

MULTI-STAKEHOLDER PERSPECTIVES ON CONNECTIVITY



SUMMARY REPORT

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Background

On 26 May 2023, at the 45th Annual Congress of the European Accounting Association (EAA) in Finland, EFRAG hosted a symposium on the *Connectivity between financial reporting and sustainability reporting information*.

To introduce the session, the EFRAG Sustainability Reporting TEG Chairwoman: Chiara Del Prete gave an overview of the objective and status of EFRAG's activities on connectivity. Thereafter, the IASB Vice Chair: Linda Mezon-Hutter presented the IFRS Foundation's perspective on connectivity.

Following the introduction, Thorsten Sellhorn (EFRAG Academic Panel member, EFRAG EWG Conceptual Guidelines member, Professor of Accounting at Ludwig-Maximilian University Munich's School of Management, former EAA President, IFRS Advisory Council member) moderated a panel discussion involving Chiara Del Prete, Linda Mezon-Hutter and the following panellists:

- Birgitte Mogensen, former EFRAG PTF ESRS member and member of various Boards
- Elina Peill, EFRAG Administrative Board member (representing Accountancy Europe), former EFRAG FRB deputy member and Corporate Reporting Specialist at Deloitte
- Jeremy Stuber, EFRAG Intangibles Advisory Panel member, IFRS CMAC member, CRUF (UK) Chair and Global Equity Analyst at Newton Investment Management

The panellists discussed the following issues related to connectivity:

- Aspects of connectivity:
 - What does 'connectivity' mean?
 - What are users' needs in relation to connectivity?
 - What are the roles of EFRAG and the IFRS Foundation?
- Mechanisms for connectivity and roles of financial reporting versus sustainability reporting:
 - How does connectivity operate in practice?
 - What is the role of the time horizons in relation to connectivity?
 - How can technology be used to navigate and process financial and sustainability information?
- Impact of having different types of users:
 - What is the impact of having different types of users, particularly under a double materiality regime?
 - Would the role of connectivity be different for different user groups?
- Visions for connectivity for 2030 and expectations from academics.

The panel debate was followed by a Q&A session.

The views expressed by the speakers and panellists during the outreach event were personal views and did not necessarily represent the views of the organisations or companies they were associated with.

State of EFRAG's activities on connectivity and how EFRAG plans to contribute to the issue



Chiara Del Prete emphasised the need to ensure that consistent terminology is applied noting that connectivity meant coordination in processes and coordination in products.

In relation to coordination in processes, Chiara Del Prete noted that standards setters around the world were setting up sister boards to deal with sustainability reporting. On the coordination of products, she observed that whatever would be developed in financial reporting needed to be consistent with what was developed in sustainability reporting and vice versa.

Chiara Del Prete noted that activities in relation to connectivity could also have conceptual relevance as, in contrast to the situation under financial reporting, there is currently no conceptual framework for sustainability reporting. Hence, it could be easier to understand how financial reporting and sustainability reporting interact (and in particular where sustainability reporting ends and financial reporting starts and vice versa) if a conceptual framework for sustainability reporting were to be developed.

She noted that connecting financial information and sustainability information has three dimensions: the conceptual, organisational and practical dimensions. Chiara Del Prete referred to the practical dimension as 'connected information' and it is on this dimension that EFRAG has started to work, in order to support the implementation of the principles for connected information that are already set in the ESRS and IFRS S1 requirements. These principles aim to provide clear links between the information provided in different locations and reports where the information is provided. This would result in a holistic picture of the various aspects of corporate reporting, including factors affecting the value creation of companies.

Chiara Del Prete identified four categories of connectivity techniques consistent with the principles of connected information in ESRS and IFRS S1:

- Reconciliations between information in the financial statements and sustainability disclosure.
- Descriptions of relationships between different pieces of information included in the financial statements and the sustainability disclosures (particularly when a direct reconciliation is not possible).
- Cross-references between the financial report and the sustainability report or incorporation by reference of information included in the financial statements in the sustainability disclosures.
- Consistency (or lack of) of the underpinning assumptions and scenarios applied in financial reporting and sustainability reporting and disclosures to illustrate such consistency.

