



5 August 2022

Response to EFRAG's consultation on the first set of Draft European Sustainability Reporting Standards (ESRS)

Dear EFRAG Sustainability Reporting Board Members,

1. The Committee of European Audit Oversight Bodies (CEAOB) appreciates the opportunity to comment on EFRAG's consultation on the first set of Draft European Sustainability Reporting Standards (ESRS) published on 29 April 2022.
2. The content of this response has been prepared by the CEAOB sustainability reporting support team and has been adopted by the CEAOB. The comments raised on this letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. The CEAOB is committed to contribute to the developments of ESRS, which implementation will need to be verified by assurance providers before issuing their opinion on the sustainability information. Given its mandate, the CEAOB decided to comment, in this letter, only on the issues which may be related to provision of assurance on the sustainability statements.

General comments

4. As in its 10 June 2020 response to the European Commission consultation,¹ the CEAOB reiterates its support for the development of ESRS for the preparation of sustainability reporting in the European Union (EU), and for the requirement for assurance to be provided on the sustainability reporting, since this will contribute to enhance the reliability of sustainability information, and the users' confidence in this reliability.
5. The CEAOB supports EFRAG in its efforts to deliver ESRS in a timely manner, to allow for proper and timely implementation by preparers and assurance providers. The CEAOB is however concerned that the time pressure to deliver applicable standards, which is set by the CSRD,² will create a strong constraint for EFRAG. This will impair EFRAG's ability to fully consider the drafts and incorporate the comments received from the ongoing public consultation, before the adoption of the first set of standards in June 2023.

¹ [CEAOB response to European Commission's public consultation on the revision of the non-financial reporting directive](#)

² the timeline for EFRAG delivery is driven by the timelines set by the Corporate Sustainability Reporting Directive for the EC to adopt standards.





6. The CEAOB has identified some areas in the draft ESRS where additional provisions would be necessary to facilitate the provision of the assurance required by the CSRD. These areas are set out below.
7. The CEAOB further stresses that the assurance required will be initially a “limited assurance” opinion and it is likely to become a “reasonable assurance” opinion. The issues described in this letter will represent difficulties for the assurance providers in charge of gathering the necessary “evidence” in order to express the assurance opinion, and these difficulties may increase over time due to the higher level of evidence which will be required to issue a “reasonable assurance” opinion. A “reasonable assurance” opinion requires more extensive, relevant and reliable underlying evidence than “limited assurance”.

Incorporate disclosure requirements stemming from EU legislation, mapping documents

8. The CEAOB welcomes the efforts to incorporate the different requirements stemming from existing EU law and initiatives into a comprehensive set of ESRS to form a complete framework for the preparation of sustainability reporting. As recognized in the consultation document, a final review of the adopted text of the CSRD will be needed before completion of the standards, to fully align the ESRS with the final text of the CSRD.
9. In particular, the location of the sustainability information in the Management Report will need to align with the final text of the CSRD (ref. ESRS 1 par 148.a).
10. The CEAOB further underlines that ESRS provisions may need to be adjusted in the future, following changes to existing EU laws or the completion of initiatives currently in progress. The CEAOB believes that providing corresponding mapping and updating mapping already provided (for example in Appendix I, mapping of ESRS/ disclosure requirements/ application guidance) or in Appendix III (SFRD Principal Adverse Impacts in the ESRS) will continue to be beneficial for preparers, assurance providers and stakeholders.
11. The CEAOB agrees with the choice made by EFRAG to include the mandatory requirements requested by Article 8 of the Regulation (EU) 2020/842 (Taxonomy Regulation) in the sector-agnostic standards (“*to foster relevance and faithful information for all sectors³*”). Taking this approach will be helpful to facilitate the issuance of the opinion of the assurance provider as regards the compliance with the reporting requirements of Article 8 of the Taxonomy Regulation as requested by the CSRD, since the corresponding information will be located in a dedicated and identifiable part of the management report (as required by ESRS 1 par 146 and 152).

Need for mechanisms in reviewing the ESRS

12. The CEAOB recognizes that it will take time for preparers to gain the same maturity on sustainability reporting, based on the ESRS, as the maturity achieved on financial reporting, based on EU adopted IFRS. A mechanism should be designed to collect information proceeding the implementation of ESRS on whether the standards work as intended, whether challenges occur when applying the standards on a longer-term basis and whether application of the ESRS requirements lead to divergences in application (ESRS post-implementation review).

³ ESRS ED public consultation – Cover note – paragraph 42



13. The CEAOB is of the view that the ESRS would benefit from an agreed review mechanism that will permit to update the ESRS on a regular basis to capture key changes in EU laws and changes in stakeholders needs regarding sustainability information. This would ensure that the ESRS requirements continue to be up to date and to respond to the needs of stakeholders.
14. A specific mechanism should also be put in place to identify and correct any unintended significant consequences that may be identified by entities, preparers, assurance providers or other stakeholders during the implementation of ESRS, even prior to their entry force (to allow for “fatal flaw changes”).
15. To take into consideration, the needs and protection of the users of sustainability information, these various mechanisms should involve the participation of a wide range of stakeholders, including the CEAOB.

