Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

forvis mazars

Contents

3	Editorial
3	IFRS Highlights
5	European Highlights
8	Standards and interpretations applicable as of 30 June 2024
11	IASB continues redeliberations on Post-implementation Review (PiR) of IFRS 9, Phase 2 – *Impairment*
14	Contracts for Renewable Electricity (PPAs and VPPAs): IASB publishes exposure draft of proposed amendments to IFRS 9 and IFRS 7
18	Publication of Interoperability Guidance to ESRS and ISSB Standards
20	EFRAG issues ESRS implementation Guidance on three initial topics

Beyond the GAAP is published by Forvis Mazars. The purpose of this newsletter is to keep readers informed of developments in financial and sustainability reporting. Beyond the GAAP may under no circumstances be associated, in whole or in part, with an opinion issued by Forvis Mazars. Despite the meticulous care taken in preparing this publication, Forvis Mazars may not be held liable for any errors or omissions it might contain.

The drafting of the present edition was completed on 10 June 2024.

Editorial

In May, EFRAG issued some important documents to support large entities that are required to publish a sustainability statement under ESRS. EFRAG had first issued a compilation of explanations provided to stakeholders in response to questions posed on the Q&A platform opened last October. In addition to reproducing some of the answers already published, this compilation includes 44 new explanations on sometimes sensitive technical issues, such as how to determine the metrics required by ESRS.

EFRAG has also published its first three implementation guidance documents, which address materiality assessment (IG 1), the value chain (IG 2) and the list of datapoints in ESRS (IG 3). EFRAG provides practical explanations through illustrations and examples, and clarifies the provisions of the standards on these issues, which are both complex and fundamental to the implementation of ESRS. IG 3 is likely to be particularly useful in determining the disclosures required for the material impacts, risks and opportunities identified, but also in anticipation of the sustainability statement tagging stage.

IFRS Highlights

IASB publishes amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB published its final amendments on the classification and measurement of financial instruments, which address certain application difficulties identified by the IASB during its Post-implementation Review of IFRS 9 (see Beyond the GAAP no 172 of December 2022).

The main purpose of the amendments is to:

- clarify the classification of financial assets with environmental, social and corporate governance (ESG) and similar features, non-recourse instruments and contractually linked instruments, indicating how the SPPI test should be conducted in these particular cases;
- clarify that the settlement date is the date on which financial liabilities are derecognised, while offering preparers an accounting policy choice to derecognise financial liabilities settled via an electronic payment system before that date.

At the same time, the IASB has amended IFRS 7 to introduce additional disclosures on:

- equity instruments measured at fair value through equity;
- financial instruments with contingent contractual terms.

These amendments are effective for annual reporting periods beginning on or after 1 January 2026, with the option of early application, either in their entirety or only in respect of the classification of financial assets.

These amendments are also applicable retrospectively, with no requirement to restate comparative periods.

This publication will be the subject of a detailed study in a future issue of Beyond the GAAP.

Publication of IFRS 19

On 9 May, the IASB issued IFRS 19 - *Subsidiaries without Public Accountability: Disclosures.*

Readers will remember that this standard will:

- first, simplify the preparation of the financial statements of subsidiaries without public accountability, by allowing them to apply the accounting policies of the group when preparing their local financial statements; and
- second, reduce the disclosure requirements for these subsidiaries.

A subsidiary will be eligible if:

- it has no public accountability (i.e. it is neither listed nor a financial institution); and

- its ultimate or intermediate parent publishes consolidated financial statements that are available for public use and comply with IFRSs.

The effective date of this optional standard is 1 January 2027, but IFRS 19 can be applied as soon as it is issued, subject to adoption by local jurisdictions. At the European level, EFRAG has not yet received the European Commission's request for endorsement advice (no information has been given at this stage regarding the endorsement of the standard).

10th compilation of IFRS IC agenda decisions

In early May, the IFRS Foundation released the tenth compilation of IFRS Interpretations Committee (IFRS IC) agenda decisions, taken between November 2023 and April 2024. The compilation is available here.

The decisions presented in this compilation relate to the following topics:

- IFRS 3: payments contingent on continued employment during handover periods (see **Beyond the GAAP no 187** of April 2024);
- IAS 27: merger between a parent and its subsidiary in separate financial statements; and
- IAS 37: climate-related commitments (see **Beyond the GAAP no 187** of April 2024).

Webinar series “Perspectives on sustainability disclosure” and webcasts on “Current and anticipated financial effects”

The IFRS Foundation has established a new **series of monthly webinars** exploring key topics related to sustainability reporting aimed primarily at preparers. Each event will be available to join live or watch on demand. The first episode entitled “The business case for early adoption” was aired on 30 May 2024.

The IFRS Foundation has also published two webcasts to help explain the International Sustainability Standards Board’s (ISSB) disclosure requirements related to the current and anticipated effects of sustainability-related risks and opportunities on a company’s financial position, financial performance and cash flows. These webcasts are available **here**.

Transition to integrated reporting

The IFRS Foundation has released **Transition to integrated reporting: A guide to getting started**, to assist companies looking to apply both the IFRS Sustainability Disclosure Standards and the Integrated Reporting Framework.

The guide sets out a phased approach for implementing the Integrated Reporting Framework and how IFRS Sustainability Disclosure Standards can be incorporated in an integrated report.

ISSB Taxonomy webcast

Following last month’s announcement of the publication of the ISSB Taxonomy (see **Beyond the GAAP no 187** of April 2024), which is intended to enable investors and other stakeholders to search sustainability-related disclosures, the ISSB has recorded a short webcast summarising the key features and benefits of the taxonomy for investors, companies and regulators. The webcast and slides can be viewed **here**.

Latest jurisdictional developments in sustainability reporting

A number of jurisdictional consultations on adoption of sustainability reporting based on IFRS standards are ongoing. The most recent consultation are in:

- **Brazil** where consultation on technical standards based on IFRS S1 and S2 is open until 13 June 2024,
- **South Korea** where Exposure drafts of Korean Sustainability Disclosure Standards, also based on IFRS S1 and S2, have been issued, with a closing date for responses on 31 August 2024, and
- China, where the Chinese Ministry of Finance has published a consultation on “Corporate Sustainability Disclosure Standard—Basic Standard” with a comment period ending on 24 June 2024.

Meanwhile, the Stock Exchange of Hong Kong has introduced **climate reporting requirements** aligned with IFRS S2 which will be effective commencing on 1 January 2025 with mandatory disclosure of Scope 1 and 2 greenhouse gas emissions for “LargeCap Issuers” and comply or explain requirements for other disclosures.