On information placement, Chiara Del Prete noted that, in the EU, sustainability information will be included in a dedicated section of the management report (i.e., sustainability statement).

On the information that should be connected, she referred to connecting the sustainability statement with financial statements and other information in the management report. Furthermore, she noted that the sustainability statements allowed cross-references to be made to a limited set of other reports (e.g., the governance report) and information in the financial statements. The choice in the CSRD to locate mandatorily the sustainability statement in a dedicated section of the management report has been interpreted by some as resulting in the impossibility to adopt integrated reporting in the meaning of the Integrated Reporting Framework. However, the incorporation by reference in the sustainability statement of some integrated information presented, for example, in an executive summary in the management commentary (part of the management report) would still be possible. An illustration is included in Appendix G of ESRS 1. This means that some form of integrated high-level information is still possible.

In respect of the EFRAG research project, Chiara Del Prete mentioned that its objectives are to support practice, exercise thought leadership and influence future standard setting and a phased approach would be applied with an initial focus on the operationalisation of connectivity under the current reporting framework (principles of connected information). EFRAG will develop a catalogue of possible connectivity methodologies. The first step would be to identify anchor points between the dimensions to be connected after considering the conceptual borders of financial reporting and sustainability reporting. The anchor points would underpin the presentation of practical examples of the methodologies and explain how information can be connected in practice.

Connectivity from the IFRS Foundation's perspective



Linda Mezon-Hutter explained that from the IFRS Foundation's perspective, 'connectivity' had been an element that had been considered already when establishing the ISSB. The concept had been reflected in the IFRS Foundation's constitution when establishing the ISSB. The IFRS Foundation's constitution states that the complementary sets of IFRS Standards (the standards of the IASB and the ISSB) are intended to result in the provision of high-quality, transparent and comparable information in financial statements and in sustainability

disclosures that is useful to investors and other participants in the world's capital markets in making economic decisions.

Linda Mezon-Hutter noted that although there were overlaps in people's interpretation of the term 'connectivity', there were many different nuances in the interpretations. She emphasised that her use of the term was consistent with its current use by the IFRS Foundation. She considered that the meaning of the term could change over time.

Linda Mezon-Hutter considered that the end goal is connectivity within reports resulting in connected information.

Linda Mezon-Hutter emphasised that the IFRS Foundation was dealing with general purpose financial reports that were generally aimed at investors. Other types of stakeholders could also find the information useful, but they could have other needs than those of the primary users of financial information. The IFRS Foundation was aware of this. However, at the moment, the focus of the IFRS Foundation is on general purpose financial reports. These would include financial statements, sustainability-related financial disclosures, and management commentary and integrated reporting. The goal was to bring these parts together so connected reporting would

be achieved. She observed that connected reporting did not mean that all the components of connected reporting would be in the same document.

A challenge faced by both the IASB and ISSB was that, though they were preparing standards, they could not require the application of these standards. Some jurisdictions would, for example, require the use of IFRS Accounting Standards, but not the IFRS Practice Statement on the Management Commentary and the IFRS Sustainability Disclosure Standards. Also, there could be other types of corporate reports with a multi-stakeholder focus in addition to general purpose financial reports. The EU, for example, had its own regulations and laws. The IFRS Foundation therefore had to consider ways in which its standards could co-exist with the requirements of local jurisdictions in a manner that would be meaningful.

Linda Mezon-Hutter noted that connectivity was important for preparers as they need to consider whether and when the information disclosed as part of the sustainability reporting should inform the financial reporting. For example, whether/when sustainability factors should affect the impairment tests.

