under the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, to the ISSB stressed that integration of reporting emerged as a high priority area among these experts because of the need to avoid fragmentation and achieve greater consistency between financial and sustainability reporting. Similarly, through the European Sustainability Reporting Standards (ESRS), the European Financial Reporting Advisory Group (EFRAG) emphasized the relevance of connectivity and coherence across sustainability disclosures and financial reporting.

8. Climate-related disclosures have become a central focus of discussions on connectivity because the ISSB introduced a “climate first” approach as a transitional relief in the application of IFRS S1 and S2, and many entities previously applying the recommendations of the Task Force on Climate-related Financial Disclosures also concentrated on climate-related impacts. Climate-related risks and opportunities can affect enterprise value, strategy, financing, asset valuations, liabilities, expected cash flows, long-term business resilience and so on. Consequently, connectivity is increasingly linked to the objective of ensuring consistency and coherence within general-purpose financial reporting. Connectivity can also strengthen the usefulness of corporate reporting by reducing inconsistencies among the financial statements, sustainability report and management report. Stakeholders expect entities to explain how sustainability-related risks and opportunities are reflected in an entity’s strategy, governance, financing, risk management and accounting estimates.

9. Therefore, it is important to note that connectivity does not necessarily imply that sustainability reporting and financial reporting should contain identical information. Sustainability reporting and financial statements provide complementary information.

B. International requirements

10. There are no explicit connectivity requirements in IFRS Accounting Standards. However, paragraph 21 of IFRS S1 requires entities to provide information in a manner that enables users of general-purpose financial reports to understand:

(a) The connections between the items to which the information relates, such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects;

(b) The connections between disclosures provided by the entity:

(i) Within its sustainability-related financial disclosures, such as connections between disclosures on governance, strategy, risk management and metrics and targets;

(ii) Across its sustainability-related financial disclosures and other general-purpose financial reports published by the entity, such as its related financial statements.

[12] Ibid.

[13] See https://www.ifrs.org/projects/completed-projects/2024/issb-consultation-on-agenda-priorities/rfi-cls-agenda-priorities/#view-the-comment-letters, number 431.

11. IFRS S1 also requires consistency, to the extent possible, between the data and assumptions used in sustainability-related disclosures and in preparing financial statements. In addition, it states that an entity may apply reporting standards of IFRS Sustainability Disclosure Standards, regardless of the accounting standards it uses. However, requirements of IFRS Accounting Standards and IFRS Sustainability Disclosure Standards apply to the same reporting entity, and the qualitative characteristics in the *Conceptual Framework for Financial Reporting*[14] apply to sustainability-related financial information. Furthermore, IFRS S1 requires entities to publish their sustainability-related financial disclosures at the same time as their financial statements and for the same reporting period. This requirement represents a significant shift from historical practice in many jurisdictions, where financial statements and sustainability reports were often published separately, with sustainability reports released several months after the annual financial report. Finally, IFRS Sustainability Disclosure Standards does not refer to assurance requirements; instead, each adopting jurisdiction decides whether to require assurance.

12. The IFRS Foundation highlights that there can be connections between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards through (a) purpose, by driving comprehensive and coherent financial information for investors in general-purpose financial reports prepared with these sets of standards, (b) products, through compatible and complementary IFRS Accounting Standards and Sustainability Disclosure Standards and related materials and (c) people, through collaborative working between IASB and ISSB teams. As a result, the boards and their technical staff share information and knowledge, there is coordinated stakeholder engagement and, in some cases, consultation and collaboration on projects and activities to ensure connectivity between their standards.

13. In June 2025,[15] the IASB issued a revised IFRS practice statement 1, management commentary. In developing the revised management commentary, the IASB worked closely with the ISSB to align requirements and facilitate connected information across a company’s financial reports.[16] According to the IASB, the management commentary complements financial statements by providing the management’s explanations about a company’s performance, strategy and risk. The revised management commentary emphasizes the importance of disclosing material information about sustainability-related matters to support users’ understanding of an entity’s current and expected performance.

14. To support connectivity efforts, the IFRS Foundation created a connectivity webpage[17] and launched a webcast series[18] that presents practical examples of how the combined application of IFRS Accounting Standards and IFRS Sustainability Disclosure Standards produces complementary and connected reported information.

[14] IFRS Foundation, 2018, available at https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/.

[15] See https://www.ifrs.org/news-and-events/news/2025/06/iasb-issues-revised-practice-statement-management-commentary/.

[16] Ibid.

[17] See https://www.ifrs.org/connectivity/.

