Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

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The drafting of the present issue was completed on 3 April 2025.

Editorial

On 3 April 2025, the European Parliament approved the European Commission's proposed 'Stop the clock' directive, which is being fast-tracked through the legislative process and will postpone mandatory sustainability reporting for wave 2 and wave 3 companies by two years. As it has already been endorsed by the EU Council, the directive is now expected to be published in the OJEU by late April or early May this year. Readers will remember that EU Member States will then have until 31 December 2025 to transpose the directive into national law.

In this issue, we continue our deep dive into the simplification proposals adopted by the European Commission on 26 February this year. This month we are looking at the potential changes to the Corporate Sustainability Due Diligence Directive.

IFRS Highlights

Post-implementation Review of IFRS 16 – preparing for the RFI

At its March 2025 meeting, the IASB discussed the Post-implementation Review (PIR) of IFRS 16 – *Leases*. The purpose of the PIR will be to assess whether, overall:

- the requirements of the standard are working as intended;
- the benefits to users of the information reported are not significantly lower than expected; and
- the implementation costs for preparers are not significantly higher than expected.

The primary goal of this month's discussions was to decide on the questions to be included in the Request for Information (RFI), which the International Accounting Standards Board (IASB) is planning to publish in June this year.

By the end of the meeting, the IASB had tentatively decided to include questions to assess whether:

- the lease-term requirements provide a clear and sufficient basis, and can be applied consistently;
- the benefits to users of the lease-term information reported are not significantly lower than expected;
- the requirements on variable lease payments provide a clear and sufficient basis to determine what payments should be included in the measurement of the lease liability;
- the discount rate requirements provide a clear and sufficient basis, can be applied consistently, and do not have significantly different effects from what was expected;
- the ongoing costs associated with reassessments of lease liabilities or lease modifications are not significantly higher than expected;
- the benefits to users of the information reported on lease-related cash flows are not significantly lower than expected;
- action is needed in relation to how a lessee distinguishes between a lease modification (as defined in IFRS 16) and an extinguishment (or a partial extinguishment) of a lease liability (to which IFRS 9 – *Financial Instruments* applies) when the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee;
- action is needed in relation to how a seller-lessee applies the requirements of IFRS 15 – *Revenue from Contracts with Customers* when assessing whether a sale and leaseback transaction is accounted for as a sale of the asset; and
- action is needed in relation to partial gain or loss recognition for sale and leaseback transactions,

bearing in mind the differences from the revenue recognition model in IFRS 15.

Conversely, the IASB decided not to include questions on:

- the comparability of IFRS 16 financial statements and those published by entities applying FASB ASC Topic 842;
- identifying leases;
- the recognition requirements for lessees;
- the lack of specific requirements for lessees to account for non-cash consideration;
- the potential consequences that the lessee accounting model could have on the lessor accounting model; and
- sale and leaseback transactions with variable lease payments that do not depend on an index or rate.

Although they are tentative at this stage, these decisions on the questions to be put to stakeholders give an insight into the topics that the IASB may be prepared to reexamine as part of the PIR of IFRS 16.

Appointments to IFRS Advisory Council

On 12 March 2025, the Trustees of the IFRS Foundation announced the appointment of Tina Aggerholm and Qiyun Lin to the IFRS Advisory Council, which provides strategic support and advice to the Trustees and IASB/ISSB Board members.

Their term of office runs from the announcement date to 31 December 2026.

The press release is available here.

Publication by the IFRS Foundation of new translations of the IFRS Sustainability Disclosures Standards

New translations of the IFRS Sustainability Disclosure Standards, and educational and supporting materials have been published by the IFRS Foundation on 25 March 2025 (available here).

The new languages available are Arabic, Brazilian Portuguese, Simplified Chinese, French, Japanese, Korean, Mongolian, Romanian and Spanish.

European Highlights

EC officially mandates EFRAG with simplification of ESRS Set 1

On 27 March 2025, the European Commissioner for Financial Services, Maria Luís Albuquerque, officially mandated EFRAG with developing technical advice on simplification of the Set 1 of the ESRS. The press release published by EFRAG and the official mandate letter from the European Commission (EC) are available here.

This mandate closely follows the publication of the first ’Omnibus’ package on 26 February 2025, which presents the EC’s proposals for simplifying sustainability reporting. These proposals include the adoption of a delegated act to revise the Set 1 of the ESRS as soon as possible, at the latest within six months of the entry into force of the ’Content’ directive (see our feature in Beyond the GAAP no. 196, 2025).

