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PUBLIC STATEMENT

Off to a good start: first application of ESRS by large issuers

EXECUTIVE SUMMARY

In 2025, a first group of large public-interest entities will publish their first sustainability statement in accordance with the European Sustainability Reporting Standards (ESRS), as envisaged by the Corporate Sustainability Reporting Directive (CSRD).

With a view to supporting the implementation of these new requirements, ESMA wishes to: (i) point to elements of guidance by the European Commission and EFRAG; and (ii) highlight the following key areas of attention which, in ESMA's view, are of particular relevance in the preparation of ESRS sustainability statements:

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

ESMA highlights the importance for issuers to engage in: (i) continuous training on the ESRS, also leveraging on the available support material from the European Commission and EFRAG; and (ii) as appropriate, dialogue with industry peers on issues of common relevance as well as with auditors or other independent assurance services providers.

ESMA calls on members of administrative, management and supervisory bodies of issuers as well as on those providing assurance on sustainability statements, to ensure that the aspects highlighted in this Public Statement are carefully considered when complying with the ESRS.

This Public Statement targets large listed issuers and does not address reporting requirements pursuant to Article 8 of the Taxonomy Regulation.

ESMA will, as usual, publish its European Common Enforcement Priorities for the next reporting period later in 2024, including those concerning sustainability reporting.

I. INTRODUCTION

1. In 2025 a first group of large public-interest entities[1] will publish a sustainability statement in accordance with the European Sustainability Reporting Standards (ESRS)[2], following the national transposition[3] of the amendments to the Accounting Directive[4] and the Transparency Directive[5], as introduced by the Corporate Sustainability Reporting Directive (CSRD)[6].

2. In acknowledgement of the considerable changes for the sustainability reporting practices entailed by these new requirements and with a view to supporting their implementation, ESMA wishes to: (i) point to elements of guidance already available or under development by the European Commission (EC) and its technical advisor on sustainability reporting standards, EFRAG; and (ii) highlight key areas of attention upon first application of ESRS.

3. This Public Statement targets large listed issuers and does not address reporting requirements pursuant to Article 8 of the Taxonomy Regulation[7]. ESMA will publish its European Common Enforcement Priorities (ECEP) on sustainability reporting later in 2024.

4. While other areas of sustainability reporting may be addressed by ESMA communications in the future, the topics addressed in this Public Statement are deemed to be particularly relevant by European securities regulators for the first-time application of ESRS by both large issuers that will be part of the first wave of reporting entities (i.e., with publications in 2025) and those issuers that will publish in the second wave (i.e., with publications in 2026).

5. ESMA and National Competent Authorities intend to play a key role in supporting the consistent application of ESRS. In this respect, the newly published ESMA Final Report on the Guidelines on Enforcement of Sustainability Information (GLESI)[8] sets out a converged approach to supervision of sustainability information. The GLESI will apply to the supervision of the first ESRS sustainability statements published in 2025.

6. Alongside enforcement actions, the GLESI also envisage the possibility for enforcers to engage in dialogue with issuers and other relevant stakeholders, including auditors and

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[1] Issuers including third-country entities with securities listed on EU regulated markets, that are large undertakings exceeding an average number of 500 employees during the financial year, as well as issuers that are parent undertakings of a large group exceeding, on a consolidated basis, an average number of 500 employees during the financial year.
[2] European Sustainability Reporting Standards to be used by undertakings in the preparation of their sustainability statement in compliance with Articles 19a and 29a of the Accounting Directive. A first set of sector-agnostic ESRS (Set 1) has been adopted by Commission Delegated Regulation (EU) 2023/2772. Since these standards are adopted by way of Regulations, they are directly applicable by undertakings without need for Member States to transpose them.
[3] The CSRD requires that Member States bring into force the laws, regulations and administrative provisions necessary to comply with Articles 1 to 3 of that Directive by 6 July 2024.
[4] Directive 2013/34/EU. The size criteria in this Directive were recently updated by Commission Delegated Directive (EU) 2023/2775.
[5] Directive 2004/109/EC.
[6] Directive (EU) 2022/2464.
[7] Regulation (EU) 2020/852.
[8] ESMA32-992851010-1600 Final Report on Guidelines on Enforcement of Sustainability Information (GLESI)

other independent assurance services providers (IASP), with a view to supporting the continuous improvement of sustainability reporting quality. High-quality corporate sustainability reporting is critical to address greenwashing[9] and promote the well-functioning of the sustainable investment value chain, thereby supporting the transition towards a sustainable economy.