[18] See https://www.ifrs.org/news-and-events/news/2024/12/new-webcast-series-connectivity/.

C. Requirements in the European Union

15. The European Union is revising the ESRS to simplify requirements. With an omnibus package, the scope of the Corporate Sustainability Reporting Directive[19] has been drastically reduced, and it applies only to European Union companies with more than 1,000 employees and a net turnover of more than 450 million euros and to non-European Union parent groups with a more than 450 million net turnover generated in the European Union and a subsidiary or branch with more than 200 million euros net turnover.[20] The revised ESRS[21] were open for comments until 3 June 2026 and are expected to become effective on 1 January 2027. In relation to connectivity, EFRAG published a discussion paper[22] to provide thought leadership on the concepts and practical application of connectivity and to suggest considerations for enhancing connectivity and clarifying the borders of different annual report sections. In the discussion paper, which was open for comments until June 2026, connectivity of reported information is defined as the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different annual report sections (such as the financial statements, sustainability statement and other parts of a management report). EFRAG emphasizes that connectivity of reported information is framework-agnostic, and connectivity concepts are applicable across multiple reports.

16. In paragraph 9 of the revised ESRS 1, general requirements, entities are required to provide information that enables users of an entity’s sustainability statement to understand the connections:

(a) Within the sustainability statement;

(b) Between the sustainability statement and other corporate reporting documents published by the undertaking, including its financial statements.

17. According to the revised ESRS 1, the sustainability statement is part of the management report, and the reporting period must be consistent with that of the entity’s financial statements.

18. In the discussion paper, EFRAG identifies the following main types of connectivity:

(a) Explanations of how the strategy, business model and impacts, opportunities and risks are linked to the financial position, financial performance and cash flows of an entity;

(b) Direct connectivity, through cross-referencing, and indirect connectivity, through reconciliation to the financial statements line item (for example, revenue, intangible assets, capital expenditures and so on) or explanation, linking monetary and other quantitative data in the sustainability statement and financial statements;

(c) Consistency of data, narrative information, assumptions and presentation currency across reports;

(d) Coherence between sustainability disclosures and financial statements to facilitate the completeness, clarity and comparability of reported information and to explain any apparent inconsistencies across reports.

[19] European Union, 2026, Directive (EU) 2026/470 of the European Parliament and of the Council (24 February 2026), *Official Journal of the European Union*, available at https://eur-lex.europa.eu/eli/dir/2026/470/oj.

[20] See https://kpmg.com/xx/en/our-insights/ifrg/2025/esrs-eu-omnibus.html.

[21] European Commission, 2026, Revised European sustainability reporting standards, available at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/16775-Revised-European-sustainability-reporting-standards_en.

[22] EFRAG, 2025, *Connectivity of Financial and Sustainable Reporting*, Brussels, available at https://www.efrag.org/en/news-and-calendar/news/efrag-publishes-discussion-paper-on-connectivity-of-financial-and-sustainability-reporting.

19. In addition, EFRAG notes that connectivity includes the disclosure of current financial effects and of anticipated financial effects, referred to as intertemporal connectivity or connectivity across reporting periods, which explain how sustainability-related matters may affect the future financial performance and financial position.

20. EFRAG identified "anchor points", defined as qualitative and quantitative information within financial statements and sustainability disclosures, that enable the connection of information across these reports. Examples include governance disclosures, disclosures of scenarios and assumptions, stranded assets disclosures, human capital metrics and so forth.

21. In July 2024, the European Securities and Markets Authority issued a public statement on the first application of the ESRS by large issuers, in which it highlighted that establishing connectivity between financial and sustainability information is a key area that requires close attention. Furthermore, in its statements on European common enforcement priorities for 2024[23] and 2025,[24] the European Securities and Markets Authority called for consistency and connectivity between the information related to climate risks and opportunities included in financial statements, the sustainability report and the management report. In particular, the European Securities and Markets Authority noted that entities may need to explain in their financial statements when climate-related matters discussed in a management report have no material effect on financial statements and clarify the reasons for this outcome.

D. Global Reporting Initiative

22. The Global Reporting Initiative[25] issues standards and guidelines with a double materiality approach that any organization can apply voluntarily. Global Reporting Initiative 1: Foundation 2021 requires an organization to align its sustainability reporting with its financial reporting. The organization should report the information for the same reporting period and for the same group of entities as covered in its financial reporting, and it should also publish the information at the same time as its financial reporting, if possible. Global Reporting Initiative 1: Foundation 2021 also encourages external assurance to enhance the credibility of reporting.

