Accountancy Europe.

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CSRD READINESS: LIMITED ASSURANCE APPROACH TO TRANSITION PLANS

VIEWS

INTRODUCTION

The Corporate Sustainability Reporting Directive (CSRD) requires companies to draw up sustainability reports in accordance with the European Sustainability Reporting Standards (ESRS). According to the CSRD, these reports will also be subject to assurance. The first sustainability reporting and assurance reports will be published in 2025 on 2024 data.

Professional assurance standards such as the International Standard on Sustainability Assurance (ISSA 5000) and CEAOB guidelines outline principles for sustainability reporting assurance engagements. The European Commission will adopt an EU limited assurance standard to define expectations for practitioners conducting limited assurance engagements in the EU on the basis of CEAOB technical advice including adds-on and possible carve-outs to ISSA 5000 (see EC letter to CEAOB).

In this paper, we share some key aspects on the assurance practitioner's approach to double materiality assessment, value chain information and transition plans to contribute to the CSRD implementation and readiness debate.

These three short papers are meant to provide a high-level explanation of the limited assurance approach rather than a detailed roadmap of procedures. They are primarily addressed to stakeholders such as users of assurance and structured in three parts:

- facts and principles from the CSRD, ESRS and Corporate Sustainability Due Diligence Directive (CSDDD) including those that are key to the assurance engagement
- high-level explanation to limited assurance approach along with examples
- preparer's perspectives on transition plans

3- TRANSITION PLANS

FACTS AND PRINCIPLES – CSRD/ESRS/CSDDD

Climate change disclosures are subject to double materiality assessment. If material, as per the ESRS E1, companies shall disclose their climate change mitigation transition plan and actions, including[1]:

- an explanation of how the undertaking's targets align with limiting global warming to 1.5°C as per the Paris Agreement

[1] Please refer to ESRS E1 DR E1-1 Transition plan for climate change mitigation for the exact wording: https://eur-lex.europa.eu/eli/reg_del/2023/2772/oj.

- an explanation of identified decarbonisation levers and key planned actions
- an explanation and quantification of the company's investments and funding supporting the transition plan, with reference to KPIs of taxonomy aligned CapEx and CapEx plans where relevant
- a qualitative assessment of the potential locked-in GHG emissions from key assets and products
- an explanation of how the transition plan is embedded and aligned with strategy and financial planning
- confirmation of approval by administrative management and supervisory bodies
- explanation of the plan's implementation progress.

If the undertaking does not have a transition plan in place, it shall indicate whether, and, if so, when it will adopt one.

The CSDDD, as from 2027, will require certain companies to implement a transition plan for climate change mitigation. This is to ensure that their business model and strategy align with the transition to a sustainable economy. The CSDDD also outlines requirements for transition plans, which companies should update annually and assess progress made towards the targets (please see our CSDDD factsheet for more details).

It is important to note that the scopes of the CSRD and CSDDD are different. The CSDDD requirements apply only to a part of companies covered by the CSRD.

LIMITED ASSURANCE APPROACH

Many stakeholders might want to understand if a company's transition plan is credible, i.e. if it is likely to be achieved. The CSRD, however, does not require practitioners to assess this as part of the assurance engagement over sustainability reporting. The CSRD requires an opinion on whether the company complied with the ESRS requirements, including meeting the disclosure requirements for the transition plans – see 'facts and principles'.

If the company has a transition plan, the practitioner assesses if the required information is disclosed in the sustainability statement along with relevant information required by the ESRS E1 Climate Change. Practitioners may also perform specific assurance procedures over the consistency between actions, resources, assumptions, metrics and targets in the transition plan and information reported in sustainability statements.

If an undertaking does not have a transition plan in place but intends to develop one for climate change mitigation i.e. within two years, the company needs to disclose this in the sustainability statement. The practitioner would perform a 'check' whether disclosure is accurate and includes sufficient detail.

In the future a company might decide to ask for assurance only on its transition plan through a separate voluntary assurance engagement. In such engagements, the practitioner would evaluate in further detail the quality of the process to develop these plans, check the consistency with the company's strategic planning and, under a risk-based approach, the accuracy of the information included in the transition plan. The practitioner, however, is not meant to provide assurance on the transition plan's viability nor on the level of the company's ambition.

In relevant cases the practitioner conducting assurance over a company's sustainability reporting may decide to use the work of the practitioner who performed separate assurance on the transition plan.

PREPARER PERSPECTIVES

Transition plans have to be linked entirely to the company's strategic direction and planning. For example, a single large acquisition can destroy a transition plan. I think eventually, the stakeholders will insist that the assumptions and commitments made in a transition plan are assured by external independent parties. (Paul Symons – Chief Sustainability Officer, Euroclear)

Many companies have already made transition plans several years ago and we may foresee that these will be updated with new data and definitions. The integration of strategy with the transition plans is one of the areas where company's management should engage more with their Boards and audit committees. (Jane Thostrup Jagd – Director, We Mean Business Coalition)

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