



Sustainability Reporting and Due Diligence updates – August 2024

July was a busy month in terms of sustainability reporting and due diligence updates. The European Commission, EFRAG and ESMA each provided practical guidance to Member States and relevant businesses alike.

15 August 2024

July was a busy month in terms of sustainability reporting and due diligence updates. The European Commission (the **Commission**), the European Financial Reporting Advisory Group (**EFRAG**) and the European Securities and Markets Authority (**ESMA**) each provided practical guidance to Member States and relevant businesses alike. In this article, we have set out a brief overview of some of the key publications since [our last Sustainability Reporting and Due Diligence update](#) in June 2024.

Ireland transposes Corporate Sustainability Reporting Directive into national law

Ireland introduced legislation to implement the Corporate Sustainability Reporting Directive (**CSRD**) into national law and the [European Union \(Corporate Sustainability Reporting\) Regulations 2024](#) (the **Regulations**) came into operation on 5 July 2024. The Regulations principally amend the Companies Act 2014, with amendments also made to the Transparency (Directive 2004/109/EC) Regulations 2007. The Regulations require in scope entities to report sustainability information in accordance with European Sustainability Reporting Standards (**ESRS**) in a new section of the directors' report.

EFRAG's ESRS updates

Implementation of ESRS: Initial Practices from Selected Companies

On 25 July 2024, EFRAG issued a new study entitled ['State of play as of Q2 2024 | Implementation of European Sustainability Reporting Standards \(ESRS\): Initial Practices from Selected Companies'](#). The objective of the study is to provide details of practices and challenges related to the implementation of ESRS highlighted by participating undertakings at a particular stage in the implementation journey of CSRD.

The conclusions of the study are based on interviews of 28 large EU headquartered undertakings across eight sectors split between financial and non-financial enterprises. The emerging practices of these companies were analysed against four focus areas particularly relevant to the preparation for reporting against the ESRS:

1. **Materiality assessment** – The study concluded that most undertakings recognise the value of a thorough, objective evidence-based double materiality assessment as a strategic exercise for reporting purposes and for setting ESG managerial priorities with

few undertakings considering it as a compliance exercise. A spectrum of approaches have been adopted to the double materiality assessment - ranging from data-driven to more judgement-based approaches.

2. **Value chain** – Among the four areas of focus, it is the value chain that is the least developed for the undertakings that participated in the study. According to EFRAG, sector guidance could provide further clarity. The study also documented that several undertakings have adopted a simplified aggregated mapping of the value chain (i.e., upstream, downstream and own operations only) and also intend to make use of transitional provisions.
3. **Gap analysis on datapoints** – Many undertakings were found to have not yet integrated the outcomes of the double materiality assessment in their gap analysis of datapoints to be reported, possibly leading to the inclusion in the gap analysis of more datapoints than will ultimately need to be reported. There is a risk that this approach is taking focus away from the relevant information that needs to be reported, according to EFRAG. It was also concluded that most undertakings use Implementation Guidance 3 to run a gap analysis, while a few also use it as a base to anticipate the upcoming digital tagging taxonomy.
4. **ESG reporting organisational approach** – It is apparent that undertakings have taken differing approaches to where responsibility for sustainability report sits within the organisational structure, with reporting governance structures where a single function takes ownership or responsibility rests jointly with two functions being the most common. EFRAG note in the study that these structures may evolve further. There is consensus from the undertakings on which the study was conducted that CSRD reporting has enhanced cross-departmental collaboration, highlighted the need for standardising ESG reporting processes and requires additional capabilities and resources.

EFRAG's new ESRS Q&A Explanations (January – July 2024)

On 26 July 2024, EFRAG shared 23 new explanations via the EFRAG ESRS Q&A Platform to assist stakeholders in their preparation for reporting against the ESRS. The [Compilation of Explanations](#) now includes a total of 93 explanations released between January and July 2024. The explanations are provided as part of EFRAG's role as a technical advisor to the Commission and are expected to provide practical and timely support to preparers and others in relation to the implementation of the ESRS.

The explanations are grouped in chapters according to their nature (Cross-cutting, Environment, Social or Governance) and their Disclosure Requirements, following the ESRS architecture. To increase user friendliness, the Compilation of Explanations also has now hyperlinks to the text of the individual ESRS, including its Corrigendum. In addition, the Compilation of Explanations now has a log of questions received that were categorised as 'already asked / answered' in an appendix to the document.

EFRAG will reportedly continue releasing explanations following its due process including on the engagement from both EFRAG's Sustainability Reporting Board and its Technical Expert Group in public discussions.

For further information, please see our [previous update](#) on the ESRS Q&A Platform.

Commission publishes FAQs on the Corporate Sustainability Due Diligence Directive (CSDDD) and CSRD

CSDDD FAQs

On 25 July 2024, the Commission published a [Frequently Asked Questions \(FAQs\)](#) document relating to CSDDD. CSDDD was published in the [Official Journal](#) on 5 July 2024 and entered into force on 25 July 2024. The FAQs address the following nine sections:

1. General overview
2. Objectives
3. Entry into force/application
4. Personal scope
5. Material scope
6. Content of obligations
7. Enforcement
8. Burden limitation & safeguards
9. Impacts of the Directive

Details on how companies will be supported in fulfilling their obligations under CSDDD are set out in section 8, noting that the Commission will issue general and sector specific guidelines which will provide guidance on matters such as:

- how to conduct due diligence in accordance with CSDDD
- model contractual clauses for the relationship with business partners
- data and information sources that could support compliance