E. Requirements in selected jurisdictions

23. As mentioned before, 41 jurisdictions have adopted, adapted or are holding consultations to implement IFRS Sustainability Disclosure Standards. Countries fully adopting IFRS Sustainability Disclosure Standards, such as Kenya, Malaysia, Mexico and Nigeria,[26] have included the connectivity requirements contained in IFRS Sustainability Disclosure Standards. The following paragraphs provide examples of how selected jurisdictions have integrated connectivity requirements in their sustainability requirements.

[23] European Securities and Markets Authority, 2024, European common enforcement priorities for 2024 corporate reporting, ESMA32-193237008-8369, Paris.

[24] Ibid, 2025, European common enforcement priorities for 2025 corporate reporting, ESMA32-2064178921-9254, Paris.

[25] See https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/.

[26] See https://www.ifrs.org/ifrs-sustainability-disclosure-standards-around-the-world/use-by-jurisdiction/.

24. The Australian Accounting Standards Board issued two Australian Sustainability Reporting Standards in September 2024.[27] Australian Accounting Standards Board S1, general requirements for disclosure of sustainability-related financial information, a voluntary standard, and Australian Accounting Standards Board 2, climate-related disclosures, a mandatory standard, are based on IFRS S1 and S2, with small differences.[28] Australian Accounting Standards Board 2 requires an entity to provide information that enables investors to understand connections between various climate-related risks and opportunities, connections within climate-related financial disclosures and connections across climate-related financial disclosures and financial statements. In addition, an entity is required, to the extent possible, to use consistent data and assumptions in preparing its climate-related financial disclosures and related financial statements.

25. The Canadian Sustainability Standards Board developed Canadian Sustainability Disclosure Standard 1, general requirements for disclosure of sustainability-related financial information, and Canadian Sustainability Disclosure Standard 2, climate-related disclosures, in alignment with IFRS Sustainability Disclosure Standards, except for the effective date and transition relief. Transition relief incorporated into Canadian Sustainability Disclosure Standards allow for phased implementation in Canada.[29] In line with IFRS S1 and S2, sustainability reporting will be connected[30] to financial statements. Canadian Sustainability Disclosure Standards are voluntary unless they are mandated by securities regulators or provincial governments in Canada.

26. The Sustainability Standards Board of Japan issued the Universal Sustainability Disclosure Standard, application of the sustainability disclosure standards, a Theme-based Sustainability Disclosure Standard No. 1, general disclosures, and a Theme-based Sustainability Disclosure Standard No. 2, climate-related disclosures.[31] The Sustainability Standards Board of Japan incorporated all requirements contained in IFRS S1 and S2, while also introducing jurisdiction-specific alternatives that entities may apply. Therefore, Japan also requires connectivity between sustainability disclosures and financial statements.

27. In February 2026, the Government of the United Kingdom of Great Britain and Northern Ireland published the country's versions of IFRS S1 and S2,[32] which contained the connectivity requirements in IFRS Sustainability Disclosure Standards. The standards are available for voluntary use, and the Government and the Financial Conduct Authority will consider whether to require reporting with these standards for certain entities of the United Kingdom.

F. Connectivity and assurance

28. In 2024, the European Systemic Risk Board issued a publication on climate-related risks and accounting[33] that highlighted the scope of assurance work as crucial for properly connecting sustainability information with financial statements. In this regard, auditors can play a key role in assessing disclosures and challenging estimates affected by climate-related risks. Consequently, requiring assurance over sustainability reports could promote connectivity between financial and sustainability information. The European Commission has requested the Committee of European Auditing Oversight Bodies[34] to provide advice for

[27] See Australian Accounting Standards Board, 2025, An overview of Australian Sustainability Reporting Standards, April, available at https://www.aasb.gov.au/media/xpilzp2e/overviewofasrs_04-25.pdf.

[28] KPMG, 2026, Australian sustainability reporting legislation and standards guide, Sydney.

[29] Financial Reporting and Assurance Standards, 2024, Canadian Sustainability Disclosure Standards (CSDS1 and CSDS 2): Now available, December.

[30] KPMG, 2025, Get ready for CSSB sustainability disclosures, Toronto, Canada.

[31] Sustainability Standards Board of Japan, 2025, About SSBJ standards, available at https://www.ssb-j.jp/jp/wp-content/uploads/sites/7/20250305_e.pdf.

[32] United Kingdom, Department for Business and Trade, 2026, Guidance: United Kingdom Sustainability Reporting Standards.

[33] European Systemic Risk Board, 2024, *Climate-related Risks and Accounting*, Frankfurt.