For investors, connectivity is important to understand how sustainability-related matters translate into an entity's financial performance and financial position. Sustainability disclosures explain sustainability-related opportunities and risks arising from the entity's interactions. These risks and opportunities may - or may not - already be reflected as assets or liabilities. The opportunities and risks may not be reflected in recognised assets or liabilities because they are related to the longer term. However, ultimately, they will also affect the financial statements.

The IFRS Foundation considers both connectivity in product and connectivity in process. Connectivity in product relates to the standards prepared by the IFRS Foundation. It involves having the same 'look and feel' of financial reporting standards and sustainability reporting standards and also having some of the same terminology and concepts, for example, the definition of materiality and 'reasonable and supportable'. The digital taxonomy of the Sustainability Disclosure Standards would also be informed by the taxonomy used for the Accounting Standards. Connectivity in product also includes requirements for connected information - so requirements for connections in the information from the financial statements to the sustainability-related disclosures and vice versa. Finally, connectivity in product relates to work in progress - for example, the project on the management commentary.

Connectivity in process relates to the ISSB and IASB working together and sharing information. The vice-chairs of each board have operational authority for the connectivity of the two boards.

On the role of digital financial reporting, Linda Mezon-Hutter noted it would not fix the interoperability between ISSB standards and ESRs. However, digital reporting could help users when much more information is available.

Panel discussion

Aspects of connectivity

Following the introduction, the panellists discussed several aspects of connectivity as outlined below.

What does 'connectivity' mean?



Birgitte Mogensen stated that 'connectivity' is about alignment. She observed that, currently, it could appear as if you get information about two different entities when reading an entity's financial report and its sustainability report. The information included in one report does not match the information included in the other report., for example, in relation to the description of the business model, purpose and risk appetite. A strong alignment between the financial report and the sustainability report is necessary.

Birgitte Mogensen considered it important that the standard setters work together. In the short term, it would be to ensure that standard setters use the same words, definitions and explanations. In the long term, a single report with three different sections should be the goal. The three sections should be:

- One section that embraces the hardcore information for financial decision purposes, like the information required by IFRS Accounting Standards.
- One section about the sustainability-related financial disclosures addressing the financial impact information and data considered under a double materiality approach applying the ESRS requirements. Here the development of the entity should be illustrated by data generated through scenario analyses and estimations under an 'outside-in' perspective.
- One section that is aligned with the description of impact materiality as described in the ESRSs. In this section, the entity would report on its environmental and social mindset from an 'inside-out' perspective.

Birgitte Mogensen expected that the information reported in the last section would eventually also have financial impact, but the last section would include information that would be insufficiently mature to include in the sections related to the financial effects.

In the longer term, standard setters should accordingly work on the second section on the sustainability-related financial disclosures.



Elina Peill provided the following three examples to illustrate the application of connectivity:

- The first example was when an entity referred to 'investments' in relation to its sustainability reporting. She noted these investments would not always appear in the financial position of an entity as the investments could be related to an entity's subcontractors/value chain, which would be outside the scope of the financial statements. The entity should explain why these investments are not reflected in the financial statements.
- The second example was when a scenario was included in the sustainability reporting and the financial reporting included some cash flow forecasts. Elina Peill did not think that it was sufficient in the financial reporting to just state that the scenarios included in the sustainability reporting had been considered. In her view, the financial report should also explain how the scenarios have been taken into account. For example, how the valuation of investment properties at fair value has considered the different relevant scenarios explained in the sustainability reporting. This could, for example, be taking into account the chances of flooding- or explaining why these adverse scenarios have not been taken into account or why it is assumed they would not have an impact.

- The third example was digital reporting. Elina Peill agreed with Linda Mezon-Hutter that digital reporting would not solve connectivity issues, but she opined that XBRL could provide some connection points. However, the need to tag information requires the use of shared terminology in sustainability reporting and financial reporting. There is a need to agree on what are, for example, revenue, provisions, what are segments and what is an entity.

What are users' needs in relation to connectivity?



