



Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

Contents

02	Editorial
02	IFRS Highlights
08	European Highlights
09	Standards and interpretations applicable at 31 December 2022
12	EFRAG submits the long-awaited first set of draft European Sustainability Reporting Standards to European Commission

Editorial

As 2022 year-end closing approaches, we present our traditional overview of the new standards and amendments applicable at 31 December 2022. Once again, no major new standards have been published this year, but disclosures are required on the impact of standards issued by the IASB but not yet effective, particularly for insurers in view of the entry into force of IFRS 17 – Insurance Contracts on 1 January 2023.

This month, non-financial reporting has again dominated the news. On 22 November 2022, exactly a week after the Sustainability Reporting Board vote, EFRAG submitted the first set of European Sustainability Reporting Standards (ESRS) to the European Commission (EC), laying the foundations of the standardised common language for sustainability-related matters throughout Europe, as required by the Corporate Sustainability Reporting Directive (CSRD) which will be published in the Official Journal of the European Union in December 2022.

IFRS Highlights

Goodwill and Impairment: IASB votes to retain the impairment model

At its November 2022 meeting, the IASB (International Accounting Standards Board) again discussed whether to retain the impairment-only model or to explore reintroducing goodwill amortisation.

In the absence of convincing evidence that would justify a change from one model to the other, the IASB has tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.

Proposed additional amendment to IFRS 9 and conclusion of Phase 1 of the IFRS 9 PiR

At its November 2022 meeting, the IASB continued its discussions on the proposed amendment to IFRS 9 – *Financial Instruments* as part of Phase 1 of the post-implementation review (for full details of the PiR of IFRS 9 – Phase 1, see Beyond the GAAP no. 159 of October 2021).

The IASB's November 2022 decisions cover the following topics:

- the application of the SPPI test to contractually linked instruments (CLI);
- providing an accounting option for the derecognition of a financial liability by an entity making a cash transfer through an electronic payment system;
- the conclusion of Phase 1 of the IFRS 9 PiR.

Contractually linked instruments (CLI)

At its September 2022 meeting, the IASB tentatively decided to amend IFRS 9 to clarify the application of the SPPI test to debt assets. These amendments would address the general principles of the SPPI test on debt assets with non-recourse features and CLI (see Beyond the GAAP no. 169 of September 2022).

For CLI assets, the IASB decided at its November 2002 meeting to clarify how the analysis should be conducted in the case where an entity, having transferred receivables to a special purpose vehicle (SPV), retains an economic exposure to the transferred receivables, for example in the

form of a subscription to a subordinated debt issued by the SPV. In such cases, the exposure retained by the transferor should not be taken into account in determining whether the debt instruments issued by the SPV should qualify as CLI. From the point of view of the holder of the SPV debt, which would not be the entity that assigned the receivables, this means that the CLI analysis would not be applicable provided that there are no other instruments issued by the SPV. Consequently, the external financing entity should apply the guidance on non-recourse debt assets to determine whether or not the debt asset it holds qualifies as SPPI.

Providing an accounting option for the derecognition of a financial liability by an entity making a cash transfer through an electronic payment system

Readers will remember that this topic was initially the subject of a tentative agenda decision by the IFRS Interpretations Committee (IFRS IC) in September 2021 as to when a trade receivable could be derecognised when it was settled by electronic funds transfer. The question was whether the derecognition date of the trade receivable was the date when the debtor initiated the transfer of funds or the date when the claim was settled. The IFRIC IC had tentatively concluded that:

- the derecognition date of the trade receivable is the date on which the rights to the cash flows expire, which depends on the contractual and legal environment of the entity;
- the recognition date for cash received is the settlement date, i.e. the date on which the funds are actually available in the entity's bank account;
- when the derecognition date of the trade receivable is earlier than the

recognition date of the cash, a bank receivable must be recognised.

In response to mixed reactions from stakeholders, the IASB decided in September 2022 not to endorse the IFRS IC's tentative agenda decision, but to consider a narrow-scope amendment to IFRS 9 that could be incorporated into the amendments resulting from Phase 1 of the IFRS 9 PiR.