The IFRS Foundation has also made IFRS S1 and S2 available in **Simplified Chinese.** The Standards have already been translated into Spanish, French, Japanese, Korean and Romanian.

ISSB May 2024 update

The **ISSB Update** for May provides summary of the recent ISSB meeting. No major decisions were made during the meeting, though the ISSB did decide to continue to use the existing SASB industry classification for its next two year work plan, and to consider enhancing the industry groupings when the SASB standards themselves are updated.

In the latest **ISSB Podcast**, the Chair and Vice-Chair discuss the publication of the IFRS Sustainability Disclosure Taxonomy and the interoperability guidance published by the ISSB and EFRAG (see the dedicated article in this issue), and look ahead to future publications including the final jurisdictional adoption guide (see **Beyond the GAAP no 185** of February 2024) and the feedback statement on its agenda consultation.

European Highlights

Endorsement of amendments to IAS 7 and IFRS 7 on Supplier finance arrangements

On 15 May, the European Commission endorsed the amendments to IAS 7 and IFRS 7 on Supplier finance arrangements.

Readers will recall these amendments require entities using such arrangements to provide information enabling users to:

- assess the impact of their supplier financing arrangements on their liabilities and cash flows; and
- understand their effects on the entity's exposure to liquidity risk and how the entity might be affected if it could no longer have recourse to these arrangements.

The amendments require entities that use such arrangements to disclose:

- the terms and conditions of each supplier finance arrangement;
- the following quantified information, at the start and end of the reporting period:
  - the carrying amount of financial liabilities that are part of the arrangement and the line item(s) in which those financial liabilities are presented;
  - the carrying amount of those financial liabilities for which suppliers have already received payment from the finance providers, and the line item(s) in which they are presented;
  - the range of payment due dates of financial liabilities that are part of a supplier finance arrangement and those of comparable trade payables that are not part of a supplier finance arrangement;
- the nature and effects of non-cash changes in the carrying amounts of financial liabilities that are part of a supplier financing arrangement.

These amendments come into effect for reporting periods beginning on or after1 January 2024.

Regulation (EU) 2024/1317, published in the Official Journal of the European Union (OJ EU) on 16 May 2024, is effective from the 20th day after its publication.

It is available in all official European Union languages here.

ESMA: 29th extract from IFRS enforcement decisions database

On 27 May, the European Securities and Markets Authority (ESMA), the European Union's financial markets regulator and supervisor, published the 29th extract from its database (available here) of IFRS enforcement decisions taken by regulators in the European Economic Area (EEA) relating to the application of IFRSs and, for the first time in this type of publication, of ESMA's Guidelines on Alternate Performance Measures (APMs).

ESMA's periodic publications have a twofold objective:

- strengthening supervisory convergence between the 38 national enforcers and supervisory authorities in the EEA that participate in the European Enforcers Coordination Sessions (EECS); and
- providing issuers and users of financial statements with relevant information on the appropriate application of IFRSs and the ESMA Guidelines for APMs.

Nonetheless, ESMA emphasises that these published decisions:

- are not interpretations of IFRS, as this remains the prerogative of the IFRS IC;
- were issued in relation to the IFRS requirements in force at the publication date of the financial statements reviewed, and may be superseded by subsequent changes in IFRS.

ESMA clarifies that decisions are published because they fulfil one or more of the following criteria:

- the decision refers to a complex accounting issue or an issue that could lead to different applications of IFRS,
- the decision relates to a relatively widespread issue among issuers or within a certain type of business and, thereby, may be of interest to other enforcers or third parties;
- the decision addresses an issue on which there is no experience or on which enforcers have inconsistent experiences, and
- the decision has been taken on the basis of a provision not covered by an accounting standard.

Lastly, ESMA specifies that these criteria apply. *mutatis mutandis*. to decisions relating to the ESMA Guidelines on APMs.

The decisions published in this 29th extract were taken in the period from December 2021 to December 2023. and concern annual financial statements from the years 2019, 2021, 2022 and 2023.

They address the following topics:

- Decision EECS/0125-01 – Significant influence
- Decision EECS/0125-02 – Related party transactions
- Decision EECS/0125-03 – Disclosures in the interim financial report
- Decision EECS/0125-04 – Measurement of expected credit losses
- Decision EECS/0125-05 – Fair Value Disclosures
- Decision EECS/0125-06 – Scope of the APM Guidelines
- Decision EECS/0125-07 – Calculation of Return on Capital employed (ROCE)
- Decision EECS/0125-08 – Definition of an APM

ESMA posts on its website a list (accessible here) of all decisions that have been made public.

Approval of CSDDD by the Council of the European Union.

On 24 May 2024, the Council of the European Union approved the draft Corporate Sustainability Due Diligence Directive or CSDDD, which will impose due diligence obligations on entities following its adoption by the European Parliament (see **Beyond the GAAP no 187**of April 2024).

The CSDDD comes into force 20 days after its publication in the OJ EU. Member States will then have two years in which to transpose the directive into national law. The provisions of the CSDDD will apply from 2027 (with phased application depending on the entities concerned).

EFRAG publishes a third batch of answers on the application of ESRS

On 30 May 2024, EFRAG published its **third batch of answers** on the application of ESRS, in conjunction with the **Q&A platform** launched at the end of last year (see **Beyond the GAAP no 181** of October 2023).

In each case, EFRAG provides references and extracts from the standards on which its explanations are based in order to guide the reader. The regular publication of explanations is planned to provide support to preparers and other affected stakeholders in the implementation of ESRS.

Of the 44 questions addressed in the May batch, 21 relate to cross-cutting standards, eight to environmental standards, eight to social standards and seven to standards on governance.

Some of EFRAG's responses deserve particular attention, such as questions ID 337, ID 504 and ID 286 on the calculation of metrics.

For this last batch, EFRAG has changed its document presentation format. It now offers a compiled version of the 68 questions addressed since February 2024, organised by standards and disclosure requirements, along with an index of associated keywords to make it easier for users to navigate.

New composition of the EFRAG SR TEG

On 10 May, EFRAG announced the new composition of the EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG), which welcomes 12 new members, and sees 9 departures (for more details of these appointments and the exact composition of the EFRAG SR TEG: see the EFRAG press release available **here**).

Standards and interpretations applicable as of 30 June 2024

Now that interim final reports are being finalised for 30 June 2024, Beyond the GAAP presents an overview of the IASB's most recent publications.

