Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

Contents

The drafting of the present issue was completed on 2 May 2025.

Editorial

Following the publication in the EU Official Journal of the ‘Stop the clock’ Directive on 16 April 2025, European companies in ‘waves 2 and 3’ are now certain that they will not have to publish sustainability information for the 2025 and 2026 financial reporting periods. The Directive must now be transposed before 31 December 2025. Regarding the ongoing negotiations on the draft ‘Content’ Directive, the positions expressed in the Council and Parliament show, unsurprisingly, that it will not be easy to reach rapid agreement among co-legislators particularly on the scope of the CSRD.

Beyond this two-year deferral, the European Commission is also working on an amendment to the Set 1 of the ESRS expected to be adopted in June 2025, to ease the reporting burden on companies in ‘wave 1’ pending the adoption of simplified ESRS. According to this amendment, wave 1 companies would be allowed to prepare their sustainability reports for the 2025 and 2026 financial periods using the same transitional provisions as those applicable to the 2024 financial period. Besides, EFRAG has adopted the work plan that will enable it to submit its technical advice to the European Commission no later than 31 October 2025. A public consultation on the draft standards is therefore planned for this summer, for a very limited period. Stakeholders would be well advised to keep a close eye on EFRAG's discussions over the coming weeks so as to prepare as effectively as possible for this consultation.

IFRS Highlights

IFRS IC agenda decision on the recognition of revenue from tuition fees

At its April 2025 meeting, the International Accounting Standards Board (IASB) endorsed the IFRS Interpretations Committee (IFRS IC) decision, finalised in March 2025, on accounting for revenue from tuition fees (see IFRIC Update March 2025).

In the fact pattern considered by the IFRS IC, students attend the educational institution for approximately 10 months of the year (the ‘academic year’) and receive teaching services over that period. Academic staff takes a four-week holiday and uses the remaining month to wrap up the previous year and prepare for the next one. During these two months, staff is paid but do not provide teaching services strictly speaking. Under IFRS 15 – *Revenue from Contracts with Customers*, the educational institution recognises revenue from tuition fees over time.

The IFRS IC was asked whether the educational institution is required to recognise that revenue evenly over the academic year (10 months), evenly over the annual reporting period (12 months) or over a different period.

In its decision, the IFRS IC reached no conclusion on the question raised concerning the period over which revenue should be recognised in accordance with IFRS 15. This is a matter of judgment, resulting from differing facts and circumstances. The IFRS IC merely points out that, in practice, there is no observed diversity in the accounting treatment of tuition fees in similar contexts. It therefore concluded that the existing provisions in the standard are sufficient to deal with the topic.

IFRS IC agenda decision on guarantees issued on obligations of other entities

At its April 2025 meeting, the IASB endorsed a further IFRS decision (see IFRIC Update March 2025), on the accounting treatment of guarantees issued by an entity to cover the obligations of a joint venture.

The question submitted to the IFRS IC concerns the separate IFRS financial statements of an entity that guarantees the payment obligations of a joint venture to various counterparties, such as a bank, a customer or another third party. The request asks whether the guarantees issued are financial guarantee contracts to be accounted for in accordance with IFRS 9 – *Financial Instruments* and, if not, which other IFRS standards apply to these guarantees.

The IFRS IC first made a number of observations: entities issue guarantees on the obligations not only of their joint ventures but also of other entities, such as associates, subsidiaries or third parties. These guarantees come in a variety of terms and conditions. Questions relating to their accounting treatment arise both in the context of an entity's separate financial statements and in consolidated financial statements.

The IFRS IC notes that this is a matter of judgment, depending on the differing facts and circumstances. In making that judgement, an entity is required to analyse all terms and conditions - whether explicit or implicit - of the guarantee, unless those terms and conditions have no substance.

The IFRS IC then reviewed the provisions of each potentially applicable standard in turn.

Does the guarantee meet the definition of a financial guarantee contract under IFRS 9?

IFRS 9 defines a financial guarantee contract as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument'. If it meets this definition, the guarantee falls within the scope of IFRS 9 by default, unless the entity explicitly designates it as an insurance contract in accordance with IFRS 17 – *Insurance Contracts*. This option is authorised contract by contract, under IFRS 9.2.1.(e)(iii). Noting that the term 'debt instrument' in the definition of a financial guarantee is not defined, the IFRS IC noted that there was diversity in practice regarding its interpretation.

Does the guarantee meet the definition of an insurance contract under IFRS 17?

If the guarantee is not a financial guarantee contract within the scope of IFRS 9, the entity considers whether it is an insurance contract in accordance with IFRS 17.

