

## STATEMENT: CONNECTIVITY OF FINANCIAL AND SUSTAINABILITY REPORTING

Accountancy Europe has always supported connectivity in reporting as it ensures consistency of information in the financial and sustainability statements, and it provides users with a coherent story of an organisation's performance and prospects throughout the reports.

We have [responded](#) to EFRAG's Discussion Paper on Connectivity of Financial and Sustainability Reporting (DP or the paper), which makes an important contribution to the ongoing discussion by analysing how connectivity concepts are applied in practice and the associated challenges. We highlight below our position on some important matters in the connectivity discussion, also included in our response.

### Definition of connectivity

EFRAG's DP proposes that connectivity be 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"*.

Accountancy Europe believes that developing a robust and practical definition is key in standard-setting as it helps establish a common understanding and enables consistent application in practice. Therefore, we also support the DP's high-level definition of connectivity as a useful starting point.

### Differences between financial and sustainability reporting

Financial reporting and sustainability reporting standards have been developed to fulfil the different *objectives* of the respective reports. The objective of financial statements is to provide information about a company's financial prospects to investors, lenders and other creditors whereas the objective of sustainability statements is to provide information on the company's impacts on people and the environment, and on how sustainability matters affect the company's own performance, useful to investors, lenders and other creditors, but also other stakeholders.

Resultantly, the *primary users* of financial statements are investors, whereas sustainability statements also include broader stakeholders. *Temporality* is also a difference, whereby financial reporting focus on past events and the near-term performance, whereas sustainability reporting expands considerations to also the medium- and long-term. Ultimately, *materiality considerations* also differ as these reports try to fulfil the respective users' needs for information.

There is also a difference in *design* between financial and sustainability standards, which should be recognised when considering future guidance on connectivity. Financial reporting standards were designed for financial statements that can stand alone, while sustainability reporting standards were developed for sustainability reports that *complement* information in the financial statements and other parts of the annual report.

Accountancy Europe calls for an appreciation of these differences and understanding of the existence of two separate reports, which sometimes also result in asymmetric connectivity needs.

## **Commonalities between financial and sustainability reporting**

Financial reporting and sustainability reporting standards share common elements such as the fundamental qualitative characteristics of information (relevance and faithful representation), and the enhancing ones (comparability, verifiability, understandability). They are also both principle-based frameworks, where materiality is the centre-point.

These common principles should enable connectivity in practice as they provide decision-useful information to users, who are expected to have a reasonable knowledge on the matters. In this context, the use of cross-referencing and negative statements (i.e., information explaining that a specific event or condition doesn't affect the entity), should be connectivity enablers.

## **Future considerations**

Methodologies such as on estimates and measurements should be coherent in corporate reporting and enable that financial and sustainability reporting tell a consistent and complete story. Accountancy Europe calls for EFRAG and the IFRS Foundation to collaborate in supporting stakeholders and developing aligned best practices, such as on anticipated financial effects.

EFRAG and the IFRS Foundation should focus their efforts on supporting the common understanding of connectivity and promoting consistent application of existing reporting requirements, rather than undertake further specific standard-setting activities.