CSRD PRACTICE FORUM MEETING

Accountancy Europe and the European Contact Group (ECG) organised a second (by invitation only) meeting to exchange views on Corporate Sustainability Reporting Directive (CSRD) readiness on 25 October 2024 in Brussels. The CSRD Practice Forum provided a vital opportunity to hear about the state of readiness of preparers, assurance providers, users, standard setters and regulators/enforcers several months after the first roundtable held in June and ahead of the first wave of reporting in 2025. Held under the Chatham House Rule, participants again came together in a collaborative way to exchange insights on several key issues.

PREPARERS' JOURNEY

Participants again emphasised the substantial efforts underway to ensure the successful application of the CSRD. For some companies, the exercise is leading to organisational change often accompanied by a growing role for finance departments. The costs of preparation can be significant and run into the millions of Euros, particularly for the first years of reporting.

The level of preparation, however, differs. Some companies coming into scope in the second wave will face a quantum leap forward in reporting. They will need more time. It would be preferable to focus on the correct application of certain European Sustainability Reporting Standards (ESRS) as a baseline, such as ESRS E1 *Climate Change*, ESRS S1 *Own Workforce* and ESRS G1 *Business Conduct*; then, build up for the other standards.

Throughout this process, companies must not lose sight of the intended outcome of sustainability reporting. It is critical that the overall narrative of a company's sustainability transition is not lost in the detail.

There are concerns about the lack of a level playing field across the EU. The delays in the CSRD transposition across several Member States impact preparedness, creating legal uncertainty in the market as well as a lack of clarity on national approaches to sustainability assurance. Preparers want consistent treatment across the EU; local 'CSRD dialects' need to be avoided as much as possible.

EXPECTATIONS REGARDING ASSURANCE

The call for consistency extends to assurance providers. Preparers want consistent interpretations from assurance providers across Member States and across audit networks. They also want aligned support from advisors. Achieving comparability will be part of the 'CSRD journey'. This requires a level of consistent reporting by companies.

European and national authorities, including EFRAG, can play an important role in providing guidance, seeking to avoid different interpretations of the requirements. All actors – preparers, assurance providers and regulators – will need time to get to a certain level of consistency, particularly given the significant levels of judgement that are required both in the reporting and the assurance. In some Member States, there are multistakeholder platforms for assurance providers and preparers to exchange views on arising issues; ideally, these should exist in all of them. Companies need to also be aware that assurance providers may take certain stance, challenging company's management as necessary, to play their role in the public interest.

The lack of a common EU assurance standard in the first years (EU to adopt a limited assurance standard by 1 October 2026) means that there will also be differences in the assurance reports reflecting Member State requirements and/or guidance. The assurance standards in place, including as underpinned by ISAE 3000 (and with ISSA 5000 as the direction of travel) do however provide a structure for consistent work effort and reporting by assurance providers. The application of a consistent ethical framework, especially for independent assurance providers, is also critical.

Benchmarking when the first sustainability reports are published next year will be important, particularly considering that the sector-specific ESRS are not yet available to help comparability and instead companies may provide entity-specific disclosures (which could refer to other reporting frameworks such as GRI or SASB). Such a benchmark could lead to comparability improvements in subsequent years of reporting as it is expected that entity-specific disclosures are streamlined within similar companies or even reduced in favour of sector-specific ones. The benchmark would also help improve the quality of reporting on new topics as stakeholders would learn from each other. However, adjustments may need to be made. This is not unexpected when a new, complex reporting framework is bedding down.

Transparency is critical. Companies need to operate in good faith and be transparent about their progress and where they may be facing issues. Doing so also gives space to assurance providers to apply professional judgement. A paper recently published by the ECG outlines certain potential situations that companies may wish to disclose in their first years of CSRD reporting.

Potential fears of how regulators may react need to be addressed; early dialogue and a proportionate approach are critical. The regulatory community knows that the first years will be difficult and wants to help, while being clear that the CSRD is not introducing a comply or explain regime. There will be efforts to identify where significant differences have emerged without taking positions on issues that are still open or under development.