The discussion on the meaning of connectivity was followed by **Jeremy Stuber's** articulation of the users' needs in relation to connectivity. He explained that as an equity analyst, his goal is to identify stocks where something good is undervalued or something bad is overvalued. He considered that connectivity between sustainability reporting and financial reporting was a fascinating topic, but in many ways, nothing new as investors have always considered non-financial information, such as how much trust they have in management when making investment decisions. In a company, the problems often arise from a lack of coordination between departments. For instance, the research and development (R&D) department could assume the sales department understood all the technical features of the products. At the same time, the sales department could assume that the R&D department understood all the customer feedback. If neither of these assumptions are true, a company could design products that are not valued by customers.

Similarly, it was important that the sustainability report prepared by an entity would paint the same picture of the entity as the financial report.

In relation to how risk is reported in the sustainability report and the financial report, there could be three scenarios:

- If there is a complete overlap of the information in the sustainability report and the financial report, users would need to ensure they are not double counting the risk in the valuation of the company.
- If there is no overlap, users would need to ensure they are not ignoring any risk.
- If there is a partial overlap, users need to be very careful when connecting and combining perspectives. For example, a rising number of employee injuries per annum would be a labour-related risk, but the additional working days lost will also be reflected in the financial performance reported in the period.

Jeremy Stuber experienced four key practical challenges when trying to connect sustainability and financial information:

- Different reporting boundaries. Jeremy Stuber thought that there was a lot of inconsistency in sustainability reporting. For example, when a company currently reports emissions for its consolidated businesses only, but from next year, it starts to report its share from its joint ventures. It should be considered whether sustainability reporting should be based on control or ownership.
- Different time horizons. Climate-related ambitions stretch decades into the future, but very few line items on the balance sheet consider the same time horizon. Over time, some of these climate-related risks will become recognised as financial liabilities. It should be

considered how to define this dynamic boundary between sustainability and financial reporting.

- Different units. Sustainability reporting targets are typically expressed in non-financial units such as tonnes of carbon emitted, or number of hours worked. It is challenging to connect these targets to financial information expressed in currency units. It should therefore be considered whether companies should be required to break down their financial targets into value and non-monetary units, such as volumes, if volumes relate to sustainability targets.
- Different levels of certainty. Sustainability reports contain more estimates than financial reports owing to missing data and some data being outside the organisation in the supply chain. Sustainability reports have less assurance than financial reports, with the latter having established accounting and auditing standards. It should be considered how users can increase their trust in sustainability reports.

What are the roles of EFRAG and the IFRS Foundation?

The roles and cooperation between EFRAG and the IFRS Foundation in relation to connectivity were discussed.

Chiara Del Prete and **Linda Mezon-Hutter** noted that in relation to the 'connectivity' between the work of EFRAG and the IFRS Foundation, EFRAG and the IFRS Foundation would use the same principles/terms (for example, 'fair value' would mean the same under both ESRS and IFRS requirements).

Chiara Del Prete noted that the entities within the scope of the EU Corporate Sustainability Reporting Directive ('CSRD') would include entities reporting under both the IFRS Accounting Standards and local GAAP. Therefore, although EFRAG's project on connectivity would start by considering connectivity with financial statements prepared in accordance with IFRS Accounting Standards, entities reporting under local GAAP could also find inspiration in the examples that would be provided.

Linda Mezon-Hutter added that the IFRS Foundation is working hard on identifying issues that could arise for entities not reporting under both the standards prepared by the IASB and ISSB – but, for example, would prepare its financial statements in accordance with local GAAP. To deal with these issues, standard setters must be agile and work together. Good communication mechanisms between standard setters and ways to quickly identify issues should be developed.

Mechanisms for connectivity and roles of financial reporting versus sustainability reporting

The mechanisms for connectivity and the roles of financial reporting versus sustainability reporting were discussed.

How does connectivity operate in practice?

