

EU Sustainability Developments

EU Commission releases FAQs on the implementation of the EU corporate sustainability reporting rules

What you need to know

- ▶ The CSRD FAQs published by the EU Commission clarify topics including scope and reporting on the value chain, and provide additional information on assurance of sustainability reporting. The CSRD FAQs are in draft status and subject to change before final adoption. The EU Commission does not state a timeline for finalisation of the CSRD FAQs.
- ▶ The 90 CSRD FAQs are relevant for companies in scope of the CSRD as well as for their assurance providers.
- ▶ The CSRD FAQs should facilitate implementation, but they do not provide official legal interpretations.

Background

On 7 August 2024, the EU Commission published [frequently asked questions](#) (the CSRD FAQs) on the implementation of the EU corporate sustainability reporting rules, related to the [EU Directive 2022/2464 \(CSRD\)](#). This publication is part of the Commission's continued effort to support the application of the EU sustainable finance framework for undertakings (companies) that are in scope of the CSRD.

The CSRD FAQs serve as interpretative guidance, but they do not provide official legal interpretations (which can only be done through the Court of Justice of the European Union). The CSRD FAQs have 'draft status' and may be subject to change before final adoption. Provided users are mindful of the 'draft status', these FAQs could provide useful guidance in preparation for the application of the ESRs. The EU Commission does not state a timeline for finalisation of the CSRD FAQs.

The CSRD FAQ document includes an overview of the new sustainability reporting obligations mandated by the CSRD, illustrated by a flowchart that outlines the scope and timing of the reporting requirements. This is followed by 90 FAQs, which cover clarifications around topics such as scope and application dates (including requirements for third-country companies), exemption rules, reporting on the value chain, Article 8 of the Taxonomy Regulation disclosures, language requirements, digitalization (format and tagging), publication and supervision, assurance of sustainability reporting, and the CSRD's interplay with Sustainable Finance Disclosures Regulation (SFDR).

Overall, it must be noted, however, that the transposed CSRD text of the member states must be consulted in addition to the CSRD FAQs, to consider any introduced "gold-plating" or any country-specific legal provisions. The official transposition status and measures communicated by the EU member states can be accessed [here](#).

The key takeaways from the CSRD FAQs are summarized on the next pages. This publication focuses on specific FAQs which have been commonly noted in interactions with diverse stakeholders and interest groups.

FAQs on sustainability information to be reported under Articles 19a/29a and 40a of the Accounting Directive (AD) (Directive 2013/34/EU)

Scope and application dates

- ▶ At individual level (AD, Article 19a) there is **no sustainability information reporting requirement for SMEs** without transferable securities admitted to trading on an EU regulated market. However, if the SME is a **parent undertaking** of a large group, it must report sustainability information at the consolidated level (AD, Article 29a). Article 29a applies regardless of the size of the parent undertaking (FAQ 4).
- ▶ **Credit institutions and insurance undertakings** (including cooperatives and mutual undertakings) **are in scope of AD Article 19a, regardless of their legal form** if they are large undertakings or SMEs (excluding micro-undertakings) with transferable securities admitted to trading on an EU regulated market. They are also in scope of AD Article 29a if they are the parent undertaking of a large group. Note that EU member states may choose not to apply, wholly or in part, the sustainability requirements to specific credit institutions¹. Therefore, the national transposed laws of the EU member states must be additionally consulted (FAQ 5).
- ▶ **Financial institutions other than insurance undertakings and credit institutions** are in scope of AD Articles 19a and 29a and must report sustainability information if they meet both of the following criteria:
 - They are undertakings incorporated as a type of undertaking listed in Annex I or II of the AD.
 - They are either large undertakings or SMEs (excluding micro-undertakings) with transferable securities admitted to trading on an EU regulated market (AD Article 19a) and/or parent undertakings of a large group (AD Article 29a) (FAQ 6).
- ▶ **Small and Non-Complex Institutions (SNCI)**
 - SNCIs currently required to report non-financial information under the Non-Financial Reporting Directive (NFRD) **must continue reporting non-financial information in accordance with the provisions of NFRD until the CSRD regime becomes applicable to them** (ESRS, or alternatively with LSME ESRS starting from financial year 2026) (FAQ 7).
 - An undertaking, regardless of its size, **including a small and non-complex institutions**, that is a parent company of a large group, must publish a consolidated sustainability statement under AD Article 29a in accordance with ESRS and cannot benefit from the derogation under AD Article 19a(6). The use of LSME ESRS is only allowed for particular undertakings (AD Article 19a(6)) (FAQ 8).
 - If a SNCI is a parent undertaking of a large group, and the parent undertaking is already exempt from issuing consolidated financial statements due to its subsidiaries being deemed immaterial (AD Article 23(10)), it is **not required to publish a consolidated sustainability statement** (FAQ 10).
- ▶ **Collective Investments in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs)** are **exempted** from reporting sustainability information (AD Article 1(4)) even if these financial products are in scope of the AD. **However, undertakings that manage UCITS and AIFs fall under the scope of the sustainability reporting obligations if they fulfil the legal**

