Transition in sustainability reporting: Exploring stakeholders'barriers to moving assurance under the corporate sustainability reporting directive (CSRD)

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Diplôme : Master en sciences de gestion, à finalité spécialisée en Financial Analysis and Audit
Année académique : 2024-2025
URI/URL : http://hdl.handle.net/2268.2/22793

TRANSITION IN SUSTAINABILITY REPORTING: EXPLORING STAKEHOLDERS' BARRIERS TO MOVING TO LIMITED ASSURANCE UNDER THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

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For a MASTER IN MANAGEMENT

with Specialisation in

Financial Analysis and Audit

Academic year 2024 / 2025

Acknowledgements

Firstly, I would like to express my sincere gratitude to my supervisor, Mr Wouter Torsin, for his valuable support, guidance, and thoughtful advice throughout the development of this thesis. His commitment to academic rigour and his ability to offer constructive perspectives have been important in shaping my work and approach to research.

Secondly, I am also grateful to Mrs Anne Bils for her involvement and the time she dedicated to reviewing my thesis. Her comments and suggestions have helped me to improve the overall quality of the thesis.

Thirdly, I would like to express my gratitude to the professionals who participated in the interviews and shared their experiences and insights. Their contributions were essential to the development of the thesis and greatly enriched the research with practical perspectives.

Fourthly, my thanks go to my aunt, Mrs Ingrid Kirstein, for her careful proofreading of this work. Her attention to detail contributed to enhancing the clarity and consistency of the text.

Finally, I would like to thank my family and friends for their ongoing support and encouragement during this academic journey. Their presence has been a valuable source of motivation.

Table of Contents

I. List of Tables

II. List of Figures

III. List of Abbreviations

AI: Artificial Intelligence

CSDDD: Corporate Sustainability Due Diligence Directive

CSRD: Corporate Sustainability Reporting Directive

DMA: Double Materiality Assessment

DNSH: Do No Significant Harm

ECB: European Central Bank

EFRAG: European Financial Reporting Advisory Group

EPR: Extended Producer Responsibility

ESG: Environmental, Social, and Governance

ESRS: European Sustainability Reporting Standards

FTE: Full-Time Equivalent

EU: European Union

EY: Ernst & Young

FY: Financial Year

GAR: Green Asset Ratio

GHG: Greenhouse Gas

GRI: Global Reporting Initiative

IAASB: International Auditing and Assurance Standards Board

IESBA: International Ethics Standards Board for Accountants

IROs: Impacts, Risks, and Opportunities

ISAE: International Standard on Assurance Engagements

ISSA: International Standard on Sustainability Assurance

ISSB: International Sustainability Standards Board

KPIs: Key Performance Indicators

LSMEs: Listed Small and Medium-sized Enterprises

NFRD: Non-Financial Reporting Directive

NGOs: Non-Governmental Organisations

OECD: Organisation for Economic Co-operation and Development

OpEx: Operating Expenses

PIEs: Public-Interest Entities

PwC: PricewaterhouseCoopers

SDGs: Sustainable Development Goals

SMEs: Small and Medium-sized Enterprises

SRI: Socially Responsible Investing

VSMEs: Voluntary Small and Medium-sized Enterprises

1. Introduction

The first twenty years of the 21st century have been marked by four major crises: the 2008 financial crisis, the COVID-19 pandemic, the Russia-Ukraine war of 2020, and the environmental crisis. Together, the events have exposed the deep vulnerabilities of the prevailing economic model and underscored the need for a fundamental shift in corporate responsibility (Becchetti et al., 2022). Climate change, widely recognised as the greatest challenge of our time, lies at the heart of this transformation and is a central focus of the European Green Deal (Kirchhoff et al., 2024).

In this context, Environmental, Social, and Governance (ESG) principles have emerged as one of the main strategic approaches to guide this transformation, as they aim to align corporate conduct with long-term societal wellbeing. The European Union has established itself as a frontrunner in the regulation of sustainability reporting, promoting a transition from voluntary frameworks to a comprehensive and mandatory reporting regime (Mio et al., 2024). However, many companies now find themselves obliged to disclose non-financial information - often for the first time - and must rapidly adapt to new and complex regulatory expectations (Mio et al., 2024). The recently adopted Corporate Sustainability Reporting Directive (CSRD) significantly expands the scope of its predecessor, the Non-Financial Reporting Directive (NFRD), and requires a much broader range of companies to report on how they contribute to sustainable development (Krasodomska et al., 2023). This growing momentum is reflected in evolving legislative requirements and stakeholder expectations, placing companies under increasing pressure to ensure transparency, integrity, and compliance throughout their operations (Mio et al., 2024).

While the ambition of the CSRD is widely acknowledged, its implementation poses significant challenges. One of the most critical dimensions of this transformation is the traceability of ESG data along the entire value chain, from the source of raw materials to the final consumer. As Mio et al. (2024) highlight, this traceability is not only essential for demonstrating alignment with ESG targets and regulatory commitments but also serves as a strategic lever for enhancing trust and resilience. However, meeting these expectations presupposes the existence of comprehensible internal processes and robust controls that span the full reporting year. It requires companies to implement due diligence systems that are both verifiable and continuous, ensuring that ESG principles are not merely aspirational but structurally embedded in corporate operations and governance (Mio et al., 2024).