The official mandate letter sent by the EC to EFRAG sets out the specific details of the request:

- EFRAG’s technical advice should be submitted to the EC by 31 October 2025 at the latest, although this deadline could change in light of the pace of negotiations between the co-legislators working on the ’Content’ directive. This timeline should thus allow the EC to adopt the delegated act on application of a revised set of standards in time for reporting covering the 2027 financial year, potentially with the option of applying it to reporting covering 2026 financial year if companies wish so;
- it is critically important that EFRAG engages with (i) companies with experience of implementing the Set 1 of the ESRS, and (ii) users of sustainability statements, in order to identify the datapoints that these stakeholders consider to be most critical; and
- although EFRAG must normally follow due process, given the very tight timescale it is asked to develop an innovative due process and design specific steps while ensuring that its work will be of high quality and its advice will be evidence-based. The EC asks EFRAG to inform it by 15

April of the internal timeline and work plan for delivering its technical advice.

In practice, this means that EFRAG would need to start discussions with the various stakeholders in the very near future to gather feedback that will inform the discussions at the level of the Technical Expert Group and the Board. At this point, there is no given that the timescale set by the EC will allow EFRAG to carry out a public consultation on draft revised standards.

PSF publishes report on streamlining sustainable finance for SMEs and developing an SME reporting framework

On 21 March 2025, the Platform on Sustainable Finance (PSF), an advisory body of the EC, published a report on streamlining sustainable finance for SMEs. It is available here.

The PSF begins by observing that, although SMEs account for more than 50% of the Gross Domestic Product (GDP) of the European Union and more than 63% of European companies' greenhouse gas emissions, they face many challenges in accessing external financing for their transition efforts and must often finance transition themselves.

To help SMEs access external financing more easily, the PSF is proposing a reporting framework designed especially for SMEs and tailored to their capabilities. The 'SME sustainable finance standard' is based in part on the European Taxonomy, which is becoming increasingly the norm for classifying green finance in the European Union.

Under the standard proposed by the PSF, SMEs would have the option of reporting at three levels:

- at the level of activities: those activities that are included in the Taxonomy Climate Delegated Act[1] and that meet certain criteria (see below) allowing them to be classified as sustainable. In addition, other activities that are not listed in the Taxonomy but that meet criteria set out by the PSF could also be classified as sustainable;
- at the entity level: SMEs that have implemented certain practices or actions that pursue the transition to a sustainable economy, as well as SMEs that hold a climate-related certificate, can be classified as sustainable under the standard proposed by the PSF; and
- at the level of investments: some investments made by SMEs could be classified as sustainable under the standard proposed by the PSF. These could be investments to improve energy efficiency, decarbonise or electrify appliances or equipment.

As the technical screening criteria in the European Taxonomy can prove very complex for SMEs, the PSF is proposing a range of simplifications for the SME standard, which would allow SMEs to report Taxonomy-listed activities as sustainable. For example, these simplifications include:

- grouping together similar activities listed in the Climate Delegated Act;
- clarifying references to other EU legislations; and
- clarifying certain requirements in the technical screening criteria that require the use of judgement.

As SMEs would be assessing their compliance with criteria that differ from those set out in the Climate Delegated Act, the proposed PSF standard would not permit them to qualify themselves or their activities as Taxonomy-aligned.

In order to ensure adherence to minimum social and environmental safeguards, SMEs reporting under the proposed PSF standard would be required to respect the applicable legislative framework, and could not finance or operate in sectors excluded from the EU Paris-Aligned Benchmark. SMEs would also be required to publish sustainability indicator of the simplified voluntary reporting standard for SMEs that the EC is expected to develop as part of the first 'Omnibus' package, which will be based on the

[1] Delegated Regulation 2021/2139, usually referred to as the "Climate Delegated Act", which lists the activities that are eligible for the two climate-related objectives of the European Taxonomy, and the associated technical screening criteria

Voluntary Reporting Standard for SMEs (VSME) published by EFRAG in December 2024.

The PSF is proposing that general-purpose finance should be classified as sustainable under the SME sustainable finance standard if it is financing:

- an SME whose main activity is included in the list of sustainable activities as defined in the standard; and
- an SME that can demonstrate that it qualifies as sustainable at the entity level, according to criteria set out in the standard.

For known use of proceeds finance, the investments should be classified as sustainable if they are financing:

- investments related to an activity included in the list of sustainable activities as defined in the standard; and
- investments that meet the investment-level criteria set out in the standard.

The PSF also recommends developing an online tool to allow SMEs to assess whether the activities or investments they are seeking to finance can be classified as sustainable.

Although the report published by the PSF was drafted before the EC published the first Omnibus proposals on 26 February this year (see Beyond the GAAP no. 196, 2025), the PSF recommends that the criteria relating to its proposed sustainable finance standard should be included in the voluntary reporting framework that is to be developed based on the VSME.