Jeremy Stuber explained how connecting sustainability information with financial information is used to inform investment decisions – and how better information could be provided. He shared three illustrative examples in this regard:

- The first example related to a power-generation business closing its coal mines and the company was obliged to spend a significant amount of money to cover and repair the land. The investment question was how much this liability would increase if the mines were

closed a few years earlier. The financial statements included a provision, and the disclosures provided a sensitivity analysis regarding the discount rate used, but the closing date of the mine was not disclosed. Information from the company's forecasts of environmental costs was used to estimate and assess the impact of an earlier closing date. This information provided year-by-year cash flow forecasts. However, better information on material provisions is helpful for users, especially when these are relatively certain. Ideally, this information should include year-by-year cash flow projections as this would allow users to calculate the liability using their own estimated discount rate and closing date.

- The second example was related to an airline with poor labour relations, which resulted in a very high staff turnover, employee strikes, and cancelled flights. Management quickly agreed to a deal to recognise the unions, which was enough to get the planes back in the air. The investment question was whether that deal was a long-term fix, that would significantly reduce the risk of further strikes, or if it was just a short-term fix, which would mean that investors should consider the prospect of more strikes in the future. After engaging with the company and consulting labour experts, the potential investor concluded that the deal was just a short-term fix that was not correctly reflected in the share price. This reflects the need for better information about employee satisfaction. In addition to getting information about employee costs in aggregate, information about the number of employees and attrition rates, disaggregated as much as possible - for example, by division, geography and function is needed.
- The third example was related to an auto company ramping down its production of internal combustion engine vehicles, whose sales are set to be banned in the EU from 2035. The investment question was how much of the company's plant and workforce used to manufacture internal combustion engines could be used to manufacture electric vehicles and how much would have to be sold as scrap. The financial statements did not include any material impairments. It was not possible for the investment team to estimate the effects of the ban as the company did not provide disaggregated information on its fixed assets by engine type. This situation is indicative of the need for better segment disclosures, particularly when companies are in transition. Many renewable businesses have different return-on-invested capital prospects and risk profiles, so it should be possible to have information to enable a valuation of these separately from the existing businesses.

What is the role of the time horizons in relation to connectivity?



Thorsten Sellhorn noted that it was often argued that financial reporting focused on the short term, while sustainability reporting focused on the long term. He thought, however, that requirements on how to account for pensions, decommissioning provisions and impairments showed the need for a more nuanced distinction.

Birgitte Mogensen stated that in financial reporting the time horizon was not clearly identified. In the audit opinion, the focus was mainly on the following 12 months when considering whether the entity would be a going concern. She therefore thought that the overall focus in financial reporting was the short-term cash flows although, as mentioned by Thorsten Sellhorn, in some cases, there were also aspects of a longer time horizon in financial reporting.

Birgitte Mogensen opined that with sustainability reporting, the time horizons would be clearer. There would be compliance reporting on the milestones of the journey for the long-term targets. This would make it easier to assess the management and the success of the business plan. The sustainability standards were distinguishing between the short term (the next reporting period), the medium term (the following four years) and the long term (after five years). With these time horizons, the reporting structure and explanations of deviations would be more structured.

From a management perspective, the time horizons would also have great value as the management would have to be sure about the direction of the business development and take into account the risk of deviations from plans and targets. The introduction and definition of time horizons in sustainability reporting could result in more time-horizon-based information in the management report. For example, on forecasts and business plans. This could result in more long-term information in financial reporting and change the short-term focus of investors. For example, a company could set a climate target for 2030. Sustainability reporting requirements would require an entity to disclose how this target will be achieved. Birgitte Mogensen observed that this requirement would result in the board of the company also considering it necessary to supplement this public information with the financial aspects of the plan. Accordingly, more long-term financial information would be provided.