CSRD FAQs

On 7 August 2024, the Commission published another [FAQ document](#). This document relates to the implementation of the EU corporate sustainability reporting rules with the FAQs intended to clarify the interpretation of certain provisions relating to sustainability reporting introduced by CSRD as well as the first set of ESRS. The FAQ document contains the following eight sections:

1. Glossary of relevant terms and applicable legislation
2. Overview of the sustainability reporting requirements introduced by CSRD
3. FAQs on sustainability information to be reported under Articles 19a/29a of the Accounting Directive (individual and consolidated sustainability statement)

4. FAQs on sustainability information reported under Article 40a of the Accounting Directive
5. FAQs on assurance of sustainability reporting
6. FAQs on key intangible resources
7. Additional FAQs on requirements for third-country undertakings
8. FAQ on Sustainable Finance Disclosures Regulation (SFDR)

The purpose of the FAQs is to facilitate compliance of stakeholders with the regulatory requirements introduced by CSRD in a cost-effective way and to ensure the usability and comparability of the sustainability information being reported.

Letter issued to Audit Committee Chairs on sustainability reporting

On 7 August 2024, the Irish Auditing & Accounting Supervisory Authority (**IAASA**) issued a [letter](#) addressed to audit committee chairs on sustainability reports required by CSRD. The key takeaways from the letter are set out below.

- The IAASA noted that in scope companies are required to obtain assurance on the sustainability reports from an approved Sustainability Assurance Service Provider (**SASP**) and that companies must appoint an SASP in the same manner in which statutory auditors are appointed, noting that companies are free to appoint an SASP other than their statutory auditor.
- The IAASA advised in the letter that companies in scope for the year ended 31 December 2024 should commence the appointment process for their SASP in advance of this date if they have not already done so.
- The IAASA noted that the preparation of a sustainability report in compliance with the ESRS is an extensive process and obtaining assurance on the sustainability report will also be an extensive and time-consuming exercise. As such, the IAASA expects that achieving CSRD compliance may significantly impact a company's annual reporting timelines. The IAASA therefore encouraged the Audit Committee Chairs to carefully consider their reporting timelines and provide realistic expectations to investors in this regard.

Issuer specific updates

July also saw a number of updates specific to issuers as defined within the Transparency Directive^[1] (i.e. “a natural person, or legal entity governed by private or public law, including a State, whose securities are admitted to trading on a regulated market”), including a public statement issued by ESMA in relation to the first application of ESRS and guidelines from ESMA on the enforcement of sustainability information. We have set out below the key takeaways from these publications that are not only relevant to issuers, but also other entities in-scope of CSRD.

ESMA public statement on first application of ESRS by large issuers

On 5 July 2024, ESMA published a [public statement](#) entitled ‘*Off to a good start: first application of ESRS by large issuers*’, in which ESMA calls on members of the administrative, management and supervisory bodies of issuers, as well as on those providing assurance on sustainability statements, to ensure that the aspects highlighted within the statement are carefully considered when complying with new reporting requirements.

In the statement, ESMA underlines, in particular, the responsibility of these bodies to:

- ensure the overall consistency of the sustainability statement and its consistency with the other parts of the annual financial report
- implement and supervise internal controls
- ultimately contribute to a high-quality sustainability statement by establishing governance arrangements and the internal controls necessary to do so

The importance of the oversight role of the audit committee and other relevant committees was also emphasised.

With a view to supporting the implementation of CSRD, ESMA points to guidance provided by the Commission and EFRAG and highlights the following key areas of attention which, in ESMA’s view are of particular relevance in the preparation of sustainability statements:

1. establishing governance arrangements and internal controls that can promote high-quality sustainability reporting
2. properly designing and conducting the double materiality assessment and being transparent about it
3. being transparent about the use of transitional reliefs
4. preparing a clearly structured and digitisation-ready sustainability statement
5. creating connectivity between financial and sustainability information

ESMA also recommends that issuers engage in continuous training on the ESRS and leveraging the available support material from the Commission and EFRAG. In addition, ESMA recommends dialogue with industry peers on the issues of common relevance, where appropriate, as well as with auditors or independent assurance service providers.

ESMA’s final report – Guidelines on Enforcement of Sustainability Information

Also on 5 July 2024, ESMA published their final report on [Guidelines on Enforcement of Sustainability Information \(GLESI\)](#). By way of background, on 15 December 2023, in accordance with Article 16(2) of the [ESMA Regulation](#), ESMA published a consultation paper with proposed draft GLESI. In announcing the consultation, ESMA stated that the main goals of the GLESI are to:

- ensure that national competent authorities carry out their supervision of listed companies’ sustainability information under the Corporate Sustainability Reporting Directive, the European Sustainability Reporting Standards and Article 8 of the

Taxonomy Regulation in a converged manner

- establish consistency in, and equally robust approaches to, the supervision of listed companies' sustainability and financial information

The consultation period closed on 15 March 2024. The final report on the GLESI summarises the responses to the Consultation Paper and explains how the responses have been taken into account.

The guidelines which are annexed to the Final Report will be translated in the official EU languages and published on ESMA's website. The publication of the translations in all official languages of the EU will trigger a two-month period during which national competent authorities must notify ESMA whether they comply or intend to comply with the guidelines.

With thanks to Sarah-Kate Barnes for her assistance in the preparation of this article.

For further information on any of these updates, please contact [Jill Shaw](#), ESG & Sustainability Lead or any other member of the ALG [ESG & Sustainability team](#).

[\[1\]](#) *Article 2(1), Directive 2004/109/EC (the Transparency Directive) as amended.*