Global Accounting Alliance

The Connected Reporting Landscape

GAA Connectivity in Reporting Series

Contents

Foreword

The Global Accounting Alliance (GAA) is an alliance of ten of the world's leading professional accounting bodies, together representing more than 1.4 million accountants across over 180 countries. Formed in 2005, the GAA works in the public interest to advance a high-quality accounting profession, sharing knowledge and collaborating on issues relevant to the international accounting profession. It is from this perspective that we offer the viewpoints set out in this publication series.

The increasing focus on sustainability reporting, including climate-related disclosure, has fundamentally changed expectations of corporate reporting. Stakeholders today are interested in more than an organization's financial results, they also want to understand how sustainability-related risks and opportunities influence its strategy, risks and financial performance over time.

As a result, there has been a fundamental shift in sustainability reporting standards to incorporate the connection of information provided in the sustainability report with the financial statements. Connectivity has, therefore, become an essential aspect of high-quality corporate reporting. Without clear links across general-purpose financial reporting, including between sustainability reporting and financial statements, reporting becomes fragmented and its usefulness for user decision-making is limited.

In this respect, the accounting profession can play a central role in both supporting companies meet compliance driven requirements and at the same time maximize the opportunity it provides to support complete and coherent reporting. The accounting profession has both the capability and the responsibility to lead this work in developing and improving connectivity in reporting. The skills that connected reporting calls for, including measurement, judgment, controls and the discipline of connecting information across organizational functions, are skills our profession brings to financial reporting every day.

As reporting requirements continue to expand, the ability to produce connected, decision-useful information will be critical. This series of publications provides a clear and practical foundation to achieve that goal, and I strongly recommend them to all professionals involved in corporate reporting.

Jim Knafo
CEO
Global Accounting Alliance

Executive Summary

This publication, the first in a series prepared by the Global Accounting Alliance (GAA), sets out what connectivity means in practice, why it matters, how it is reflected in the standards and frameworks currently in force, and the strategic imperative of the accounting profession in delivering it.

As sustainability-related risks and opportunities increasingly affect entity cash flows, cost of capital and access to capital, investors, lenders, regulators and boards expect to see the links between the sustainability-related strategy, the qualitative disclosures and the information in the financial statements. Connectivity has fundamentally shifted from something that is encouraged to a foundational concept in sustainability reporting frameworks.

Connectivity in reporting ensures that the different elements of an entity's reporting provide a comprehensive and coherent package of information and are aligned to tell a consistent story about how the organization creates value over time. Connectivity matters because the decisions made on the basis of corporate reports are only as good as the information they are based on. Where connectivity is absent, organizations risk presenting inconsistent or contradictory information across the corporate report, undermining the credibility of both the financial statements and the sustainability-related disclosures. For example, despite the significant progress already made in climate-related disclosure, a disconnect persists between the climate-related disclosures organizations make and the assumptions, judgments and recognized amounts in their financial statements.

Applying professional judgment is critical in determining where financial and climate data intersect, including asset valuations and impairments, useful lives and residual values, provisions and contingent liabilities, expected cash flows and discount rates, and capital allocation and investment decisions. However, not all sustainability-related information is immediately reflected in the financial statements, as some sustainability-related disclosures are required earlier in the decision-making process or relate to impacts that have not yet met recognition or measurement requirements of accounting standards.

Achieving connectivity in practice remains a significant challenge for many organizations. Organizational silos between finance, sustainability, risk and strategy teams, different time horizons across disclosures, capability gaps, fragmented requirements and a default to checklist thinking each work against connected reporting. The enablers are within reach of most organizations: cross-functional collaboration, governance arrangements that bring finance and sustainability together, shared frameworks, and a commitment to telling the story of the business rather than working bottom-up from a compliance checklist.

The accounting profession is well placed, with the capability and responsibility, to lead connectivity in reporting. Connectivity draws on disciplines the profession has long applied to financial reporting: materiality, recognition and measurement under uncertainty, governance and controls, narrative discipline and the ability to translate between technical and operational language. Further, many sustainability disclosure standards, including the IFRS Sustainability Disclosure Standards and European Sustainability Reporting Standards, are written in the language and structure of accounting standards, using defined terms, recognition concepts, materiality thresholds and disclosure logic that accountants already understand. Many of these standards also explicitly require information to be connected, such as the IFRS Sustainability Disclosure Standards. At the same time, the profession is also developing new competencies, including increasing confidence with a greater proportion of qualitative information, as well as engagement across broad areas of sustainability reporting and scenario analysis.

Introduction

Why was this publication developed?

This publication is the first in a series of publications prepared by the Global Accounting Alliance (GAA) exploring the growing importance of connectivity in reporting, with a particular focus on the relationship between information in the financial statements and climate-related disclosures. Organizations are now expected to show how their sustainability and climate-related risks and opportunities affect their financial performance, position and future prospects.

The publication series at a glance

- The **Connected Reporting Landscape** (this publication) sets out what connectivity means, the practical challenges and enablers, and the strategic role the accounting profession can play in connectivity in reporting.
- **Connectivity in Governance and Processes** outlines how connectivity is embedded in governance, internal reporting and decision-making processes.
- **A Framework of Principles for Connected Reporting** provides a practical framework of principles for accounting professionals to apply in developing connected reporting.

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As the first publication in the series, this publication has been developed to establish a common understanding of the connected reporting landscape. It aims to clarify key concepts, highlight the reporting gaps that exist today and to provide a foundation for more detailed guidance in the subsequent publications.

While progress has been made in sustainability reporting, climate-related disclosures represent the most mature sustainability area in practice. However, climate-related disclosures are still in the early stages of maturity in comparison to financial reporting. A lack of connectivity between the two areas can make it difficult for users such as investors, lenders and other creditors, to understand how sustainability-related matters affect financial performance, position and future prospects for an organization. At the same time, global standard setters and frameworks are embedding requirements around connectivity, requiring organizations to provide sustainability-related information in a manner that enables investors to understand the connections with financial statements, including assumptions, estimates and risk assessments.

For the accounting profession, and accounting professionals, this presents both a challenge and an opportunity. There is a need to move beyond viewing sustainability-related disclosures as separate from financial reporting, and move toward understanding how, and why, they intersect, in particular in areas involving judgment, forward-looking information and uncertainty.

Approach taken

This work has been informed by interviews with more than thirty stakeholders across the accounting profession, including CFOs, finance leads, sustainability reporting leads, board members, auditors, assurance providers, standard-setters, regulators, investors and academics, and by published research on how connectivity is being delivered in corporate reporting.

The principles of connectivity discussed in this series apply across all sustainability dimensions. We illustrate the principles primarily through climate-related disclosures, reflecting that these disclosures are currently more mature in practice.

As jurisdictions increasingly adopt more comprehensive sustainability reporting, many of these connectivity principles are also relevant to broader sustainability disclosures such as nature and social-related disclosures.

Who is this publication for?

This publication is written for global professional accountants including those working in business, audit, advisory, the public sector and within professional bodies, as well as for the wider community of organizations and stakeholders that rely on the profession.

It is particularly relevant to:

- **Boards and senior leadership** including directors, audit committee members and senior executives who depend on connected information to make strategic decisions.
- **Professional and management roles** including CFOs, controllers, finance leads and sustainability reporting leads responsible for preparing and overseeing connected reports.
- **Practitioners** including accountants, auditors, analysts and assurance providers who prepare, test and interpret the detail of connected reporting.
- **Organizations and stakeholders that influence or rely on annual reports** including standard-setters, regulators, policy makers, investors and governance bodies.

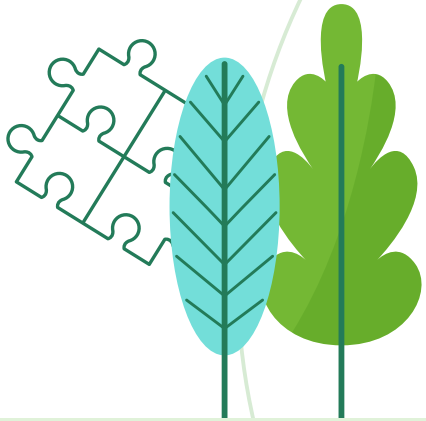
This publication is aimed at professionals who already have an understanding of corporate reporting and now need to connect that work with sustainability reporting, risk and broader organizational value creation.

What does connectivity mean?

Connectivity is a term used widely across corporate reporting, but it is not a single, precisely defined technical concept. It is better understood as a related set of ideas about how information in the financial statements, climate-related disclosures and broader sustainability information should fit together within the corporate report and within the organization that produces it.

