



iGAAP in Focus

European sustainability reporting

Fair presentation under the Corporate Sustainability Reporting Directive (CSRD)

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This *iGAAP in Focus* addresses considerations relating to 'fair presentation' under the EU Corporate Sustainability Reporting Directive (CSRD) and its implications for the preparation of sustainability statements in light of recent developments including the publication of draft Frequently Asked Question (FAQ) 70 in [the European Commission's Frequently asked questions on the implementation of the EU corporate sustainability reporting rules \(the draft FAQs\)](#).

- The concept of 'fair presentation' has implications for the preparation of and governance over sustainability statements. To achieve fair presentation, the reporting process would need to be designed to enable entities to represent to stakeholders, including assurance providers, that the reported information is relevant, faithfully represents the substance of the phenomena, and is complete, neutral and accurate
- The European Commission issued draft guidance on the CSRD and related regulations, including FAQ 70, which refers to an expectation regarding the assurance provider's report that *"The first part of the conclusion referring to the fair presentation, in all material respects, in accordance with the ESRS entails an opinion on:*
 - *whether the undertaking's sustainability statement, including the process to identify the information reported (i.e., the double materiality assessment process), are compliant with ESRS; and*
 - *whether the outcome of this process has resulted in the disclosure of all material sustainability-related impacts, risks and opportunities of the undertaking in accordance with ESRS."*
- However, the CSRD itself does not make explicit reference to fair presentation of the sustainability statement
- The transposition into the laws of EU Member States and any guidance produced by National Competent Authorities for the use of fair presentation in sustainability reporting will need to be considered carefully. Not all of the Member States have completed the transposition into their laws at the date of this publication.

For more information please see the following websites:

www.iasplus.com
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Background

The CSRD requires a sustainability statement to be prepared in accordance with the European Sustainability Reporting Standards (ESRSs) and for independent limited assurance to be provided on the information included therein.

The assurance of the sustainability statement as set out in the CSRD must cover four areas:

- the process carried out to identify the information reported in accordance with the ESRSs (the double materiality assessment process)
- compliance of the sustainability statement with the ESRSs
- compliance with the reporting requirements of Article 8 of the EU Taxonomy Regulation
- compliance with marking-up sustainability reporting in accordance with digital tagging requirements.¹

The European Commission has issued draft guidance to support preparers and assurance providers on the application of the CSRD and related regulations. This guidance is provided in the form of a series of frequently asked questions (the draft FAQs). At the time of writing, the draft FAQs are in the process of translation into the official languages of the European Union prior to publication in the EU Official Journal. The draft FAQs are not subject to public consultation, and it is generally not expected that changes other than editorial corrections would be made to the draft FAQs prior to their final publication in the EU Official Journal.

Draft guidance from the European Commission

The draft FAQs include draft FAQ 70 that is written in the context of assurance but has direct and important implications for preparers.

Draft FAQ 70 states that:

- “...The assurance providers are expected to perform procedures that enable them to conclude that no matter has come to their attention to cause them to believe that the information included in the sustainability statement is not **fairly presented, in all material respects, in accordance with ESRS** [emphasis added] as adopted by the Union and that it is not compliant with the legal requirements to mark-up sustainability information (i.e., the digital tagging) and with the legal requirements of Article 8 of the Taxonomy Regulation.”
- “... The first part of the conclusion referring to the fair presentation, in all material respects, in accordance with the ESRS entails an opinion on... whether **the outcome of the [double materiality assessment] process has resulted in the disclosure of all material sustainability-related impacts, risks and opportunities of the undertaking in accordance with ESRS** [emphasis added].”

Observation

A precondition for an assurance provider to be able to conclude on whether the information is fairly presented is that an entity itself has put in place a reporting process, governance and internal controls framework that would support such an outcome.

The responsibilities of management or those charged with governance would therefore include:

- the preparation of the sustainability information in accordance with the requirements of the ESRSs, including its fair presentation
- a clear disclosure describing the basis of preparation of sustainability information and confirming the information is fairly presented
- designing, implementing and maintaining a system of internal control that the entity determines is necessary to enable the preparation of sustainability information that complies with the requirements of the ESRSs and is free from material misstatement.²

This reporting process, governance and internal controls framework would need to allow the entity to identify appropriately the information that would enable users of its reporting to understand its material impacts on people and the environment and the material effects of sustainability matters on its development, performance and position. The entity would need to ensure that the qualitative characteristics of information set out in the ESRSs are met. These require that information is relevant, faithfully represents the substance of the phenomena, and is complete, neutral and accurate.³

1. The European Commission has not yet adopted a digital taxonomy for the mark-up of the sustainability statement. The draft FAQs explain that, until such adoption occurs, sustainability statements are not required to be marked-up.