Linda Mezon-Hutter remarked that there were already requirements for financial reporting that should have a longer time horizon. When thinking about long-term effects while considering sustainability requirements, there would be a 'nudge' into considering whether these effects should also have been considered in, for example, the impairment tests. She anticipated a forthcoming period of reinventing and improving reporting which would also involve further consideration of the notions of time horizons.

Thorsten Sellhorn noted that the input he had received from preparers indicated that they were not in favour of providing more specific information related to future performance indicators.

How can technology be used to navigate and process financial and sustainability information?

Elina Peill noted that perhaps technology would eventually solve the issues related to connectivity, but humans had to do some work before that.

She opined that a perfect system would be one where everything would be integrated and XBRL tagging occurred as soon as the first entry is made. However, that does not currently exist in practice. That could also be a reason for the opposition from preparers Thorsten Sellhorn had referred to. Within entities, information currently comes from many different sources and is prepared for different purposes under different policies. This different information is then combined in a manner it might not have been intended to.

For technology to support connectivity, the current systems need to be amended. Elina Peill, however, noted that entities would oppose this as it could be costly, and many consider that this would just be a compliance cost as the current systems can produce the information that is needed to manage the company. Instead of developing the perfect system, the approach could therefore be to make the current systems serve multiple purposes. The system that could be needed might be one that takes information from the current systems and then puts this information together and does the integration.

In relation to supporting connectivity over time, Elina Peill noted that in financial reporting, it was considered that information from prior years was 'locked'. Her experience was that it is currently not the case with sustainability information. The story reported in one year can be different from that reported in previous years. It can be different numbers, different measures and different targets. Elina Peill thought that when applying technologies, it would be important to also 'lock' sustainability information from prior years and then explain if there have been any changes.

On tagging and XBRL, Elina Peil noted that artificial intelligence was used to retrieve and consume information, for example, to analyse disclosures. Though she considered this application to be useful, she noted it often lost the context of the information. The value of XBRL tagging was that it was done by humans, and this ensured that the user would receive all the material information. So, at the moment, technology cannot solve everything.

Linda Mezon-Hutter thought that the role of technology, and the opportunity to get more and more information faster and more disaggregated would be something that should be followed and would result in continuous changes as a result of continuous improvements.

Impact of having different types of users

The panel discussed whether and how to take into account the different users of financial information and sustainability information could be different.

Birgitte Mogensen did not think that it was a problem for the management of a company that there would be different types of users of corporate reporting. Instead, it was a challenge. It would demand to carefully consider how to provide relevant information to the different types of users. Different types of users would mean that the materiality assessment should be made in the context of the audience of the information and the structure of the report would be important. Financial decision makers would be most interested in the part of the report considering the financial impacts. It could, for example, be the risks and long-term impacts on cash flows or stranded assets. It should be easy for the financial decision makers to find the relevant information. It should be made clear to the user where the information would be and the information should be structured in the same manner year after year. Stakeholders interested in information on, for example, human rights, would not be using the report in the same manner as the user interested in financial information. So, it should also be easy for this stakeholder to find the relevant information, but this type of stakeholder would not need to have the same structure of the information year after year. For the stakeholder interested in, for example, human rights, the information and data should be documented and meet some qualitative characteristics. Birgitte Mogensen also noted that there would be an audit statement related to the information. That would make the information more reliable.

Birgitte Mogensen noted that users interested in financial reporting could also be interested in the outcome of sustainability activities - impacts, targets and activities related to sustainability matters. The user interested in financial information could thus benefit from the entire report and this was what was driving the request for connectivity. However, the stakeholders that were, for example, interested in human rights would typically not be interested in the financial side of the information. They could be confused by this information. Birgitte Morgensen therefore thought that the different types of information should be connected, but the reporting should not be merged.

In addition, Birgitte Mogensen thought that it was also necessary to consider the sector in which a company is operating. Value chains would be different among different sectors. This could result

in a triple reporting format, structured for the different types of users, for some years instead of one combined report.