For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (position as at 31 may 2024, available **here**).

As a reminder, the following principles govern the first application of the IASB's standards and interpretations:

1. The IASB's draft standards cannot be applied as they do not form part of the published standards;
2. The IFRS IC's draft interpretations may be applied if the two following conditions are met:
   - the draft does not conflict with currently applicable IFRSs;
   - the draft does not modify an existing interpretation which is currently mandatory.
3. Standards published by the IASB but not yet endorsed by the European Union as of 30 June may be applied if the European endorsement process is completed before the date when the interim financial statements are authorised for issue by the relevant authority (i.e. usually the board of directors);
4. IFRS IC's Interpretations published by the IASB but not yet endorsed by the European Union at the date when the interim financial statements are authorised for issue may be applied unless they are in conflict with standards or interpretations currently applicable in Europe.

Remember that in accordance with IAS 8 the notes of an entity applying IFRSs must include the list of standards and interpretations published by the IASB but not yet effective that have not been early applied by the entity. In addition to this list, the entity must provide an estimate of the impact of the application of those standards and interpretations.

Regarding minor amendments and interpretations, it seems relevant to limit such list to only those amendments and/or interpretations which are likely to apply to the entity's activities.

It should also be noted that under IAS 34 – *Interim Financial Reporting*, the changes in accounting policies required by new standards must also be disclosed in the interim financial reporting published in the course of the year.

Standard	Subject	Effective date according to the IASB	Date of publication in the OJUE	Application status at 30 June 2024
IFRS 14	Regulatory Deferral Accounts (issued on 30 January 2014)	1 January 2016 Early application permitted	No endorsement (The EC has decided not to launch the endorsement process of this interim standard)	Not permitted
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) and effective date (issued on 17 December 2015)	Postponed Early application permitted	Deferred	Permitted[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback (issued on 22 September 2022)	1 January 2024 Early application permitted	21 November 2023	Mandatory
Amendments to IAS 1	Classification of Liabilities as Current or Non-current (issued on 23 January 2020) Deferral of Effective Date (issued on 15 July 2020 and on 31 October 2022) Non-current Liabilities with Covenants (issued on 31 October 2022)	1 January 2024 Early application permitted	20 December 2024	Mandatory
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements (Issued on 25 May 2023)	1 January 2024 Early application permitted	16 May 2024	Mandatory

[1] If the entity had not developed an accounting policy.

Standard	Subject	Effective date according to the IASB	Date of publication in the OJUE	Application status at 30 June 2024
Amendments to IAS 21	Lack of Exchangeability (issued on 15 August 2023)	1 January 2025 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted[2]
IFRS 18	Presentation and Disclosure in Financial Statements (issued on 9 April 2024)	1 January 2027 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
IFRS 19	Subsidiaries without Public Accountability: Disclosures (issued on 9 May 2024)	1 January 2027 Early application permitted, subject to jurisdictional endorsement.	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IFRS 9 and IFRS 7	Classification and Measurement requirements for financial Instruments (issued on 30 May 2024)	1 January 2026 Early application permitted (apply all the amendments or only the amendments to classification)	Awaiting endorsement by the EU	Not permitted

[2] The amendment is a clarification of an existing standard and is not in contradiction with current standards. In our opinion it can be applied even if not adopted by the EU. Retrospective application will then be required, and any transitional provisions provided for in the amendment will not apply.

IASB continues redeliberations on Post-implementation Review (PiR) of IFRS 9, Phase 2 – *Impairment*

At this month's meeting, the IASB decided not to carry out any standard-setting work on the remaining points raised by commenters, and concluded the Post-implementation Review of IFRS 9, Phase 2.

Following on from the initial redeliberations (see **Beyond the GAAP no. 185**, February 2024, for the Board meeting on 20 February, and **Beyond the GAAP no. 186**, March 2024, for the Board meeting on 18 March), the IASB continued at its last meeting to analyse the comments received in response to its Request for Information on the PiR of IFRS 9, Phase 2 – *Impairment* (see "IFRS Highlights" in **Beyond the GAAP no. 179**, July-August 2023).

Loan commitments and financial guarantee contracts

The Board discussed three suggestions made by commenters on **loan commitments**:

- to include a definition of these commitments in IFRS 9;
- to clarify the scope of the exception in paragraph 5.5.20 of IFRS 9 (notably whether or not it includes financial instruments that are managed on an individual basis);
- to provide more detailed application guidance on how to determine the period over which to measure expected credit losses (ECL) for revolving credit facilities.

The Board decided not to undertake any standard-setting work, based on the staff analysis, which pointed out that these commitments are not widely used and do not have substantial impact on practice. Furthermore, on the third point, the staff noted that paragraph B5.5.40 of IFRS 9 already provides guidance on how to determine the period over which to measure ECL for revolving credit facilities.

The staff also pointed out that a commitment to enter into a compound instrument, such as a convertible bond, should be classified as a derivative and measured at fair value through profit or loss.

As regards **financial guarantee contracts (FGCs)**, commenters drew the Board's attention to the following application challenges:

- how to assess whether an **FGC held** is an integral part of the contractual terms of a loan (e.g. based on whether it is entered into at the same time as the loan, or on whether it is mentioned in the contractual terms). Commenters pointed out that the standard does not specify whether cash flows from FGCs held should be accounted for separately, resulting in diversity in practice in how ECL are calculated. Application questions submitted to the IFRS Interpretations Committee (IFRS IC) and the ITG[3] also support this point. In response, the staff noted that the term "integral" is used in other standards, and any changes to IFRS 9 could thus have unintended consequences;
- how to account for a **non-integral FGC held**: commenters highlighted the different recognition thresholds for a reimbursement asset under IAS 37 and ECL under IFRS 9, resulting in a potential timing mismatch between recognition of the provision and recognition of the corresponding FGC held. On this topic, the staff noted that a mismatch is not necessarily an unfaithful representation of the economic substance, and moreover, as the topic also has implications for other standards, such as IAS 37, developing accounting requirements would lie outside the scope of the PiR of IFRS 9;

[3] The Transition Resource Group for Impairment of Financial Instruments is a working group whose remit was to answer practical application questions on ECL. The group met three times in April, September and December 2015 and provided answers to 22 questions, which can now be used to support implementation of IFRS 9.