Despite the recognition of the CSRD's ambitions, its implementation has proven highly demanding. Businesses are under pressure to quickly establish reliable systems for gathering ESG data, reinforcing internal controls, and adapting governance processes - all while the regulatory framework continues to evolve. This complexity has drawn criticism from both public and private sector actors who point to the significant administrative burden and costs involved (EY, 2025).

In response to these challenges, the European Commission launched its first major simplification initiative in early 2025 through the Omnibus package. This reform marks a significant shift in the EU's approach to corporate sustainability, aiming to ease the regulatory burden associated with reporting and due diligence requirements. Among its key measures are the postponement of certain reporting deadlines and a substantial increase in the thresholds that determine which companies fall under the scope of the CSRD. As a consequence, an estimated 80% of companies previously subject to the CSRD will now fall outside its scope. This adjustment primarily benefits smaller undertakings and those newly entering the reporting obligation, while preserving the long-term ambitions of the European Green Deal (EY, 2025).

In this context, there is a clear gap in academic literature and empirical understanding concerning the barriers to implementing limited assurance under the CSRD. While broader debates on ESG strategy and regulation have proliferated, the specific dynamics of this assurance transition, particularly from the perspective of affected stakeholders, remain underexplored. This thesis addresses this gap by investigating the operational, regulatory, and conceptual hurdles that regulators, reporting companies, auditors, investors, and educational institutions encounter as they prepare for limited assurance engagements under the CSRD. This leads to the following research questions:

What are the key barriers to implementing limited assurance under the CSRD, and how do these challenges differ across stakeholder groups such as regulators, reporting companies, auditors, investors, educators, and EU Member States?

The analysis goes beyond technical requirements to explore the interplay between policy interpretation, stakeholder readiness, and professional practice. Particular attention is paid to the variation across EU Member States, where differences in national transposition, legal traditions, and assurance cultures add layers of complexity to the implementation process.

The research adopts a qualitative approach based on eleven semi-structured interviews with key stakeholders, including Big Four auditors, sustainability consultants, and a representative of the European Commission. These experts are actively engaged in interpreting and applying the CSRD assurance requirements, offering invaluable insight into the realities of implementation. Their perspectives provide a nuanced understanding of the multi-level barriers companies face, from fragmented regulatory guidance and capacity constraints to conceptual confusion around ESG materiality.

The thesis is structured to guide the reader through both the theoretical and practical dimensions of this regulatory transition. The introductory section provides the context and background of the research, outlining the growing importance of sustainability in corporate governance and the need for reliable ESG disclosures. It then continues with a conceptual foundation of ESG in the second section. The third section examines ESG reporting as a whole, discussing both voluntary and mandatory approaches along with their respective challenges. The fourth section introduces the CSRD in detail, examining its scope, objectives, and assurance obligations. This is complemented by the fifth, which analyses the Omnibus Directive as a targeted response to stakeholder concerns and as the first simplification package introduced by the European Commission to ease the initial implementation of the CSRD. The sixth section sets out the motivation for the research and its relevance, and the seventh describes the methodology used to collect and analyse qualitative data. Section eight presents the empirical findings, structured around stakeholder groups and cross-cutting themes. In section nine, these findings are critically discussed in light of the literature and broader institutional context. The tenth section outlines the study's limitations. The final section synthesises the key insights of the thesis and reflects on their implications for policymakers, assurance professionals, and companies as they navigate the transition to limited assurance under the CSRD.

2. What is ESG?

2.1. Definition

Over the last twenty years, Corporate Social Responsibility (CSR), Socially Responsible Investing (SRI), and Environmental, Social, and Corporate Governance (ESG) have obtained increasing focus from the public, businesses, investors, and the academic community (Rau & Yu, 2024).

The term ESG, which stands for Environmental, Social, and Governance, was introduced alongside CSR to highlight the three critical elements of sustainability. The significance of non-economic factors and increased community awareness of social and environmental issues have prompted corporations to acknowledge the necessity of measuring and reporting these aspects as rigorously as financial data in their annual reports. In the last few years, regulatory authorities have also started pushing companies towards adopting sustainable practices and ensuring proper oversight of these efforts (Mio et al., 2024).

Additionally, investors have started considering ESG factors in their investment choices, leading to the increasingly recognised practice of SRI (Spataro et al., 2023).

2.2. Strategic Importance - ESG in Corporate Governance

In today's world, more companies acknowledge the significance of ESG practices. They understand that these practices do not only benefit society and the environment but also yield financial returns for their shareholders (Kirchhoff et al., 2024).

Additionally, assurance can be viewed as the fulfilment of a company's strategic commitment to sustainability, initially demonstrated by voluntarily adhering to the Sustainable Development Goals (SDGs) and engaging in corresponding reporting activities (Krasodomska et al., 2023).