After confirming this approach at its October 2022 meeting, the IASB clarified the provisions of the proposed amendment at its November 2022 meeting.

These provisions provide an accounting option enabling an entity that initiates a payment in settlement of a financial liability to derecognise that liability before the actual settlement date, i.e. before the date on which cash is actually made available to the creditor.

This option would be authorised for an entity issuing a payment:

- only when the payment is made in the form of an electronic funds transfer;
- when the three following criteria are cumulatively met:
 - the entity does not have the ability to withdraw, stop or cancel an electronic payment instruction;
 - the entity has lost the practical ability to access the cash as a result of the electronic payment instruction; and
 - the settlement risk associated with the electronic payment instruction is insignificant, which assumes that (i) the period between the payment initiation date and the settlement date is relatively short and is standardised for the particular payment system concerned (in order to minimise the risk of default of the

payment issuer during this period); and (ii) completion of the payment instruction follows a standard administrative process (so that the debtor has reasonable assurance that the transfer will be completed and the cash will be received by the creditor).

It will of course be necessary to keep an eye on the drafting of this amendment to see if the IASB introduces additional elements resulting from the IFRS IC's deliberations (for example concerning the date of derecognition of the receivable, or the date of recognition of the received cash).

Conclusion of Phase 1 of the IFRS 9 PiR

The IASB has concluded its consideration of the feedback received in Phase 1 of the Post-implementation Review of IFRS 9 and tentatively decided:

- to make no changes to IFRS 9 in respect of:
 - presentation of changes in the value of own credit risk on financial liabilities optionally designated at fair value; and
 - the presentation and measurement of financial liabilities;
- to conclude the Post-implementation Review, asking the staff to prepare a report summarising the responses provided by the IASB during this phase; and
- to set a 120-day comments period as part of its due process following publication of the exposure draft on the proposed amendments to IFRS 9 and IFRS 7.

OECD Pillar Two: IASB proposes limited-scope amendments to IAS 12, with an accelerated procedure

At its November 2022 meeting, the IASB decided to add to its work plan a project for an accelerated, limited scope amendment to IAS 12 – *Income Taxes*.

The purpose of this amendment would be to address stakeholders' concerns about the impact of the Pillar Two model rules on accounting for deferred taxes.

The Pillar Two model rules, published by the OECD in December 2021, define the scope of the global rules against tax base erosion (GloBE rules) and are expected to form the basis for the introduction of a minimum tax rate of 15% for multinational entities (MNEs) from 2023.

At the end of its November 2022 meeting the IASB tentatively decided to introduce:

- a temporary exception (i.e. the exception would apply until the IASB removes it or makes it permanent) to the recognition of deferred taxes resulting from the implementation of these Pillar Two model rules, which would become effective when the final amendment is published; and
- targeted disclosure requirements, which would be applicable to current reporting periods at 1 January 2023.

An exposure draft is expected to be published in January 2023, with a 60-day comments period due to the fast-track nature of the project, and subject to approval by the Due Process Oversight Committee.

The IASB therefore aims to finalise this IAS 12 amendment quickly, in the second quarter of 2023.

Seventh compilation of IFRS IC agenda decisions

On 2 November 2022, the IFRS Foundation published the seventh compilation of IFRS Interpretations Committee (IFRS IC) agenda decisions, taken between May and October 2022. The compilation is available [here](#).