There is no globally agreed definition of connectivity in reporting. For the purposes of this series of publications, the GAA focuses on the key characteristics of connectivity drawing on IFRS Sustainability Disclosure Standards and EFRAG's Discussion Paper on Connectivity of Financial and Sustainability Reporting rather than adopting any single prescriptive definition. In particular, we focus on the consistent presentation of financial, climate-related and broader sustainability information, supported by the governance, data, systems and capabilities that make such consistency possible.

> Connectivity is to do with coherence. Are all the pieces of the puzzle part of one coherent whole? If we are talking about the same company in our sustainability reporting, our financial statements and our earnings calls, it should make coherent sense across the piece.
>
> **Jen Sisson, CEO, International Corporate Governance Network (ICGN)**



Key characteristics of connectivity in reporting

- Coherence across the report(s). Coherence refers to a holistic and consistent set of information across the different sections of the annual report and the wider suite of corporate reports, so that the financial statements, climate-related disclosures and broader sustainability information provide a complete picture of an organization and organizational performance (see for example, EFRAG, (2025), GSSB, (2025) and IFRS Practice Statement 1, Chapter 6).
- Connections between related items to which the information relates. For example, the connections between the various sustainability-related risks and opportunities that could reasonably be expected to affect the organization's prospects (IFRS S1, paragraph 21). As highlighted by the GSSB (2025, page. 10) '[m]any, if not all, of an organization's most significant impacts lead to risks and opportunities that become financially material over time.'
- Connections between disclosures both within the sustainability information itself and between that information and the related financial statements (see for example, IFRS S1, paragraph 21 and B39–B44, and GRI 1, section 5.1).
- A common reporting boundary with sustainability and information in the financial statements prepared for the same reporting entity, where applicable (see, for example, IFRS S1, para 20 and GRI 2, section 2-2 and 2-3).
- Consistent data and assumptions such that the data and assumptions underlying the sustainability information are aligned, as far as possible, with those used in the financial statements (see, for example, IFRS S1, paragraphs 23 and B42 and GRI 102, Guidance to 102-1-b).

In practice, achieving connectivity in reporting ensures that the different elements of an entity's reporting, including the financial statements, the sustainability and climate-related disclosures, the broader narrative and strategic commentary are aligned and tell a consistent story about how an organization creates value over time, and of the resources, relationships and exposures that view depends on.

It is also helpful to consider connectivity along four practical dimensions.

Across reporting boundaries

Between the financial statements and the climate-related and broader sustainability disclosures, so the corporate report provides information about the same reporting entity, for the same reporting period and at the same time.

Across risks and opportunities, assumptions, definitions and judgments

So that there is consistency in how key data and assumptions, such as risks and opportunities, useful lives, discount rates, scenarios, time horizons, materiality lenses and accounting judgments, are applied across the financial statements and sustainability disclosures, with any differences clearly explained.

Between narrative and quantified information

So that the risks, opportunities and commitments described in the climate-related and broader sustainability disclosures are able to be traced across disclosures including the governance, strategy, risk management, and metrics and targets that address them, through to the financial statements and vice versa.

Reconciling across time horizons

Linking the current period's recognized amounts to the medium- and long-term targets, transition pathways and scenario outcomes, so that past performance and anticipated financial effects are coherent.

> Connectivity means that if you read across everything a company publishes in its general purpose financial report — the strategy, the climate-related disclosures, the financial statements — you should see one consistent story. If an organization says it is committing to certain sustainability-related targets or investments, the financials should reflect that. Without financial backing, those commitments are not credible, and readers can immediately see the disconnect.
>
> **Samantha Sing Key, Partner – Sustainability Reporting Advisory, Grant Thornton Australia**

Five things connectivity is not

Cross-referencing alone. Page references and signposting do not, in themselves, make the underlying information consistent or coherent.

A synonym for integrated reporting. Connectivity is used here more pragmatically, focused on coherence and consistency between financial and sustainability information.

Limited to disclosure in the corporate report. A substantial proportion of the work occurs upstream, in data governance, decision-making processes and team design.

A sustainability function responsibility. It is a leadership opportunity, with sustainability, risk, strategy and operations as essential collaborators.

Achieved by adding more disclosure. Increasing the volume of immaterial climate and/or broader sustainability references in the financial statements introduces noise rather than enhancing connectivity.

The reporting disconnect (the problem we are trying to solve)

Despite significant progress in climate-related disclosure, a disconnect often exists between the climate-related disclosures organizations make and the assumptions, judgments and recognized amounts in the financial statements. For example, organizations may highlight climate-related risks, targets, commitments or capital allocation decisions in their narrative reporting, but these are not always clearly reflected in the financial assumptions, estimates or amounts disclosed.

The disconnect arises due to a number of interrelated factors including:

- Organizational silos between finance, sustainability, risk and strategy functions, where data, assumptions and judgments are not routinely shared or challenged across teams.
- Different time horizons between the financial statements (anchored in a specific reporting date and focused on the recoverability of recognized amounts) and climate-related disclosures (which extend over the short, medium and long-term and include forward-looking targets and commitments), giving rise to different appetites for the level of estimation uncertainty presented for each form of reporting.
- Data and systems gaps, including separate systems for greenhouse gas accounting and financial accounting, inconsistent definitions and scopes, boundaries and units of measurement across reports, and less mature data governance, internal controls and quality review processes over sustainability information.
- Skills and capability gaps, where finance professionals are often unfamiliar with climate science, scenario analysis and emissions methodologies, while sustainability practitioners are often less familiar with the recognition, measurement and disclosure requirements of accounting standards.
- A compliance-driven approach to disclosure, where the climate-related standards are treated as a checklist to be worked through rather than a means of telling a coherent story about the business, reducing the likelihood that the connections to the financial statements are identified, articulated or reflected in the assumptions used.
- Differences in assurance, where climate-related information in the financial statements may be subject to a different level of assurance (typically limited rather than reasonable) and potentially provided by a different assurance provider than the financial statement auditor, limiting the extent to which assurance providers can assess the consistency of information across a report.

> Currently, the climate-related risks and opportunities are identified through a process led by the sustainability team and then handed to finance for quantification. It's a baton pass. While finance is consulted along the way, the risks and opportunities are often largely defined before finance becomes actively involved. This is typical of many processes in finance, but for climate-related disclosure, it really needs to change and requires a more integrated approach.
>
> **Mary Ting, General Manager, Finance**

Evidence on the scale of the reporting disconnect

Research by Agrawal et al. (2025) analyzed the annual reports of 80 large listed companies across five climate-sensitive industries and four IFRS Accounting Standards jurisdictions (Australia, Canada, the European Union and the United Kingdom), comparing 2022 disclosures with a 2017 baseline. They also conducted twenty semi-structured interviews with preparers, auditors, investors and standard-setters in Australia and the EU. The headline finding from the research demonstrates both progress and the work that remains:

> All sampled companies refer to climate-related matters in the 'front end' (i.e., outside of the financial statements) of annual reports in 2022 (94% in 2017) [but] only 71% disclose [climate-related matters] within their financial statements (25% in 2017).
>
> Agrawal et al. (2025)

Although the proportion of large listed companies whose financial statements refer to climate-related matters has nearly tripled in five years, the authors conclude that most reports still reflect "an early level of connectivity in disclosures". Addressing this disconnect is a key objective of this series of publications.

Why connectivity matters

As climate-related information is now increasingly disclosed within general purpose financial reports, ensuring it is connected, consistent and free from duplication or contradiction across the report is becoming a key feature of high-quality reporting. Many standards also explicitly require information to be connected, such as the IFRS Sustainability Disclosure Standards. The growing importance of connectivity is reinforced by a number of related developments:

> I haven't found a business leader yet who has said they don't want better information. If you can give them more clarity on the risks they face and the opportunities they can take — do they want to say yes or no? Forget the word sustainability. This is about better information so the accounting system can work better.
>
> **Mark Gough, CEO and Founder, Capitals Coalition**

Connectivity in reporting matters because the decisions made on the basis of an external corporate report, by investors, capital providers, boards, management and regulators, are only as good as the information those decisions are based on.

Connectivity is a means of providing decision-makers with better, and clearer, information about the risks an organization faces and the opportunities available to it, so that corporate reporting, and the decisions that depend on it, are better supported. By presenting financial and climate-related information as a single, coherent account of the same reporting entity, for the same reporting period and at the same time, connectivity offers a more complete view of the organization than either the financial statements or the climate-related disclosures can provide on their own.

This coherence also strengthens confidence in the corporate report. Where the connections between the financial statements and the climate-related disclosures are made in a manner that enables investors to understand connections, investors and other users are able to see that the information holds together, rather than being left to infer those connections for themselves. Consistent assumptions, scopes and time horizons, where appropriate, can then be applied across the report on the understanding that each part describes the same underlying business. The benefits also extend beyond the report itself such that organizations with connected information are better positioned to reflect sustainability considerations in capital allocation, to bring finance and sustainability perspectives into a single board discussion and to support more integrated decision-making across the organization.

