

## EU Sustainability Developments

# ESMA Public Statement on the first application of European Sustainability Reporting Standards (ESRS)

### What you need to know

- ▶ The ESMA Public Statement provides guidance for first time adopters preparing their sustainability reports in accordance with ESRS.
- ▶ The ESMA Public Statement focuses on the importance of the double materiality assessment, transitional reliefs and structured sustainability statements.
- ▶ ESMA GLESI sets out the framework for enforcement by the National Competent Authorities which entities subject to enforcement and their assurance providers are recommended to follow closely.

### Background

On 5 July 2024, the European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, released its *Final Report - Guidelines on Enforcement of Sustainability Information* (GLESI) and a *Public Statement on the first application of the European Sustainability Reporting Standards (ESRS)* (the Public Statement). Both documents are in line with the recommendations proposed by ESMA in its earlier position paper *Building more effective and attractive capital markets in the EU*. GLESI and the Public Statement consistently put forward measures to support corporate sustainability reporting.

GLESI addresses all National Competent Authorities (NCA) that are undertaking supervision of sustainability information prepared by issuers listed on an EU regulated market and provides guidance to build convergence on supervisory practices for sustainability reporting.

The Public Statement is intended to assist undertakings, that is, entities or parent entities of a group, in preparing their first sustainability statements for the reporting period 2024 in accordance with ESRS in 2025. Hence, the Public Statement is aimed at first time adopters; that is, large public-interest entities and listed issuers of sustainability reports released in 2025. The guidance also addresses the second wave of entities that are in scope of Corporate Sustainability Reporting Directive (CSRD), especially large non-listed entities and non-EU parent entities with subsidiaries in the EU, as they will issue their first sustainability reports for the reporting period 2025 in accordance with ESRS in 2026. The aim of the guidance is to facilitate the implementation of new sustainability reporting requirements by providing guidance and pinpointing areas of focus.

### Summary of the key topics of the Public Statement

In addition to the general guidance that ESMA encourages stakeholders to consider, the Public Statement focuses on three areas, emphasizing their importance in the preparation of CSRD compliant sustainability reports: conducting transparent double materiality assessments, being clear about the use of transitional reliefs, and preparing digitization-ready sustainability statements with connectivity between financial and sustainability information.

## **General guidance**

In a first instance, ESMA invites the preparers of ESRS sustainability reports to utilize the existing guidance of the European Commission (EC) and the European Financial Reporting Advisory Group (EFRAG), such as the non-authoritative implementation guidance (IG) [IG1 on Materiality assessment](#), [IG2 on Value chain](#), [IG 3 List of ESRS datapoints](#) and [explanatory note](#), [EFRAG's Q&A platform](#) (including the [released batches of answers](#)), as well as its [guidance on interoperability between ESRS and ISSB standards](#). In addition, ESMA itself provides a [Q&A platform](#) where practical questions can be raised.

While ESMA recognizes the challenges that come with the implementation of ESRS, the document acknowledges that there will be a steep learning curve, where the upcoming first reporting period will be a significant milestone.

## **Double materiality assessment**

The concept of double materiality is significant as it encompasses both the financial impact of sustainability matters on the reporting undertaking and the impact of the undertaking on the planet and on people. This dual perspective ensures that sustainability information reflects the sustainability profile of an undertaking, which is crucial to gain the trust of consumers, investors, and other market participants.

It is emphasized that robust data collection and a proper setup of controls are essential for conducting a thorough and transparent double materiality assessment. Accurate and comprehensive data collection will provide the necessary foundation for the assessment. Well-designed controls ensure the reliability and integrity of the data.

By conducting a reliable double materiality assessment, entities are held to a high standard of transparency, reducing the risk of greenwashing, and increasing trust in the sustainability information provided.