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

- IFRS 2 and IAS 32: accounting for warrants on acquisition of a SPAC by an operating entity (see Beyond the GAAP no. 170 of October 2022);
- IFRS 9 and IFRS 16: accounting for lease forgiveness by the lessor (see Beyond the GAAP no. 170 of October 2022);
- IFRS 15: classification of a software reseller as agent or principal (see Beyond the GAAP no. 166 of May 2022);
- IFRS 17: transfer of insurance coverage under a group of annuity contracts (see Beyond the GAAP no. 168 of July-August 2022) ;
- IFRS 17: multi-currency insurance contracts (see Beyond the GAAP no. 170 of October 2022);
- IAS 32: classification of public shares in a SPAC as financial liabilities or equity (see Beyond the GAAP no. 168 of July-August 2022); and
- IAS 37: negative low emission vehicle credits (see Beyond the GAAP no. 168 of July-August 2022);

ISSB announcements at COP27: initial progress report and new agreements and partnerships

The 27th annual United Nations Climate Change Conference (COP27), held in

Sharm El-Sheikh in November 2022, was an opportunity for an initial progress report on the achievements of the International Sustainability Standards Board (ISSB) following its creation last year at COP26 in Glasgow:

- finalisation of the appointment of its board, which now has all 14 members provided for in the IFRS Foundation's Constitution;
- the establishment of offices in different geographical areas, and in particular in Frankfurt and Montreal to host key functions;
- the consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) into the IFRS Foundation. The VRF itself represents the relatively recent consolidation of the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC);
- the creation of consultative committees, including a jurisdictional working group with representatives from the United States, China, Japan, the UK and the EU, with the main aim of establishing a global baseline on the ISSB side that allows interoperability with other sustainability reporting standardisation initiatives as much as possible; and
- the publication of two draft standards - IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures* - for public consultation (see the feedback analysis in Beyond the GAAP no. 170 of October 2022), targeting the publication of the final standards as early in 2023 as possible.

The press release is available [here](#).

The ISSB also took the opportunity of this event to make the following announcements:

- conclusion of an agreement with the CDP, an organisation that publishes data on the environmental impact of the largest entities, which plans to incorporate the ISSB climate-related disclosure requirements into the data it demands from contributing entities (some 18,700 around the world) starting in the 2024 financial year (press release accessible [here](#));
- political support from many African jurisdictions for the adoption of the ISSB's sustainability reporting standards. The Nigerian Financial Reporting Council has already announced that they will be adopted once published in 2023 (press release available [here](#));
- creation of a new partnership framework, signed by 20 public and private organisations, to support stakeholders, in particular preparers and investors, in the future implementation of ISSB standards; and
- close collaboration with the European Financial Reporting Advisory Group (EFRAG), the European Commission's technical advisor, and the International Organization of Securities Commissions (IOSCO), the international body that brings together the world's securities regulators (press release accessible [here](#)).

Draft IFRS standards on sustainability disclosures: ongoing deliberations within the ISSB

At its November 2022 meetings, the ISSB continued to deliberate on the content of the future standards IFRS S1, *General Requirements for Disclosure of*

Sustainability-related Financial Information, and IFRS S2, *Climate-related Disclosures*, after (i) analysing the feedback received during the public consultation which was completed at the end of July 2022 and (ii) taking a number of important decisions during October 2022 (see the summary presented in Beyond the GAAP no. 170 of October 2022).

The reports of the ISSB's meetings are available [here](#) (press release of 1 November 2022), [here](#) (additional ISSB Update for the meeting of 1 to 3 November 2022) and [here](#) (ISSB Update for the meeting of 15 and 16 November 2022).

Draft IFRS S1 on general sustainability disclosure requirements

Discussions within the ISSB have resulted in the following main decisions (which remain tentative at this stage):

- confirmation of the need to rely on guidance other than that provided by the ISSB to identify and disclose sustainability risks and opportunities, although the ISSB has made some amendments to the approach that was developed in the exposure draft. In particular, an entity:
 - must consider the standards issued by the Sustainability Accounting Standards Board (SASB) – the November 2022 deliberations entail no changes in this respect; and
 - may consider the framework provided by the Climate Disclosure Standards Board (CDSB), particularly for biodiversity and water, which represents a change from the exposure draft;
- the need to amend the draft IFRS S1 to limit the requirement to restate comparative information – in the event of a change in estimates – to those

estimates for the previous comparative period disclosed in that period. Entities would thus be exempt from restating prospective information reported the previous year. Illustrative examples will be provided to guide issuers in the application of these measures and the presentation of their impacts; and

- retention of the requirement for an entity to report its sustainability-related financial disclosures at the same time as its related financial statements. Nevertheless, the ISSB proposes to incorporate a transitional measure, for a short but as yet undetermined period, authorising deferral of publication (until the publication of the half-yearly results).