> The clarity around what the assumptions are that drive the financial statements is the most important thing for investors. Investors need to understand what the assumptions are, because if they don't agree with them, they need to be able to flex them in their modeling. Models like equity valuation models go to perpetuity, taking a much longer-term view than a 12-month view.
>
> **Jen Sisson, CEO, International Corporate Governance Network (ICGN)**

The table below outlines some of the key themes for how connectivity supports stakeholders in their decision making.

Stakeholder	What connectivity supports
Investors, lenders and capital providers	Comparability of reports over time and across organizations and enables the reconciliation of forward-looking commitments with financial assumptions used in forecasts, impairment models and recoverability assessments.
Boards and audit committees	Connectivity can highlight inconsistencies between strategy and the financial assumptions on which the financial statements are developed and highlights issues early enough to be addressed before they become audit, assurance or regulatory issues.
Management	Integrated decision-making across strategy, risk management, governance and financial planning, so that climate-related considerations are integrated into business decisions, capital allocation and performance management.
The broader market and integrity of reporting	Standard-setters, regulators and assurance providers have a shared interest in connectivity because disconnected reporting undermines the trust that capital markets place in corporate reports. Connected reporting reinforces that trust and strengthens the credibility of both the climate-related disclosures and the financial statements. Connectivity also provides organizations the opportunity to demonstrate that any climate-related commitments and ambitions disclosed are supported by the assumptions and amounts reflected in the financial statements. For example, the Australian Securities and Investments Commission's (ASIC's) early observations of climate-related disclosures highlighted that they identified instances where, although assets and/or operations of reporting entities were previously disclosed as being financially impacted by extreme weather events in prior financial years (based on prior year financial reports and/or information announced to ASX), entities had not identified, or had not disclosed information about, similar risks impacting prospects over the short, medium or long-term (or any related risk mitigation activities). In addition, the European common enforcement priorities for 2025 corporate reporting also include connectivity and consistency between financial and sustainability statements as a general consideration.

The relationship between financial, climate and governance information

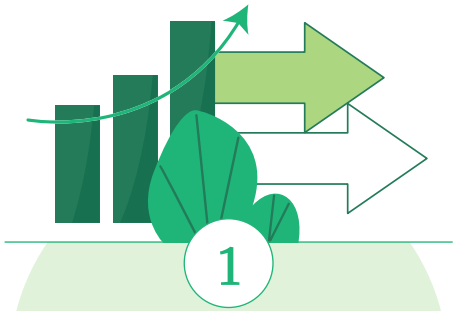
Connectivity requires understanding of how financial, climate and governance information interact within the reporting system:

Governance information provides the oversight and accountability for identifying and managing climate-related risks and opportunities. Information about governance sets out how the board and its committees oversee and account for climate-related risks and opportunities, how they are informed about climate-related matters, how those matters shape strategy, capital allocation and executive remuneration, and how internal controls and risk management processes are designed and tested. In some jurisdictions, part or all of governance information may form part of sustainability reporting.

Climate-related disclosures typically cover four core content areas of governance, strategy, risk management and metrics and targets and explain the nature of an entity's climate-related risks and opportunities, how they are expected to evolve, the anticipated financial effects and how the organization is responding.

Financial reporting reflects certain current financial effects of climate-related risks and opportunities through accounting recognition, measurement and disclosure.

Effective reporting demonstrates how governance informs strategy, how strategy responds to climate-related factors and how these are reflected in financial outcomes. Where the three elements intersect, connectivity has three key characteristics:



1

Aligned data and assumptions. The data and assumptions used in the climate-related disclosures are consistent with the inputs to financial statement judgments, where appropriate.

2

Coherent and consistent disclosures. The narrative in the governance and strategy disclosures 'tell the same story' as the recognized and disclosed amounts in the financial statements.

3

Decision-useful information. Investors, lenders and other providers of capital are provided with the information they need to provide resources, allocate capital and oversee performance.

Where financial and climate data intersect, and where they don't

Applying professional judgment is critical in determining where financial and climate data intersect. Areas where financial and climate data intersect may include, but are not limited to:

- Asset valuations and impairments
- Useful lives and residual values
- Provisions and contingent liabilities
- Expected cash flows and discount rates
- Capital allocation and investment decisions
- Remuneration tied to sustainability factors
- Changes to insurance costs

Some of these areas have been addressed in standard-setting and are discussed further in The Global Context for Connectivity in Reporting.

Example 1: Connectivity – Climate impacts on assets

Climate related matters can directly influence asset valuations and impairment assessments. For example, where an organization holds assets in regions exposed to increasing physical risks, such as extreme heat, flooding or storm activity, these risks may reduce the future cash flows expected from those assets. This can trigger an impairment assessment and may lead to a lower recoverable amount. Transition risks can have a similar effect. If emerging climate policies, carbon pricing or shifts in customer demand affect the economics of an asset, such as a coal fired generation plant, the organization may need to revise assumptions about operating costs, useful lives or residual values.

Connectivity requires that these climate related assumptions are reflected consistently across both the climate report and the financial statements. For example, if the climate report identifies material information relating to physical risks to a particular facility, the financial statements would reference the same risks when explaining impairment indicators or changes in expected cash flows. Likewise, if the climate report outlines a transition plan that accelerates the retirement of certain assets, the financial statements would reflect this through revised useful lives, updated valuation assumptions or impairment charges. Making the connection between the two sections can be used to emphasize the consistent assumptions and helps users see how climate related risks and strategies translate into financial impacts, ensuring the organization presents an aligned view of risk, resilience and future performance.

Anticipated financial effects

IFRS S2 requires an entity to disclose the current and anticipated financial effects of its climate-related risks and opportunities, which might include providing information on matters that not yet meet the thresholds for recognition and measurement in the related financial statements. The proportionality mechanisms provided by IFRS S2 permits that if an entity does not have the skills, capabilities or resources to quantify anticipated financial effects, or where the measurement uncertainty is so high that quantitative information would not be useful, the entity may instead provide qualitative information, drawing on all reasonable and supportable information available without undue cost or effort. These mechanisms are designed to ensure that material information about anticipated financial effects still reaches investors, even where it cannot yet be reflected quantitatively or otherwise in the financial statements and support application of the requirements that can be challenging to prepare in practice.

> Financial statements operate under strict recognition and measurement principles, so not every climate-related input or assumption can be reflected in the numbers. People often assume that materiality in sustainability reporting is applied in the same way as materiality in accounting, but the financial statements are bound by accounting standards that prohibit recognizing certain information in the financial statements. Sustainability disclosures are more flexible, whereas the financial statements can only incorporate items that meet specific accounting criteria.
>
> **Samantha Sing Key, Partner – Sustainability Reporting Advisory, Grant Thornton Australia**

However, not all climate related information is immediately reflected in the financial statements. Some disclosures sit earlier in the decision making process or relate to impacts that have not yet met recognition or measurement thresholds for financial reporting purposes. Areas where the connections between financial and climate-related information may be less direct include:

- **Long-term or uncertain risks not yet reflected in financial statements**
  Climate-related disclosure often highlights exposures that may materialize over long horizons, or under specific policy or physical risk pathways. These risks may not yet meet the criteria for recognition or measurement for financial reporting purposes; however, they still provide important context for users.
- **Scenario analysis and qualitative disclosures**
  Scenario analysis is designed to test resilience to alternative plausible future climate pathways. It is not designed to reflect probable future outcomes. Accordingly, the assumptions, pathways and stress points disclosed as part of scenario analysis may not align with the assumptions required for financial statement recognition and measurement.
- **Climate ambitions or targets that have not yet translated into financial effects**
  Entities often disclose transition plans, decarbonization strategies or long-term emissions targets that provide a signal to the future direction but have not yet resulted in committed expenditures, changes in useful lives or other financial statement impacts. This topic is discussed further in The Global Context for Connectivity in Reporting.

CASE STUDY Connected disclosure across the financial statements, sustainability statements and risk reporting

In its 2025 Annual Report, Royal Philips (Philips), a Dutch multinational health technology company, discloses that it sources all of its electricity from renewable generation, secured mainly through long-term power purchase agreements (PPAs). The same information is provided in different parts of Philips' reporting as a single story told consistently across the sustainability statement, climate change reporting, the financial statements and operational risk reporting.