[34] European Commission, 2024, available at https://finance.ec.europa.eu/system/files/2024-03/240307-ceaob-commission-letter-non-binding-assurance-guidelines_en.pdf.

the development of European Union-specific add-ons and carve-outs to be included in a Delegated Act that would adopt limited assurance sustainability standards based on International Standard on Sustainability Assurance 5000, general requirements for sustainability assurance engagements. Following the adoption of the omnibus package, the deadline for the European Commission to adopt limited assurance standards under the Corporate Sustainability Reporting Directive was postponed to 1 July 2027.[35] It is important to note that the International Auditing and Assurance Standards Board standards have not yet been adopted in the European Union.

29. During the development of International Standard on Sustainability Assurance 5000,[36] the International Auditing and Assurance Standards Board received feedback[37] about the connectivity between sustainability information and audited financial statements and the importance of communication between the sustainability assurance practitioner and the auditor of the financial statements. The International Auditing and Assurance Standards Board acknowledged that financial and sustainability reporting are becoming more integrated, and communication between practitioners and the auditors of financial statements is critical to ensure consistency between different reporting requirements. Accordingly, paragraph 174 of International Standard on Sustainability Assurance 5000, concerning practitioners' responsibilities for other information, states that, if the other information includes an entity's financial statements subject to audit, and the practitioner identifies that a material inconsistency appears to exist between those financial statements and the sustainability information or becomes aware that the financial statements appear to be materially misstated, the practitioner shall also communicate the matter to the auditor of the entity's financial statements, unless prohibited by law or regulation or by professional requirements. It is important to note that sustainability disclosures in the annual report may have different levels of assurance, or it is possible that only certain disclosures have assurance and others not.

30. According to EFRAG, a condition for including information in financial statements by cross-referencing information from another report is that the referred information should be subject to the same level of assurance as the financial statements, namely, reasonable assurance. However, currently, the European Union requires limited assurance for the sustainability statement.

III. Effects of sustainability-related matters on financial statements

A. Current financial effects of sustainability-related matters

31. In general terms, sustainability-related matters can reveal risks for entities, such as climate risks, labour risks, practices and employee relations, human rights issues in the value chain, corruption investigations and changing market conditions, among other aspects. This can influence the assumptions, estimates and judgments used in financial reporting. For example, climate-related regulation and emissions reduction policies may affect the assumptions applied in impairment testing or the recoverable amount of assets. Even when the impact on financial statements may not be immediately quantitatively significant, users of financial statements expect entities to explain how sustainability reporting issues are considered in the preparation of financial statements when those matters are material from a

[35] European Union, 2026, Directive (EU) 2026/470 of the European Parliament and of the Council (24 February 2026), *Official Journal of the European Union*, available at https://eur-lex.europa.eu/eli/dir/2026/470/oj.

[36] International Auditing and Assurance Standards Board, 2024, International Standard on Sustainability Assurance 5000, General requirements for sustainability assurance engagements, available at https://www.iaasb.org/publications/international-standard-sustainability-assurance-5000-general-requirements-sustainability-assurance.

[37] Ibid., 2024, *Basis for Conclusions: ISSA 5000 and Conforming and Consequential Amendments to Other IAASB Standards Arising from ISSA 5000*.

qualitative perspective.[38] Users also expect transparency and reasonableness on key assumptions, estimates and judgments that underly these assessments. In addition, entities should ensure consistency or explain any inconsistencies between information reported in financial statements and information included in other reports, such as the management report and the sustainability report. It is important to consider that the scope of financial effects disclosed in sustainability reporting may be broader and more forward-looking than its reflection in financial statements. Thus, a sustainability-related financial effect may be material in sustainability disclosures before it becomes material in financial statements, if it ever does.[39]

32. Following the issuance of IFRS S1 and S2 in June 2023, the IFRS Foundation republished its educational material on the effects of climate-related matters on financial statements.[40] The document clarifies that, although IFRS Accounting Standards do not explicitly refer to climate-related matters, entities must consider them in applying IFRS Accounting Standards when their effects are material in the context of financial statements as a whole. It contains a non-exhaustive list of examples illustrating the relevance of climate-related matters across several IFRS standards including: International Accounting Standard 1, presentations of financial statements (sources of estimation uncertainty and significant judgments and going concern); International Accounting Standard 2, inventories; International Accounting Standard 12, income taxes; International Accounting Standard 16, property plant and equipment and International Accounting Standard 38, intangible assets; International Accounting Standard 36, impairment of assets; International Accounting Standard 37, provisions, contingent liabilities and contingent assets; IFRS 7, “financial instruments: disclosures”; IFRS 9, financial instruments; IFRS 13, fair value measurements; and IFRS 17, insurance contracts. The document highlights that an entity also needs to assess if any material information is missing from its financial statements and whether it needs to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable investors to understand the impact of particular transactions, other events and conditions on a company’s financial position and financial performance.