¹ AD Article 1 (3) point (b) second sentence

form conditions (AD Article 1(1)) and company size criteria (AD Article 19a and 29a) (FAQs 11 and 12).

- ▶ **Exchange-Traded Funds (ETFs) and Real Estate Investment Trusts (REITs) are exempted from reporting sustainability information as well**, since these financial products are established as UCITS or AIFs and therefore the same exemption applies as for UCITS and AIFs (FAQ 13).
- ▶ **Pension funds are not covered by the exclusion** from the sustainability reporting requirements set out in AD Article 1(4) and will have to include a sustainability statement in their management report (FAQ 14).
- ▶ The sustainability statement published within the management report by an **issuer of transferable securities admitted to trading on an EU regulated market** is considered “regulated information” per Article 2(1) point (k) of the Transparency Directive (FAQ 15).
- ▶ SMEs (excluding micro-undertakings) with transferable securities admitted to trading on an EU regulated market **may opt-out of the obligation to report sustainability information for financial years starting before 1 January 2028 (AD Article 19a(7))**. In such cases, the SME shall briefly state in its management report why the sustainability reporting was not provided. This opt-out also applies to small and non-complex institutions, as well as to captive insurance and reinsurance undertakings, provided they are SMEs (excluding micro undertakings) with transferable securities admitted to trading on an EU regulated market (FAQ 16).

Exemption rules

- ▶ **A parent undertaking that reports sustainability information at the consolidated level** under Article 29a of the Accounting Directive **does not have to report information on key performance indicators** in accordance with Article 19(1) in its consolidated management report (FAQ 17).
- ▶ **An SME with securities admitted to trading on an EU regulated market that voluntarily publishes** a consolidated sustainability statement (AD Article 29a) shall be exempted from publishing an individual sustainability statement (AD Article 19a), provided that the consolidated sustainability statement is prepared in compliance with ESRS (FAQ 18).
- ▶ **A subsidiary undertaking** that has its sustainability information included in the consolidated management report of a parent undertaking shall be exempted, subject to certain conditions listed in FAQ 19, on page 23 of the document.

EU subsidiary subject to AD Article 40a and interrelation to exemption regime under AD Articles 19a(9) and 29a(8): A third-country ultimate parent undertaking may publish a voluntary group-wide CSRD report to provide an option for all its subsidiaries to rely upon. However, the subsidiaries can only do so if the report is published using ESRS adopted under AD Article 29b. This likely means that even after 2028/2029, EU subsidiaries will not be able to rely on the ultimate parent’s CSRD report, because it is likely to be published under the ESRS adopted under AD Article 40b. In such a case, the subsidiary will need to continue to prepare its own CSRD reports (FAQs 44, 47, 48 and 86).

Value chain

Undertakings **must use estimates** if they cannot obtain all necessary value chain information after having applied the concept of “**reasonable efforts**” to determine value chain information. There are seven criteria to help identifying reasonable efforts:

- ▶ Size and resources of the reporting undertaking in relation to the scale and complexity of its value chain
- ▶ Technical readiness to collect value chain information
- ▶ Availability of tools to access and share value-chain information
- ▶ Size and resources of the actor in the value chain
- ▶ Technical readiness of the actor in the value chain
- ▶ Level of influence and buying power
- ▶ The ‘proximity’ of the actor in the value chain connected to the level of influence.

Each of the seven criteria on their own can be sufficient to determine that a reasonable effort has been made, or **the criteria could be applied in combination**. When applying estimates, the undertaking **should consider whether the use of estimates is likely to affect the quality** of the reported information (FAQ 29).