An ESG strategy offers multiple benefits. First, it can lead to cost savings through enhanced efficiency and waste reduction. Second, it can strengthen a company's reputation and increase its market value. Third, it can help attract and retain skilled employees who value sustainability and are drawn to companies with a meaningful purpose. Lastly, it enhances a company's appeal to investors who prioritise the principles for responsible investments when making investment choices (Kirchhoff et al., 2024).

From a competitive point of view, engaging in CSR reporting can provide a strategic advantage by enabling a company to differentiate itself from competitors that are less committed to social responsibility. This differentiation not only promotes the company but also encourages it to maintain high standards of assurance to substantiate its social responsibility claims (Bagnoli & Watts, 2017).

2.3. European Green Deal - ESG in Europe

The beginning of the 21st century has been characterised by multiple significant crises, these events underscore the critical need for a transformation in the global economic landscape. Each of these crises has revealed vulnerabilities in our global systems, emphasising the necessity for robust and adaptive strategies to navigate and mitigate such multifaceted challenges (Becchetti et al., 2022).

In order to address the climate change, what is arguably the greatest challenge of our era, decisive action is required, which is combined in the initiative known as the European Green Deal (Kirchhoff et al., 2024).

As part of the European Green Deal, the Corporate Sustainability Reporting Directive (CSRD) serves as a key component in advancing the 2030 Agenda for Sustainable Finance. This directive enhances transparency and promotes the disclosure of environmental and social information, thereby supporting the broader goals of sustainable development across the continent. This strategy is designed to transition the EU into a modern, resource-efficient, and competitive economy that achieves net zero greenhouse gas emissions by 2050. It also aims to preserve, manage and improve the EU's natural resources while protecting the health and wellbeing of citizens from environmental challenges (Mio et al., 2024).

Aligned with the goals of the European Green Deal, which seeks to reduce emissions by at least fifty percent, there is an urgent demand for businesses to fundamentally alter their operational practices. This transformation is aimed at minimising their environmental impact and ensuring that their activities are sustainable. As such, it is imperative that all economic actions are scrutinised in accordance with these objectives to qualify as sustainable under the new regulatory framework. This comprehensive approach not only fosters environmental stewardship but also positions businesses to thrive in an increasingly eco-conscious market (Danila et al., 2022).

There is a growing demand from society for companies to be socially responsible and to account for the social and environmental impacts of their activities. The ESG investment criteria serve as a basis for measuring these impacts. These criteria provide standards for corporate behaviour and offer a method for companies to evaluate their CSR, or how responsibly they act towards society (Pikatza-Gorrotxategi et al., 2024).

3. ESG Reporting

3.1. Voluntary ESG Reporting

In recent years, there has been an increase in the voluntary adoption of sustainability reporting, driven by stakeholders focused on social and environmental outcomes and by investors who use this non-financial data to assess potential corporate risks and predict financial performance (Kolk & Perego, 2010).

One factor driving this trend is the heightened recognition of the importance of CSR practices, causing more companies to engage in voluntary CSR reporting to demonstrate their commitment to sustainable practices in response to stakeholder expectations (Clarkson et al., 2019).

While stakeholders significantly influence this trend, shareholders are particularly vital as they focus on long-term value creation rather than merely short-term earnings (Edmans, 2023).

Additionally, they also have the greatest influence on corporate decision-making. Mio et al. (2024) confirm that especially shareholders see a new section appear on the management report that discloses information about ESG issues rather than traditional corporate financial reporting, on a voluntary basis.

Consequently, shareholders desire more comprehensive information about a company, including both financial performance metrics and non-financial data regarding social and environmental impacts (Edmans, 2023).

According to research by Krasodomska et al. (2023), nations experiencing significant public and institutional pressure to enact sustainable corporate practices demonstrate a higher demand for assurance services.

Edmans (2023) validates the growing call for detailed reporting on various ESG metrics among investors, regulators, and other stakeholders.

Mio et al. (2024) find that, there arose a demand for new methodologies and tools, along with financial and market-related indicators, which could effectively communicate the impact of corporate decisions on the environment. This development presents a significant opportunity for assurance providers to meet this growing demand by offering services that verify and validate corporate environmental reports, ensuring their accuracy and reliability.

Companies, aware of the advantages of ESG reporting, are increasingly pursuing it. According to Fuhrmann et al. (2017), companies that opt for voluntary external assurance of their CSR disclosures can enhance the credibility of the information they report.

For firms deeply invested in sustainable practices, third-party verification serves as a vital means to authentically signal their dedication. When shareholders perceive the benefits of such assurance as surpassing the costs, it is expected that sustainability reporting assurance will enhance the firm's value (Vander Bauwhede & Van Cauwenberge, 2022).

3.2. Challenges in Voluntary ESG Reporting

However, voluntary sustainability reporting often encounters a fundamental issue: companies tend not to thoroughly disclose aspects where they perform poorly or face significant sustainability risks, sometimes omitting these details entirely (Kirchhoff et al., 2024).

The absence of a standardised reporting framework in voluntary sustainability reports can lead to potential abuses, such as greenwashing. This issue is highlighted by Clarkson et al., (2019) who note that scepticism regarding the authenticity of CSR reports is prevalent because managers may have motivations to present self-serving, less reliable CSR information.