## **Transitional reliefs**

Transitional reliefs are important in sustainability reporting as they provide entities with the necessary time and flexibility to adapt to new reporting requirements, ensuring that the quality and accuracy of the sustainability information are maintained during periods of regulatory change. Yet, ESMA emphasizes that it needs to be clearly stated if existing data gaps or missing control frameworks are the cause for non-reporting of specific areas. Regardless, data not being available is not an excuse not to include the data when it is material.

This may especially apply to data gaps related to disclosures on undertakings along the value chain, that is, upstream or downstream.

## **Issuance of sustainability statements**

ESMA further emphasizes that a well-structured sustainability report is crucial as it enhances transparency and facilitates the enforcement of sustainability disclosure requirements. The connectivity of sustainability information with financial reporting is of key importance here.

Furthermore, sustainability reporting will be enriched by digital tagging enables better accessibility and comparability of data. Digital tagging is currently not required and subject to the development of the [Sustainability Reporting XBRL Taxonomy](#) by EFRAG.

## Next steps

The matters addressed in the Public Statement will be taken into consideration in ESMA's European Common Enforcement Priorities, which are published later in 2024.

*Annex VI of GLESI* will be translated into all official EU languages and published on ESMA's webpage. After the publication of the translations, National Competent Authorities (NCAs) will have two months to notify ESMA of their compliance or intent to comply with the guidelines.

Preparers subject to enforcement by NCAs are advised to become familiar with the guidelines for enforcement of sustainability information and the implementation in their jurisdiction, as GLESI sets the baseline for enforcement actions.

ESMA also envisions a dialog with preparers and their assurance providers and appreciates that sustainability reporting is going to be an ongoing journey with a steep ESRS learning curve.

However, ESMA underlines that the responsibilities of the administrative, management, and supervisory bodies for high-quality sustainability statements remain in place. These responsibilities include the implementation of internal controls and obligates preparers to comply with the ESRS requirements.

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A global set of accounting and sustainability disclosure standards provides the global economy with one measure to assess and compare the financial position and performance of entities, and the sustainability-related factors affecting them. For entities applying or transitioning to International Financial Reporting Standards (IFRS) - which includes IFRS Accounting Standards and IFRS Sustainability Disclosure Standards (collectively, IFRS Standards) - authoritative and timely guidance is essential to navigating IFRS Standards that continue to develop and evolve. The EY Global Corporate Reporting Services Group has helped develop international resources - people and knowledge - to support the application and interpretation of IFRS accounting and sustainability disclosure standards. In doing so, the EY Global Corporate Reporting Services Group provides deep subject matter knowledge and broad sector experience to the market, including the latest insights from the global EY network.

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### How we see it

ESMA Public Statement addresses key topics for preparers of sustainability reports in accordance with ESRS.

While the topics raised are important, significant effort will be required to address the related challenges. The following steps are recommended:

- ▶ A thorough double materiality assessment is required to build the foundation of a reliable and trustworthy sustainability report. Shortcomings during this process could ultimately undermine general trust in the sustainability report.
- ▶ Undertakings that have already performed procedures under the current EU Non-Financial Reporting Directive (NFRD) would need to extend their efforts. As the universe of sustainability matters to be considered has increased, the determination of material impacts, risks and opportunities has broadened and the reporting format has changed.
- ▶ ESMA reminds preparers to include in their sustainability statements disclosures pursuant to Art. 8 EU Taxonomy, which states in scope entities to include information on how and to what extent their activities are associated with taxonomy aligned economic activities in their sustainability report. Preparers, especially first time adopters not subject to NFRD in the past, will need to get become familiar with related disclosure requirements of the environmental taxonomy.
- ▶ Finally, transparency, trust and open communication are key aspects of a compliant ESRS sustainability report. Stakeholders are also reminded of the importance of the determination of a transition plan for climate change mitigation and its disclosure in the sustainability report. Though the ESRS's are comprehensive, they provide relief and transitional provisions. It is the responsibility of the issuer to report on exceptions applied and how the reporting gaps will be resolved in the future.