- how to account for an **FGC issued** for which premiums are received over time: commenters noted that there are two different approaches, namely a gross approach, under which the preparer recognises a receivable for the premiums to be received and a liability for the obligation arising from the guarantee issued; and a net approach, under which the two amounts cancel each other out if the guarantee payments are made under normal market conditions. The IASB staff noted that this debate is not new, and different accounting frameworks require different approaches (e.g. US GAAP requires a gross approach and IFRS 17 a net approach). Changes to the standard are thus beyond the scope of the IFRS 9 PiR, in that the divergence in practice is not directly related to the ECL approach, but rather to presentation.

The Board acknowledged the issues raised, but decided to assign them a low priority for the moment, and to reconsider them at the next five-year agenda consultation.

Purchased or originated credit-impaired assets (POCI)

Some commenters criticised the specific approach set out in IFRS 9 for the recognition of ECL for POCI financial assets, stating that it is operationally burdensome and questioning whether it provides a more faithful representation of the economic substance of these assets.

The Board decided not to undertake any standard-setting work, as the staff concluded that these comments were isolated and did not reflect the general support for the approach in feedback on the 2013 exposure draft on expected credit losses.

The Board also discussed two application questions raised by commenters, on:

- **how to account for subsequent improvements in credit risk for POCI assets**: the staff noted that IFRS 9 clearly specifies (para. 5.5.14) that an entity should account for this improvement in profit or loss as an impairment gain or loss (and not as an adjustment to the carrying amount of the asset). The IASB thus decided not to take any further action;
- cases in which substantial modifications to a restructured loan result in derecognition of the asset and recognition of a new loan: the staff noted that:
  - the definition of POCI assets in IFRS 9 provides a sufficient basis to determine whether the new loan is credit-impaired at initial recognition and should be classified as POCI;
  - it is possible to determine the fair value of POCI assets even if unobservable inputs must be used.

Interaction of impairment requirements with other requirements of IFRS 9

Commenters noted that there was insufficient information to enable preparers to determine:

- whether the term "cash shortfalls" should be limited only to those arising from **credit risk**, or whether it has a broader scope, including those arising from the risk of litigation or financial concessions required by law or public authorities;
- how to classify changes in expected cash flows in various different circumstances: ECL, revisions of estimated contractual cash flows (as in paragraph B5.4.6 of IFRS 9) or write-off; and the order in which these requirements should be applied;
- whether modifications are carried out for commercial purposes or forbearance (i.e. concessions because the borrower is in financial difficulty);
- how to account for write-offs that are greater than ECL recognised and recoveries from amounts previously written-off in the statement of profit or loss.

The Board decided not to take any further standard-setting action on these topics, based on the staff analysis, which noted that the standard clearly states that:

- ECL must be recognised for all cash shortfalls, regardless of whether or not they are related to a borrower's financial difficulties;
- the carrying amount should be adjusted first, and ECL measured subsequently on the basis of the adjusted amount.

However, the staff analysis acknowledged that clarifications are required on some topics. The Board has thus decided to address questions related to the following topics as part of its project on Amortised Cost Measurement:

- presentation of gains and losses arising from modifications relating to concessions for financial difficulties;
- interactions between write-offs, modifications to contractual cash flows, derecognition, revisions of estimated contractual cash flows and ECL;
- presentation requirements for losses arising from write-offs and gains arising from recoveries of amounts previously written-off.

Credit risk disclosures – IFRS 7

Commenters wanted greater consistency between preparers in credit risk disclosures, and some also suggested reducing the disclosure burden for non-financial entities.

In this context, the IASB staff recommended classifying this topic as medium priority, and carrying out a standard-setting project to make targeted improvements, focusing particularly on:

- sensitivity analyses, post-model adjustments (PMAs), significant increases in credit risk (SICR), forward-looking information, and reconciliation of the ECL allowance and changes in gross carrying amount of assets;
- whether it is possible to adapt the disclosure requirements for non-financial entities, which tend to have less sophisticated information systems.

Commenters also identified diversity in practice in the presentation and level of aggregation of classes of financial instruments. The Board decided not to take any further standard-setting action on this topic, as paragraph 6 of IFRS 7 is considered to be sufficiently specific.

Other matters

The PiR attracted comments on two further topics:

- **applying the simplified approach**: some commenters suggested additional guidance on how to adjust historical data to reflect forecasts, and how to estimate ECL in the absence of historical data. In response, the staff noted that the standard does not require a mechanistic approach to the measurement of ECL; rather, an entity should use reasonable and supportable information that is available without undue cost or effort;
- **intragroup loans and guarantees**: in the agenda papers for the February 2024 Board meeting, the staff noted that they planned to seek input from the IFRS Interpretations Committee (IFRS IC) to help them assess the application difficulties raised. These discussions revealed that the difficulties primarily arise from the lack of information on credit risk management and from the specific features of these instruments, rather than from any deficiencies in the requirements of IFRS 9.

In this context, the IASB eventually decided, with a majority of 8 votes out of 14, not to undertake any standard-setting action on these two topics.

The Board also decided to conclude the Post-implementation Review of IFRS 9, Phase 2. The next step will be to publish a project summary and feedback statement, subject to approval from the Due Process Oversight Committee.

Contracts for Renewable Electricity (PPAs and VPPAs): IASB publishes exposure draft of proposed amendments to IFRS 9 and IFRS 7

This exposure draft is structured around three themes: the rules on own-use classification, changes to the hedge accounting requirements, and disclosures required in the notes. The comment period runs until 7 August 2024.

After giving the first broad-brush outline of this project at its March 2024 meeting (see **Beyond the GAAP no. 186**, March 2024), on 8 May the IASB published the exposure draft (ED) of proposed amendments to IFRS 9 and IFRS 7 on contracts for the purchase of renewable electricity (power purchase agreements or PPAs and virtual power purchase agreements or VPPAs). The ED is available here.

The proposed amendments are currently located within Chapter 6 of IFRS 9 on hedge accounting, including those that relate to own-use classification. However, the IASB may relocate the amendments on own-use classification when the final version is published.

The exposure draft was approved by the IASB with a majority of 12 votes out of 14.

Scope (§6.10.1-6.10.2)

The amendments cover both physical power purchase agreements (traditional purchase/sale contracts) and virtual power purchase agreements (which require net settlement of the difference between the contractually agreed price and the market price) that meet the following two criteria:

- production is nature-dependent and cannot be guaranteed for given volumes or over set periods ("risk of intermittency");
- the purchaser of the electricity is exposed to substantially all of the volume risk (i.e. the risk that the volume of electricity produced will not correspond to its consumption needs at the time of delivery). The exposure to volume risk usually results from i) the risk of intermittency inherent in the production method; ii) the inclusion of "pay-as-produced" clauses in the contract; and iii) non-linear consumption.