Draft IFRS S2 on climate disclosure requirements

With regard to disclosures on the entity's resilience to climate risks, the ISSB's November 2022 redeliberations resulted in the following key (tentative) decisions:

- confirmation of the requirement for an entity to assess its climate resilience using a method of climate-related scenario analysis, including both its strategic and operational resilience;
- withdrawal of the exposure draft's proposal to allow alternative methods or techniques to be used to assess resilience;
- clarification of how this assessment is to be carried out by adding an obligation to use a method of analysis of climate-related scenarios that is commensurate with the entity's circumstances, including those specific to its sector and geographical location; and
- obligation to take into account, as a minimum, a cross-cutting set of qualitative aspects.

The ISSB will now work on identifying criteria to be considered in the choice of these scenarios. Guidance will be developed to this end, based on that of the Task Force on Climate-related Disclosures (TCFD) and potentially on other initiatives or frameworks that remain to be defined. With regard to the requirement for an entity to disclose information about its strategy and decision-making, including its transition plans towards a lower-carbon economy and its climate-related targets, the November 2022 redeliberations highlighted the need to amend certain provisions of the draft standard in order to:

- require an entity to disclose the assumptions it makes and the dependencies it identifies in developing its transition plans;
- not introduce a requirement for an entity to disclose the implications for its transition plans if its assumptions are not met; and
- require an entity to disclose additional information about its climate-related targets, including (i) the scope of the entity's targets; (ii) the greenhouse gas and emission scopes that are covered by the entity's emission targets; and (iii) which international agreement on climate change the entity is referencing when setting its targets.

The ISSB also confirmed and clarified an entity's disclosures on how climate-related risks and opportunities affect its strategy and decision-making, its plans for transition to a low-carbon economy and its climate-related targets.

Redeliberations on the contents of IFRS S1 and IFRS S2 will continue. In particular, the ISSB plans to discuss potential references to the Global Reporting Initiative (GRI) and the European Reporting Sustainability Standards (ESRS).

European Highlights

EFRAG appoints new members, including the Chairs of its two Boards

On 16 November 2022, EFRAG announced new appointments to its governance structure, agreed the previous day at its General Assembly:

- the admission of the Belgian accounting standard-setter (Commission des Normes Comptables / Commissie voor Boekhoudkundige Normen (CNC-CBN), as a new member organisation in the Financial Reporting Pillar;
- the appointment of Wolf Klinz as Chair of the Financial Reporting Board (FRB);
- the appointment of Patrick de Cambourg as Chair of the Sustainability Reporting Board (SRB);
- the appointment of three new members to the SRB:
 - Aleksandra Palinska, as representative of European organisations and more particularly of the user sector;
 - Thierry Philipponnat, as representative of civil society organisations and more particularly of the consumer organisation sector; and
 - Laurence Rivat, representing the national standard-setters and more particularly the Autorité des Normes Comptables (ANC) for France.

The press release is available [here](#).

Standards and interpretations applicable at 31 December 2022

Now that accounts are being finalised for 31 December 2022, 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 10 November 2022, available on EFRAG's website [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; and
 - the draft does not modify an existing interpretation which is currently mandatory.
3. Standards published by the IASB but not yet adopted by the European Union at 31 December 2022 may be applied if the European adoption process is completed before the date when the financial statements are authorised for issue by the relevant authority (i.e. usually the board of directors).
4. Interpretations published by the IASB but not yet adopted by the European Union at the date when the financial statements are authorised for issue may be applied unless they conflict with standards or interpretations currently applicable in Europe.

Remember that in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* the notes to the financial statements 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.

As relates to 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.

