Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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EFRAG's Discussion Paper "Connectivity of Financial and Sustainability Reporting"

Dear Vincent, dear EFRAG Connectivity Team,

I am writing on behalf of the Deutsches Rechnungslegungs Standards Committee (DRSC) and its Joint Technical Committee. We would like to thank you for the opportunity to comment on EFRAG's Discussion Paper "Connectivity of Financial and Sustainability Reporting" (in the following referred to as "DP"). We consider "connectivity" a very important aspect of company reporting and an important discussion for EFRAG to take on and inform over the next years. This position has also been laid out in the Schmalenbach Gesellschaft and DRSC's position paper "Acting Collaboratively, Reporting Holistically – Connectivity as the Guiding Principle of Tomorrow's Reporting"[1].. We appreciate the effort of EFRAG's secretariat and the Connectivity Advisory Panel (CAP) for their work on the DP.

As it is based on discussions with various stakeholders, we believe the DP identifies numerous important aspects of connectivity between financial and sustainability reporting. Without doubt it is therefore an important work to better understand the concept and different possible dimensions of connectivity and to get a better understanding of possible applications in practice. It is therefore a valuable source of ideas for further discussions on connectivity. We expect that the DP will ultimately inform and advance the important path towards integrated reporting.

However, while we appreciate EFRAG's efforts to inform the discussion, we caution that ultimately, not only EFRAG but also other standard-setting institutions – as also identified in the DP – would have to take on the work to amend the concepts in their reporting frameworks to

[1] See Position paper of Schmalenbach Society for Business Administration and DRSC's Joint Technical Committee, November 2025, www.drsc.de/app/uploads/2025/12/251128_Connectivity_Thesen_DE-EN_E.pdf.

incorporate and emphasise connectivity and integrated reporting. From the perspective of large European companies this would include the IASB regarding financial accounting standards and the EU Commission with regard to sustainability reporting standards (and/or financial accounting standards not reporting under IFRS). We therefore support EFRAG's suggestion to share the important insights of the DP with the relevant standard-setting bodies responsible for developing financial and sustainability accounting standards.

In the following, we would like to emphasise some aspects for further consideration. We focus on the questions addressed to standard setters (chapter 5) as well as aspects regarding conceptual clarity, use of terminology and readability of the DP.

Need for coherent definition of concepts, precise wording and contextualization of stakeholders' vs. EFRAG's view

Overall, we agree with the definition and general understanding of connectivity as presented in the DP and the identification of types and mechanisms for connectivity. Nevertheless, we believe connectivity to address information provided "across reports" rather than "within a report". Coherence within a report is a necessary characteristic of company reports and seems to be sufficiently addressed by qualitative characteristics of reporting such as understandability. It seems therefore questionable to what extent the concept of connectivity needs to extend to coherence within a single report.

The DP briefly touches upon the aspect of "connectivity in reporting" being enabled by "connectivity in organisational processes" (e.g., pp. 27 and 89). We believe it to be very important that "connectivity" is rooted deeply in all aspects of a company's reporting ecosystem. This includes the organisational processes as well as "transactional connectivity", i.e., including connectivity considerations at the time of transactions and therefore, long before the actual reports are "connected". We suggest that a feedback statement on this DP references to this in-depth understanding of implementing "connectivity" in company reporting. Overall, we believe that connectivity needs to be understood and presented as a "build in" concept rather than as a "bolt on" concept.

In our view, connectivity represents an important step towards the ultimate objectives of integrated corporate reporting and integrated management. At the same time, achieving meaningful connectivity requires an integrated way of thinking, as only such a perspective enables the identification and understanding of interrelationships between financial and sustainability information. Integrating this information enhances transparency and can generate added value for both companies and users of corporate reporting.

Despite our broader view on the understanding of connectivity, we strongly support the objectives and intention of the DP, as well as the consideration of underpinning concepts, including the overarching types of connectivity. We further believe the lists of anchor points in both financial and sustainability reports to be helpful to illustrate where specific opportunities for connectivity may exist in a company's reporting. We do, however, also agree with the DP in its view that practical support for immediate improvements to connectivity in reporting do not replace or render unnecessary an in-depth discussion of the conceptual underpinnings and of ways to integrate connectivity considerations in current standard setting discussions and emerging topics such as the work on intangibles and social capital viewed in the light of intangible resources.