In the **sustainability statement**, the PPAs appear as part of Philips' note on climate change, focused on energy consumption and mix:

> "We continue to consume 100% renewable electricity. This is largely driven by multiple Power Purchase Agreements (PPAs). Prior to 2023, these included the Los Mirasoles wind farm in the US and the Krammer and Bouwdokken wind farms in the Dutch province of Zeeland. To further secure the long-term delivery and quality of renewable electricity for all our operations in Europe, we increased our portfolio in 2023 and 2024 with a wind farm in Mutkalampi, Finland, and a solar farm in Pontinia, Italy. We also completed our first green power trading deal in China in 2023, followed by a second in 2024. For all remaining electricity demand, we acquire unbundled Energy Attribute Certificates (EACs) in line with RE100 recommendations." (page 188)
>
> Annual Report 2025, Sustainability Statement, Actions associated with climate change (page 188).

In the ESG Climate change note to the **Annual report**:

> "We delivered on a program that included energy-efficiency improvements, on-site renewables, and Power Purchase Agreements, as well as transport mode shifts to low-carbon-emitting alternatives. As a result, we have reduced our operational carbon footprint compared with the 2020 baseline, of 517,731 tonnes CO2-equivalent (CO2-e)."
>
> Annual Report 2025, Environmental, Social and Governance, Climate change (page 43).

In the **consolidated financial statements**, the critical judgments note on climate change discloses the PPAs as mitigating carbon-tax exposure:

> "In preparing the consolidated financial statements, management has considered the impact of climate change, specifically the financial impact of Philips meeting its internal and external climate-related aims, the potential impact of climate-related risks, and the costs incurred to pro-actively manage such risks. These considerations did not have a material impact on the financial reporting judgments, estimates or assumptions. The financial impacts considered include specific climate mitigation measures, such as the use of lower-carbon energy sources, the cost of developing more sustainable product offerings, and expenses incurred to mitigate against the impact of extreme weather conditions. To meet its long-term Science Based Targets and reduce its full value chain emissions in line with a 1.5 °C global warming scenario, Philips has entered into a number of Power Purchase Agreements. Philips uses 100% electricity from renewable sources, mainly through long-term Power Purchase Agreements, thereby mitigating the impact of carbon taxes. The development of more sustainable products are covered through our EcoDesign program and already included in our R&D expenses. The physical risk related to climate change on our sites resulting from our Task Force on Climate-Related Financial Disclosures assessment is currently considered limited."
>
> Annual Report 2025, Notes to the Consolidated financial statements, "Climate change" (page 96)

Further disclosure is also provided in operational risks as part of the **risk factors and responses**:

> "Philips purchases raw materials, including rare-earth metals, copper, steel, aluminum, noble gases and oil-related products. Philips' business depends on the availability of raw materials and energy, and there is no assurance that such raw materials and energy will be available for purchase in the future or available at current costs. ... The rise in global climate commitments and new regulations on Energy Attribute Certificates (EACs) and **Power Purchasing Agreements (PPAs)** may ... drive fluctuations in energy costs and affect the availability of EACs and PPAs."
>
> Annual Report 2025, Further information, "Risk factors and responses" (page 282)

The nexus in reporting between climate, nature and the social context

An emerging dimension of connectivity in reporting is the interrelationship between climate, nature and the social context in which an organization operates. Climate-related risks and opportunities frequently arise at the nexus with nature, for example, those related to water or deforestation and at the nexus with social and socioeconomic factors, such as the just transition to a lower-carbon economy and its consequences for workforces and communities. This nexus is explained in the ISSB's December 2023 educational material, Nature and Social Aspects of Climate-related Risks and Opportunities, which illustrates how the disclosure requirements in IFRS S2 and IFRS S1 apply where a climate-related risk or opportunity has a nature or social dimension, so that material information is provided to the users of general purpose financial reports.

Practitioners working at the intersection of climate and nature emphasize that nature, and natural capital, functions as a foundational dependency for all economic activity. An organization's ability to source materials, secure water, retain workforce and operate physical assets relies on the resilience of ecosystems and the societies that depend on them. Connecting the information disclosed across all these areas provides more coherent reporting which leads to more decision useful information

A practical entry point for many organizations is to embed nature and social considerations into the governance and risk-management structures already established for climate reporting. For example, the same audit and risk committee oversight, the same materiality lens, the same internal-control frameworks and the same assurance discipline that have been applied to climate disclosure can be extended to nature-related dependencies and to social impacts, such as workforce transition, retraining and community effects, rather than building parallel reporting processes. This approach also reduces the duplication that arises when climate, nature and social factors are treated as separate disclosure streams.

Climate, nature and social are important factors that affect the financial position and performance of an entity and therefore an entity's management of those factors and investors' views on providing capital and resources to an entity. For example:

- reassessing the positioning of long-lived assets in water-stressed locations,
- recognizing the long-term cost of degrading the natural systems an operation depends on,
- incorporating nature dependencies into scenario analysis and impairment assumptions, and
- factoring the cost of a just transition, such as workforce retraining and redeployment as higher-emitting operations are phased out into long-term financial planning.

The GAA's earlier publication Why Nature Matters to Accountants (March 2025) explores these themes in detail.

> We recommend companies to embed nature into their climate governance and risk management framework. Whilst the strategy for nature could be slightly different, but at least the governance structure for most companies is already in place for climate — companies just need to embed nature into it.
>
> **Irene Chu, Partner, KPMG Hong Kong**

The Global Context for Connectivity in Reporting

The concept of connectivity in reporting has been a central focus of global standard setters and regulatory frameworks. Global standard setters are highlighting the importance of connections between sustainability-related information and the financial statements. This section summarises the key developments.

Framework	Issuer	How connectivity is required
IFRS S1 and IFRS S2	ISSB (IFRS Foundation)	Connected information is a conceptual foundation of IFRS Sustainability Disclosure Standards, which includes requirements about the manner in which information is provided and specific requirements designed to enable the disclosures to be connected to the financial statements. IFRS S1 requires entities to provide information in a manner that enables users of general purpose financial reports to assess the connections between: • the various sustainability-related risks and opportunities affecting the entity; and • the disclosures about those risks and opportunities, including the connections between sustainability-related disclosures provided under different IFRS Sustainability Disclosure Standards, and the connections between sustainability-related disclosures and the information provided in the related financial statements (IFRS S1, paragraphs 21–24). IFRS S1 also requires that the same data or assumption is used in both the sustainability-related disclosures and the financial statements to the extent possible, is applied on a consistent basis (paragraph 23), and that the sustainability disclosures cover the same reporting entity as the financial statements (paragraph 20), for the same time and reporting period and apply the same presentation currency (paragraph 24). These requirements together establish what the ISSB describes as connected information.[1] IFRS S1 also includes disclosure requirements for entities to provide information that enables primary users to understand the current and anticipated financial effects of sustainability-related risks and opportunities on their financial position, financial performance and cash flows over the short, medium and long-term to ensure such connectivity (paragraphs 34-35). IFRS S2 builds on these foundations and requires entities to consider connections between cross industry metrics and the information in the financial statements in accordance with IFRS S1 (IFRS S2, paragraph B65). Both Standards also enable cross references to support connected reporting.
IFRS Accounting Standards	IASB (IFRS Foundation)	Connectivity is operationalized in financial reporting through the application of existing IFRS Accounting Standards, which already require consideration of climate-related and other emerging risks. There are requirements in IASB Accounting Standards that enable connections with the related sustainability-related financial disclosures. Examples of these include disclosures about assumptions, judgments and estimation uncertainty, an overarching requirement to disclose material information, disaggregation of information and fair presentation.[2] An overview of how IFRS Accounting Standards consider the effects of climate-related risks in the financial statements, based on the IFRS Foundation Educational Material published in July 2023 and Illustrative Examples published in November 2025, is provided in Appendix 1. Professional judgment is required to determine when climate-related assumptions and risk should be incorporated into financial statements.

1 IFRS S1 paragraphs B39–B44 provide further detail in relation to connected information as outlined in paragraph 21–24 of IFRS S1.
2 IFRS - Webcasts—Connectivity between the financial statements and sustainability-related financial disclosures

Framework	Issuer	How connectivity is required
ESRS	European Commission (CSRD)	At a high level, ESRS 1 General Requirements requires entities to prepare sustainability information that is consistent and connected with the related financial statements. In practice, this means that the assumptions that form the basis of sustainability disclosures, including carbon prices, discount rates, demand projections, transition pathways and asset useful lives, align with those used in the financial statements. Connectivity in reporting is also required through the ESRS requirement to cross-reference between the sustainability statement and the other parts of the annual report. A further connectivity expectation flows from the requirement to explain how the outcomes of the double materiality assessment shape strategy, business model and resource planning. ESRS 2 General Disclosures requires entities to disclose how material impacts, risks and opportunities influence strategic decisions, capital allocation and financial planning. The ESRS framework is in a period of revision; however, the connectivity expectations described in this section are not currently proposed for significant changes.
GRI Standards	Global Reporting Initiative	GRI reporting incorporates connectivity considerations in GRI 1 Foundation (2021) which encourages organizations to draw links between the sustainability disclosures and other corporate reporting, including the financial statements and the management commentary, through cross-references, consistent definitions and consistent reporting boundaries and requires reports to be comparable, accurate, balanced, clear, timely, verifiable and complete.