Article 8 EU Taxonomy Regulation Disclosures

- ▶ Undertakings which are in scope of AD Articles 19a or 29a **must include Article 8 Taxonomy Regulation disclosures in their sustainability statements**. This applies even if undertakings are exempted from preparing and publishing their sustainability statement under AD Article 19a(9) and 29a(8). However, this only applies if the parent undertaking is established in a third country and Article 8 Taxonomy Regulation disclosures are not included in the parent’s consolidated sustainability reporting (FAQs 32 and 34).
- ▶ SMEs with transferable securities admitted to trading on an EU regulated market that **decide to use the 2-year opt-out** from sustainability reporting until 2028 **do not have to include Article 8 Taxonomy disclosures in their management report** (FAQ 33).
- ▶ Third-country undertakings reporting in accordance with Article 40a of the Accounting Directive **do not have to include** Article 8 Taxonomy Regulation disclosures in the sustainability report (FAQ 46).
- ▶ If a **third-country parent undertaking** chooses to publish a consolidated sustainability statement prepared in accordance with ESRS instead of a sustainability report under AD Article 40a (i.e., voluntary consolidated sustainability report), **it is not required** to report under Article 8 Taxonomy Regulation. However, Article 8 Taxonomy Regulation disclosures covering the activities of the EU subsidiaries must be included in their own management report or in the consolidated sustainability reporting of the parent undertaking for them to be exempted (AD Articles 19a and 29a) from the sustainability reporting requirements (FAQ 47).

Digitalization (format and digital tagging)

Digital format requirements (including EU Taxonomy regulation) for the management report that includes a sustainability statement and **when it will be applicable**:

- ▶ AD Article 29d requires undertakings that have to carry out sustainability reporting to prepare their management report (at the consolidated level, where applicable) in the **electronic reporting format specified in Article 3 of the ESEF Delegated Regulation (i.e., XHTML) and to mark-up their sustainability statement** within the management report in accordance with the digital taxonomy to be specified by way of an amendment to the ESEF Delegated Regulation (FAQ 36 and 37).
- ▶ **Up until adoption of the digital taxonomy** (the date of adoption has not yet been published), undertakings in scope are **not required** to mark-up their sustainability statements and prepare the management report in XTML (FAQ 38).

FAQs on the assurance of sustainability reporting

Independent Assurance Service Providers (IASPs)

- ▶ **EU member states that do not allow IASPs to carry out assurance on sustainability reporting** (i.e., EU member states where only statutory auditors are allowed to perform assurance on sustainability reporting): An IASP established in the territory of another EU member state **will not be able** to provide assurance on sustainability reporting in an **EU member state that does not allow IASPs** to carry out assurance on sustainability reporting in its territory (FAQ 63).
- ▶ **Supervisory power for the work performed by the IASP, if the IASP is established in a different EU member state**: Where the IASP carries out the assurance of sustainability reporting in the territory of another EU member state (host EU member state), the member state where the IASP is established (home EU member state) should be responsible for supervising the work of the IASP unless the host EU member state decides to supervise the assurance of sustainability reporting carried out by IASPs in its territory (FAQ 64).
- ▶ **EU member states allowing IASPs and carrying out of assurance on undertaking's sustainability reporting statements**: Once an EU member state has allowed IASPs to be established in its territory, national undertakings are automatically allowed to resort to IASPs to carry out the assurance on sustainability reporting (FAQ 65).

Confidentiality

Applicability of confidentiality requirements to professionals performing the assurance of sustainability reporting: Confidentiality requirements in Article 23 of the Audit Directive are **also applicable to professionals performing the assurance of sustainability reporting**. Where the EU member state **has allowed an IASP or a statutory auditor other than the one auditing** the financial statements to perform the assurance of sustainability reporting, these assurance providers should be **able to exchange information appropriately** (FAQ 67).