33. In addition, in November 2025, the IASB issued “Disclosures about uncertainties in the financial statements”,[41] which contains illustrative examples. The examples showcase key issues, and the principles and requirements illustrated apply equally to all types of uncertainties, although the examples focus on the effects of climate-related risks. The topics covered in the examples include materiality judgments and disclosure of assumptions: general and specific requirements, disclosure about credit risk, disclosure about decommissioning and restoration provisions and disclosure of disaggregated information.

34. EY issued a publication[42] aimed at supporting entities in reporting on connectivity, particularly on the effects of climate change for accounting purposes. The document includes examples of disclosure requirements, such as assumptions, estimates and judgments, the effects of climate-related issues on the useful life, residual value and decommissioning of property, plant and equipment, on the impairment of assets, provisions, contingent liabilities and contingent assets, fair value measurement, financial instruments, carbon credits and renewable energy certificates and nature-dependent electricity contracts. Among the highlights in the document is that promoting consistency across disclosures in financial statements, the management report, the sustainability report and the like requires entity-specific disclosures and avoidance of boilerplate language.

[38] EY, 2025, *Applying IFRS: Connected Financial Reporting: Accounting for Climate Change*.

[39] Forvis Mazars, 2025 *Financial Reporting of European Companies on Sustainability Issues: Findings from 2024 Financial Statements and Connectivity*.

[40] Available at effects-of-climate-related-matters-on-financial-statements.pdf.

[41] See https://www.ifrs.org/projects/completed-projects/2025/climate-related-risks-in-the-financial-statements/.

[42] EY, 2025.

B. Anticipated financial effects of sustainability-related matters

35. Sustainability reporting frameworks increasingly encourage disclosure of anticipated financial effects associated with sustainability-related risks and opportunities. However, methodologies for estimating such effects continue to evolve, and preparers may face significant uncertainty when developing quantitative estimates. In this regard, in August 2025, the IFRS Foundation issued educational material on disclosing information about anticipated financial effects applying ISSB Standards.[43] The document provides an overview of the requirements in IFRS Sustainability Disclosure Standards relating to disclosures of current and anticipated financial effects of sustainability-related risks and opportunities, mechanisms that assist entities in preparing disclosures about anticipated financial effects and illustrative examples.

36. The emphasis in the educational material is that disclosures on anticipated financial effects provide a complementary perspective about how financial statements are expected to be affected over the short-, medium- and long-term. The explanation in the educational material is that, to the extent possible, the data and assumptions used to prepare these disclosures need to be consistent with those used in financial statements. Entities are also expected to use data and assumptions that are available without undue cost or effort. The use of reasonable estimates is necessary when preparing sustainability-related financial disclosures. As noted in the document, providing quantitative and qualitative information is most useful for investors. Moreover, according to IFRS S1, an entity does not have to disclose information about a sustainability-related opportunity if the information is commercially sensitive.

IV. Challenges and considerations for policymaking and practical implementation

37. IFRS Sustainability Disclosure Standards became effective in 2024, while the first group of companies subject to the European Corporate Sustainability Reporting Directive applied the ESRS as of 2024. At the same time, an increasing number of jurisdictions have continued to establish national sustainability reporting requirements. However, connectivity practices remain at an early stage of development. A study with survey responses from 375 investors[44] found that the majority consider the financial effects of climate-related risks to be insufficiently reflected in corporate disclosures, and 65 per cent believe that companies fall short of complying with reporting requirements. In the European Union, the ESRS allowed the first group of companies that applied the standards in 2024 to omit information on, among other things, the anticipated financial effects of certain sustainability-related risks.[45] In addition, the “quick fix” amendment allows companies to omit this information in 2025 and 2026.

38. A report reviewing early findings of 270 companies that published sustainability reports in 2025[46] in accordance with the ESRS found that connectivity remains difficult to achieve, with nearly half of the companies providing no disclosures about current financial effects, which leaves users to infer that such effects were not material. Moreover, 87 per cent of assurance reports on sustainability information included an inherent limitations paragraph on forward-looking information.

[43] IFRS Foundation, 2025, Disclosing information about anticipated financial effects applying ISSB Standards, London.

[44] Müller MA and Terboven M, 2025, Connectivity in corporate reporting: Evidence from the field, Social Science Research Network, available at http://dx.doi.org/10.2139/ssrn.5859782.