At a broader framework level, there is significant focus on interoperability between frameworks. The GRI and the International Sustainability Standards Board issued a Memorandum of Understanding in March 2022 and continued through subsequent joint workstreams on interoperability, which were reaffirmed in May 2026. The two organizations are working to ensure that the GRI Standards and the IFRS Sustainability Disclosure Standards can be applied together by organizations that wish to report on both impact and financial materiality, with common terminology, common reporting boundaries and common metric definitions wherever possible. The GRI also works closely with EFRAG and the European Sustainability Reporting Standards draw heavily on the GRI's topic structure and disclosure logic. GRI and EFRAG have published joint statements confirming the high degree of alignment between the GRI Standards and the ESRS.[3]

3 See, for example: IFRS Foundation and GRI to align capital market and multi-stakeholder standards (March 2022), GRI and IFRS Foundation collaboration to deliver full interoperability (May 2024), EFRAG–GRI Joint Statement of Interoperability, EFRAG and GRI enhance collaboration with deeper ties (November 2023) and Facilitating efficient reporting when using the GRI and ISSB Standards (May 2026).

Activities by standard-setters

The International Accounting Standards Board (IASB) has taken a number of steps to clarify how climate and other sustainability-related matters are connected to IFRS Accounting Standards, including:

- Educational material on the Effects of climate-related matters on financial statements (republished July 2023)
- An IFRS Interpretations Committee (IFRIC) agenda decision (April 2024) on climate-related commitments under IAS 37, discussed in detail below.
- Illustrative examples (published November 2025) on uncertainties, including climate-related uncertainties, demonstrate how entities should consider climate risks when applying standards such as impairment testing, provisions, and useful life assessments. These examples emphasize that even when climate risks are not explicitly mentioned in financial statements, they may still materially affect assumptions and estimates.

The IFRS Foundation have also provided an overview of connections between IFRS Accounting and IFRS Sustainability Standards involving a shared purpose, complementary products and materials, and collaborative working between the IASB and ISSB teams.

The IFRIC agenda decision on climate-related commitments clarifies how existing IFRS Accounting Standards, particularly IAS 37 Provisions, Contingent Liabilities and Contingent Assets, apply to corporate net-zero and emissions reduction commitments.

The agenda decision highlights that a public climate commitment (such as a net-zero target) does not automatically create a provision. While such commitments may create expectations among stakeholders, a liability is only recognized when there is a present obligation arising from a past event. The past event is the event to which the commitment applies rather than the public statement itself. For example, the past event in a climate commitment might be the actual emission of greenhouse gas emissions. Accordingly, most costs associated with transitioning to net zero, such as investing in cleaner technologies or changing operations, relate to future activities and, therefore, do not give rise to provision under IAS 37. A provision is generally recognized only when the entity has emitted greenhouse gases and is obliged to offset them (for example, through the purchase and retirement of carbon credits).

Example 2 - Net zero commitment and offset of future emissions

A company publicly commits in 2026 to achieve net zero by 2035 and to offset all future emissions. The commitment itself does not create a present obligation, so no provision is recognized in 2026. However, in 2027, once the company emits greenhouse gases and has a constructive obligation to offset those emissions, it may need to recognize a provision for the expected cost of acquiring and retiring carbon credits, provided the IAS 37 recognition criteria are met.

From a connectivity perspective, the agenda decision highlights that there may be a difference between the climate-related information disclosed, such as net-zero targets, and the amounts recognized in the financial statements, as such commitments may not give rise to any corresponding liability. It is, therefore, important for entities to clearly explain how climate commitments are reflected through assumptions, estimates, or future expenditures so that users can understand the financial implications, if any, of the commitments in the financial statements.

As is discussed in the previous section, importantly, even where no provision is recognized, climate commitments can still significantly affect financial statements. They may influence assumptions used in impairment testing, asset useful lives or disclosures about risks and uncertainties.

Figure 2: The key elements of the IASB IFRIC Agenda Decision

Does a commitment to reduce or offset greenhouse gas emissions create a **constructive obligation**?	Does a constructive obligation created by such a commitment meet the IAS 37 criteria for **recognising a provision**?	If a provision is recognized, is the corresponding amount recognized as an **expense or as an asset?**
Maybe. Depends on the facts and circumstances.	**Public statement** is not sufficient. Past event is **GHG emission**.	**Expense,** unless item qualifies as an asset.

Challenges and Enablers for Connectivity

Achieving effective connectivity in reporting remains a significant practical challenge for many organizations and understanding both the key challenges and the enablers is critical to improving reporting quality. From our interviews with stakeholders across the accounting profession, including finance leads, sustainability reporting leads, board members, auditors, standard-setters, regulators, investors and academics, a consistent picture emerged of what makes connectivity work in practice, and the key challenges they have encountered.

Key challenges and enablers

Achieving effective connectivity in reporting remains a significant practical challenge for many organizations and a disconnect in reporting can arise as discussed in the Introduction. The interviews conducted with stakeholders point to a consistent picture of what makes connectivity work, and the principal challenges practitioners have encountered.

Challenge	Description
Data quality and availability	Sustainability and climate-related data is often less mature than financial data. It may be incomplete, based on estimates, or derived from multiple sources with inconsistent methodologies. This creates difficulties in aligning it with the rigor required for financial reporting.
Organizational silos	Sustainability, finance, risk and strategy functions often operate separately, with different systems, timelines and priorities. This fragmentation can result in disconnected disclosures. For example, climate risks described in narrative reports that are not reflected in financial assumptions.
Different time horizons and estimation uncertainty	Incorporating sustainability and climate-related risks into financial statements often involves significant estimation uncertainty such as for long-term scenarios, policy changes and technology shifts. This can make preparers hesitant to fully reflect these factors in financial statements, leading to under-disclosure or overly cautious recognition.
Skills and capability gaps	Connectivity requires a combination of financial reporting expertise and sustainability knowledge. Many organizations face gaps in skills in understanding how sustainability risks translate into financial impacts, estimates and judgments. Finance teams may be unfamiliar with climate science and scenarios and sustainability teams may be unfamiliar with the recognition and measurement requirements of IFRS Accounting Standards.
A compliance-driven approach to disclosure	Some organizations have reduced the sustainability and climate-related standards to a compliance checklist with accountants focused on checking off every box without stepping back to ask whether the disclosures tell a coherent story. This makes connectivity almost impossible. Connectivity is a quality of the report as a whole rather than the sum of completed checklist items.
Materiality misunderstandings	A common pitfall is the assumption that the quantitative thresholds typically used as a proxy for financial materiality can be applied in the same way to sustainability reporting. Additionally, materiality for sustainability reporting depends on the framework, with some frameworks applying an investor lens and others also including impact considerations. These materiality lenses are related but distinct and need to be applied specifically to each disclosure.
Differences in assurance	Typically financial statements are subject to reasonable assurance but assurance over climate-related disclosures is often either limited assurance or no assurance at all. A credibility hierarchy emerges that positions sustainability information as a secondary source. In some cases, this also creates an open question about what level of assurance, if any, applies to statements that describe the connections between the two sets of information.

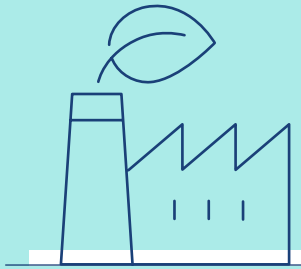
> Sustainability teams and finance teams are connected in corporates, but they are just connected in a simple way. It is not one team. As long as they, as well as the technology and systems, are not really integrated, this is a challenge for the companies and the assurance providers.
>
> **Claudia Schrimpf-Dörges, Partner, Grant Thornton Germany**