We acknowledge the extensive discussion of the underpinning concepts in the DP and consider these to be appropriate and useful. However, we suggest that the Feedback Statement which is to be developed based on the comment letters to include an analysis on streamlining this discussion. Based on this Feedback Statement EFRAG could consider the development of a more concise Discussion Paper, which is more streamlined, avoids duplications and thereby improves readability. In that future DP it would be necessary to more clearly define and differentiate between the concepts used in the DP and to provide a more precise and more consistent wording throughout the DP. A future more concise DP could then be used for further communication and for informing upstream processes beyond EFRAG's work.

This includes not only editorial aspects (e.g., referring to the "primary purpose" of connectivity when there is no other, secondary purpose, DP, p. 26) but also the use of terminology (e.g., such as with regard to AFE, see further discussion below), and the presentation of concepts (e.g., how material topics identified under the double materiality concept influence the expectation of whether a sustainability matter "ought to be reflected in the financial statement" DP, (p. 36) – while this can be true for financial materiality, it is not for impact materiality).

Some of the differences in the terminology and in the concepts discussed, as well as duplications in the DP seem to stem from the fact that the DP reflects both, the contribution of different stakeholders that were involved in the process as well as EFRAG's analysis on the views of the stakeholders. The DP should clearly differentiate between other stakeholders' views on the one side and EFRAG's analysis and views in respect to those considerations. Otherwise, those views could be misunderstood as EFRAG's views. It remains unclear whether EFRAG or other stakeholders support this conclusion. Moreover, statements on stakeholders' views need to sufficiently provide context on which stakeholders and which percentage of the stakeholders provided that view (e.g., DP, p. 36 "stakeholders highlighted that"). This will enhance understandability and readability of the DP.

Chapter 5 – Questions to standard setters

Standard setters are asked to consider if clarifying the borders of financial statements with respect to disclosures in the notes to financial statements could enhance the understanding of connectivity. To illustrate this question, the DP touches on various key issues of financial reporting. We appreciate EFRAG pointing out these questions. However, we believe that these topics require an in-depth discussion by the responsible standard setters. Furthermore, to realise the full potential of the ideas discussed it is important that the terminology is clear and consistent throughout the DP. The following examples illustrate our concerns.

A key issue concerns currently unrecognised (sustainability-related) intangibles. The topic of identifying relevant intangibles and defining criteria for recognition has long been debated and analysed by standard setters, academia and other stakeholders around the world. In our view, this important discussion cannot focus on "sustainability-related" intangibles alone, but needs to consider intangibles in general, including the other example provided in the DP (synergies from business combinations). As such, the discussion needs to be led by the standard setter mandated with the further development of financial reporting standards – in this case the IASB.

Another key issue the DP addresses is the concept of materiality and how different materiality perspectives are applied for different reporting elements. Among other aspects the DP points out that stakeholders have criticised that companies are not disclosing material information. EFRAG seems to suggest further discussion and explanations of "qualitative materiality" (e.g., DP, p. 10). This conclusion appears to be clear; however, it does not fully reflect the range of views presented in paragraphs 5.31–5.35 on pages 80 and 81. These paragraphs on "qualitative materiality" acknowledge that there are mixed views on this topic and that some stakeholders take a different view of when forward-looking information should be disclosed in the notes to the financial statements. These stakeholders consider that information (including forward-looking information) should only be disclosed in the financial statements when it relates to recognised elements in the primary financial statements.

In addition, the current recognition criteria reflecting faithful representation and relevance have been established and applied over a long period of time. These criteria represent an understanding for what determines decision-useful information. Furthermore, criteria for additional disclosures on unrecognised items are defined. Amending these existing concepts for additional sustainability-related disclosures challenges the existing criteria for recognition and disclosure. It does not seem appropriate to extend the current concept of decision-useful information specifically for sustainability-related aspect instead of reconsidering future oriented information in more general terms.