7. **Against this background, 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 in this Public Statement are carefully considered when complying with the new reporting requirements.**

8. **ESMA underlines, in particular, the responsibility of the administrative, management and supervisory bodies of issuers, as well as the importance of the oversight role of the audit committee and other relevant committees, to: (i) ensure the overall internal consistency of the sustainability statement and its consistency with the other parts of the annual financial report; (ii) implement and supervise internal controls; and ultimately (iii) contribute to a high-quality sustainability statement.**

II. IMPLEMENTATION SUPPORT PROVIDED BY THE EC AND EFRAG

9. Although most of the issuers who will publish a sustainability statement under ESRS in 2025 already have experience with the Non-Financial Reporting Directive (NFRD)[10], the novelty and depth of the exercise when applying the CSRD and ESRS create challenges.

10. The EC has published frequently asked questions to accompany the adoption of the ESRS Set 1[11]. **ESMA stresses the importance for issuers to carefully consider any future EC guidance when implementing the new requirements.**

11. Furthermore, at the request of the EC, EFRAG has prioritised the development of implementation guidance for the first set of ESRS. To date, three Implementation Guidance documents have been published by EFRAG: IG1 on Materiality assessment, IG2 on Value chain and IG3 listing the datapoints in ESRS Set 1[12]. A guidance on interoperability between ESRS and ISSB standards was also published jointly by EFRAG and the IFRS Foundation[13] and an EFRAG-GRI joint statement of interoperability was also recently

[9] ESMA36-287652198-2699 - Final Report on Greenwashing and ESMA30-1668416927-2498 - ESMA Progress Report on Greenwashing – It is important to note that ESMA's specific work on greenwashing and its definition extends to all sustainability-related claims (not only environmental ones), but also to claims on both sustainability related risk/opportunities and impacts, thus taking a double materiality lens as per EU legislation.
[10] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.
[11] Questions and answers on the Adoption of European Sustainability Reporting Standards
[12] The final IG 1, IG 2 and IG 3 documents are available here.
[13] ESRS-ISSB Standards – Interoperability Guidance, published on 2 May 2024 and available here. It is important to note that this Guidance does not cover the general transition requirements in the respective set of standards.

issued[14]. ESMA also encourages issuers to monitor the ongoing cooperation between EFRAG and TNFD[15].

12. In parallel with these developments, EFRAG opened an online platform to collect technical questions in relation to the implementation of the ESRS[16]. These questions are categorised and, where relevant and possible within the confines of ESRS, addressed through 'explanations' or implementation guidance. At the time of finalising this Public Statement, several hundreds of questions have already been received and a compilation of explanations has been published[17]. EFRAG's implementation support material constitutes non-authoritative, living literature, subject to updates in response to evolving needs. If this material appears to contradict ESRS requirements, ESRS takes precedence.

13. **In preparing the sustainability statement, ESMA strongly encourages issuers to consult the support material made available by EFRAG which provide insights for practical use of the standards and illustrations. It is also important for issuers to engage, as appropriate, in regular exchanges with peers within the respective sectors, as well as, with auditors / other IASPs and ensure that issues requiring clarification are escalated on a timely basis through EFRAG's Q&A Platform. As necessary (e.g., widespread and/or significant cases), ESMA also encourages issuers to engage with the relevant national authorities.**

14. **ESMA stresses that this support material is also an important source for continuous internal training of relevant staff within the issuers, including for those issuers with past experience in sustainability reporting.**

III. PROGRESSING ALONG THE ESRS LEARNING CURVE: AREAS OF ATTENTION

15. As indicated in its Public Statement on the 2023 ECEP[18], in ESMA's view, the sustainability statements that will be published in 2025 will constitute **an important milestone in the learning curve of issuers**, as well as of all stakeholders in the sustainability reporting ecosystem, including auditors / other IASPs and enforcers. Acknowledging this learning curve does not relieve issuers from the responsibility to ensure compliance with ESRS.

16. The CSRD envisages a phased approach based on the size and category of the issuer. Additional transitional provisions are set out in Section 10 of ESRS 1. While the duration of the process to *climb* this learning curve may depend on entity-specific factors which cannot be generalised, ESMA expects that the period covered by the transitional reliefs will help issuers prepare for the date when such reliefs will no longer be available. During

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[14] EFRAG-GRI Joint Statement of Interoperability, published on 4 September 2023 and available here.
[15] Further information about the EFRAG-TNFD cooperation agreement is available here.
[16] The EFRAG Q&A Platform is accessible here.
[17] EFRAG ESRS Q&A Platform - Compilation of Explanations.
[18] ESMA32-193237008-1793 - European common enforcement priorities for 2023 annual financial reports.

this transitional period, ESMA therefore recommends that issuers carefully consider the specific areas highlighted in the following sections.