2. Based on [International Standard On Sustainability Assurance \(ISSA\) 5000, General Requirements For Sustainability Assurance Engagements](#), as approved by the International Auditing and Assurance Standards Board (IAASB), September 2024, to be finalised for certification by the Public Interest Oversight Board (PIOB).

3. The guidance issued by the Committee of European Auditing Oversight Bodies (CEAOB) elaborates on what an assurance provider should be looking for in respect of an entity's own reporting process: [Guidelines on limited assurance on sustainability reporting](#).

‘Fair presentation’ and the qualitative characteristics of sustainability information under the ESRs

ESRS 1 *General requirements* sets out the objective of the standards which is to specify the sustainability information that an entity should disclose to enable users of the sustainability statement to understand the entity's material impacts on people and the environment and the material effects of sustainability matters on the entity's development, performance and position. It also specifies the qualitative characteristics that information in a sustainability statement needs to have in order to meet that objective. These are largely consistent with those in the International Accounting Standards Board's (IASB) *Conceptual Framework for Financial Reporting* (the Conceptual Framework) and, importantly, include (alongside comparability, verifiability and understandability) the concepts of ‘faithful representation’ and ‘relevance’.

By way of comparison, the Basis for Conclusions on the Conceptual Framework explains that fair presentation (along with other terms including ‘true and fair view’) *“are different words to describe information that has the qualitative characteristics of relevance and representational faithfulness...”*. There is nothing in ESRS 1 that indicates that these terms should be understood differently from their meaning in the accounting standards.

In its [public statement, *Off to a good start: first application of ESRS by large issuers*](#), the European Securities and Markets Authority (ESMA) emphasises the need for issuers *“to carefully set up their systems of data collection and analysis, as well as internal controls so as to be able to run meaningful double materiality assessments and to deliver the granular sustainability information to meet the qualitative characteristics required by par. 19 of ESRS 1, as listed in Annex B of that Standard”* and notes that *“properly applying these characteristics, most notably those of relevance and faithful representation, is critical in preventing greenwashing”*.

It is worth noting that, while used extremely rarely in practice, IFRS Accounting Standards include provisions for departing from a specific requirement when compliance would be so misleading that it would conflict with the objective of financial statements set out in the Conceptual Framework. The ESRs include no such provision.

‘Fair presentation’ and the ‘stand-back’ assessment

In the context of sustainability reporting, ‘fair presentation’ would require a ‘stand-back’ assessment (first by preparers of a sustainability statement and subsequently evaluated by those providing assurance thereon) of whether the sustainability information adequately explains all material impacts, risks and opportunities in relation to sustainability matters. ESRS 1 includes a requirement to provide entity-specific disclosures when an impact, risk or opportunity is not covered or not covered with sufficient granularity by a disclosure requirement in the ESRs but is material due to the entity's specific facts and circumstances.

Observation

A ‘stand-back’ assessment may involve the following considerations:

- has the double materiality assessment process been undertaken in a balanced way, such that important information is provided but not obscured by irrelevant detail?
- where there is choice, or ambiguity, in the detailed requirements of the ESRs, has an approach been applied which is most appropriate to the entity's circumstances and the needs of the users of its sustainability reporting?
- where judgement is applied, for example, in the sources of data or methodology used to arrive at a reported metric or the use of estimates, has that been done in a fair and unbiased way?
- are the required linkages between the sustainability statement and other parts of the management report and the financial statements properly made and do they support a coherent and consistent narrative?

An assurance provider forming a conclusion on the fair presentation of a sustainability statement would likely need to perform additional procedures to gather sufficient evidence for the entity's assertion of fair presentation.

Legal text of the CSRD and transposition into EU Member State law

The CSRD itself does not make explicit reference to fair presentation of the sustainability statement, and the transposition into the laws of EU Member States and any guidance produced by National Competent Authorities for the use of fair presentation in sustainability reporting will need to be considered carefully. This is because the requirements of the CSRD will only become directly applicable to reporting entities following its transposition into the law of relevant EU Member States. Different EU Member States may use different language in the transposition, which could add complexity for entities in scope for reporting in more than one jurisdiction and also those seeking to claim permissible exemptions from reporting for in-scope group entities. Should such complexities arise, consultation with legal advisers may be necessary.

Further information

If you have any questions about the contents of this publication, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
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