[45] European Commission, 2025, Commission adopts “quick fix” for companies already conducting sustainability reporting, 11 July.

[46] KPMG, 2025, Real-time ESRS: Findings from the first wave of ESRS reporting.

39. The following paragraphs highlight key challenges in promoting the connectivity of reported information and considerations for policymaking and practical implementation. Challenges include the need to clarify the border of financial statements in relation to sustainability disclosures; the reporting boundary in financial statements and in sustainability disclosures; differences in materiality approaches; the need for effective governance; the necessity to support capacity and collaboration in organizational processes; the need to strengthen expertise in assurance; digital reporting challenges; difficulties in determining and connecting anticipated financial effects; and the complexity and evolving nature of sustainability reporting standards.

40. One important challenge concerns the need to clarify the border of financial statements in relation to sustainability disclosures. According to EFRAG, the border of different reports is the dividing line that distinguishes between information included and excluded in these reports. Stakeholders increasingly expect climate-related commitments, transition plans and sustainability-related risks that are disclosed outside financial statements to be reflected consistently in financial reporting assumptions and disclosures. At the same time, the interaction between the different time horizons that drive sustainability disclosures and the specific recognition and measurement criteria applicable to financial statements means that not all sustainability-related matters will result in recognized assets, liabilities and expenses. As a result of these differences, users may perceive inconsistencies between sustainability-related disclosures and financial statements. For example, an entity could communicate ambitious climate transition targets or describe significant climate-related risks in sustainability reports, while its financial statements may not contain material impairments or provisions directly linked to those risks. However, in certain circumstances, the absence of visible financial impacts may in fact be a reflection of the application of accounting requirements rather than the absence of sustainability-related risks.

41. Sustainability reporting may therefore contain broader qualitative, forward-looking or impact-related information that extends beyond the scope of financial statements. This distinction highlights the importance of explanatory disclosures and connected reporting. Users of reports benefit from explanations of how sustainability-related assumptions and judgments have been incorporated into financial statements, including explanations of areas where sustainability-related risks are considered material qualitatively, even when quantitative financial effects remain uncertain or not yet recognized.

42. In this regard, the European Systemic Risk Board underlined that, given the inherent boundaries of accounting, sustainability standards are essential when it comes to disclosing the long-term financial impacts of climate-related risks. The European Systemic Risk Board further stressed that entry into force of sustainability standards will not achieve the intended effects if reporting entities do not properly connect sustainability information with financial statements. Insufficient connectivity can lead to duplications and divergent disclosures under financial and sustainability reporting, with potential consequences for financial stability. To avoid this, the European Systemic Risk Board would welcome further work on connectivity by standard-setters.

43. Another challenge relates to the reporting boundary considered in the preparation of consolidated financial statements and consolidated sustainability information. According to EFRAG, the reporting boundary corresponds to which entities, operations, sites and assets are reported on. Under IFRS Accounting Standards, the definition of the reporting entity is based on the consolidation principles established in IFRS 10, consolidated financial statements, whereby consolidation of information occurs when an entity exercises control. In cases involving significant influence or joint control, the equity method is applied in accordance with International Accounting Standard 28, investments in associates and joint ventures. In sustainability reporting, however, the concept of a reporting entity can be broader and may include, for example, operations across the value chain.

44. Under IFRS Accounting Standards and IFRS Sustainability Disclosure Standards, reporting occurs for the same reporting entity. In this regard, paragraph 29 (a) (ii) of IFRS S2 requires an entity to measure its greenhouse gas emissions in accordance with *The Greenhouse Gas Protocol*,[47] unless the entity is required to use a different method of measurement. Furthermore, paragraph B27 (appendix B) of IFRS S2 refers to the measurement approaches of *The Greenhouse Gas Protocol* and specifies that, when an entity measures its greenhouse gas emissions, it must use the equity share[48] or the control approach.[49]

45. Within the European Union, under IFRS Accounting Standards and the ESRS, reporting occurs for the same reporting entity, and, in the revised ESRS 1, the same boundary of consolidation is applied for financial statements and the sustainability statement. Additionally, ESRS E1, climate change, requires the consolidation and measurement of greenhouse gas emissions to be conducted with the financial control approach of *The Greenhouse Gas Protocol*, which aligns with the consolidation approach in IFRS Accounting Standards. However, the EFRAG discussion paper notes that the consolidation approach for a sustainability statement in accordance with the ESRS could be different from the consolidation approach in financial statements under IFRS Accounting Standards. For instance, this could occur when a reporting entity is a group and some subsidiaries may not be material for the consolidated financial statements, but they are for the consolidated sustainability statement (if they have material sustainability-related impacts, risks and opportunities); and when applying the operational control approach because the reporting boundary could go beyond the consolidation of financial statements and also include an entity's upstream and downstream value chain. In this context, explaining the differences in the scopes of consolidation in different reports is important to enable users to understand which information cannot be connected across the reports.