Digitalisation

16. The CEAOB notes that the EFRAG cover note to the ESRS EDs public consultation indicates in paragraph 12 (c) that *“digital guidance aim(ed) at helping reporting undertakings to publish their ESRS compliant information in digital format (...) will be considered in due course when following the public consultation and deliberations by the EFRAG TEG and EFRAG SRB the technical advice will be delivered to the European Commission”*. The CEAOB reminds that, according to CSRD, an assurance opinion will be required on the digital format of the information, and thus flags that providing this opinion will only be possible if the ESRS (or any specific additional vehicle) also cover the taxonomy and digitalisation aspects, which is currently not the case. Otherwise, the CSRD provision requiring an opinion on the compliance of the requirement to mark-up sustainability reporting will need to be postponed to a later date.

Areas identified in the draft ESRS where additional provisions would facilitate the provision of assurance

(1) Rebuttable presumption (ESRS 1 par 57)

17. ESRS 1 paragraph 57 indicates that all mandatory disclosures requirements established by ESRS shall be presumed to be material and, therefore, justify a full disclosure in accordance with the relevant ESRS. However, this presumption is rebuttable based on reasonable and supportable evidence. The CEAOB believes that the ESRS should require entities to provide robust justifications and documentation when rebutting this presumption. This is necessary to allow for an external assessment of those justifications by an assurance service provider. Further assessment of the level of use of this possibility will be needed overtime to make sure assurance providers have the same assessment as users and preparers on what can or not be rebutted.

(2) Reporting boundary – Missing information (ESRS 1 par 67)

18. When it is impracticable for the undertaking to collect the information about its upstream and downstream value chain, paragraphs 67-68 of ESRS 1 specify that the entity should seek to approximate the missing information and disclose specific information in this respect. Further guidance will be needed in the ESRS when the CSRD provisions about the value chain information will fully come into force, to facilitate consistent determination of whether approximation is allowed, how approximations can be made, including what underlying evidence would be needed.



(3) Incorporation by reference (ESRS 1 par 135)

19. According to ESRS 1, elements of information may be incorporated by reference in the sustainability statements. The CEAOB is of the view that users of sustainability reporting should be fully aware of the information which is part of the sustainability reporting on which the assurance is provided. Uncertainty for users may be created regarding the “incorporated information”, which would be outside the main body of the sustainability statements. Issues may also arise for mark-up requirements in such a situation. The CEAOB recommends to reassess the benefits of “incorporation by reference”, given the drawbacks it entails from a clarity perspective.

(4) Statement of compliance (ESRS 2 par 28)

20. The objective of the undertaking’s statement required by ESRS 2 (DR 2- GR10) is to inform the users about the compliance with ESRS requirements, following mandated disclosure requirements complemented by entity-specific disclosures. The CEAOB supports this objective which contributes to reinforce the reliability of the sustainability statements. However, the roles and responsibilities regarding this statement, within the entity, requires clarification in the ESRS, by reference to the legal requirements applicable regarding the preparation of the sustainability statements.

(5) Verifiability (ESRS 2 par 35)

21. Verifiability is one of the principles of information quality set out in ESRS 1. The CEAOB notes that paragraph 35 of ESRS 1 indicates that “Information is verifiable if it is possible to trace it, which is a prerequisite of information being auditable, as it allows for appropriate evidence on the audit assertions to be obtained”. The CEAOB agrees that the ability to trace information is one necessary condition for information to be auditable. However, traceability of information is not sufficient solely and should be complemented by existence of underlying evidence or documentation. The CEAOB also believes that the last part of the sentence (i.e. “*to allow for appropriate evidence on the audit assertions to be obtained*”) should be deleted as referring to audit assertions is not useful in this paragraph: (1) the issues related to the relevance and reliability of the information to be used as evidence in an assurance engagement on sustainability statements should be dealt in an assurance standard rather than in the ESRS and (2) it is also important for the entity/undertaking to retain appropriate evidence to support the sustainability statements.

(6) Materiality (ESRS 2 par 71)

22. The concept of double materiality is now explicitly included in the CSRD proposal. ESRS 2 (DR 2-IRO 1) requires the entity/undertaking to provide a description of its processes to identify its sustainability impacts, risks and opportunities and assess which ones are material. This includes a description of how the double materiality principle is applied in practice in the steps leading to the undertaking’s final assessment supporting its sustainability reporting. However, it is unclear how entities will ensure consistency in their materiality assessments. The CEAOB believes that guidance or examples would be useful to foster consistency in the materiality assessment performed by entities. It would also be beneficial for the assurance provider, who will be required to provide an opinion on the process carried out by the undertaking to identify the information reported pursuant to the sustainability reporting standards. Enhanced guidance is also essential as a proper assessment of materiality is a fundamental pillar of the assurance work and opinion.



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Please feel free to contact me, should you need any further information about the content of this response.

Yours faithfully,

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Chairman