KPMG

Sustainability Reporting in a Digital Format (ESEF)

The digital format for reporting sustainability-related information may pose a significant challenge for companies that are unfamiliar with the ESEF requirements.

What does the article relate to?

What's the issue?

Under the Corporate Sustainability Reporting Directive (CSRD), all large European companies[1] (including EU subsidiaries of non-EU parent companies[2]) and those listed on EU-regulated markets[3] will need to publish clearly identifiable sustainability information within their management reports. The CSRD will follow a phased approach and become applicable between 2024 and 2028 depending on the characteristics of the company.

These sustainability statements will need to be prepared in a human-readable format and a machine-readable format that meet the requirements of the European Single Electronic Format (ESEF)[4].

Getting into more detail

What is ESEF?

ESEF is a technical format designed to make existing information available in both human-readable (XHTML) and machine-readable (XBRL) forms. ESEF does not require new information to be produced; its objective is to enhance accessibility and ease analysis and comparability of annual financial reports.

Which companies do the ESEF requirements apply to?

Companies listed on EU-regulated markets are required to apply ESEF requirements for their annual financial reports, including tagging of the sustainability disclosures in the management report and the IFRS consolidated financial statements (if applicable).

Non-listed companies are only required to prepare their management report in ESEF and tag the sustainability disclosures therein. There is currently no explicit requirement for them to apply ESEF for their (consolidated) financial statements. Member States may reconsider this in the future.

What are the ESEF requirements?

The regulatory technical standards (RTS) on ESEF specify the format, taxonomy (based on IFRS Accounting Standards) and related tagging requirements for the IFRS consolidated financial statements.

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1. Large companies are those that, on the balance sheet date for two consecutive financial years, exceed two of the following three criteria (including EU and non-EU subsidiaries): 250 employees, net revenue of EUR 50m or total assets of EUR 25m.
2. A subsidiary of a non-EU parent company could (subject to certain conditions being met) be exempted from preparing its own sustainability report if the non-EU parent company prepares a consolidated sustainability report. Consult national legislation of the subsidiary to verify whether ESEF (or other digital form) is required for the filing of the consolidated sustainability report of the non-EU parent company.
3. Which are EU and non-EU companies with debt or equity securities listed on an EU regulated market, excluding micro undertakings.
4. ESEF is not applicable for sustainability reports prepared in accordance with Article 40a of the CSRD.

Will the ESEF requirements change because of the CSRD?

Yes. The RTS, including tagging requirements, will become applicable for the sustainability information included in the management report.

A new digital sustainability taxonomy and related tagging requirements are currently being developed (based on the European Sustainability Reporting Standards, ESRSs). Whether the updates are available for use before the reporting under the CSRD becomes due (i.e., for financial years started on or after 1 January 2024, reporting in 2025), is currently unclear.

Do ESEF requirements affect the format for reporting sustainability-related information?

Not necessarily. While the digital sustainability taxonomy contains all reporting requirements (per ESRSs) in a structured format, management is not required to follow this format when presenting the sustainability-related information in the management report.

However, management may choose to follow this structured format rather than a free-format presentation, as it provides the following benefits:

01 The sustainability-related information and the related tagging requirements would be in the same order – making the tagging process relatively easy.

02 This enhances comparability of sustainability-related information between companies

Is the digital sustainability taxonomy the same as the EU taxonomy regulation?

No. The EU taxonomy differs from the digital sustainability taxonomy. EU taxonomy is a classification system which establishes a list of environmentally sustainable economic activities and in turn requires its own disclosures in the management report[5]. The digital sustainability taxonomy will be applied for tagging the sustainability-related information within the management report.

What level of assurance is required for sustainability-related information included in the management report?

Companies will be required to obtain a limited assurance opinion regarding their compliance over both the content (ESRS disclosure requirements) and format (ESEF requirements including tagging) of sustainability-related information.

The CSRD proposes a progressive approach, starting with limited assurance with the intention to move to reasonable assurance in the future[6].

Is there an overview of the assurance requirements related to the annual financial report?

The table below provides an overview including the statutory audit requirements (applicable to most EU Member States[7])

	Level of assurance (Content)	Digital format (ESEF)	Level of assurance (Format)
Management report	Apply ISA 720, The Auditor's Responsibilities Relating to Other Information, and requirements in Article 34 of the Accounting Directive (2013/34/EU)	XHTML	[depending on the statutory requirements in the applicable Member State]
Sustainability-related information (in the management report)	Limited assurance*	XHTML + XBRL-tagging (linked to digital sustainability taxonomy based on ESRSs)	Limited assurance
IFRS consolidated financial statements (for listed companies)	Reasonable assurance	XHTML + XBRL-tagging (linked to taxonomy based on IFRS Accounting Standards)	Reasonable assurance [in most EU Member States]

* As noted above, the CSRD proposes to move to reasonable assurance in the future.

5. For more information on the EU taxonomy refer here: https://kpmg.com/de/en/home/insights/2021/07/sustainable-finances-eu-taxonomy.html
6. The CSRD specifies that the European Commission shall 'adopt a delegated act for reasonable assurance no later than 1 October 2028', following an assessment to determine if this is feasible for auditors and companies.
7. The statutory requirements - to report on compliance of the consolidated IFRS financial statements with the ESEF requirements - can vary depending on how the relevant EU directives have been transposed into local law and legislation of the respective Member State.

For a limited assurance ESEF engagement, what procedures are expected to be performed with regard to sustainability-related information?

Common procedures might include:

- technical validations (e.g., whether the document is valid with respect to the XBRL specifications); and
- a review of the consistency of the rendered sustainability-related information in XBRL format with the human-readable version.

Such procedures may result in findings that will require further analysis and discussion. Therefore, evaluating compliance with the ESEF requirements can be an iterative process, requiring several versions of the sustainability-related information.

This topic will need to be revisited once the updated RTS on ESEF and associated digital sustainability taxonomy are published. Furthermore, there may be new or adapted assurance standards or guidelines for such engagements.

Actions for management

Management may prepare for the upcoming reporting requirements by:

- gaining an understanding of the specificities of digital ESEF reporting;
- identifying how ESEF will impact their reporting processes;
- reviewing lessons learned[8] by listed entities that have already applied ESEF (key takeaways include using dry runs and ESEF readiness reviews);
- taking necessary action to be prepared in time (including making decisions about which software to use, who will perform the XBRL conversion process etc.);
- monitoring for updates via the ESMA website, as the RTS on ESEF will be amended in the future to incorporate the new sustainability taxonomy (based on the ESRSs) and related electronic reporting requirements.

8. Lessons learned from webinars XBRL Europe and ESEF hub with key resources, Accounting Europe and ESMA updates.

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