DOUBLE MATERIALITY ASSESSMENT

The double materiality assessment (DMA) needs to be understood as a strategic exercise that is the responsibility of companies. Double materiality is a core principle in ESRS; it requires lots of judgement, especially on the threshold for determining material impact under the scale, scope and severity criteria. It also needs to consider longer term horizons (beyond year one), albeit with possible improvements as the first reports are made public and can be assessed.

The entity-specific and subjective nature of the DMA is challenging. Assurance providers need to both have a helicopter view of the DMA and be ready to ask questions, particularly to get to a DMA that matches the reality of companies' activities. However, it is important to clarify that assurance providers do not need to re-perform the DMA. It might be useful to develop DMAs based on industry specifications; over time benchmarking and the development of sector specific standards will help.

THE IMPACT BEYOND THE EU

The CSRD has important impacts beyond the EU, setting out several different situations where third country entities must report sustainability information and consequently require assurance on their reports. This is giving rise to significant and urgent questions relating to the requirements applying to assurance providers as well as raising questions over the applicable reporting and assurance standards. For those entities already coming into scope for 2024 reporting, the competence to deal with the issue lies with Member States where these entities are listed.

Regarding the reporting as of 2025 for third country parents wanting to prepare consolidated sustainability reporting at group level to exempt their EU subsidiaries, it is clear that the EU has an interest in finding a successful solution which would enable auditors outside the EU to undertake the assurance engagements without circumventing proper oversight.

When it comes to interoperability of reporting standards, the EU has taken a political decision to establish ESRS and not to adopt international standards. There have been significant efforts to embed interoperability in the sector-agnostic standards. Equivalence and interoperability will be crucial for international groups which may be dealing with multiple sustainability reporting frameworks with the associated potential risk of duplication and increased costs. It is too early to start discussing equivalence of reporting standards; this will be a jurisdiction-by-jurisdiction decision.

When it comes to assurance standards, ISSA 5000 is seen as the global baseline.

ASSURANCE REPORTS

Not all sustainability statements will look the same – nor will all assurance reports. National implementation during the transposition period varies, until an EU sustainability assurance standard in 2026. The first years may see variances such as different uses of emphasis of matter paragraphs, one versus multiple conclusions or one conclusion with sub-conclusions. Considerations relating to whether the reporting standards represent a compliance or a fair presentation framework add complexity. The assurance framework applicable at member state level will also have an impact.

Qualified conclusions, while not common in financial statement audits, are not unexpected in the early stages of application of a new reporting framework, particularly one as comprehensive as the ESRS. Companies, users and investors may need to be ready for a certain level of qualifications in the first years. Views were shared that while qualifications may relate to the DMA, they are more likely to relate to data, processes and controls. Automatic use of emphasis of matter paragraphs or too many qualifications may be seen by some as undermining CSRD efforts and ambitions, including vis-à-vis the rest of the world.

Assurance opinions, in the public domain, are the ultimate output of the sustainability reporting process that users will be placing reliance on to make decisions, such as investors deciding on their capital allocation. Qualifications can provide transparency for users. Companies are becoming more familiar with the ESRS and are preparing with more accuracy and robustness. They do not take non-compliance lightly. The fear of restatements may cause reluctance amongst some companies to report unless they have robust data and good processes in place.

It is important for investors and other stakeholders, including new users of corporate information, to understand where the reporting challenges are, particularly as many issues will not be clearcut. In subsequent years of reporting, there will be more comparative figures and industry benchmarks which will help. Companies and assurance providers have a role to play in educating the market. Transparency, without over/under-doing it, will be key.

NEXT STEPS

Participants expressed strong interest in reconvening the CSRD Practice Forum once the first CSRD reports are published in 2025, with the participation of more users, particularly investors.

Attendees suggested the following topics, amongst others, for further reflection:

- Learnings from first year reporting
- Clarifications on sustainability reporting and assurance standards
- Assurance on transition plans and prospective information
- Issues relating to the EU Taxonomy