46. Connectivity can also be affected by differences in materiality approaches. IFRS Accounting Standards and IFRS Sustainability Disclosure Standards use a financial materiality approach and apply the same materiality definition, namely, information is material[50] if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make based on those reports. However, the ESRS apply a double materiality approach. Under this approach, sustainability reporting considers impacts, risks and opportunities using an inside-out (impact materiality) and an outside-in (financial materiality) perspective, while financial reporting standards focus on financial materiality. Thus, differences in materiality approaches will contribute to variations between sustainability-related disclosures and financial reporting.

47. One key challenge in promoting connectivity between financial and sustainability reporting relates to ensuring effective governance structures. In many entities, limited sustainability reporting literacy and insufficient expertise in connected reporting among those charged with governance can result in inadequate oversight, weak integration into strategy and insufficient challenge of assumptions. Thus, IFRS S1 and the Corporate Sustainability Reporting Directive require disclosures on governance factors in relation to sustainability information. As underscored by the Accounting Standards Authority of France,[51] financial statements and the sustainability report are approved by those charged with governance, who are also responsible for strategic decision-making. The Accounting Standards Authority identified useful practices that can support connectivity, including raising awareness of requirements and the limits of financial and sustainability reports and the need to connect them; building capacity among board members on sustainability impacts, risks and

[47] World Resources Institute and World Business Council, 2004, *The Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard*, revised, Washington, D.C.

[48] Under the equity share approach, a company accounts for greenhouse gas emissions from operations according to its share of equity in the operation.

[49] Under the control approach, a company accounts for 100 per cent of greenhouse gas emissions from operations over which it has control.

[50] IFRS Foundation, 2026, IFRS S1, General requirements for disclosure of sustainability-related financial information, para. 18.

[51] France, Accounting Standards Authority, *Enjeux climatiques : Quels liens entre les états financiers et l'état de durabilité ? Contribution à la réflexion*.

opportunities; ensuring that the internal control structure covers financial and sustainability information; promoting dialogue between sustainability and audit committees; capacity-building for management and key internal players; use and development of connected reporting tools; and creation of steering and development teams to promote internal collaboration.

48. There is a broader need to strengthen capacity and collaboration among preparers to support connectivity in organizational processes. Connecting financial and sustainability information requires substantial coordination[52] across the teams responsible for preparing the financial report, sustainability report and management report to promote information that is comparable, verifiable, timely and understandable and ensure that the assumptions and estimates used for reports are consistent or explain any inconsistencies. The use of integrated thinking[53] can also enable connectivity of reported information. However, in many entities, sustainability-related data and financial data continue to exist in separate systems and organizational silos. Entities will need to strengthen collaboration across departments and ensure that internal controls cover both financial and sustainability information, data governance and reporting systems, as well as ensure that preparers possess adequate expertise to conduct materiality assessments, produce reliable quantitative disclosures, connect sustainability metrics to financial impacts, identify anticipated financial effects and so forth. In this regard, guidance issued by the International Federation of Accountants[54] provides useful insights to reinforce governance and control activities to enhance the quality of sustainability information.

49. It is necessary to strengthen expertise in assurance. In some developing countries, practitioners who have traditionally provided assurance over sustainability reports, which were prepared using frameworks such as Global Reporting Initiative standards, standards of the Sustainability Accounting Standards Board and the like, are not necessarily professional accountants. As sustainability reporting increasingly aligns with IFRS Sustainability Disclosure Standards and connected information is required, these practitioners will need to strengthen their expertise in both financial and sustainability reporting. Moreover, assurance professionals will need to develop the skills necessary to apply International Standard on Sustainability Assurance 5000 and evaluate consistency, coherence and supportability of assumptions, which requires advanced professional judgment skills. In practice, this will often entail multidisciplinary assurance teams and the involvement of external experts.

50. Capacity-building initiatives and technical assistance can support implementation, particularly in developing countries and among smaller reporting entities. In this regard, peer-to-peer learning through regional partnerships for the promotion of sustainability reporting can help identify key challenges and facilitate the sharing of good practices.