Assurance of the Sustainability Statement prepared in accordance with AD Articles 19a and 29a

- ▶ **Conclusions provided by assurance providers on sustainability statements according to AD Articles 19a and 29a:** The conclusion of the assurance provider is based on a **limited assurance engagement** regarding the compliance of the sustainability statement with the sustainability reporting requirements in the AD, including compliance of sustainability reporting with the ESRS and the process carried out by the undertaking to identify the information reported pursuant to those ESRS (i.e., Double Materiality Assessment Process and compliance with the electronic reporting format requirements) and the EU Taxonomy Article 8 requirements. The assurance provider must conclude whether the information in the sustainability statement is **fairly presented (in all material respects)** in accordance with ESRS and Article 8 of the Taxonomy Regulation and the Double Materiality Assessment and disclosures comply with ESRS (FAQ 70). The term “fairly” is used without further guidance from the EU Commission on how in detail this presentation (i.e., the report itself) would have to look like.
- ▶ **Joint Auditor case and who should express the opinion whether the management report is consistent with financial statements:** When a statutory auditor or an audit firm other than the one(s) carrying out the statutory audit of financial statements is in charge of expressing the assurance opinion on sustainability reporting, the statutory auditor or **audit firm in charge of auditing the financial statements remains in charge of expressing an opinion on the consistency between the management report and financial statements** for the same financial year (FAQ 72).
- ▶ **Assurance standards to be used by assurance providers until the EU Commission has adopted the assurance standards:** EU member states may apply national assurance standards, procedures, or requirements as long as the EU Commission has not adopted an international auditing standard covering the same subject matter. The currently applicable assurance standard is the International Standard on Assurance Engagements 3000 (ISAE 3000 Revised). This assurance standard is expected to be replaced in Q4 2024 by the International Standard for Sustainability Assurance 5000 (ISSA 5000). The Committee of European Auditing Oversight Bodies (CEAOB) has developed [draft guidelines](#) (pending the adoption of limited assurance standards by the EU Commission by 1 October 2026) (FAQ 75).
- ▶ **Allowance of “hybrid” assurance engagements** (i.e., a limited assurance on parts of the sustainability reporting and a reasonable assurance on other parts of the reporting): The CSRD does not prevent an undertaking from deciding voluntarily to ask for an opinion based on reasonable assurance on the whole sustainability reporting or parts of it. This decision would be for the undertaking and not for the assurance provider (FAQ 76).
- ▶ **Undertakings reporting sustainability information in accordance with ESRS on a voluntary basis and assurance of these information:** If the undertaking (i.e., SMEs without securities admitted to trading on an EU regulated market) is voluntarily reporting sustainability matters, it is not required to subject its sustainability information to an assurance engagement (FAQ 77).
- ▶ **Non-audit service restrictions** when a statutory auditor provides CSRD assurance services (to an entity or group) that is not a financial statement audit client: Under Article 25c(1) of the Audit Directive, a statutory auditor or an audit firm carrying out the **assurance of sustainability reporting of a Public Interest Entity (PIE)** - or a member of the network - **shall not provide** the prohibited non-audit services referred to in Article 5(1) second subparagraph, points (b), (c), (e) to (k) of the Audit Regulation (FAQ 78).

Next steps

In the [“Public Statement on the first application of the European Sustainability Reporting Standards”](#) (see also the [EY PoV on ESMA’s guidelines](#)), the European Securities and Markets Authority (ESMA) notes that it is important that issuers of sustainability statements carefully consider any future guidance from the EU Commission when implementing the new requirements.

The EU Commission may update these draft FAQs as needed to assist undertakings in the implementation of relevant legal provisions. Issuers are therefore advised to monitor changes to this FAQ document, as well as to other sustainability regulatory updates published by the EU Commission and their official bodies.

How we see it

- ▶ The CSRD FAQ document is intended to “[...] *provide clarity and certainty to companies [and to reduce] administrative burden*”. The document is comprehensive, and it provides answers to some common questions that stakeholders may have about scoping rules, determination of company size, and approval requirements for assurance, amongst others. The CSRD FAQ document will hopefully provide clarity and confirmation around areas which have been open to interpretation.
- ▶ The transposed CSRD text (official transposition status accessible [here](#)) of the member states must be consulted additionally to consider any “gold-plating” or any country-specific legal provisions (i.e., local language requirements, etc.).
- ▶ The EU Commission’s CSRD FAQs have a broader scope compared to EFRAG’s ESRS Q&A Platform ([EFRAG ESRS compilation of explanations January-July 2024](#)), as well as FAQs included in the implementation guidance [IG1](#) and [IG2](#)). EFRAG resources should be considered in respect of detailed questions around ESRS, and used in combination with the CSRD FAQs, the CSRD legal provisions (Accounting Directive, Audit Directive, Audit Regulation, Transparency Directive and the SFDR) and the EU member states’ transpositions.

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