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2022
IFRS 14	Regulatory Deferral Accounts (issued on 30 January 2014)	1/01/2016 Early application permitted	No endorsement (The EC has decided not to launch the endorsement process of this interim standard and to wait for the final 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⁾
IFRS 17 and amendments	IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments (issued on 25 June 2020)	1/01/2023 Early application permitted	23 November 2021 (UE introduces an option to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement)	Permitted
Amendments to IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)	An entity that elects to apply the amendments shall apply them when it first applies IFRS 17	9 September 2022	Permitted
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use (issued on 14 May 2020)	1/01/2022 Early application permitted	2 July 2021	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)	1/01/2024 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 1	Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)	1/01/2023 Early application permitted	3 March 2022	Permitted

⁽¹⁾ If the entity had not developed an accounting policy.

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2022
Amendments to IFRS 3	Reference to the Conceptual Framework (issued on 14 May 2020)	1/01/2022 Early application permitted (if the entity applies at the same time all other updates to the Conceptual Framework of March 2018)	2 July 2021	Mandatory
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract (issued on 14 May 2020)	1/01/2022 Early application permitted	2 July 2021	Mandatory
Annual Improvements to IFRSs 2018–2020 Cycle	Annual improvements to various Standards (issued on 14 May 2020)	1/01/2022 Early application permitted	2 July 2021	Mandatory
Amendments to IAS 8	Definition of Accounting Estimates (issued on 12 February 2021)	1/01/2023 Early application permitted	3 March 2022	Permitted
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback (issued on 22 September 2022)	1/01/2024 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 1	Non-current Liabilities with Covenants (issued on 31 October 2022)	1/01/2024 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted

EFRAG submits the long-awaited first set of draft European Sustainability Reporting Standards to European Commission

On 22 November 2022, exactly a week after the Sustainability Reporting Board (SRB) vote¹, the European Financial Reporting Advisory Group (EFRAG) submitted the [first set](#) of European Sustainability Reporting Standards (ESRS) to the European Commission (EC), laying the foundations of the standardised common language for sustainability-related matters throughout Europe, as required by the Corporate Sustainability Reporting Directive (CSRD), which will be published in the Official Journal of the European Union in December.

The submission of the first set of standards is the result of more than two years' work following the agreed due process. The work was begun by the Project Task Force (see Beyond the GAAP no. 162, January 2022) and then taken over by the SRB, supported by its SR Technical Expert Group (TEG). Since then, many stakeholders have submitted feedback on the exposure drafts published at the end of April (see Beyond the GAAP no. 169, September 2022).

Mazars recently published a factsheet to the key points of the draft standards when they were published (available [here](#)).

The complements presented below are not intended as a detailed account of the content of the draft standards, but set out the various elements of EFRAG's advice package and review some broader issues, which have been at the heart of the recent redeliberations of the SRB and SR TEG.

Draft standards within a broader technical advice package

The first set comprises 12 draft standards (two cross-cutting standards and 10 topical standards), for which the bases for conclusions will be published in December 2022. In addition, EFRAG's advice package comprises the following elements:

- five accompanying documents:
 1. a cover letter, addressed to European Commissioner Mairead McGuinness, focusing mainly on the key improvements made to the standards following analysis of the feedback received in the public consultation. In the letter, EFRAG also encourages the EC to create an interpretation mechanism for the standards – which EFRAG is willing to assist with – to support their implementation and provide concrete solutions to questions that will arise in practice;
 2. a due process note, which sets out the various steps of the procedure followed by EFRAG to develop the draft ESRS, particularly as regards the review of the exposure drafts and the key changes that have been made (see below);

¹ The 12 draft ESRS were approved by unanimous consensus of the SRB members, with the exception of BusinessEurope, which abstained on five of the draft standards. The reasons for this abstention are presented in

Annex 2 of the due process note published by EFRAG as part of its technical advice package.