These two criteria are usually met by renewable energy from **wind** or **solar** power, but not by energy produced from biomass and not necessarily by hydroelectric energy, as it is possible to regulate production.

In contrast, renewable energy certificates (RECs) and similar certificates, which often accompany these contracts, are not included within the scope of the amendments. They will be addressed under the IASB's future project on pollutant pricing mechanisms.

The amendments emphasise the fact that the scope is strictly limited and the rules on own-use classification and hedge accounting may not be applied by analogy to other contracts, items or transactions (para. 6.10.2). Thus, it would not be possible to apply the amendments to contracts for the purchase of non-renewable electricity, or to currency risk hedges that are contingent on a business combination or the success of a call for tenders.

Own-use classification (§6.10.3)

IFRS 9 includes an exception for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (the so-called "own-use" exception).

In the proposed amendments, classification as "own use" from the buyer's point of view would be subject to compliance with the following two conditions, considered at inception of the contract and at each subsequent reporting date:

- the volumes of renewable electricity remaining to be delivered during the residual term of the contract correspond to the purchaser's expected usage requirements, estimated on the basis of reasonable information available at the reporting date, with no need to make a detailed estimate for periods that are far in the future. However, an entity must consider expected changes over a period not less than one year after the reporting date, or the entity's normal operating cycle;
- the existence of any (past or future) sales of excess renewable electricity by the consumer does not invalidate the "own-use" classification, provided that:
  - the sale arises from the volume risk (as defined in the scope, above), which gives rise to temporary mismatches between production and consumption;
  - the design and operation of the market are such that the entity cannot determine the timing or price of such sales;
  - the sale is offset by the purchase of at least an equivalent volume of electricity within a "reasonable time". The IASB cites one month as an example, explaining in the Basis for Conclusions that this example was included to illustrate that a reasonable time is typically a short time. However, should this example be retained in the final amendments, entities with energy consumption profiles that are subject to seasonal constraints could be excluded from the scope.

All these conditions must be met for a PPA to be classified as "own-use". Otherwise, it would be accounted for as a derivative.

Hedge accounting (§6.10.4 to 6.10.6)

The proposed amendments relate only to IFRS 9, and not the previous standard IAS 39, which can still be applied to hedge accounting.

The amendments relate to the **requirements regarding the definition of a hedged item** when designating a cash flow hedging relationship where the **hedging instrument** is:

- a **renewable electricity contract** within the scope defined above;
- **classified as a derivative**, because it corresponds either to a virtual PPA ("VPPA") or to a physical PPA contract that does not qualify as own use ("failed own use"); and
- whose **notional amount is variable** due to the risk of intermittency.

The ED specifies that in this type of hedging relationship, the hedged item also can be defined as having a variable notional amount if the following conditions are met:

- the hedged item is specified as the variable volume of electricity to which the hedging instrument relates;
- the variable volume hedged does not exceed the estimated volume of future electricity transactions that are highly probable, over the residual duration of the contract. In practice, this criterion will only apply to the purchaser of electricity, with regard to its estimated consumption. From the electricity seller's point of view, the amendment means that in this situation the "highly probable" criterion need not be applied, if the hedged volumes correspond to all or a proportion of the volumes inherent in the hedging instrument. In fact, in this situation, the volumes defined as hedged items are by nature equal to the volumes underlying the hedging instrument, and therefore application of the "highly probable" criterion is not relevant.

Thus, the hedged item is **measured using the same volume assumptions as those used for the hedging instrument**. As a result, a VPPA designated as a hedging relationship does not create any ineffectiveness due to variability in the notional volume, from either the buyer or the seller's point of view. However, the other criteria used to define the hedged item – such as price, timing or the local reference market for supply – cannot replicate those of the hedging instrument, and thus remain potential sources of hedge ineffectiveness.

The effect of the proposed amendments would be to:

- introduce an exception to the principles of the hypothetical derivative method (IFRS 9 B6.5.5), which prohibit the replication on the hedged item of features that only exist in the hedging instrument. If the amendment is confirmed, a purchaser could designate as the hedged item the variable volume of renewable electricity that is produced by the seller's facility and that is

used to calculate the price differentials in the hedging contract;

- introduce an exception to the March 2019 agenda decision on load following swaps (relating to paragraph 6.3.3. of IFRS 9), which prohibits the designation as a hedged item of an exposure with a variable notional amount, due primarily to the constraints imposed by strict application of the concept of "highly probable".

Disclosure requirements (IFRS 7, §42T-42W)

The proposed disclosure requirements are intended to enable users of financial statements to understand the effects of contracts for renewable electricity on the amount, timing and uncertainty of the entity's future cash flows.

An entity should disclose the following information for all its contracts for renewable electricity:

- the terms and conditions of the contracts, such as: their duration, their type of pricing (including whether they include price adjustment clauses), minimum or maximum quantities to be delivered, cancellation clauses and whether they include Renewable Energy Credits (RECs);
- for contracts not measured at fair value[4], either:
  - the fair value of the contracts at the reporting date, accompanied by the information required by paragraph 93(g)-(h) of IFRS 13[5]; or
  - the following information:
    - the volume of renewable electricity the entity expects to sell or purchase over the remaining duration of the contracts, broken down by maturity (less than one year; between one and five years; more than five years);
    - the methods and assumptions used in preparing this information, including any changes since the previous reporting period and the reasons for such changes.

In addition, the proposed amendments to IFRS 7 would require the following disclosures for the reporting period:

- for sellers: the proportion of renewable electricity to the total electricity sold;
- for purchasers:
  - the proportion of renewable electricity to the total volume of electricity purchased;
  - the total net volume of electricity purchased irrespective of the source of production;
  - the average market price per unit of electricity in the markets in which the entity purchased electricity; and
  - if the actual cost of purchasing electricity differed substantially from the hypothetical cost under market conditions (calculated by multiplying the net volume purchased by the average market price), a qualitative explanation for this difference.

Finally, the ED requires entities to consider the appropriate level of aggregation or disaggregation for presenting these disclosures.