This standard defines an insurance contract as 'a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'. The IFRS IC added that entities should consider the scoping requirements in paragraphs 3–13 of IFRS 17, which may, depending on the circumstances, include or exclude certain contracts that would otherwise meet the definition of an insurance contract.

Other accounting standards that might apply

If a guarantee is neither a financial guarantee contract nor an insurance contract, other standards may apply.

For example:

- the guarantee might be within the scope of IFRS 9 if it is a loan commitment, a derivative, or otherwise meets the definition of a financial liability as defined in IAS 32 – *Financial Instruments : Presentation*;
- if the counterparty to the guarantee is a customer, IFRS 15 – *Revenue from Contracts with Customers* might apply;
- finally, IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* may apply if the guarantee gives rise to a provision, contingent liability or contingent asset that is not within the scope of any other standard.

Conclusion

The IFRS IC concluded that an entity should apply judgement in interpreting the meaning of the term 'debt instrument' when determining whether a guarantee is accounted for as financial guarantee contract under IFRS 9.

It also recalled that the IASB had decided at its April 2024 meeting to consider the broader application questions related to financial guarantee contracts in a future consultation, including the meaning of the term 'debt instrument' in the definition of a financial guarantee contract.

The IFRS IC concluded that the existing provisions of IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for a guarantee that it issues.

IFRS IC agenda decision on the recognition of intangible assets from climate-related expenditure

At its April 2025 meeting, the IASB also endorsed the decision of the IFRS IC, finalised the previous month, regarding the recognition of intangible assets from climate-related expenditure (IAS 38 – *Intangible Assets*). This decision follows on from the decision on the provisioning of climate-related commitments, which did not really specify the counterparty entry when a liability was recognised (see Beyond the GAAP no. 187, 2024).

The IFRS IC immediately set aside the case of carbon credit expenditure, which is already covered by a research project that will be included in the IASB work plan consultation for the period 2027-2031.

The request therefore related exclusively to the research and development expenditure incurred to meet climate commitments. However, the IFRS IC noted that these expenses had no characteristics that required any specific accounting treatment. In this case, research and development expenditure is capitalised if it meets the criteria set out in IAS 38; otherwise, it is recognised as an expense. As it had found no material diversity in practice, the IFRS IC concluded that no standard-setting was necessary.

ISSB Exposure Draft – Targeted amendments to IFRS S2

The International Sustainability Standards Board (ISSB) has issued an exposure draft setting out proposed amendments to reliefs in IFRS S2 – *Climate Related Disclosures* relating to greenhouse gas (GHG) emissions disclosures.

The proposed amendments respond to feedback on implementation of IFRS S2 and include reliefs relating to:

- measuring and disclosing Scope 3 Category 15 GHG emissions associated with derivatives and other financial activities;
- use of the Global Industry Classification Standard (GICS), in some circumstances, when disclosing disaggregated financed emissions information;
- use of jurisdictional GHG emissions measurement methods other than the Greenhouse Gas Protocol; and
- permission to use locally required Global Warming Potential (GWP) values.

These proposed amendments deal with provisions that entities will be able to choose to apply, and jurisdictions will be able to choose whether to adopt them, while maintaining the same degree of alignment with IFRS Sustainability Disclosure Standards.

Comments on the proposals are due by 27 June 2025.

IFRS Foundation and TNFD collaboration

The IFRS Foundation and the Taskforce on Nature-related Financial Disclosures (TNFD) have committed to collaborate on building the TNFD recommendations into the development of future ISSB standards. In particular, the two bodies will share research and knowledge to inform development of the ISSB's Biodiversity, Ecosystems and Ecosystem Services (BEES) project and future enhancement of nature-related content in the SASB (Sustainability Accounting Standards Board) standards.

Jurisdictional adoption update for Canada

Although the Canadian Sustainability Standards Board (CSSB) issued sustainability reporting standards, aligned with ISSB standards, in late 2024, on 23 April 2025 the Canadian Securities Administrators (CSA) has paused its work on the development of a mandatory climate related disclosure rule. This is being done to support Canadian markets and issuers as they adapt to the recent developments in the U.S. and globally. The CSA nonetheless noted that the CSSB standards provide a useful voluntary disclosure framework and encouraged issuers to refer to them when preparing their disclosures.

European Highlights

ESMA report on 2024 supervisory activities

On 4 April 2025, the European Securities and Markets Authority (ESMA) published a report on its issuer supervisory activities in 2024.

The report provides an overview of the activities of ESMA and European national enforcers in 2024, focusing on the compliance of financial and non-financial information disclosed by issuers listed on regulated markets.

It provides key messages for improving future financial and non-financial reporting, assessing how issuers comply with IFRS standards, non-financial reporting requirements and electronic reporting requirements (ESEF).