Practical enablers	Description
Tone at the top	Connectivity in reporting is enabled where CEOs, CFOs and audit committee chairs visibly engage with sustainability reporting, through challenge at audit committee discussions, by sponsoring the work explicitly, or by asking sustainability-related questions in budget and capital expenditure reviews.
Embedding sustainability within existing governance structures	For example, audit committees, risk committees, internal controls over financial reporting, strengthens oversight and supports reliable, connected information. Joint papers and joint presentations to board committees, prepared by sustainability and finance teams together, support consistent messages from preparation through to oversight.
Collaboration	Strong collaboration between finance, sustainability, risk and strategy teams is the single most important enabler. Establishing shared processes, aligned timelines and common assumptions ensures consistency across disclosures. Some of the strongest climate-related disclosures are produced by teams that sit together, challenge each other and work through the issues collaboratively, sometimes using simple tools such as shared spreadsheets, rather than waiting for complex systems to be in place.
Bridging professional vocabularies	Connectivity depends on accountants, sustainability professionals, engineers, scientists and operational colleagues working with a shared understanding of terms that often mean different things to each profession. Organizations that invest in deliberate translation work, for example, by establishing joint working groups, by embedding accountants within sustainability teams or vice versa, or by adopting shared disclosure guiding principles, find that decisions about what is material, how to measure it and how to disclose are enabled.
Technology and data infrastructure	Over time, improved systems for collecting, managing and analyzing sustainability data enhance consistency, traceability and auditability. Integrated platforms can link operational, sustainability and financial data and support the audit trail required for assurance.
Storytelling over compliance	Organizations that start with the story, that is, where the business is today, where it needs to be, and how it will get there and then identify the disclosures that support it tend to produce better connected reports than organizations that work bottom-up from the disclosure checklist.
Embedding sustainability into operating processes	Organizations that have moved beyond a reporting-focused view of connectivity have embedded sustainability into the wider operating system of the business. Practical mechanisms include adjusting capital allocation hurdles to recognize the longer time horizons of sustainability investments, requiring sustainability impact assessment as part of capital approval processes, incorporating sustainability targets into executive and employee remuneration and including sustainability priorities in the annual strategic planning cycle. Where these mechanisms are in place, the data feeding connected reporting is generated as a by-product of how the business is run, rather than developed separately at year-end.

> In some cases, sustainability people don't like to talk about money, and accounting people don't like to talk about sustainability. That makes the conversation really difficult, so you end up with this very disjointed annual report that doesn't all hang together as a single, coherent business discussion.
>
> **Hilary Eastman, CEO and Founder, Confluence Advisory**

The biggest enabler is shifting away from the disclosure-checklist mindset. Start with the story: where the business is today, where it needs to be, and how it will get there. Once you have that narrative, the disclosures fall into place and the connections to the financials become obvious.

Sanel Tomlinson Managing Director, Momentai Limited.

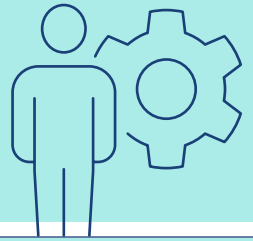


Materiality in a sustainability context means considering the units that are important to us such as greenhouse gas volumes or emissions per square foot, not just dollars alone. Financial materiality and sustainability materiality definitions are consistent, but they are not applied in the same way. A sustainability matter can be material enough to warrant disclosure without ever triggering a line item on the balance sheet.

Anoosha Lalani, Director, Sustainability Reporting and Analytics, Cadillac Fairview

We should rarely implement sustainability simply for sustainability's sake — there is typically a strong business rationale behind it. When a project is framed through financial savings, operational efficiency, risk mitigation, or reputational impact, the business case becomes clear. The organizations that excel are the ones that anchor sustainability in their strategy and ensure it is embedded across all functions and decisions.

Sandy Kesseler, Principal, SK Advisory Solutions

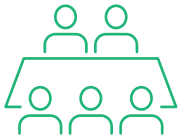


We had this awareness of assurance coming our way, so a new role was developed in finance called the Corporate ESG Assurance Manager, who took on the data governance role and focused on helping us prepare for assurance. That finance thinking, that attention to governance, internal-control processes and frameworks, is really important to drive credibility.

Annette Lister, Group ESG Governance & Reporting Manager, Weir Group PLC

Six practical tips for enabling connectivity

1



Make the board the owner of the connected reporting.
Directors approve the corporate report and are accountable for it as a whole. Treating connectivity as a board-level responsibility helps ensure the narrative and the information is coherent across and within the reports.

2

Get the key functions together early.
Connectivity works best where finance, sustainability, risk and strategy consider the same issue at the same time, in particular when material risks and opportunities are initially being identified.

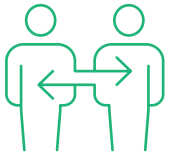
3

Build a finance-grade controls environment over sustainability data.
Apply the same discipline used for internal controls over financial reporting, such as clear data ownership, documentation, review and sign-off, to sustainability information, so that it can support assurance and withstand the same scrutiny as the financial statements.

4

Anchor to a single primary reporting framework.
Where possible, select one primary framework as the anchor for the corporate report, and map or reconcile other frameworks, (for example, GRI, IFRS Sustainability Disclosure Standards or the ESRS), back to it, rather than preparing several frameworks in parallel. A common anchor strengthens connectivity by making it easier to show how sustainability matters link to other disclosures.

5



Prepare board papers jointly with finance and sustainability teams.
Board papers drafted together by the finance and sustainability teams produce consistent messages and can highlight potential inconsistencies.

6

Lead with the story, then identify the disclosures.
It is key to start with the business and let that narrative drive the connectivity across reporting, rather than working through the standard as a checklist.

The Strategic Role of Accounting Professionals

As expectations for connectivity in reporting increase, the role of accounting professionals is expanding. This section sets out why accounting professionals are well placed to contribute to, and lead, connectivity in practice.

Why the accounting profession is central to connectivity in reporting

Across the interviews undertaken to inform this publication, interviewees highlighted a number of practical areas in which the accounting profession is positioned to lead connectivity in reporting. Connectivity in reporting is aimed at improving information quality to help ensure that the financial, climate-related and broader sustainability information presented about an entity is consistent and coherent. These are disciplines that the accounting profession has applied to financial reporting for decades, and they translate directly to the connected reporting environment that is now emerging. Accountants work across the information in the financial statements of the entire organization and, in doing so, develop an understanding of the business as a whole including how its activities, assets and risks fit together and translate into financial outcomes.

Accountability for financial reporting and climate-related disclosure lies with management and those charged with governance; however, connectivity in reporting, in practice, is a shared responsibility across the organization. Finance teams play a key role in working together with the other teams within organizations to achieve connectivity in reporting, such as:

- sustainability teams responsible for data, metrics and determining certain reporting boundaries;
- risk and strategy functions responsible for scenario analysis and forward-looking insights;
- operations teams responsible for the implementation of transition plans and the on-the-ground reality of climate-related risks and opportunities;
- the board and its committees, responsible for oversight, challenge and approval.

The opportunity for the accounting profession is to lead the work of connectivity, working with colleagues across the business who bring complementary expertise. Some of the key practical areas in which the accounting profession is positioned to lead connectivity in reporting, as highlighted by interview participants, are highlighted below.

Strategy, internal controls and data governance over sustainability information
When the discipline of internal controls over financial reporting is applied to sustainability data, it produces auditable, traceable information and reduces the disclosure risk that arises when narrative claims are not supported by the underlying control environment. As climate considerations become embedded in business models, accountants are also playing a more active role in strategy development, capital allocation and risk assessment, for example, through quantifying the financial implications of transition pathways, evaluating investments in low-carbon technologies or resilience measures and integrating climate-related risks into enterprise risk management frameworks.

Embedding sustainability into capital allocation and risk processes
Beyond the reporting cycle itself, accountants in organizations are frequently leading the work of embedding sustainability into the business such as incorporating sustainability impact assessment into capital approval processes, adapting hurdle rates to recognize long-horizon sustainability investments, integrating climate variables into enterprise risk management frameworks, and incorporating sustainability indicators into budgeting and performance management.

Connecting voluntary reporting to mandatory readiness
In jurisdictions where mandatory sustainability reporting is not yet in force, accountants are becoming increasingly involved in designing the voluntary reporting that is being developed to the same standard as mandatory disclosure. This includes applying the same internal controls, the same materiality discipline and the same foundation for assurance as existing financial reporting. The objective of this approach is to produce investor-decision-useful information and a framework that can be leveraged directly as mandatory regimes come into force across jurisdictions.

Assurance readiness and engagement with assurance providers
Accountants are increasingly preparing audit-ready evidence trails, technical accounting memos on emerging climate matters, agreeing quantitative restatement thresholds with assurance providers, undertaking new and emerging roles inside finance (sustainability reporting controllers, ESG assurance managers), and the engaging with assurance providers on connections between climate and information in the financial statements.

> "Accountants are the information specialists — we always have been. The credibility of accountants is still very high; the audit function gives credibility to numbers. What we do as a profession is bring sustainability reporting under the tent — to give credibility, and to make sure that entities are not talking about sustainability in isolation but thinking about sustainability and financial reporting together."
>
> **Dr Alan Teixeira, Director, Deloitte UK & co-author of Sustainability Reporting: A Guide for Professionals and Students**

Engaging with investors and the user lens

Accountants also are engaging with investors through the user lens. For example, the IFRS Sustainability Disclosure Standards are developed for investors, lenders and other creditors, and the accountant's role is extending to working with investor relations to understand what investors are asking in relation to sustainability and climate, developing assessments of material information, and developing disclosures that provide investors with the information needed to track targets and transition plans together with financial performance.