Elina Peill thought that investors would probably find both financial and sustainability information relevant, whereas specific non-investor stakeholders might not find all the financial information relevant. She also thought it was helpful to consider that the materiality of information should be considered in relation to the relevant users. It could therefore make sense to keep information together but also segregated to a certain extent. Despite having different information needs, Elina Peill thought that all types of users were interested in avoiding 'greenwashing' – and this was where the audit profession could help. Work was, however, needed before auditors could provide assurance in relation to the double materiality. Auditors did already provide assurance on impacts – but in an environment where the regulation describes the process and reporting requirements. In relation to the double materiality assessment, the necessary regulation and guidance were not in place yet to allow auditors to provide their service and help the various groups of stakeholders.

Linda Mezon-Hutter noted that IASB members had diverging views on whether the IASB and the ISSB have the same stakeholders. Some were of the view that both the IASB and the ISSB should have the same stakeholders based on the objectives of the IFRS Foundation. Others thought that while there was considerable overlap, there was a group of people interested in sustainability information that were different from the normal users of financial statements. Linda Mezon-Hutter thought that the comments that would be received in response to the ISSB Agenda Consultation would show which type of people were interested in the work of the ISSB.

Chiara Del Prete thought that from an ESRS perspective, the concept of double materiality could affect how connectivity could be considered, as the potential scope of information to be connected in a double materiality system includes also the information provided under the impact materiality lens, next to the financial materiality lens. She thought that other types of stakeholders than investors could also be interested in how the entity would be financially affected by sustainability factors. For example, when EFRAG had discussed a future ESRS on mining, the provisions for rehabilitation after the closure of a site had been considered. From a traditional financial information perspective, it could be argued that disaggregation of the information at site-level would not be needed, as the outflow of the entity's resources would exist independently from the site it would be related to. However, certain users of sustainability information wanted to be able to keep the management of the entity accountable for the rehabilitation of specific sites, for example, the site in their community. This showed that sustainability reporting could result in a demand for greater disaggregation of financial information. This would also result in non-financial information being connected to financial information.

Jeremy Stuber explained that the use of sustainability information could depend on the investment strategy's mandate. Under the core strategies, sustainability information is used as an input, alongside other information, to assess the overall risk and reward. Under the sustainable strategies, the sustainability information is used to decide whether it can be considered to invest in a particular stock.

Visions for connectivity for 2030 and expectations from academics

Thorsten Sellhorn asked Birgitte Mogensen, Elina Peill and Jeremy Stuber for their visions regarding connectivity for 2030.

Birgitte Mogensen thought that in 2030, the value of an entity on the stock exchange would reflect its financial information and its ESG/sustainability performance. Ratios and KPIs such as CO₂ emission/share price would be used. The information would be provided by the companies in their yearly and quality reports and would be much more trustworthy than is currently the case. There would be one very well-structured report, where the data would be categorised to enable users' calculation of various ratios. There would also be many more scenario analyses as financial impact scenarios would play an important role for the main users. The main users of the entire report would be the financial users.

Elina Peill thought that in order to get to a situation similar to that described by Birgitte Mogensen, it would be necessary to connect people. Structural changes would be needed in the companies and at the auditors.

Jeremy Stuber shared the view of the veteran journalist Carl Bernstein when noting that good reporting is the same thing - the best obtainable version of the truth. Jeremy Stuber noted that historically, corporate reporting had been centred on financial reporting. Jeremy Stuber considered this a limited perspective. Financial reports could be likened to an X-ray of a body: a lot could be inferred from an image of a skeleton, but it would not show the whole person. Jeremy Stuber hoped that in the future, sustainability reporting would be as helpful as an MRI scan in medicine, providing another image of the company. Jeremy Stuber hoped for much better information on the materials, energy and labour used. Together, these operational aspects would help to provide a more complete view of a company's past, current position, and prospects.

Thorsten Sellhorn asked Chiara Del Prete and Linda Mezon-Hutter how academics could help EFRAG and the IFRS Foundation.