Transition requirements (IFRS 9, §7.2.50 to 7.2.52)

An entity would be required to apply the proposed amendments as follows:

- **retrospectively** for the own-use requirements, in accordance with IAS 8, without requiring the entity to present comparative information for prior periods. The impacts of the amendments would thus be recognised in opening retained earnings for the first period of application;
- **prospectively** for the hedge accounting requirements. However, during the period of first application, the entity would be permitted to alter the designation of hedged items in already designated cash hedging relationships, without resulting in discontinuation of the hedging relationship. Although not explicitly stated in the ED, the impacts of the change on the effectiveness calculation would only be prospective, or in other words, it would not be

[4] That meet the own use criteria and are not designated under the fair value option

[5] That is, for Level 3 fair values:

- a description of the valuation processes used by the entity (IFRS 13 para. 93(g))
- a description of the sensitivity of the fair value measurement to changes in unobservable inputs, if a change in the amount of those inputs might result in a significantly higher or lower fair value measurement (IFRS 13 para. 93(h)(i))

possible to retrospectively restate ineffectiveness recognised prior to the date of initial application as an effective component of the pre-existing hedging relationship;

- The IASB also tentatively decided:
  - to exempt an entity from disclosing, for the current period and for each prior period presented, the quantitative information required by paragraph 28(f) of IAS 8;
  - to permit early application of the proposed amendments from the date the final amendments are published, provided that this is disclosed.

Effective date

The IASB is planning to publish the final amendments by the end of 2024. The ED asks commenters whether they think an effective date of 1 January 2025 would be appropriate. However, if this date is chosen, it may take until 2025 for the final amendments to be adopted by the European Parliament and Council, which is necessary before they can enter into force in the EU.

Publication of Interoperability Guidance to ESRS and ISSB Standards

Formalising the high level of alignment achieved between ESRS and IFRS, this guidance should help entities to reduce redundancy, complexity and fragmentation in the information they publish when applying both sets of standards.

On 2 May 2024, EFRAG (the European Commission's technical advisor for drafting the European Sustainability Reporting Standards, ESRS) and the ISSB published a joint document entitled *ESRS-ISSB Standards Interoperability Guidance*, available **here**.

This document formalises **the high level of alignment achieved between ESRS and IFRS standards** on sustainability disclosures. It should therefore help entities to reduce redundancy, complexity and fragmentation in the information they publish when they wish to apply both ESRS and ISSB standards.

This guidance represents the culmination of discussions that began several months ago to ensure that, in practice, an entity required to publish a sustainability statement in compliance with the ESRS standards can also declare itself compliant with ISSB standards by publishing very limited additional information. These disclosures may also be published directly in the sustainability statement, in accordance with the conditions set out in paragraph 114 of ESRS 1.

EFRAG and the ISSB clarify that this document **must be read in conjunction with the relevant standards,** and that an entity cannot rely on this guidance in isolation. Nor is this document a formal statement of equivalence between the two sustainability reporting frameworks. At the European level, only the Commission has the legal standing to determine which reporting framework can be considered as equivalent to ESRS.

The EFRAG/ISSB guidance breaks down into four sections:

- the 1st section addresses **interoperability in terms of the general sustainability disclosure requirements, including topics other than climate.** It will be recalled that, at this stage, the IFRS reporting framework consists solely of IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial information*, and IFRS S2, *Climate-related Disclosures*. This first section clarifies that the definition of financial materiality in ESRS 1 is aligned with the definition of materiality in IFRS S1. In practice, the financial materiality assessment carried out under each framework should therefore lead to an aligned result. Consequently, a single process may be used to identify material information related to material risks and opportunities, even if an entity wishes to declare itself compliant with both ESRS and IFRS;
- the 2nd section shows, by mapping the requirements of IFRS and ESRS, that **almost all the climate-related disclosures required under IFRS are included in ESRS** (via two standards: ESRS 2, *General disclosures* and ESRS E1, *Climate change*). Footnotes are used to explain certain datapoints whose wording may seem to require different disclosures depending on the reporting framework in question, whereas what is actually required is essentially the same (according to the analysis carried out by EFRAG and the ISSB). Mapping also highlights the topics for which reference should be made to section 3 of the guidance in order to extend the analysis of alignment when a company first publishing under ESRS also wishes to comply with IFRS. It also draws attention to the subjects where it is appropriate to refer to section 4 for a more detailed analysis of alignment when an entity first publishing under IFRS also wishes to apply ESRS;
- the 3rd section, which is particularly useful for companies within scope of the CSRD that wish to declare themselves compliant with ISSB standards, highlights the **topics likely to create a gap between ESRS and IFRS sustainability reporting**. These may therefore require additional disclosures in relation to ESRS requirements. Therefore, section 3.1 presents the points to consider concerning:

    - transition plan assumptions;
    - scenario analysis;
    - industry-based metrics;
    - the disaggregation of greenhouse gas emission disclosures;
    - climate-related opportunities;
    - capital deployment; and
    - carbon credits.

  Very few factors in these seven areas must be addressed in order to assert compliance with IFRS, but each entity concerned must ensure that it provides the right level of information.

  Only one topic covered by IFRS S2 is omitted by ESRS E1: financed emissions (see section 3.2). An undertaking in the financial sector will therefore have to provide information additional to that requested under ESRS.

- the final section of the guidance sets out the **disclosures required by ESRS that have no equivalent in IFRS standards.** In practice, the additional disclosures required from an entity also wishing to comply with ESRS will depend on the outcome of the double materiality assessment.

For more information, we invite you to visit the **replay** of the 23 May webinar, jointly organised by EFRAG and the ISSB, which presents the guidance.

EFRAG issues ESRS implementation guidance on three initial topics

These first three documents provide implementation guidance on materiality assessment (IG 1), the value chain (IG 2) and the list of datapoints in the ESRS (IG 3), providing practical explanations and clarifying the provisions of the standards on these topics.

On 31 May, EFRAG issued implementation guidance on three initial topics to assist in the implementation of the first set of 12 sector-agnostic ESRS. Drafts were open to public consultation from 22 December 2023 to 2 February 2024 (see Beyond the GAAP no 183 of December 2023). EFRAG's Sustainability Reporting Board (SRB) took the time to review the feedback it received and redeliberated priority topics. The guidance published at the end of May is now definitive, but may be supplemented in the coming months to cover related topics not yet addressed.