This engagement is further developed as many of the sustainability reporting frameworks, including the IFRS Sustainability Disclosure Standards, are written in the language and structure of accounting standards. They use defined terms, recognition concepts, materiality thresholds and disclosure logic that accountants already understand. Lawyers, scientists and policy specialists each bring valuable expertise to sustainability reporting, however, the practice of preparing connected general purpose financial reports, and of testing whether the resulting report works together as a whole, is one that the accounting profession already has well developed knowledge and skills.

> Accountants, and auditors, see everything that happens within a business — because everything comes down to money, and money flows. If they have the ability to see across everything that's happening, then understanding for this business, in this industry, in this jurisdiction, what factors could affect future success — they can look for that and make sure it's in the reporting. Accounting is the language of business.
>
> **Hilary Eastman, CEO and Founder, Confluence Advisory**

A bridge between data, decision-making and disclosure

A key aspect of the accounting profession's role in connectivity is acting as a bridge between data, decision-making and disclosure in the following ways:

Data	Decisions	Disclosures
Ensuring that sustainability and climate-related data is robust, balanced, complete, accurate, consistent and aligned with financial reporting requirements.	Embedding sustainability considerations into budgeting, forecasting, capital allocation and risk management.	Translating these impacts into clear, consistent and decision-useful reporting by applying reporting principles and reporting according to a framework/standards. This includes testing whether the narrative and the numbers tell the same story, whether information is provided in a manner that supports understanding of connections, ensuring that the cross-references between the climate-related disclosures and the financial statements are explicit and complete, and explaining the assumptions and judgments through the disclosures of significant judgments and estimation uncertainty.

Materiality discipline across financial and sustainability lenses

Materiality is a concept that members of the accounting profession apply frequently, and the absence of an understanding of the concept of materiality is identified as one of the most common reasons of disconnected reporting arising in practice. Accountants are well placed to identify and challenge both under-disclosure (where material climate-related effects are excluded from the preparation of financial statements) and over-disclosure (where immaterial detail provided potentially obscures material information). Accountants are also well placed to help organizations develop a materiality approach to restatements and revisions for sustainability metrics that, where appropriate, aligns to financial reporting practice.

Stepping back

An important characteristic of the accounting profession is the discipline of 'stepping back' from individual disclosures to assess whether the report, as a whole, provides a fair representation of the business. This 'true and fair view' mindset, originally developed for financial statements, is equally needed to assess whether sustainability and climate-related disclosures, the financial statements, the management commentary and any other forward-looking information are telling a consistent story for a company.

New and evolving competencies

In addition to the 'traditional' technical competencies accounting professionals have developed, accounting professionals are developing new capabilities alongside their core technical expertise.

Systems thinking	Data analytics	Climate-related fluency
Understanding how climate impacts, operations and finance interact across the organization. Accounting professionals need to see these relationships, trace them across functions and reflect them coherently and consistently in the relevant disclosures.	Working with large, complex and sometimes unstructured datasets. Climate-related information often draws on data that is significantly different from the structured data that forms the basis of financial reporting.	Accounting professionals need a working understanding of the concepts that form the basis of climate-related disclosures including interpreting climate scenarios, regulatory developments and transition pathway.
Assurance over new topic areas	**Qualitative narrative and disclosure**	**Forward-looking analysis under uncertainty**
As the scope of mandatory sustainability disclosure expands, the assurance skills that auditors have long applied to information in the financial statements are being extended to a broader set of factors. These include greenhouse gas inventories and emissions data, transition plans, scenario analysis and the qualitative disclosure.	Sustainability reporting requires accountants to be as comfortable with narrative disclosure as with quantitative disclosure. Articulating the drivers, assumptions, uncertainties and judgments behind a disclosure, in language that supports user decision-making, is becoming a core professional competency.	Financial reporting has traditionally been built around relatively short time horizons, in comparison to climate-related and broader sustainability reporting. Climate-related disclosure requires accountants to extend the time horizon over which assumptions are made and to become comfortable working with significant estimation uncertainty.

> Accountants' superpower is stepping back and asking whether the overall objective has been achieved. That's exactly what sustainability reporting needs – someone who can look at the whole picture and test whether it makes sense.
>
> **Sanel Tomlinson Managing Director, Momentai Limited**

Conclusion

Conclusion

This publication has explored what connectivity in reporting means in practice, why it matters, how it is reflected in the reporting standards and frameworks currently in force, and the strategic imperative of the accounting profession in delivering it. It set out the case for connectivity through the changing expectations of investors, lenders, regulators and boards. As sustainability-related risks and opportunities increasingly affect entity cash flows, they increasingly expect to see the links between the sustainability-related strategy, the narrative disclosures and the assumptions, estimates and judgments reflected in the financial statements.

There remain practical challenges for organizations in delivering connectivity, including organizational silos, capability gaps, uncertainty in relation to materiality and material information, and the potential for a 'checklist' approach to reporting. However, alongside these challenges, interviews with stakeholders identified a number of enablers for connectivity that are within reach of most organizations, including cross-functional collaboration, shared frameworks, governance arrangements that bring finance and sustainability teams together and applying a storytelling discipline to reporting.

A key aspect of achieving connectivity in reporting is the evolving strategic role of the accounting profession. Across the interviews undertaken to inform this publication, a clear and consistent message emerged that the accounting profession is well positioned to lead the work of connectivity. The technical foundation of accounting skills including understanding the development and application of internal controls, materiality, judgment and assumptions are already part of the profession's day-to-day practice. The opportunity for the profession is to extend that foundation beyond the financial statements to climate-related and broader sustainability disclosures and to develop new competencies to realize this strategic opportunity.

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The next publication in this series turns to how connectivity is embedded in governance, internal reporting and decision-making within organizations.

Appendix – Overview of climate-related matters for financial statements[4]

IFRS Standard	How climate-related matters affect the financial statements
IAS 1 *Presentation of Financial Statements/* IFRS 18 *Presentation and Disclosure*	Climate-related assumptions can create significant estimation uncertainty and require entities to explain the judgments of asset lives, impairment triggers, provisions and going-concern assessments. Climate considerations may also make certain assumptions material for users, requiring transparent disclosure of sensitivities and the basis for those estimates.
IAS 2 *Inventories*	Climate impacts can reduce the recoverable amount of inventories through obsolescence, physical damage, regulatory changes or declining demand, requiring entities to reassess net realizable value and explain the basis for any write-downs.
IAS 12 *Income Taxes*	Climate transition pathways may reduce expected future taxable profits, affecting the recognition and recoverability of deferred tax assets. Entities need to articulate the assumptions supporting those projections and any changes driven by climate-related developments.
IAS 16 *Property, Plant and Equipment*	Climate-related risks and transition plans can shorten useful lives, reduce residual values or require adaptation expenditure. Entities should reflect these effects in depreciation patterns and explain the judgments and estimates that climate considerations make material.
IAS 38 *Intangible Assets*	Climate transition can accelerate obsolescence of existing technologies while increasing investment in new research and development. Entities need to describe how climate-related developments influence capitalization decisions, useful lives and impairment assessments.
IAS 36 *Impairment of Assets*	Climate-related risks may trigger impairment indicators. If an impairment test is required, climate-related risks might also affect the assumptions used in cash flow projections and discount rates. Entities should also disclose the key assumptions, climate-related variables and sensitivities that are included in recoverable-amount calculations.
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*[5]	Climate policies, environmental obligations, remediation requirements and transition commitments can create present obligations or onerous contracts. Entities are required to explain the nature of these obligations, the uncertainties involved and the assumptions used in measuring them.
IFRS 7 *Financial Instruments: Disclosures*	Climate-related risks can influence credit, liquidity and market-risk exposures, as well as expected credit loss estimates. Entities need to describe how climate factors shape risk concentrations, model assumptions and changes in credit quality.
IFRS 9 *Financial Instruments*	Climate-linked terms in financial instruments may affect classification, while climate risks influence expected credit losses through forward-looking information, collateral values and borrower resilience. Entities should narrate how climate considerations are embedded in classification judgments and expected credit loss modeling.
IFRS 13 *Fair Value Measurement*	Market participants' climate expectations can affect fair value, in particular for assets exposed to transition or physical risks. Entities should explain how climate-related assumptions influence valuation inputs and the sensitivity of Level 3 fair value measurements.
IFRS 17 *Insurance Contracts*	Climate change can alter the frequency and severity of insured events, affecting fulfilment cash flows, risk adjustments and contract boundaries. Entities need to describe the climate-related assumptions and uncertainties that materially influence liability measurement.