It should be noted that the PSF had already recommended improving SMEs' access to sustainable finance in its reporting 'Simplifying the EU Taxonomy to Foster Sustainable Finance', published in February 2025 (available here, see Beyond the GAAP no. 196, 2025).

EFRAG and CDP publish correspondence mapping between ESRS E1 and CDP question bank

On 18 March 2025, EFRAG and the CDP (a non-profit organisation that manages a global environmental disclosure system) jointly published a correspondence mapping between ESRS E1 and the CDP environmental question bank (see press release and detailed correspondence mapping in Excel, available here).

The publication is part of a programme of collaborative work announced last November at COP 29 (see Beyond the GAAP no. 193, 2024).

The two organisations note that the mapping shows a high level of interoperability between the two frameworks in reporting areas such as transition plans and targets for climate change mitigation, gross Scopes 1, 2 and 3 emissions, and internal carbon pricing. The similarities should help companies to identify synergies in data collected to address both the requirements of ESRS E1 and the CDP questions.

With this announcement, EFRAG and the CDP are emphasising their commitment to continuing to strengthen the interoperability between the CDP's system and the ESRS.

Deep dive into the first 'Omnibus' on sustainability: focus on the CSDDD

Following last month's analysis of the European Commission (EC)'s proposals to amend the CSRD and the EU Taxonomy (see Beyond the GAAP no. 196, 2025), we present below an in-depth study focusing on the Corporate Due Diligence Directive or CSDDD. This analysis details the EC's proposed amendments, particularly regarding the implementation timeline and content requirements, to better understand the implications for companies and their stakeholders.

Background: a reminder

The first 'Omnibus' package, published by the EC on 26 February this year, comprises two draft directives that will modify the CSDDD (in particular). The first draft directive will change the implementation timeline (i.e. the proposed 'Stop the clock' directive); the second will change the content (i.e. the proposed 'Content' directive):

1. The proposed 'Stop the clock' directive would postpone the due diligence reporting requirements by one year, without changing the thresholds; and
2. The proposed 'Content' directive would:
    a) relax the transition plan requirements;
    b) restrict the definition of stakeholders and scope of stakeholder engagement;
    c) limit the scope of due diligence to direct business partners;
    d) reduce the requirements on preventing or putting an end to adverse impacts;
    e) relax the monitoring and assessment requirements;
    f) revise the penalty regime; and
    g) remove the civil liability regime for companies.

It is important to remember that the EC's proposals set out in the first 'Omnibus' package are only the first stage in the legislative process; the two European co-legislators (i.e. the European Parliament and European Council) must reach an agreement before the final directives can be adopted.

The 'Stop the clock' directive is expected to be published in the Official Journal of the European Union (OJEU) in late April/early May 2025, having been endorsed by the European Council in late March 2025 and approved by the Parliament on 3 April 2025. Member States must then transpose it into national law by 31 December 2025.

Meanwhile, the proposed 'Content' directive will go through the normal legislative process, which could take at least nine months before it is approved and published in the OJEU. The Member States will then have 12 months to transpose the requirements into national law.

Proposals to amend the CSDDD

Timeline for implementation of the CSDDD (proposed 'Stop the clock' directive)

1 - Before Omnibus proposals: current CSDDD		2 – EC's proposals – Proposed 'Stop the clock' directive*
Transposition by: 26 July 2026		***Transposition by: 26 July 2027***
Timeline		***New timeline***
Wave 1 Reporting on FY 2026 (in 2027)	EU undertakings with: • > 5,000 employees on average • Net worldwide turnover > €1,500m Third-country undertakings with: • Net turnover in the EU > €1,500m	Postponed by one year No reporting
Wave 2 Reporting on FY 2027 (in 2028)	EU undertakings with: • > 3,000 employees on average • Net worldwide turnover > €900m Third-country undertakings with: • Net turnover in the EU > €900m	No impact ***Wave 1*** Reporting on FY 2027 (in 2028)
Wave 3 Reporting on FY 2028 (in 2029)	EU undertakings with: • > 1,000 employees on average • Net worldwide turnover > €450m Third-country undertakings with: • Net turnover in the EU > €450m	No impact ***Wave 2*** Reporting on FY 2028 (in 2029)

(*) For the few countries that have already transposed the current CSDDD, local laws will prevail until modified.