III.1 Establishing governance arrangements and internal controls that can promote high-quality sustainability reporting.

17. The CSRD has introduced clearer requirements with regards to the roles and responsibilities of the administrative, management and supervisory bodies of issuers, including the audit committee or other dedicated committee(s). It is therefore important that the learning and onboarding process on the new requirements specifically targets the information needs of the relevant bodies in charge of issuers' governance, including due diligence procedures and internal controls.

18. **ESMA encourages issuers to carefully set up their systems of data collection and analysis, as well as internal controls so as to be able to run meaningful double materiality assessments and to deliver the granular sustainability information to meet the qualitative characteristics required by par. 19 of ESRS 1, as listed in Annex B of that Standard[19].** Structuring and documenting the internal governance arrangements and controls is also crucial to the work of auditors and other IASPs.

19. **ESMA also notes that for undertakings with experience in sustainability reporting under previous requirements, it is necessary to carefully assess whether the existing processes, systems and controls are still fit-for-purpose.**

20. Finally, ESMA highlights that the mandatory governance disclosures in ESRS 2 seek to foster transparency on the governance processes regarding sustainability matters in general. In particular, Disclosure Requirement GOV-1 covers the appropriate skills and expertise of the administrative, management and supervisory bodies in relation to sustainability matters and GOV-2 covers the related information made available to them, while GOV-5 specifically addresses risk management and internal controls over sustainability reporting. **ESMA stresses that implementing and providing transparency on robust processes and internal controls contributes to the quality and credibility of the sustainability statement.**

[19] As listed in Appendix B of ESRS 1, qualitative characteristics of information include relevance, faithful representation, comparability, verifiability, and understandability.

III.2 Properly designing and conducting the double materiality assessment and being transparent about it

III.2.a. Double Materiality assessment process

21. ESMA stresses that it is important that issuers place particular care in undertaking the different steps of their double materiality assessment, first for the determination of the material sustainability-related Impacts, Risks and Opportunities (IROs) and related material sustainability matters they will report on and then for the selection of the material information attached to these IROs.

22. ESMA notes that undertakings reporting under NFRD already conduct and disclose information on their materiality assessment processes. **However, ESMA underlines that, upon first application of ESRS, the materiality process itself as well as the associated disclosures, generally need to be reconsidered** in view of the ESRS requirements, the sustainability matters covered therein (see the list in par. AR16 of ESRS 1) and possibly other sustainability matters material to the issuer. **ESMA therefore encourages issuers to consider the process described as an illustration in chapter 3 of IG1 in the design or update of their materiality process.**

23. ESMA notes that Section 3 of ESRS 1 and its related Application Requirements require specific steps to be considered for the materiality assessment process: (i) understanding of the context (for impacts); (ii) identifying actual and potential IROs; and (iii) assessing their materiality, including the determination of thresholds. The disclosure requirements in IRO-1 also point to steps and features of the process to explain the assessment made.

24. As pointed out in IG1, the qualitative characteristics of information also need to be considered when fulfilling Disclosure Requirement IRO-1 in ESRS 2 (and the related IRO-1-requirements in the topical standards), as for all disclosures in sustainability statements. **ESMA stresses that properly applying these characteristics, most notably those of relevance and faithful representation, is critical in preventing greenwashing.**

25. **ESMA highlights that full transparency on the materiality assessment process is required irrespective of the materiality of the specific topics, as the topical specifications of IRO-1 disclosures are always mandatory. These disclosures will help better understand the outcomes of the process especially as, except for climate change, issuers are not required to disclose the reasons justifying the non-materiality of a sustainability topic.**

26. Except for certain disclosures which are to be provided irrespective of materiality (i.e. the cross-cutting disclosure requirements in ESRS 2 *General Disclosures*), the materiality assessment process is central to the ESRS architecture at two levels: (i) for the disclosures of policies, actions and targets to be provided if they relate to material sustainability matters

and (ii) for the disclosures on metrics to be provided if they relate to material sustainability matters and whether the metrics themselves are deemed to constitute material information.