EFRAG's first three implementation guides are:

- **IG 1 *Materiality Assessment***: this guidance (accessible here) covers the analysis of double materiality and the application of the materiality principle to disclosures. It provides particularly useful and valuable practical insights for applying the main principles set out in ESRS 1 on these topics, the challenge ultimately being to provide, in the sustainability statement, the material disclosures covering the material impacts, risks and opportunities (IROs) identified by the entity in light of its own operations, but also in relation to its upstream and downstream value chain;
- **IG 2 *Value Chain***: this document (accessible here) describes and lists the reporting requirements related to the value chain. IG 2 thus provides a clearer and more accurate picture of ESRS requirements in this area. It also discusses the scope of consolidated sustainability reporting, including the application of the 'operational control' principle used in three environmental standards (ESRS E1 on climate change, ESRS E2 on pollution and ESRS E4 on biodiversity);
- **IG 3 *List of ESRS datapoints***: this guidance aims to help entities to prepare their first sustainability statement under ESRS. EFRAG has in fact issue two documents:
    - an **Excel file** (accessible here) containing the list of datapoints (the most granular level of information in ESRS) included in the Set 1 Disclosure Requirements (DRs) and in the corresponding Application Requirements (ARs);
    - an explanatory note (accessible here) presenting the differences between IG 3 and the future XBRL taxonomy which will be used for tagging sustainability disclosures in accordance with ESRS. This note also includes some interesting statistics on the number of datapoints in Set 1.

It is important to highlight that **this guidance is not of mandatory application, unlike the ESRS.** It cannot contradict or even interpret the standards, but rather supports their implementation during first-time application, when preparers, auditors, regulators, etc. have many questions. These guides therefore form a **particularly useful information source and it seems appropriate to consult them**. They have been developed for use by large listed and unlisted companies that are subject to the Corporate Sustainability Reporting Directive (CSRD). They are not intended for use by small and medium-sized enterprises, which in time will have their own ESRS.

IG 1 - Materiality assessment

After an introduction, this implementation guidance is structured in four major sections covering the following topics:

- **the ESRS approach to materiality:**
    - implementing the concept of double materiality
    - sustainability matters for the materiality assessment
    - criteria to determine the materiality of information

- scope of application of the materiality of information
- datapoints derived from other EU legislation
- consideration for upstream/downstream value chain

- **how the materiality assessment is performed**, where EFRAG suggests a four-step approach:
  - Step A: understanding the context;
  - Step B: identification of the actual and potential IROs related to sustainability matters;
  - Step C: assessment and determination of the material IROs related to sustainability matters; and
  - Step D: reporting.

This section also covers:

- the role and approach of stakeholders in the materiality assessement;
- a focus on setting thresholds for impact materiality and financial materiality;

- **how undertakings could leverage other sources,** such as:
  - Global Reporting Initiative standards (GRI);
  - International Sustainability Standards Board standards (ISSB);
  - international instruments of due diligence;
  - other frameworks or sources (e.g. Taskforce on Nature-related Financial Disclosures or TNFD, ISO/IEC standards, CEN/CENELEC standards;
- **responses to 25 frequently asked questions (FAQs)** on:
  - impact materiality;
  - financial materiality;
  - the materiality assessment process;
  - stakeholder engagement;
  - aggregation/disaggregation;
  - reporting;
  - the link with Article 8 of the European Regulation on the taxonomy of sustainable activities.

It is also worth noting that **IG 1 draws on IG 2** to develop the topic of materiality assessment upstream and downstream in the value chain.

With IG 1, EFRAG clarifies some important topics, in particular:

- **how to identify material IROs at a group level** (see section 3.6.3 in relation to FAQ 13);
- **how to take account of the requirement of ESRS 1 chapter 7.6** (see also chapter 3.6.3 of IG 2), in line with the reporting exemption granted by the CSRD to subsidiaries that are large companies (excluding large listed entities). Under ESRS 1, when a company identifies significant differences between the material IROs at group level and the material IROs of one or more of its subsidiaries, it must provide an appropriate description of the material IROs of the subsidiary or subsidiaries concerned;
- **what should be the scope for calculating the metrics** published for material IROs at group level (see FAQ 22);
- the fact that **the sustainability statement may include additional information required by some stakeholders** even if these disclosures do not relate to identified material IROs.

IG 1 emphasises that **there is no single way to conduct the materiality assessment**, particularly in the case of a group (which may have diverse activities, or could be a conglomerate). This means taking account of the facts and circumstances specific to the entity in relation to its business model (and hence its activities, the geographical areas covered, its value chain(s), etc.), its strategy, its legal organisation, its complexity and its governance. The materiality assessment, for the identification of both material IROs and the material disclosures to be reported, is a **complex exercise requiring the use of judgment**.

IG 2 - Value chain

After an introduction, this implementation guidance is structured in three major sections covering the following topics:

- **navigating the value chain** under CSRD and ESRS:
  - definition of the value chain
  - why the value chain is important
  - from own operations to value chain
  - disclosures on the value chain: information on IROs in the value chain, coverage of the value chain in disclosures on policies, actions and targets, but also in the metrics reported;

- transitional provisions affecting the value chain:
- limitation applicable to listed SMEs ("LSME cap") when collecting information on the value chain, and impacts on reporting;

- **11 FAQs** including an example illustrating the reporting perimeter of ESRS E1 on climate change, including how to apply the concept of operational control (FAQ 6), and a numerical example illustrating disclosures of greenhouse gas emissions (GHG), also under ESRS E1 (FAQ 7). Other topics are also addressed:
  - determining the value chain: where the VC begins and ends, the treatment of financial assets;
  - the link to the materiality assessment process: identification of material IROs across the value chain, disclosures on the value chain in the context of materiality assessment;
  - determining disclosures related to the value chain: assessing and quantifying impacts arising from business relationships, the concept of 'reasonable effort' when collecting data, the use of estimations, reporting an instance of corruption in the value chain;
- **a value chain coverage map** illustrating the type of coverage of VC information that is required by each specific Disclosure Requirement in sector-agnostic ESRS. This provides an exhaustive list of those few datapoints requiring value chain disclosures. In practice, only datapoints in Disclosure Requirements E1-6 (gross GHG emissions from Scopes 1, 2 and 3 and total GHG emissions) and E1-7 (GHG absorption and mitigation projects financed by carbon credits) require the inclusion of quantitative data in respect of the value chain. Some datapoints related to narrative disclosures also call for the value chain to be covered. In both cases, IG 2 emphasises that this does not necessarily entail collecting data from actors in the value chain. Furthermore, the map does not *de facto* cover entity-specific information which is the responsibility of the company and which must, where appropriate, be reported in order to provide the right level of information on material IROs in the value chain.