Content of the CSDDD (i.e. proposed 'Content' directive)

Climate change mitigation transition plans

The current directive stipulates that companies shall *"adopt and put into effect"* a transition plan for climate change mitigation *"which aims to ensure [...] that the business model and strategy of the company are compatible [...] with the limiting of global warming to 1.5°C in line with the Paris Agreement."*

In the proposed new directive, the EC has retained the requirement to adopt such a plan, but removed the reference to putting it into effect. Thus, companies would only be required to adopt a transition plan, and would not have to implement it.

However, it is difficult at this stage to fully comprehend the real-world impacts of this relief for companies, or what it would look like to adopt a plan without then implementing it. While the transition plan is a key topic of debate, and the concept of 'compatibility with the 1.5°C limit' has not yet been clearly defined, it looks as though the EC wants to give companies more wiggle room.

Restricting the scope of stakeholder engagement

The EC's proposals also change the definition of stakeholders, reducing the scope of stakeholder engagement. The definition would no longer include *"consumers"*, *"national human rights and environmental institutions"* or *"civil society organisations"*. Moreover, trade unions and workers' representations are no longer mentioned as independent stakeholders, with the proposed new definition reading, *"the company's employees, the employees of its subsidiaries and of its business partners, and their trade unions and workers' representatives"*.

It should also be noted that the phrasing, *"other individuals, groupings, communities or entities whose rights or interests are or could be affected by the products, services and operations of the company"* has been slightly modified and is now limited to *"individuals or communities whose rights or interests are or could be directly affected by the products, services and operations of the company".*

Thus, it appears that the EC wishes to (i) limit the scope of stakeholders to those who are directly affected by the company's operations, and (ii) reduce the need to engage with external organisations or groups, particularly civil society organisations.

Regarding stakeholder consultation requirements, the EC introduces the notion of 'relevance' in its proposal. In this sense, companies would now be 'only' required to consult their 'relevant' stakeholders to carry out their due diligence process. However, further detail is needed on how 'relevance' should be assessed in practice.

It is also interesting to note that consultation with stakeholders is now only required in two of the five stages of the due diligence process, namely: (i) when deciding to suspend or terminate a business relationship, and (ii) when developing qualitative and quantitative indicators for monitoring purposes.

Thus, the EC is proposing an overall reduction in the requirements for consultation with stakeholders by the companies concerned.

Limiting the scope of due diligence to direct business partners

The EC's proposal restricts the consideration of business partners to direct business partners. In practice, this would mean that only tier 1 business partners should be included in the company's chain of activities. Furthermore, the EC's proposal specifies that, regarding business partners with fewer than 500 employees, the company could no longer request information from them, except on a voluntary basis. Behind this easing, the EC's intention, in line with the recommendations of the Draghi Report, is clearly to lighten the reporting burden on small to medium-sized enterprises.

However, the proposed directive specifies that when a company has 'plausible' information that suggests actual or potential adverse effects at the level of an indirect business partner's operations, it would need to carry out an in-depth assessment.

Moreover, the EC stipulates that if a company has an indirect rather than direct relationship with a business partner only as the result of an artificial arrangement (i.e. one that does not reflect economic reality), the partner should be treated in the same way as a direct business partner.

Reducing the requirements on preventing or putting an end to adverse impacts

The CSDDD, as published in July 2024, provides the possibility for companies to ‘terminate’, as a last resort, their business relationships in response to a potential or actual severe adverse impact. However, in its proposed amendments, the EC removes any mention of contract termination, retaining only the possibility of temporarily suspending a business relationship.

Furthermore, the EC's proposal eases the responsibility of companies by specifying that, as long as there is a ‘reasonable expectation’ that the prevention action plan will be effective (i.e., mitigate or eliminate adverse impacts), their responsibility would no longer be engaged. However, further clarification is needed as to how and by what criteria the concept of ‘reasonable expectation’ will be assessed (if the proposal is adopted in its current form).

Relaxing the monitoring and assessment requirements

The current CSDDD stipulates that companies should carry out regular assessments in order to assess the implementation and monitor the adequacy and effectiveness of the measures put in place (to mitigate or prevent adverse impacts) ‘at least’ every 12 months. The EC proposes to extend this period to five years.

Revision of the penalty regime

While the current directive stipulates that it is up to Member States to determine the applicable penalty regime (including financial penalties), the EC's proposal transfers this competence to supervisory authorities. Additionally, the minimum amount of 5% of global net turnover for financial penalties would be removed.

Removal of the civil liability regime for companies

The current CSDDD sets out a standardised European civil liability regime in article 29, para. 1, ensuring that a company can be held liable for damage to a natural or legal person caused by its failure to fulfil its obligations. The EC is proposing to remove it, meaning that only national laws (where they exist) will apply. If this proposal is adopted, the European civil liability regime introduced by the CSDDD will be terminated.

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