51. Challenges in digital reporting also represent an important issue in promoting connectivity. Digitalization requires investment in systems, tagging frameworks and reporting infrastructure. Although digital reporting frameworks and structured data systems can support connectivity, many entities continue to face difficulties with data quality, interoperability, comparability and technological capacity. The use of XBRL (Extensible Business Reporting Language) tagging promotes standardization and provides a machine-readable format for general financial purpose reports. This may facilitate linkages between financial statements and a sustainability report if terminology is applied consistently. In this regard, the European Union requires sustainability data in a digital format through the Corporate Sustainability Reporting Directive. EFRAG stressed that complementary digital tools, such as hyperlinks and structured taxonomies, can improve navigation and the usability of connected data. Artificial intelligence could also be a useful tool to facilitate connectivity; however, further development of this technology is required to increase its reliability and helpfulness.

[52] See https://kpmg.com/xx/en/our-insights/ifrg/2024/ifrs-blog-connectivity-matters.html.

[53] See https://www.ifrs.org/issued-standards/integrated-reporting/integrated-thinking/.

[54] See https://www.ifac.org/news-events/2024-12/new-guidance-advances-high-quality-corporate-sustainability-reporting-and-assurance-preparedness.

52. Another challenge concerns anticipated financial effects. Emerging sustainability reporting standards increasingly encourage or require disclosure of anticipated financial effects relating to sustainability-related risks and opportunities. However, methodologies for estimating future financial effects remain under development, and preparers have expressed concerns about the uncertainty, comparability and reliability of the information disclosed. Thus, there is a need to strengthen expertise to determine these effects and provide connected qualitative and quantitative information that explains how sustainability-related matters may impact the financial statements in the future. As reporting practices mature, additional guidance, practical examples and collaboration between accounting and sustainability standard-setters will support greater consistency and comparability in reporting sustainability-related anticipated financial effects. The complexity of sustainability reporting standards, the continuous evolution of reporting frameworks and differences in terminology also contribute to implementation challenges. In this regard, regulators and standard-setters need to continue developing practical guidance and illustrative examples on how sustainability-related risks and opportunities could affect financial statements, and how entities can better explain relationships between sustainability disclosures and financial reporting to satisfy the needs of primary users.

V. Conclusion and issues for further discussion

53. Connectivity between financial and sustainability reporting has become increasingly important for improving the relevance and faithful representation of corporate reporting with a view to promoting its usefulness. Recent developments in sustainability reporting standards, educational materials and guidance on financial reporting standards have increased expectations for coherent and connected reporting practices.

54. Connectivity can enhance the decision-usefulness of corporate reporting by helping users to understand relationships between sustainability-related risks and opportunities and an entity’s financial performance, financial position and cash flows. It may also strengthen trust in corporate reporting by ensuring consistency in assumptions, metrics and narratives and by explaining differences between sustainability-related disclosures and financial statements. Connectivity can also support decision-making by linking information about current and anticipated financial effects. At the same time, conceptual and practical challenges remain. Differences in the border of financial statements and the sustainability report, reporting boundaries and materiality approaches may create complexity and perceived inconsistencies. Addressing challenges related to governance, capacity-building and organizational collaboration, assurance expertise, digital reporting, the determination and connection of anticipated financial effects and the complexity and evolving nature of sustainability reporting standards will be essential to advancing connectivity in corporate reporting. Nonetheless, the importance of ensuring coherence and consistency between financial and sustainability reporting highlights their complementary nature. Only by considering financial and sustainability reports together can users obtain a comprehensive understanding of an entity’s position, performance and prospects and make informed decisions. Further down the road, small and medium-sized enterprises might need to consider connectivity in their reporting practices.

55. Against this background, continued capacity-building, technical assistance and collaboration among regulators, standard-setters, preparers, investors and international development organizations will be essential to support the development of more coherent, comparable and connected reporting practices.

56. In addition to the issues presented in this note, delegates at the forty-third session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

(a) How can financial and sustainability reporting achieve the highest degree of connectivity to maximize the relevance, faithful representation and usefulness of corporate information?

(b) How can standard-setters and regulators further promote connectivity?

(c) What mechanisms are most useful for demonstrating connectivity?

(d) Should connected information across reports be subject to consistent assurance levels?

(e) How can UNCTAD best support countries in achieving connectivity of reported information?

(f) What implications does the increasing emphasis on connectivity have for the future responsibilities and collaboration of the financial and sustainability reporting standard-setters?

(g) How can digital systems and data architectures improve connectivity?

(h) How can artificial intelligence be used to improve connectivity?

(i) How can connectivity between financial and sustainability reporting be achieved in a cost-effective and proportionate manner for small and medium-sized enterprises?

(j) Do current connectivity requirements adequately address the information needs of users?