3. an explanatory note, which details how this first set of standards relates to the other European regulations that are listed in the CSRD and that should be taken into account when determining what information to disclose (such as the Sustainable Finance Disclosure Regulation);
 4. an annex to the explanatory note, which comprises a table cross-referencing these other regulations with the draft ESRS;
 5. a cost-benefit analysis carried out for EFRAG by the Centre for European Policy Studies (CEPS) and its partner, Milieu, plus an accompanying cover letter.
- six appendices:
 1. an index to the 12 standards, indicating the number of disclosure requirements in each standard (with each disclosure requirement represented by various datapoints);
 2. a presentation of the CSRD requirements and the related standards/chapters in which they are referenced, demonstrating that EFRAG has fully addressed the requirements set out in the draft directive;
 3. a list of datapoints that shall be disclosed in accordance with European regulations listed in the CSRD, which have been incorporated into the ESRS (covering the same datapoints as those listed in Appendix C of ESRS 2, i.e. those that are mandatory and thus not subject to a materiality assessment);
 4. a reconciliation of the draft ESRS and the recommendations published by the Task Force on Climate-related Financial Disclosures (TCFD);
 5. a reconciliation of the draft ESRS and the two draft standards published by the International Sustainability Standards Board (ISSB), namely IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures*. However, it should be noted that this reconciliation table was prepared by EFRAG alone and does not prejudice the content of any future mapping between the two frameworks that might be carried out jointly by the EC, EFRAG and the ISSB once the final version of the ISSB standards has been published;
 6. a list of acronyms used and a glossary defining the specific terms that are included in Appendix A of each standard.

Review of some key points of this first set of draft standards, and additional clarifications from EFRAG

In addition to the elements presented in last month's issue (Beyond the GAAP no. 170), it is worth noting the following information included in EFRAG's technical advice package (primarily the due process note):

- when assessing each Disclosure Requirement (DR) in the exposure drafts and deciding whether to retain it in the draft standards, EFRAG considered the following:
 - the relevance of the required information, relative to the CSRD requirements;

- its applicability at sector-agnostic level, i.e. whether the DR would be material to an entity regardless of its sector;
- its cost/benefit profile and the availability of mature methodologies for the quantification of metrics;
- the redeliberations resulted in a significant reduction (around 50%)¹ in the number of qualitative and quantitative datapoints. However, EFRAG also decided to:
 - retain some datapoints as voluntary, to encourage good practices;
 - add some new datapoints to ensure alignment with the requirements of the draft IFRS S1 and IFRS S2 standards;
- the approach to the value chain has been refocused, with disclosure requirements now limited to specific provisions in the topical standards (which in turn are generally limited to the identification of material impacts, risks or opportunities).
EFRAG has also clarified that the reporting requirements are the same for associates and joint ventures, which are treated identically to any other entity in the value chain.
- as reported last month in Beyond the GAAP, the rebuttable materiality presumption has been withdrawn from the draft standards. The new approach is based on the entity's own materiality assessment, supported by the sustainability topics identified in the ESRS. The results of the assessment must be presented under a new DR

(IRO-2 in ESRS 2) which states that the entity must provide a list of the DRs complied with in its sustainability statements. This information may be presented as a content index. This will enable users of the sustainability statements to understand which topics were omitted as they were deemed not to be material following the materiality assessment. However, if all the DRs in a topical standard were omitted, the entity shall provide a brief explanation as to why this standard was deemed not to be material.

In practice, EFRAG expects that the majority of entities will only be reporting on a subset of ESRS, because only a subset of sustainability matters will be material for them.

Furthermore, EFRAG stipulates that:

- the following are excluded from the materiality assessment as they are mandatory: disclosures required by other European regulations (including the SFDR); some DRs in ESRS S1 (for entities with more than 250 employees); and the disclosures required by ESRS 2 and ESRS E1. Thus, entities shall report on these DRs and the associated datapoints, and are not allowed to apply the three-year postponement that is otherwise permitted, under certain conditions, for value chain information (Scope 3 emissions)²;
- DRs and datapoints relating to (i) management of impacts, risks and opportunities (i.e. policies and actions) and (ii) targets may not be omitted for any standard, unless they are not applicable, in which

¹ Particularly significant reductions were achieved in the areas of Governance and Strategy.