With the freedom to choose which aspects to disclose publicly and which to omit, companies face an asymmetrical situation. This grants firms the opportunity to voluntarily share their socially responsible initiatives, yet it does not provide enough incentive to ensure complete and truthful reporting (Bagnoli & Watts, 2017).

3.3. Mandatory ESG Reporting

The necessity for reliable ESG reporting for both internal and external stakeholders has spurred the development of appropriate assurance frameworks (Kolk & Perego, 2010).

Kirchhoff et al. (2024) affirm that, to achieve greater comparability of reported data and to avoid selective reporting, a mandatory framework is essential.

Krueger et al. (2024) note that several nations have begun to implement compulsory ESG disclosure laws, compelling companies to report high-quality information on ESG matters alongside traditional financial disclosures or through dedicated standalone reports. This trend is particularly noticeable in the EU, where sustainability reporting is increasingly becoming compulsory.

This shift is crucial as mandatory reporting can enhance the credibility of sustainability reports, especially if companies are wary of penalties for disseminating misleading information (Vander Bauwhede & Van Cauwenberge, 2022).

> *There has been a very significant increase in demand for corporate sustainability information in recent years, especially on the part of the investment community. That increase in demand is driven by the changing nature of risks to undertakings and growing investor awareness of the financial implications of those risks.* (European Parliament and Council of the European Union, 2022, p.18)

Krueger et al. (2024) highlight that the impending CSR disclosure directive in the EU is already prompting an increase in CSR reporting and activities as companies begin to respond in anticipation of the directive's enactment. As ESG regulations grow stricter, media oversight strengthens, and stakeholder awareness rises, companies that once engaged in greenwashing are considering ESG assurance to meet expectations from various groups, and to navigate the competitive and broad market dynamics (Bu et al., 2024).

This underlines the evolving landscape of corporate responsibility, where transparency and accountability are becoming paramount.

3.4. Challenges in Mandatory ESG Reporting

Assuring CSR disclosures presents more complexities than financial information due to the broader range of topics covered and the less advanced standards for reporting and assurance (Clarkson et al., 2019).

Krueger et al. (2024) highlight the absence of uniform reporting frameworks and the limited guidelines on the specific ESG details that companies need to disclose. In this regulatory gap, companies might only meet the minimum disclosure requirements superficially to comply with regulations.

There is a growing demand for the establishment of a universal set of disclosures that companies must adhere to, along with standardised metrics for consistent measurement (Edmans, 2023).

The absence of uniform standards currently hinders the comparability of assurance statements and leads to significant discrepancies across different countries. Furthermore, there is no universally accepted methodology for how companies should assess and report their non-financial performance data (Kolk & Perego, 2010).

During a fitness check on the EU framework, it was found that many companies fail to disclose essential sustainability-related information, including comprehensive data on major greenhouse gas (GHG) emissions and factors impacting biodiversity. The report also highlighted the limited comparability and reliability of the sustainability information provided. Moreover, it was noted that many companies from which sustainability information is required are not currently obliged to report such information. This has created a significant gap in the reporting chain (European Parliament and Council of the European Union, 2022).

In addition to these challenges, mandatory ESG reporting also entails significant costs. Regulators must invest resources to develop the framework and enforce compliance. For companies, aligning with new requirements means upgrading systems, training staff, and collecting complex data, all of which can be costly (Baumgart, 2023).

These challenges highlight the urgent necessity for a standardised framework within the global economy that can make ESG reporting clear, measurable, and comparable across different countries.

3.5. Consequences of the Expanding Information Gap in Sustainability Reporting

The credibility of information is shaped by stakeholders' perceptions of a company's expertise, trustworthiness, and goodwill. When stakeholders doubt any of these critical dimensions, they may perceive a credibility gap, leading to diminished confidence, trust, and acceptance of the data provided by the company (Hsueh, 2018).

Without effective policy intervention, the gap between the sustainability information companies provide and what users need is likely to grow, with serious consequences. Investors may overlook key sustainability risks, posing potential systemic threats to financial stability, as highlighted by institutions like the European Central Bank (ECB), especially in relation to climate change. This gap also makes it harder to channel funds towards sustainable activities and increases the risk of diverging national rules, raising costs and complexity for internationally active companies (European Parliament and Council of the European Union, 2022).

Empirical evidence also points to the risks of overregulation. Baumgart (2023) shows that while moderate levels of mandatory disclosure can stimulate transparency and investor engagement, excessively high disclosure requirements may negatively impact company profits due to disproportionate compliance burdens. This suggests that regulatory frameworks should aim for balance, promoting meaningful transparency without imposing excessive costs.

Nevertheless, when well-calibrated and properly enforced, mandatory ESG reporting can deliver clear economic and societal benefits. Enhanced transparency improves market liquidity, reduces the cost of capital, and supports more effective monitoring by investors and analysts. This heightened visibility often encourages firms to modify their practices, including phasing out controversial activities (Christensen et al., 2021).