In IG 2, EFRAG clarifies that:

- for the implementation of the three environmental standards ESRS E1, ESRS E2 and ESRS E4, the ESRS set out an **additive approach** (see decision tree in paragraph 59) whereby the scope of sustainability reporting must first be defined and **aligned with the scope of financial reporting**. In practice, for a group, this scope includes not only the parent company and controlled subsidiaries, but also all assets recognised in the balance sheet, including assets (or shares of assets) controlled as part of joint arrangements under IFRS 11. We then need to add the items under operational control, a concept derived from the GHG Protocol. However, contrary to the GHG Protocol when the 'operational control' approach is adopted (several approaches are in fact permitted by the GHG Protocol for calculating GHG emissions), under ESRS situations of operational control should **only be identified for items that are not already under the financial control of the company.** In other words, the ESRS assume that operational control necessarily exists where there is financial control. In practice, the analysis must be carried out for associates (under significant influence) and joint ventures (under joint control), but also, more generally, for any asset, site or entity over which the entity is likely to exercise operational control. EFRAG therefore makes it clear that situations of operational control are not limited to situations where the entity holds a financial interest in another entity, contrary to what ESRS E1 may seem to suggest. **However, IG 2 does not clarify how judgment is to be exercised in identifying the presence of operational control**, although it does state that the absence of the power to take all the decisions concerning a transaction does not affect the determination of operational control;
- **entity-specific disclosures should be added where appropriate to cover the value chain.** For example, if an ESRS standard does not formally require the value chain to be considered under a given metric, but this information would be relevant to an identified material IRO relating to the value chain, the entity is expected to provide this information in its sustainability statement. IG 2 also points out that entity-specific disclosures are **mandatory from the first year of reporting**, and that for as long as the sector-specific ESRS are not available, the company must take this into account in the entity-specific

information it provides. Where appropriate, the company can draw on the best reporting practices available;

- for a given investment, in the absence of operational control over the entity and of any transactions with it (no customer/supplier type business relationships, for example), **GHG emissions must be reported for that entity under the Scope 3 category 15, Investments, up to the level of the share of interest held.**

Although EFRAG has provided a number of welcome clarifications, there is no doubt that, as with IG 1, many practical questions will arise when implementing the ESRS on the topic of the value chain.

IG 3 - List of ESRS datapoints

This tool aims at **supporting undertakings in their preparation of the first sustainability statement** and can be used as a basis to perform a data gap analysis, i.e. the analysis of the gaps between (i) information already disclosed or available and (ii) the disclosures required by the standards.

The Excel file published by EFRAG is **organised by standard** (with a tab for the minimum disclosure requirements under ESRS 2 on General disclosures). For each one, all the datapoints contained in the Disclosure Requirements (or DRs) and their corresponding Application Requirements (or ARs) are presented in the form of a list. The file also contains additional information in columns, indicating for each DP:

- its **classification** (or 'data type'): for example, whether the information requested is narrative or quantitative (in which case the type or unit of measurement of the data is specified);
- its **characteristics**: for example, whether its application is voluntary ('may disclose') or conditional (information required solely under particular circumstances);
- any other EU legislation from which it derives;
- the applicable transitional provisions.

The explanatory note that accompanies this Excel file provides details on each of these additional items of information, as well as instructions for navigating the document. It also explains the relationship between IG 3 and the draft XBRL Taxonomy (*eXtensible Business Reporting Language*) applicable to Set 1 that is also being developed by EFRAG (see Beyond the GAAP no 184 of January 2024). As a reminder, the taxonomy involves associating each datapoint with an XBRL element, known as a 'tag', so that the sustainability information can eventually be tagged.

Against this background, the explanatory note highlights the following points:

- **these two documents do not carry the same level of authority:** IG 3 is a document to support the implementation of the ESRS, but it is non-authoritative, whereas the XBRL taxonomy is part of the obligation under the CSRD to present the management report (including the sustainability statement) in the Single European Electronic Format (ESEF) and will therefore ultimately have to be adopted by the European Commission;
- **the approach to datapoints is different:** IG 3 is used to draft a human-readable report, while the XBRL taxonomy is used to make the report machine-readable. This gives rise to technical and methodological differences (such as the level of granularity or the classification that data can take) and preparers must be attentive to these. These aspects are summarised in the explanatory note.

However, EFRAG says that IG 3 and the XBRL taxonomy have been prepared with a view to **full consistency** and can be used in a complementary manner. For example, preparers could use IG 3 as an **intermediate step on the way to digitalising the sustainability statement**.

The summarised responses received by the SRB during the public consultation (feedback statement available here) give an overview of the points raised by stakeholders and the changes made to the draft IG 3 published last December. These changes include the insertion of a hypertext link for each datapoint leading to the reference text (in order to limit the length of the descriptions), **as well as changes to the list of datapoints**. These changes are listed in detail at the end of the feedback statement. This should make it easier for those preparers who started their transition to ESRS using the list published in December to identify the changes made by EFRAG.

Following this work, EFRAG has identified a **total of 1,052 datapoints**, excluding the minimum disclosure requirements under ESRS 2, which correspond to 34 datapoints. As a reminder, each time an entity

reports a policy, action, target or metric, it must comply not only with the relevant topical standards, but also with these minimum disclosure requirements.

These 1,052 datapoints break down as follows:

- **161 DPs are not subject to a double materiality assessment** and are therefore mandatory for all entities. This covers all the DPs under ESRS 2, but also the additional information listed in the topical standards under DR IRO-1 of ESRS 2, which states that entities must describe their process for identifying material IROs;
- **622 DPs are subject to a materiality assessment** and do not have to be published in a systematic way by every entity;
- **269 DPs** are voluntary in nature ('*may disclose'*).

Further implementation guidance is expected to follow in the coming months, as EFRAG has already begun work on climate transition plans and the relationship between DRs and the sustainability issues listed in paragraph AR 16 of ESRS 1.

Contacts

Edouard Fossat
Partner, Forvis Mazars, France
edouard.fossat@mazars.fr

Carole Masson
Partner, Forvis Mazars, France
carole.masson@mazars.fr

Contributors to this issue:

Colette Fiard, Vincent Gilles, Clémence Lordez, Laura Niewiadomskyj, Isabelle Torio-Valentin, Pierre Savu, Arnaud Verchère and Paul Winrow

Forvis Mazars Group SC is an independent member of Forvis Mazars Global, a leading global professional services network. An internationally integrated partnership operating in over 100 countries and territories. Forvis Mazars Group specialises in audit, tax and advisory services. The integrated partnership draws on the expertise and cultural diversity of its teams - more than 35,000 professionals worldwide - to assist clients of all sizes at every stage in their development.
Go to forvismazars.com to find out more.

© Forvis Mazars 2024