² EFRAG states that, in such situations, the entity may use in-house data for the disclosures required under ESRS 2

and ESRS E1 over the three-year transition period, while waiting for the data to become available from the whole value chain.

case the entity shall explain why this is the case; and

- when reporting on a material matter according to the metrics section of the relevant ESRS, information that is deemed not to be material at the DR or datapoint level may be omitted without the entity needing to provide a justification.

Lastly on the subject of materiality, the terminology has been amended to achieve closer alignment with the Global Reporting Initiative (GRI) and the draft ISSB standards (for the definitions of impact materiality and financial materiality respectively). This is line with a more general move to align the content of ESRS more closely with the draft ISSB standards;

- commercial sensitivity is now addressed under ESRS 1 via the possibility of omitting information that relates to intellectual property, know-how or the results of innovation, in accordance with the provisions of the European Trade Secrets Directive³;
- the sub-headings for some sections of the draft standards have been amended to correspond to the Task Force on Climate-Related Financial Disclosures (TCFD) architecture. Thus, the “Policies, targets, action plans and resources” section has been renamed “Impact, risk and opportunity management”, and the “targets” element now being covered in the “Metrics and targets” section.
- regarding ESRS E1, *Climate Change*, EFRAG emphasises that:
 - disclosure of Scopes 1, 2 and 3 greenhouse gas emissions is mandatory (with Scopes 1, 2 and 3

all mentioned in the CSRD as part of the compromise reached end of June 2022 by the European Commission, Council and Parliament);

- a requirement has been added for an explanation of the entity’s plans for future Taxonomy alignment.

EFRAG also identified various issues that did not result in changes to the draft standards, but that require further research:

- the inclusion of a phase-in provision for financial institutions (banks, insurers and asset managers) that would allow them to defer the inclusion of downstream value chain information until the effective date of the future ESRS sector-specific standards. Given the complexity of this topic and the need to gather further feedback on the value chain for financial institutions, EFRAG decided not to include this provision, but to make it a priority for research and public consultation over the coming months;
- how and whether to incorporate ethnicity (as part of the broader topic of diversity) into the draft standards, and whether a datapoint on it should be included. EFRAG emphasised that (i) it was not possible to include a datapoint in this first set of standards and still meet the deadline for adoption in June 2023, as the topic needs to be properly delineated and opened for public consultation (which has not yet happened; it was not included in the exposure drafts published for comment); (ii) ethnicity is implicitly addressed in the draft ESRS as one of the dimensions of diversity; and (iii) it

³ [EU Directive 2016/943](#)

shall be set as a priority topic for the coming months;

- the difficulties of disclosing quantitative data on financial effects resulting from opportunities, which justify a phase-in period (one to three years) for the publication of the associated datapoints in the environmental standards. This will also require more works in the coming months; and
- the need for more in-depth research on assessment of impact materiality, to ensure the correct interpretation of the threshold introduced in ESRS 1⁴ and to help preparers carry out this assessment.

Next steps

This first set of draft standards will be examined by the European Commission (EC), which must ensure that they comply with the requirements of the CSRD, prior to their adoption as delegated acts by end of June 2023 (meaning they will not require transposition into national law). They will then be scrutinised by the European Parliament and Council.

In the course of this process, the EC will consult various bodies, committees and agencies, including the European Securities and Markets Authority (ESMA), to ensure that this first set of draft standards takes account of the opinions of the various Member States and is consistent with relevant European policies and legislation. In addition, the EC will launch a public consultation on the draft delegated acts in spring 2023. As a result, some further changes may still be made before the final standards are adopted by the EC, particularly given the ongoing work of the

ISSB and the desire to align the standards as much as possible.

It should also be noted that EFRAG has committed to a process of ongoing improvement of the content of the standards in its future standard-setting cycles, provided that this is compatible with (i) the work plan to be agreed with the EC and (ii) the three-year review cycle specified in the CSRD.

⁴ The standard makes reference to the threshold used for determining “most significant” impacts in GRI standards.

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[1] Where permitted under applicable country laws

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