In addition, the standardisation of ESG disclosures improves the comparability of sustainability performance across companies, helping stakeholders benchmark and assess progress more effectively. However, these advantages are not without challenges. Compliance with reporting mandates involves significant costs related to data collection, verification, and assurance. There is also a risk of superficial disclosures that offer little substantive value. Thus, the overall effectiveness of such mandates depend on strong and consistent enforcement mechanisms that ensure the quality, credibility, and relevance of the reported information (Christensen et al., 2021).

Recognising these challenges and opportunities, the European Union has implemented the CSRD alongside the ESRS. These initiatives aim to close the information gap by establishing a structured and comprehensive reporting framework. Complementary policies, such as the EU Taxonomy Regulation, further support these efforts.

4. Overview of the Corporate Sustainability Reporting Directive (CSRD)

4.1. Non-Financial Reporting Directive (NFRD)

The implementation of the NFRD in 2014 marked a significant progression in enhancing corporate transparency and accountability regarding social and environmental matters (Mio et al., 2024).

However, stakeholders such as investors and civil society organisations are increasingly calling for more detailed and higher-quality information on corporate social and environmental practices (European Parliamentary Research Service, 2021).

It has become evident that the directive has deficiencies that need addressing. Enhanced transparency, greater standardisation, and advancements in technology are essential for providing a clear and accurate depiction of a company's sustainability practices (Kirchhoff et al., 2024).

The NFRD lacks specific recommendations on the frameworks and guidelines companies should follow to comply. The absence of explicit reporting standards has compromised the comparability of the non-financial information that is disclosed (Breijer & Orij, 2022).

> *The European Parliament called for the further development of non-financial reporting requirements […] The European Parliament welcomed the Commission's commitment to review Directive 2013/34/EU and expressed the need to set up a comprehensive Union framework on non-financial reporting that contains mandatory Union non-financial reporting standards. The European Parliament called for the expansion of the scope of the reporting requirements to additional categories of undertakings and for the introduction of an audit requirement.* (European Parliament and Council of the European Union, 2022, p. 17)

4.2. Corporate Sustainability Reporting Directive (CSRD)

The European Financial Reporting Advisory Group (EFRAG) is responsible for developing the new directive standards for the European Commission. As a private association, EFRAG provides advice on the integration of international reporting standards into EU legislation (IBM, 2023).

In its communication regarding the European Green Deal, the Commission declared its plan to revise the NFRD as a means to strengthen the framework for sustainable investment (European Parliamentary Research Service, 2021).

The CSRD officially entered into force on 5 January 2023, with the first CSRD reports to be released in 2025 (Kirchhoff et al., 2024; PwC, 2024).

This will initiate a phased expansion to include other large companies not previously mandated to report, as well as small and medium-sized enterprises (SMEs) and certain non-European entities (Kirchhoff et al., 2024).

The CSRD significantly expands upon the EU's existing Non-Financial Reporting Directive (NFRD) (PwC, 2024).

The CSRD aims to considerably enhance the transparency, comparability, and consistency of non-financial information disclosed by companies. The EU is committed to increase the actual informativeness of the reports, ensuring that sustainability disclosures provide valuable insights to stakeholders (Mio et al., 2024).

Designed to transform organisational behaviour and elevate sustainability reporting to the same level of rigour as financial reporting, this directive mandates comprehensive disclosures on environmental, social, and governance topics (PwC, 2024).

4.3. Expansion of the CSRD

The CSRD significantly increases the number of companies obligated to include sustainability-related information in their management reports (Mio et al., 2024).

Currently, approximately 500 companies in Germany are mandated to disclose sustainability information annually under the NFRD or the corresponding German law. Once the CSRD is fully implemented, this figure is expected to increase to about 15,000 companies within Germany alone (Kirchhoff et al., 2024).

On European level approximately 49,000 companies are required to provide sustainability information under the CSRD compared to the earlier figure of 11,700 companies (Mio et al., 2024).

4.4. European Sustainability Reporting Standards (ESRS)

Starting from 1 January 2024, concerned companies will need to meet the requirements set out by the CSRD. This directive has empowered the EFRAG to develop and periodically update the ESRS (Mio et al., 2024).

Specifically, the ESRS outline what details an entity must report concerning its material impacts, risks, and opportunities (IROs) in relation to environmental, social, and governance sustainability matters (European Parliament and Council of the European Union, 2023a).

In extension of the established ESG framework, EFRAG has structured the ESRS to include five standards focused on environmental factors, four on social considerations, and one standard addressing corporate governance issues (Kirchhoff et al., 2024).

The standards stipulate that entities are not obligated to report on any ESG topics covered by ESRS if they have determined that these issues are not material to their operations (European Parliament and Council of the European Union, 2023a).

4.4.1. Cross-Cutting Standards

The initial two general and cross-cutting ESRS highlight the principle of double materiality (section 4.7.) as foundational to sustainability reporting. This approach considers the financial impacts as well as the environmental and social consequences, emphasising that these dimensions should be evaluated concurrently (Mio et al., 2024).