It also provides an overview of the actions taken by ESMA and national regulators to promote the transparency and accountability of issuers vis-à-vis the market.

The report, which addresses three distinct topics (financial reporting, non-financial reporting, and ESEF reporting), is accessible here.

Publication in the OJEU of the 'Stop the clock' Directive

On 16 April 2025, the 'Stop the clock' Directive (Directive (EU) 2025/794 of the European Parliament and of the Council) was published in the EU Official Journal. This directive amends Directives (EU) 2022/2464 (Corporate Sustainability Reporting Directive, CSRD) and 2024/1760 (Corporate Sustainability Due Diligence Directive, CS3D) regarding the dates from which member states shall apply certain requirements related to the publication of sustainability information by companies and their due diligence obligations.

As a reminder (see Beyond the GAAP no. 196, 2025), the 'Stop the clock' Directive is part of the so-called 'Omnibus I' package of proposals presented by the European Commission on 26 February 2025, aimed at significantly reducing the reporting burden on companies. In line with the European Commission's desire to move forward quickly on this text, the co-legislators have reached rapid agreement.

In practice, this Directive results in a two-year delay in the entry into force for (i) 'wave 2' companies, i.e. large undertakings that are not public-interest entities with more than 500 employees, and (ii) 'wave 3' companies, i.e. listed SMEs, small and non-complex credit institutions, and captive insurance and reinsurance companies.

Wave 2 companies are therefore now required to prepare their first sustainability statements under the ESRS (European Sustainability Reporting Standards) for financial years starting from 1 January 2027 (1 January 2028 for wave 3 companies). This timetable does not, however, take account of changes to the scope of the CSRD that are currently under discussion as part of the draft 'Content' Directive (see the topic in this issue) and which may result in some wave 2 companies and wave 3 companies never having to apply the CSRD in practice. The implementation schedule of the CSRD remains unchanged for companies in 'wave 1' (i.e., large public-interest companies with more than 500 employees).

The CSDDD is also affected by the 'Stop the Clock' Directive, with a one-year postponement of the deadline for transposing the Directive into national law (now 26 July 2027 at the latest) and a one-year delay in its effective date (26 July 2028 for the largest entities within the scope of the CSDDD, i.e. those with an average of more than 3,000 employees and which generated global net turnover of more than EUR 900 million in the last financial year preceding 26 July 2028, with a phased application planned).

The 'Stop the Clock' Directive came into force on 17 April 2025 and shall now be transposed into national law no later than 31 December 2025. In France, the DDADUE 2025 draft law has already provided for a two-year postponement of sustainability reporting requirements for waves 2 and 3 companies, thereby aligning with the timeline set out in the 'Stop the Clock' Directive (see the Note in this issue).

Progress of discussions on the 'Content' Directive project

Still within the framework of the 'Omnibus I' package, the co-legislators are also making rapid progress in the negotiations around the draft of the 'Content' Directive.

As a reminder (see Beyond the GAAP no. 196, 2025), this initiative aims to amend the scope of the CSRD so that only large companies (or parent companies of large groups) with more than 1,000 employees are required to prepare and publish a sustainability statement compliant with the ESRS standards.

At the Council of the European Union level, the Presidency's compromise text was made public on 17 April 2025. This text generally aligns with what was presented by the European Commission on 26 February 2025. However, it is notably proposed that member states may be authorized to exempt wave 1 companies from publishing a sustainability report for 2026, for those that would no longer be subject to sustainability reporting requirements from the 2027 financial year, given the new scope of the CSRD (which remains to be confirmed).

Despite the willingness of member states to make rapid progress on the 'Content' Directive, discussions at the end of April 2025 on the Polish Presidency's compromise text revealed divergences of views on important issues, particularly the scope of the CSRD. Several member states are calling for even more ambitious changes than those proposed by the European Commission, such as raising the turnover threshold to align with the CSDDD threshold (450 million EUR), or creating an additional category of ’medium-sized’ companies (for example, those with between 250 and 1,000 employees, and generating a turnover between 50 and 450 million EUR) that would communicate more limited information (for example, in accordance with the voluntary standard for SMEs (VSME)).

At the European Parliament level, the draft report of the Legal Affairs Committee (JURI) will be presented at the end of June 2025. The committee vote on this report is scheduled for 13 October 2025, ahead of the plenary session starting on 20 October 2025. In the meantime, tough negotiations are expected, with initial discussions in late April 2025 revealing significant differences of opinion between the various political groupings in Parliament.

Against this backdrop, the provisions and final wording of the 'Content' Directive will depend on the Trilogue negotiations, which are expected to take place in early November 2025 at the earliest.