On the other hand, some stakeholders have called for less emphasis on placing additional sustainability-related commitments in the financial statements and instead to place more emphasis on the connectivity of (existing) information across different reports (DP, p. 81).

Furthermore, we are concerned that this discussion is not limited to information relating to sustainability matters but could be interpreted as extending the need for forward-looking information in general. In light of the ongoing discussions on forward-looking information in the BCDGI project at the IASB, we believe that this aspect requires careful consideration.

Overall, we wonder if any discussion around the understanding of "materiality" is adequately placed as part of a connectivity DP. It appears that this analysis and options to address a possible lack of disclosure of (qualitatively) material information should be subject to discussions by the respective standard setters.

With respect to the understanding of materiality, the DP (p. 72) also points out that for IFRS financial statements materiality is assessed in the context of the objective of financial statements, whereas the materiality under ESRS and ISSB standards is assessed on the context of objectives of different sustainability reports. More specific wording would support the DP in laying out that the materiality concepts are the same for all IFRS standards as the objective – decision useful information for investors – is the same. Furthermore, the DP refers to "sign-posting" which is defined (by FRC) as "drawing attention to complementary information that is of interest to investors but not material (required) in the context of a particular report" (DP, p. 34). In our view, connectivity relates to material information provided in different parts of the company report, not necessarily to additional non-material information.

Overall, we are not convinced that a general discussion for further disclosure requirements on unrecognised intangibles, unrecognised commitments, non-material (or qualitatively material) information, or on indicators that could change the assessment of the recognition criteria is helpful to foster the understanding and implementation of connectivity. Instead of aiming at achieving connectivity through additional disclosure the concept of connectivity could be considered as a means of better linking existing information and thereby achieving efficiency gains.

Therefore, these topics need to be discussed in detail within the frameworks of financial and sustainability reporting – jointly by the respective standard setters and under consideration of connecting topics.

Overall, we believe the DP would benefit from a more streamlined discussion of connectivity to aim for a comprehensive, coherent understanding of connectivity, based in well-defined terminology and coordinated concepts. Regarding the practical implementation of connectivity, we would recommend that the focus should not be on applying the concept comprehensively to every individual aspect from the outset. Rather, efforts should initially focus on selected areas where the concept can be further developed. As suggested in the previous section, current topics such as intangibles / intangibles of social capital could provide suitable opportunities for this approach.

In particular, with regard to the key issue of Anticipated Financial Effects discussed in the DP, we would like to provide further detail and highlight areas where further clarification and consideration are needed, given the ongoing discussions and differing views on this topic.

Example: discussion of Anticipated Financial Effects in the DP

The disclosure of Anticipated Financial Effects (AFE) is a currently much-debated issue for both users and preparers of sustainability information. The topic is important – especially in the context of connectivity – and as such, we consider it essential for EFRAG to be as precise, accurate, and transparent as possible in any material that addresses this topic. We have identified the following issues that could be improved in the presentation of this topic.

First, it is important that EFRAG accurately reflects the applicable requirements as laid out in the ESRS or the Draft Simplified ESRS. In some instances, this is not the case in the DP. For example:

- On p. 36, the DP states that information can be connected through “the disclosure of short-term anticipated financial effects that may overlap with disclosures in the financial statements […] that may result in a material adjustment […] within the next financial year”. According to ESRS 2 SBM-3, such information would constitute a Current Financial Effect rather than an Anticipated Financial Effect. Even though the wording in the Draft Simplified ESRS has changed, an AFE would, by definition, not be reflected in the current period’s financial statements. Similar wording is used on pp. 42 and 58 and should be corrected.

- On p. 42, the DP lists examples of AFE, including potential liabilities and assets. It is unclear why the DP does not instead use the terminology of the ESRS, which refers to effects on a company’s financial position, financial performance, and cash flows.