4.4.1.1. ESRS 1 General Requirements

ESRS 1 - General Requirements outlines the publication location for the CSRD report and broadly dictates the structure of the report. Additionally, it details the process for conducting a materiality analysis in compliance with the CSRD and introduces essential concepts (Kirchhoff et al., 2024). In particular, ESRS 1 introduces essential concepts such as double materiality and value chain reporting. It also provides detailed guidance on how to conduct a materiality assessment in compliance with CSRD requirements, ensuring that undertakings disclose only information deemed material (European Parliament and Council of the European Union, 2023a).

Furthermore, ESRS 1 defines the three types of sustainability topics that must be assessed: Impacts, Risks, and Opportunities (IROs). It clarifies the drafting conventions used throughout the ESRS framework, specifying different degrees of obligation depending on the wording ("shall disclose", "may disclose", "shall consider"). ESRS 1 also sets out the main reporting areas that structure each topical standard, covering governance, strategy, IROs, and metrics and targets. Finally, it emphasises interoperability with other frameworks, such as the GRI Standards, the EU Taxonomy, ISSB, and OECD Guidelines, to ensure alignment and reduce reporting burden for companies operating internationally (KPMG AG Wirtschaftsprüfungsgesellschaft, 2024).

4.4.1.2. ESRS 2 General Disclosures

ESRS 2 - General Disclosures provides a more detailed exploration of the specific contents required in the report, outlining the particular information that needs to be disclosed according to the topical standards (Kirchhoff et al., 2024).

It complements ESRS 1 by operationalising the principle of double materiality and structuring disclosures into four key areas: the basis for preparation, governance, strategy, and the management of impacts, risks, and opportunities (IROs). Companies must explain the scope and methods used to prepare their sustainability information, describe how governance bodies oversee sustainability matters, disclose how material issues interact with their business strategy, and report on the processes for identifying and managing material IROs. In addition, companies are required to describe the policies, actions, targets, and metrics related to their material topics, or explain why specific topics were deemed immaterial. ESRS 2 ensures a common reporting backbone that enhances comparability and consistency across sustainability reports in Europe (European Parliament and Council of the European Union, 2023a).

4.4.2. Environmental Standards

4.4.2.1. ESRS E1 Climate Change

Companies are required to detail their effects on climate change, including both their negative impacts and the measures they have implemented to counter it (Mio et al., 2024).

In addition, it allows users to comprehend the extent of the organisation's efforts historically and presently, as well as future plans. These efforts should align with the Paris Agreement and aim to keep global warming below 1.5°C. Furthermore, organisations must disclose their plans and capacities to adapt their strategies and business models towards a sustainable economy, addressing both risks and opportunities associated with climate change (European Parliament and Council of the European Union, 2023a).

4.4.2.2. ESRS E2 Pollution

Companies are asked to clarify how they affect the pollution of air, water, and soil, as well as living organisms and food supply. Here again, companies are asked to explain how they negatively affect these aspects and what actions they take to counteract them (Mio et al., 2024).

Organisations must disclose their material risks, impacts, and dependencies related to pollution, including substances of concern and very high concern (European Parliament and Council of the European Union, 2023a).

4.4.2.3. ESRS E3 Water and Marine Resources

This standard leads companies to disclose how they affect water and marine resources, by reporting on water consumption (Mio et al., 2024).

European Parliament and Council of the European Union (2023a) confirm that companies need to disclose on water consumption, water withdrawals, water discharges and extraction of marine resources.

4.4.2.4. ESRS E4 Biodiversity and Ecosystems

Companies are required to detail their impacts on biodiversity and ecosystems, which represent the various life forms and structures on Earth (Mio et al., 2024).

Moreover, European Parliament and Council of the European Union (2023a), detail that companies must provide information about the direct impact of biodiversity loss and the impact of the state of species, for example.

4.4.2.5. ESRS E5 Resource Use and Circular Economy

Companies should disclose their impact on the utilisation of natural resources within the context of a regenerative consumption model. This involves outlining their efforts to minimise resource depletion through strategies like material recycling and extending the lifespan of products. By adopting such practices, companies contribute to a circular economy where resources are reused and conserved, reducing the need for new materials and diminishing environmental impact (Mio et al., 2024).

4.4.3. Social Standards

The European Union requires companies to disclose key social factors such as working conditions, social dialogue, equality, inclusion, and human rights. Disclosures should address impacts on people, including workers and human health, and cover issues like forced and child labour in the value chain where relevant. Companies must also report on emerging risks related to employment and income (European Parliament and Council of the European Union, 2022).

4.4.3.1. ESRS S1 Own Workforce

Companies are required to outline their impact on employees, with a strong focus on addressing social issues, and safeguarding privacy rights (Mio et al., 2024).

The major topics that the European Parliament and Council of the European Union (2023a) add are adequate wages, health and safety and gender equality.

4.4.3.2. ESRS S2 Workers in the Value Chain

This standard mandates that companies must detail how their operations influence all workers throughout their value chain, including those not directly employed but involved upstream or downstream. This encompasses a comprehensive assessment of the organisation's impact on the broader workforce engaged in any part of the production and distribution processes (Mio et al., 2024).