ESRS Set 1 revision: EFRAG adopts its work plan

Following the mandate received from the European Commission to issue a technical opinion on the simplification of Set 1 of the ESRS (see Beyond the GAAP no. 197, 2025), EFRAG delivered its work plan to the European Commission on 25 April 2025, 10 days after the initial deadline. The first vote in the Sustainability Reporting Board (SRB) did not achieve the necessary qualified majority, since a number of Board members were waiting for the Secretariat to present more details as to how the deadline of 31 October 2025, which is very tight given the scale of the task, could be met.

The Secretariat's proposal was therefore revised to produce a work plan based on the following five steps, approved by the SRB at the end of April 2025:

- step 1: establishing a vision on actionable levers for substantial simplification of ESRSs (to be confirmed following the stakeholders’ feedback, see below): April to mid-May 2025;
- step 2 (carried out in parallel with step 1): gathering evidence from stakeholders (including via the public consultation launched on 8 April 2025 and open until 6 May 2025) and analysis of the reports issued by wave 1 companies: April to mid-May 2025;
- step 3: drafting and approving the exposure drafts amending ESRS: second half of May to July 2025;
- step 4: publishing the exposure drafts, receiving and analysing feedback from stakeholders, including via a public consultation which should last for 30-45 days (this period may be extended, depending on the progress of the ‘Content’ Directive, see the Note in this edition): August and September 2025; and
- step 5: finalising and delivering the technical advice to the European Commission: October 2025.

This work plan departs from the usual EFRAG due process, given the very tight timing imposed by the schedule for the Omnibus I package of proposals tabled by the European Commission.

The levers for simplification identified at this stage by EFRAG (to be confirmed in light of the stakeholder feedback) are as follows:

- revising the presentation and architecture, including the articulation of cross cutting and topical provisions. This will include the approach to narrative minimum disclosure requirements on policies, actions, targets and metrics;
- addressing the most challenging provisions: feedback from wave 1 companies will be

particularly important. This includes clarification by EFRAG of the application of the materiality principle;

- evaluating possible simplifications to reporting requirements, for example in relation to disclosures on acquisitions/disposals, confidentiality of information, etc.; and
- substantially reducing the number of required datapoints, with a (not exclusive) focus on narrative disclosures.

Voluntary sustainability reporting standards

On 17 December 2024, EFRAG released its technical advice on the voluntary sustainability reporting standard for non-listed SMEs and micro-enterprises (the 'VSME standard'). This standard was developed at the request of the European Commission to meet the special needs of smaller entities that are not subject to the CSRD but would like to publish sustainability information on a voluntary basis.

At an EFRAG conference on 7 April 2025 ('VSME in Action: Empowering SMEs for a Sustainable Future'), the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (FISMA) discussed the future of this standard, which has become particularly important in light of the Commission's proposals to reduce the reporting burden on entities (see the progress report on the Omnibus I package in this issue). According to the draft 'Content' Directive, the VSME should serve as a basis for the adoption of voluntary reporting standards for entities outside the scope of the future CSRD.

DG FISMA has therefore indicated that the VSME should be adopted as is, in the form of a European Commission recommendation, by June 2025. Subject to the outcome of the 'Content' Directive negotiations (i.e. depending on the threshold ultimately adopted below which entities would not be required to publish a sustainability statement), the European Commission may amend the VSME before its adoption by means of a delegated act. As a reminder, the European Commission's proposals of 26 February 2025 envisage the endorsement of voluntary sustainability reporting standards within four months of the entry into force of the 'Content' Directive.

The PSF publishes report on the revision of the Climate and Environmental Delegated Acts of the European Taxonomy

On 1 April 2025, the European Platform on Sustainable Finance (PSF) published a report (available here) on the review of the Climate and Environmental Delegated Acts, which list the activities eligible for the climate and environmental objectives of the European Taxonomy, along with the associated technical screening criteria.

The PSF is an advisory body mandated by the European Commission to provide advice on aspects of the European Taxonomy, including usability and the simplification of the reporting framework.

Under its mandate, the PSF report proposes:

- the revision of certain technical screening criteria in the Climate Delegated Act to take account of new scientific data or to address usability issues;
- the inclusion of new eligible economic activities in the Climate and Environmental Delegated Acts. For some of these activities, the PSF's work could not be finalised; and
- a focus on existing or future 'adapted' activities listed in Annex II of the Climate Delegated Act, proposing new 'Do No Significant Harm' (DNSH) criteria.

In its proposals, the PSF observes that it has paid particular attention to the usability of the technical screening criteria, especially the DNSH criteria, and to the clarity of their wording.

For the record, the European Commission's Omnibus I proposals (see Beyond the GAAP no. 197, 2025) had identified the need to revisit the technical screening criteria, and in particular the DNSH criteria, in order to make them easier to implement. This review should be carried out at some future date.

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