Chiara Del Prete thought that academics could be helpful in:

- 1) Educating new resources - there is a shortage of people dealing with the transformation in the corporate reporting, standard setting and auditing profession.
- 2) Carry out research that could inform EFRAG in its work, for example, on connectivity and investors' need for connectivity.
- 3) Developing some conceptual thinking that could pave the way for the next phase dealing with the integration of reporting.

Linda Mezon-Hutter agreed with the comments made by Chiara Del Prete and noted that the IASB had at the 2023 EAA Annual Congress, and hoped to do it again in 2024, held a session on how academics could make their research more useful for the IASB.

Q&A session

Connectivity and carbon emissions

A participant remarked that climate change was a key sustainability challenge. Both financial reporting and sustainability reporting had to consider carbon markets. The participant noted that the IFRS Foundation had been working on accounting for emission rights for a long time. The project was now referred to as pollutant pricing mechanisms and was placed on the IASB's reserve list of projects. He asked whether connectivity was a chance to make carbon emissions more visible in financial statements.

Linda Mezon-Hutter explained that the IASB and the ISSB had discussed how priorities should be set. The particular topic was discussed in that regard. Agenda consultations were used to set the priorities and if too many projects were selected, they could not be completed. She could therefore not say what would happen on this topic at the moment other than it was something that was in the front of the mind of the ISSB and the IASB.

The long-term objective of connectivity

Another participant asked what the objective of connectivity was – was the long-term objective to have only one set of standards on both financial and sustainability information?

Chiara Del Prete did not think that there would be a set of standards that would cover both financial and sustainability reporting. She thought that financial reporting would continue to be important and should have the same level of rigour and certainty as it currently has. Sustainability reporting needed to be brought to the same level – including a similar level of assurance.

Linda Mezon-Hutter noted that one set of standards was possible but unlikely in the short run. She observed that Birgitte Mogensen’s vision for 2030 would require professionals who understand what is important in relation to both sustainability reporting and financial reporting.

The role of internal control systems

A participant expressed the view that the most important element of connectivity – to make connectivity happen – was the connectivity in internal control systems. The participant asked why this topic had not been discussed during the symposium.

Birgitte Mogensen concurred that the internal control systems were very important, and she pointed out that the discussion held focused on the final report and the users’ needs. Noting that another discussion could be held on the internal control systems, she suggested that an aspect of such a discussion would be that, for sustainability reporting, some of the information needed had to be collected from companies in the value chain that the reporting entity had no control over.

Difference between ‘connectivity’ and ‘integration’

A participant asked what the difference was between ‘connectivity’ and ‘integration’.

Chiara Del Prete considered that terminology is very important. She explained that ‘connectivity’ referred to the linkages that needed to be built between different pieces of information presented in the various parts of the reports and the consistency in assumptions used in the report. ‘Connectivity’ was not touching the conceptual borders of financial and sustainability reporting, instead, it was a communication principle. ‘Integration in reporting’ on the contrary was about bringing financial and sustainability reporting together, connecting to the different capitals and defining the value for the shareholders and other stakeholders, therefore it may also include modifications to the conceptual borders. As said before, she considered that before the development of some conceptual basis for sustainability reporting (similar to the IFRS financial reporting Conceptual Framework) it would be premature to proceed with integration in reporting.

Objective of sustainability reporting

A participant asked whether the objective of sustainability reporting was to report on issues - for example, to help investors assess risk, or to influence actions of investors to push companies to, for example, reduce emissions.

Linda Mezon-Hutter noted that when awareness was raised on an issue, not only the financial reporting environment was affected, but also the public policy environment and the behaviour of capital providers. This would result in companies changing behaviour. Reporting standard setting could not solve everything - but reporting standard setters could do their part.

Chiara Del Prete added that reporting also on impacts next to financial materiality might broaden the spectrum of possible engaged stakeholders and accordingly broadening the spectrum of possible behavioural changes.

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