Second, EFRAG should avoid creating the impression that the DP introduces new requirements for companies. EFRAG should be aware that even a Discussion Paper is likely to influence reporting practice. We therefore suggest clarifying or deleting sections that could be perceived as introducing new disclosure expectations. These include:

- The three-tier distinction on p. 36 (para. 2.28(g)). Distinguishing AFE disclosures according to likelihood may be informative to some stakeholders, but it is not part of either the ESRS or the Draft Simplified ESRS. It can even be argued that not all three tiers presented in this categorization are necessarily AFE (see below).

- EFRAG's observations on coherence[2] on p. 42 are important and could help improve users' understanding of AFE disclosures. However, the DP does not appear to be the appropriate place to introduce guidance that could be perceived as creating new requirements for users or preparers of sustainability information.

- It is unclear why EFRAG appears to expect the disclosure of information that "will never" be reflected in future financial statements as part of the AFE disclosure (see pp. 36 and 58). This goes beyond the requirements laid out in the ESRS and the Draft Simplified ESRS. Moreover, quantified AFE subject to a level of measurement uncertainty that would render the information not useful are explicitly exempt from the reporting requirements under Draft Simplified ESRS 2.28.

Third, we see major issues with imprecise and insufficiently transparent statements throughout the DP. The following examples illustrate our concerns regarding the discussion of AFE:

- It should be clear what EFRAG's sample sizes and response rates are. For instance, p. 58 refers to "several preparers" and "several other stakeholders", while p. 36 simply refers to "stakeholders". Without information on the underlying sample sizes or the distribution of responses, it is not possible to assess how representative these statements are. The DP should distinguish between anecdotal observations and conclusions supported by systematic evidence.

- On p. 58, EFRAG states that "users" described AFE disclosures as "an analyst's dream". The statement is problematic because, in our experience, users have widely differing views on what AFE are and what they should include. While analysts may indeed welcome additional AFE information, their expectations regarding the AFE information are unlikely to be uniform.

- The three-tier distinction on p. 36 is not helpful because the categories are neither mutually exclusive nor conceptually coherent. The first category consists of short-term effects that would more appropriately be classified CFE, while the remaining categories distinguish AFE by likelihood. As a result, the proposed categorization does not provide a meaningful basis for distinguishing different types of AFE disclosures.

[2] "Coherence by explaining any key differences between assumptions in the sustainability statement/ disclosures and the assumptions in the forward- looking information in the financial statements (e.g. differences in time horizon, whether amounts are discounted, likelihood of occurrence, scenario analysis outcomes versus accounting estimates based on best management estimate)", DP, p. 42.

Illustrations

Finally, we would like to address the Illustrations presented in the Discussion Paper Supplement Document. We acknowledge that these Illustrations help preparers and other stakeholders to understand the concepts and types of connectivity laid out in the DP (e.g., coherence, direct/indirect, intertemporal etc.). At the same time, we are in favour of not relying on these Illustrations going forward. As EFRAG correctly lays out in the DP, the discussion of connectivity is still evolving. EFRAG expects to receive various feedback to evolve its understanding of connectivity and/or its suggested structure of, for example, types of connectivity. Therefore, currently, a common understanding of connectivity and of how connectivity should be depicted in company reporting is yet to evolve.

Having said that, Illustrations of the (not yet fully developed) understanding of connectivity presented in company reports of the year 2024 could undermine further developments of this common understanding of connectivity. Furthermore, we also do not recommend updating the Illustrations at this stage, as the respective examples and underlying considerations are still evolving. The Illustrations could be misunderstood as either an (already existing) baseline to aim for or even as best practice examples. Instead, the Illustrations are simply the current state of play. This would hold true even if the Illustrations were updated to reflect companies' 2025 reports. It is therefore necessary to emphasise that they are meant to be subject to further debate on their suitability.

Overall, we believe connectivity to be an important cornerstone in current efforts to advance corporate reporting. Again, we thank EFRAG for its work on this topic. We hope that our feedback can contribute to the discussion to further evolve the understanding of connectivity and ultimately consider the ways forward towards integrated reporting.

For further discussion of our views please contact either Kati Beiersdorf (beiersdorf@drsc.de), Jan-Robert Kirchner (kirchner@drsc.de), Rico Chaskel (chaskel@drsc.de) or me.

Kind regards,

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President