4 The information in Appendix 1 is based on Effects of climate-related matters on financial statements (republished July 2023).
5 This relates to the version of IAS 37 in force at the date of publication in August 2026.

IASB Illustrative Examples

In November 2025 the IASB published a series of illustrative examples considering uncertainty in the financial statements, which include climate risk, although extend beyond climate risk to other areas of uncertainty in the financial statements. The examples do not have an effective date and, as such, are treated in a similar manner to IFRIC Agenda Decisions. The examples highlight how connectivity flows between climate-related disclosures and the judgments and estimates reflected in the financial statements.

High-level overview of relevant IASB Illustrative Examples[6]

Example	Topic	Issue	Key themes	Connectivity considerations
1	Materiality judgments	When additional disclosures may be required to understand the effect of transactions and other events	Materiality depends on the context, exposure to transition risks, and whether information is expected to influence users' decisions. In some circumstances entities may need to provide additional disclosures (beyond those specifically required by IFRS Accounting Standards).	Climate-related information disclosed outside the financial statements (e.g., emissions profiles, transition plans, industry exposure) can inform materiality judgments within the financial statements. If climate-related financial disclosure highlights there is a material exposure to climate risk, an entity might need to reflect that exposure through appropriate disclosures. Materiality judgments take into account both qualitative and quantitative considerations, including entity-specific qualitative factors and external qualitative factors.
2	Disclosure of assumptions – impairment testing	Assumptions applied in impairment testing under IAS 36 Impairment of Assets	Some assumptions can significantly affect recoverable amounts. Transparency about key assumptions and sensitivities is essential.	Climate-related assumptions disclosed in sustainability reporting, such as carbon prices, regulatory pathways or transition timelines, might align with the assumptions used in impairment testing. If considered to be key assumptions in the impairment test, an entity would disclose information about them in financial statements.
3	Disclosure of assumptions - general requirements	Disclosures about estimation uncertainty in IAS 1 Presentation of Financial Statements	Information about as-sumptions can be material even without a recognized impairment. IAS 1 requires disclosure of assumptions about the future and other major sources of estimation uncertainty that could have a significant risk of resulting in a material misstatement.	Climate-related uncertainties highlighted in climate-related financial disclosure (e.g., policy changes, technology shifts and physical risks) are factors that might need to be considered when making IAS 1 estimation-uncertainty disclosures. An entity discloses information about related assumptions if they have a significant risk of a material adjustment in the next financial year. Climate-related financial disclosure is a source of inputs for financial-statement judgment.
4	Disclosures about credit risk	Disclosure of the effect of particular risks on credit risk and assessing materiality.	Disclosing how particular risks affect expected credit loss models, collateral values and sec-toral concentrations.	Climate-related risk exposures disclosed, such as exposures to high-emission sectors or vulnerable geographies, might be reflected in expected credit loss modeling and disclosures made applying IFRS 7 Financial Instruments: Disclosures.
5	Disclosure about decommissioning and restoration provisions	Disclosure requirements where there are obligations but the carrying amount of decommissioning and restoration provision is immaterial.	Even when discounted amounts are immaterial, the underlying obligations may be large and uncertain. Disclosures are required to explain the assumptions and timing of the obligations and risks.	Climate-related commitments or environmental obligations disclosed in sustainability reporting (e.g., site remediation and closure plans) might also be reflected in IAS 37 Provisions, Contingent Liabilities and Contingent Assets[7] disclosures if considered material information for financial statements.
6	Disaggregation	Applies the principles of IFRS 18 Presentation and Disclosure in Financial Statements to property, plant and equipment with different risk profiles	Assets within a class may have different risk characteristics in relation to particular risks. Applying the disaggregation principles in IFRS 18, an entity might have to disaggregate information based on these exposures.	Climate-risk segmentation used in climate-related financial disclosure (e.g., high-emission vs low-emission assets and vulnerable locations) might be relevant in considering how property, plant and equipment is disaggregated.

6 In this publication we provide a high level, non-authoritative summary only and discuss Examples 1–6 as Examples 7–8 address broader uncertainties outside the scope of this publication.
7 This relates to the version of IAS 37 in force at the date of publication in August 2026.

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Useful Resources

IFRS — Webcasts: Connectivity between the financial statements and sustainability-related financial disclosures A series of IFRS Foundation webcasts explaining how the financial statements and sustainability-related disclosures connect, with worked examples for preparers.

Connectivity in Reporting The joint IASB and ISSB project page tracking ongoing work on connecting financial and sustainability reporting.

Connectivity — what is it and what does it deliver? A short, accessible explainer on connectivity.

Nature and social aspects of climate-related risks and opportunities ISSB educational material illustrating how IFRS S2 captures the nature and social dimensions of climate-related risk.

Why Nature Matters to Accountants The GAA guide on integrating nature into the work of the accounting profession.

Empowering business: navigating nature-related reporting | ACCA Global. A report outlining the core principles of nature-related reporting and the importance of material disclosures.

EFRAG — Connectivity of Financial and Sustainability Reporting Discussion paper highlighting the importance of connectivity and its key characteristics, including a series of illustrative examples.

ICAEW — Connecting sustainability and finance: A practical resource series for finance professionals on why and how to connect sustainability and information in the financial statements.

CA ANZ — Sustainability Playbook A practical guide helping accounting and finance professionals build the skills to navigate climate-related disclosure and its connectivity to the audited financial statements.

Accounting for Sustainability (A4S) — Essential Guide Series Practical guides on embedding sustainability into finance processes, decision-making and reporting.

Glossary

Climate-related disclosures.
Disclosures, prepared in accordance with IFRS S2 or equivalent national or jurisdictional standards, that provide information about an entity's climate-related risks and opportunities.

Climate-related opportunities.
The potential positive effects arising from climate change for an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity (IFRS S2, Appendix A).

Climate-related risks.
The potential negative effects of climate change on an entity. These risks are categorized as climate-related physical risks (acute and chronic risks arising from the physical impacts of climate change) and climate-related transition risks (risks arising from the transition to a lower-carbon economy, including policy, legal, technology, market and reputational risks) (IFRS S2, Appendix A).

Climate-related transition plan.
An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition toward a lower-carbon economy, including actions such as reducing its greenhouse gas emissions (IFRS S2, Appendix A).

Connected information.
The term used in IFRS S1 to describe disclosures that enable users to assess the connections between an entity's sustainability-related risks and opportunities, and the connections between sustainability-related disclosures and information provided in the related financial statements (IFRS S1, paragraphs 21-24).

European Sustainability Reporting Standards (ESRS).
The set of sustainability reporting standards developed by EFRAG and adopted by the European Commission for application under the Corporate Sustainability Reporting Directive.

(Financial) materiality.
The principle that information is material if its omission, misstatement or obscuring could reasonably be expected to influence decisions that primary users of general purpose financial reports, which provide information about a specific reporting entity (IFRS S1, paragraph D8, IFRS Accounting Standards Conceptual Framework).

General purpose financial reports. Reports that provide information in the financial statements about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.

General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures. (IFRS S1, Appendix A).

GRI Standards.
The sustainability reporting standards developed by the Global Reporting Initiative, comprising the Universal, Sector and Topic Standards.

Integrated reporting.
A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation, preservation or erosion (Integrated Reporting Framework, Glossary).

Primary users of general purpose financial report.
Existing and potential investors, lenders and other creditors. (IFRS S1, Appendix A).

Scenario analysis.
A process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. (IFRS S1, Appendix A).

Sustainability-related financial disclosures.
A particular form of general purpose financial reports that provide information about the reporting entity's sustainability related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long-term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets. (IFRS S1, Appendix A).

GAA member organizations

About the GAA

The Global Accounting Alliance (GAA) was formed in 2005 as a forum for 10 of the world's leading professional accountancy bodies whose members practice in majoy capital markets. Its purpose is to serve the public interest by leading the advancement of a high-quality accounting among GAA members, as well as advocating on international issues imporant to the profession.

The GAA's strategic priorities:

Information Sharing: The GAA member bodies will regularly convene their staff to facilitate the sharing and exchange of non-competitive information and to meet with relevant external stakeholders, via Board and Working Group in-person and virtual meetings, for the mutual benefit of the participating GAA member bodies.

Coopoeration: The GAA member bodies will work together to identify challenges facing member bodies, and the profession in general, and consider how to meet these challenges and plan for the future, either as the GAA or as individual member bodies. Some, or all, of the GAA members may pursue joint initiatives and projects where the combination of their individual expertise and sharing of costs may result in economies of scale or other mutual benefits.

Influence and advocacy: The GAA maintains a regular review of the activities and plans of the International Federation of Accountants (IFAC) and engages in regular dialogue with IFAC leadership and other key stakeholders of the accounting profession. Where practical, the GAA will attempt to guide and influence the profession.

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