4.4.3.3. ESRS S3 Affected Communities

The company must outline the effects of its operations on all individuals living within the areas it operates. This includes a detailed description of how local communities are impacted by its activities and the measures taken to mitigate any adverse effects (Mio et al., 2024).

4.4.3.4. ESRS S4 Consumers and End-Users

The company must describe the personal safety of consumers and/or end-users and their social inclusion for example. Therefore the access and the marketing practices need to be guaranteed, as well as no discrimination is allowed (European Parliament and Council of the European Union, 2023a).

4.4.4. Governance Standard

4.4.4.1. ESRS G1 Business Conduct

The standard related to governance involves describing how the company operates, making explicit the features of its business model, and whether it is transparent and sustainable (Mio et al., 2024).

The business conduct must respect the corporate governance with regard to a strong corporate culture and must protect whistleblowers. It emphasises the importance of fair management practices with suppliers, the humane treatment of animals, and maintaining transparency in political engagements. The standard also mandates comprehensive measures against corruption and bribery, including prevention strategies (European Parliament and Council of the European Union, 2023a).

4.5. Scope and Applicability

The CSRD significantly broadens the scope of sustainability reporting within the European Union. It applies to a wide range of undertakings, including large companies, SMEs listed on EU-regulated markets, public-interest entities (PIEs), subsidiaries, and certain non-European companies operating within the EU. The directive establishes clear thresholds based on employee numbers, turnover, and balance sheet totals to determine applicability (European Parliament and Council of the European Union, 2022).

More broadly, the CSRD reflects a global shift where businesses of all sizes must implement ESG initiatives to contribute to a more sustainable financial system. ESG factors have become essential for investors and consumers alike, emphasising the growing importance of corporate accountability worldwide (Prodanova et al., 2023).

4.5.1. Large Undertakings

The amended Directive 2013/34/EU now encompasses a broader range of entities required to report on sustainability. This expansion particularly affects large public-interest entities, which are defined as those having an average number of employees exceeding 500, including those that are parent undertakings of large groups with similar employee counts. The directive now also mandates all large undertakings and all undertakings whose securities are admitted to trading on a regulated market in the European Union to engage in sustainability reporting, excluding micro undertakings (European Parliament and Council of the European Union, 2022).

Following the broader inclusion criteria set by the amended Directive 2013/34/EU, the ESRS will be applicable for fiscal years starting on or after January 1, 2024, with the first reports due in 2025. This requirement will impact large EU companies, as outlined by KPMG IFRG Limited (2023).

Any company operating within the EU that meets at least two of the following thresholds - more than 250 employees, a turnover of more than €40 million, or total assets exceeding €20 million - will be required to comply by the fiscal year 2026, based on FY 2025 data (PwC, 2025a).

4.5.2. Public-Interest Undertakings

Public-interest entities (PIEs) that do not qualify as large undertakings, yet have securities traded on regulated markets, also fall under the scope, allowing them to comply with SME reporting standards. Furthermore, parent undertakings of large groups are required to prepare group-level sustainability reports, ensuring a comprehensive view of their sustainability efforts (European Parliament and Council of the European Union, 2022).

Additionally, for PIEs with fewer than 500 employees, the directive will apply starting in the fiscal year 2026, based on data from FY 2025 (PwC, 2025a).

4.5.3. Third-Country Undertakings

An essential addition to the directive is the inclusion of third-country undertakings, which are mandated to disclose sustainability information if their securities are traded on a regulated EU market. More specifically, third-country undertakings generating a net turnover of more than EUR 150 million within the EU and possessing a subsidiary or branch on EU territory must adhere to EU sustainability reporting requirements by the fiscal year 2029, based on FY 2028 data (European Parliament and Council of the European Union, 2022; PwC, 2025a).

For enforcement and proportionality, branches of these third-country undertakings must have a net turnover exceeding EUR 40 million, and these branches along with subsidiary undertakings are tasked with publishing the sustainability reports for their respective third-country parent company (European Parliament and Council of the European Union, 2022).

4.5.4. Small and Medium-Sized Enterprises

Beginning with the financial year 2026, with reporting due in 2027, the scope of sustainability reporting requirements will expand to include small and medium-sized enterprises (SMEs) that are listed on an EU-regulated market. This extension ensures that smaller entities, which previously might not have been subjected to such rigorous reporting standards, will now also need to disclose detailed information on their sustainability practices (IBM, 2023).

Specifically, EU-listed SMEs that meet at least two of the following criteria - employing between 50 and 250 people, generating a turnover of €8 to €40 million, or holding total assets between €4 and €20 million - will be required to comply from the fiscal year 2027, based on data from FY 2026 (PwC, 2025a).

To facilitate this transition, a two-year opt-out option is available for listed small and medium-sized companies. However, to utilise this opt-out, these companies must provide a detailed explanation in their management reports outlining the reasons for not disclosing the required sustainability information (ICAEW, n.d.).