27. ESMA notes that materiality judgements are also needed to determine the disaggregation level of the information provided. As stated in ESRS 1 Section 3.7, disaggregation at the country level or at significant sites or assets level is required when needed for a proper understanding of the material IROs. While some of the datapoints or application requirements specifically point to a disaggregated approach (e.g., par. AR 41 of ESRS E1 on the disaggregation of information related to GHG emissions), in other instances, it is up to the issuer to identify the need for disaggregation.

III.2.b. Materiality for Policies, Actions and Targets and related disclosures

28. The assessment of material IROs is supported by the list of sustainability matters in par. AR 16 of ESRS 1 *General Requirements*. Any entity-specific material IROs that are not covered by the sustainability matters listed in par. AR 16 are also identified at this stage.

29. The resulting material sustainability matters determine the disclosures required for the policies, actions and targets in relation to these matters. **ESMA reminds issuers that, for policies, actions and targets relating to the material sustainability matters identified, all related disclosure requirements and datapoints are mandatory for each material sustainability matter.** These include both the Minimum Disclosure Requirements and their datapoints in ESRS 2, as well as the associated disclosure requirements and datapoints in topical standards, where applicable. **ESMA also highlights that if no policy, action, or target have been defined for a given material sustainability matter, the issuer is required to state this fact and it may also disclose a timeframe in which it aims to have these in place.**

30. ESMA emphasises that, particularly for sustainability-related actions, the minimum disclosure requirements in ESRS 2 require '*key actions'* to be reported as those that "*materially contribute to achieving the undertaking's objectives in addressing material IROs*". **ESMA therefore stresses the importance of issuers' careful assessment of the materiality of the contribution made by an action to enable a distinction between the actions to be reported from the ones which are merely anecdotal.**

III.2.c. Materiality for Metrics and related disclosures

31. The disclosure of metrics in the topical ESRS is governed by the materiality assessment at information level (par. 34 of ESRS 1). **ESMA reminds issuers that this assessment is particularly important because the omission of disclosure requirements or datapoints relating to metrics is an implicit statement that the related information is not deemed material**. **As an exception to this principle, for the datapoints derived from other pieces of EU legislation, such as SFDR, non-materiality shall be explicitly**

disclosed. These datapoints are listed in Appendix B of ESRS 2. **Sector considerations may play a role in determining metrics that are not material at information level**.

III.3 Being transparent about the use of transitional reliefs

III.3.a. Value chain disclosures during the transitional period

32. **ESMA acknowledges that meeting the data availability and quality demands stemming from the ESRS requirements may be challenging upon first-time application of the ESRS. These demands will require the development or strengthening of their sustainability data collection and control infrastructure.**

33. **As a general rule, transparency on the uncertainties and data limitations, if any, and on the applied methodologies and significant assumptions, is key** to enable users of the sustainability statement to evaluate possible limitations in comparability. ESMA highlights that such transparency is required as part of the mandatory disclosures in ESRS 2 (i.e. BP-2 and MDR-M) and also by some topical metric disclosure requirements.

34. This will be especially relevant for the information related to **the upstream and downstream value chain**. Many issuers have already conducted a gap assessment as part of their preparation for reporting under ESRS and started related developments. **ESMA encourages issuers to plan these assessments in such a way that they enable a continuous improvement, starting with organisational and governance considerations, and including the necessary resources.**

35. **ESMA notes that, as a general rule, the ESRS do not envisage cases in which the lack of data justifies the omission of disclosure of material information.** With regards to the disclosures on value chain, issuers should carefully assess the transitional provisions set out in paragraphs 132-134 of ESRS 1 for the first three years for reporting, most notably: (i) issuers can explain why not all the information regarding upstream and downstream value chain is available and how it plans to fill the gaps; (ii) issuers can limit the information on policies, actions and targets relating to value chains to information available in-house or from publicly available sources; and (iii) issuers are not required to consider value-chain information in metrics disclosures (including entity-specific ones, see par. 91 of IG 2), except for metrics derived from EU law (e.g., Scope 3 GHG emissions).

III.3.b. Transitional reliefs for undertakings not exceeding 750 employees

36. As part of the transitional provisions listed in its Appendix C, ESRS 1 allows undertakings not exceeding on their balance sheet dates the average number of 750 employees during the financial year the possibility to omit the information required by entire standards, most notably: ESRS E4 (for the first two years), ESRS S1 (for the first year), ESRS S2, ESRS S3 or ESRS S4 (for the first two years).

37. **ESMA highlights that when an eligible issuer decides to adopt these phase-in reliefs it shall nevertheless disclose whether any of the sustainability topics covered by any of these standards are material to the issuer and, if so, for each material topic, provide the information required by par. 17 (a)-(e) of ESRS 2.**

III.3.c. Transitional reliefs for entity-specific disclosures

38. As stated in par. 11 of ESRS 1, entity-specific disclosures shall be provided when a material IRO is not sufficiently covered by the ESRS. **ESMA emphasises that issuers need to consider whether their entity-specific disclosures pass the significance or decision usefulness tests of materiality at information level, as required by par 31 of ESRS 1.**

39. In that context, ESMA also notes that par. 131 of ESRS 1 foresees that, for the first three sustainability statements, an issuer may use entity-specific disclosures that it reported in prior periods as a priority, provided that these disclosures meet or are adapted to meet the qualitative characteristics of information. An entity may also complement disclosures required by topical ESRS requirements through entity-specific disclosures to address material sustainability matters from a sectoral perspective, using available best practice and/or available frameworks or standards, such as IFRS industry-based guidance and GRI Sector Standards. Sector-specific ESRS, when entering in force, will gradually limit the need for entity-specific disclosures. **ESMA underlines that entity-specific disclosures shall be reported alongside the most relevant sector-agnostic ESRS disclosures.**

40. Finally, ESMA notes that entity-specific information should be considered distinct from complementary information envisaged by par. 114 of ESRS 1. When issuers include complementary information in the sustainability statement, these disclosures shall be clearly identified with an appropriate reference to the related legislation, standard or framework (see par. 15 of ESRS 2 BP-2) and meet the requirements for qualitative characteristics of information. **Amongst those, ESMA highlights the requirement to ensure that the complementary information does not obscure material information.**

III.4 Preparing a clearly structured and digitisation-ready sustainability statement

III.4.a. Structure of the sustainability statement

41. Section 8.2 and Appendix D of ESRS 1 provide requirements in relation to the structure of the sustainability statement and Appendix F provides a (non-binding) illustration. This approach leaves some degree of freedom to issuers in the way they organise information within the defined parts, also enabling them to make use of internal cross referencing.

42. **ESMA notes that Section 9.1 of ESRS 1 allows to incorporate by reference separate and clearly identifiable elements of information, subject to safeguards aiming at preserving the overall cohesiveness and readability of the sustainability statement.**

43. **ESMA stresses that it will be particularly important for issuers that have experience in sustainability reporting under different frameworks to carefully assess whether their historical approach to the presentation of sustainability information is consistent with the CSRD and ESRS and, if not, to make adjustments accordingly.**

44. ESMA also reminds issuers to include in their sustainability statement the disclosures (and related reporting templates) pursuant to Article 8 of the Taxonomy Regulation together within the section on environmental information (as per par. 115 of ESRS 1).

III.4.b. Preparation for the digitisation of the sustainability statement

45. ESMA stresses the importance that, from the first application of the ESRS, the reporting process is conceived in a way that caters for digitisation of the sustainability statement. IG 3 is designed to prepare for the development of a digital reporting infrastructure in a way that is aligned with the granularity of the ESRS requirements. **ESMA notes that following the structure of the ESRS would make digital tagging easier in the future, irrespective of the specific tagging requirements yet to be adopted by the EC.**

46. ESMA underlines that the level of granularity of the final tagging of the disclosures will be based on the forthcoming rules that ESMA will propose through a draft Regulatory Technical Standard amending the ESEF Regulation[20]. Issuers will not be expected to mark-up their sustainability statement until the EC adopts the digital taxonomy.

III.5 Creating connectivity between financial and sustainability information

47. Finally, ESMA reiterates the importance of connectivity between the sustainability statement and the financial statements, as required by Section 9.2 of ESRS 1 and as already highlighted in its ECEP 2023. **ESMA notes that issuers should be able to report relevant connections and reconciliations within the sustainability statement** as part of the disclosures on current or anticipated financial effects, as well as through other disclosures (e.g., those on significant CapEx / OpEx to implement specific actions).

48. Appendix C of ESRS 1 allows omitting disclosures of anticipated financial effects for the first year of preparation of the sustainability statement and the possibility, for the first three years, to comply with some or all of the requirements through qualitative disclosures only[21].

[20] Commission Delegated Regulation (EU) 2019/815.
[21] In relation to the disclosure requirement E1-9, this relief is available only if it is impracticable to prepare quantitative disclosures.