4.5.5. Subsidiary Undertakings

Subsidiary undertakings are not required to report non-financial information if they are part of a group whose consolidated management report, prepared by the parent undertaking, already includes such information as stipulated by the directive. However, to enhance user accessibility to sustainability information and maintain transparency regarding reporting responsibilities, it is essential that these subsidiaries disclose specific details. Each subsidiary must include in its management report the name and the registered office of the parent company responsible for the group-level sustainability reporting. Additionally, they must provide web links to the consolidated management report of the parent undertaking and note in their report that they are exempt from independent sustainability reporting (European Parliament and Council of the European Union, 2022).

4.6. Integration of Sustainability Assurance into Statutory Audit

In line with Directive 2006/43/EC, which mandates that statutory auditors or audit firms must deliver their statutory audit findings in an audit report, similar regulations are proposed for the assurance of sustainability reporting. The outcomes of sustainability assurance should be documented in an assurance report. If the same statutory auditor is responsible for both the statutory audit of the annual financial statements and the assurance of sustainability reporting, the details concerning the assurance of sustainability reporting may be included within the audit report. Additionally, this information will be published as part of the company's broader annual reporting documentation (European Parliament and Council of the European Union, 2022).

4.7. Double Materiality

Historically employed for financial reporting, the concept of materiality has expanded into sustainability reporting. This approach helps companies to identify and prioritise key social, environmental, and economic issues for their sustainability reports (Mio et al., 2024).

The European Union defines double materiality as follows:

> *[…] therefore require undertakings to report both on the impacts of the activities of the undertaking on people and the environment, and on how sustainability matters affect the undertaking. That is referred to as the double materiality perspective, in which the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective.* (European Parliament and Council of the European Union, 2022, p. 24)

The double materiality framework under the ESRS guides companies in recognising the impacts, risks, and opportunities pertinent to sustainability that should be disclosed. This requirement affects entities globally, not just within the EU, necessitating comprehensive materiality assessments across both dimensions of sustainability to determine what should be reported (PwC, 2024).

Companies must conduct materiality assessments across both sustainability dimensions and report on issues that are material in either dimension (Kirchhoff et al., 2024; KPMG IFRG Limited, 2023).

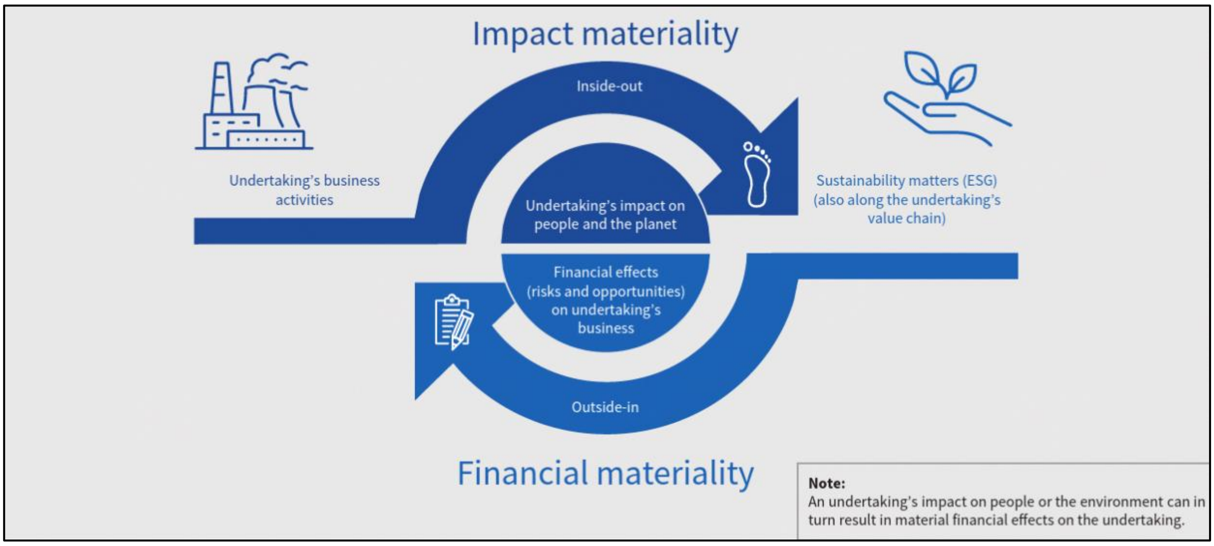

Figure 1: Double materiality (KPMG AG Wirtschaftsprüfungsgesellschaft, 2024)

4.7.1. Impact Materiality

Impact materiality adopts an *"inside-out"* perspective by assessing how an entity's activities significantly affect environmental and social factors (PwC, 2024).

This assessment evaluates impacts along a company's entire value chain, including upstream suppliers and downstream distributors. The severity and likelihood of each impact are considered to determine materiality, focusing on addressing significant sustainability issues efficiently and effectively. This prioritisation helps companies manage potential risks and improve sustainability practices across their operations (KPMG IFRG Limited, 2023).

The European Commission defines impact materiality as follows:

> *A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term. Impacts include those connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Business relationships include those in the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships.* (European Parliament and Council of the European Union, 2023a, p. 10)

4.7.2. Financial Materiality

Financial materiality assesses the economic implications of social and environmental factors on an entity. This perspective helps determine significant risks and opportunities linked to sustainability issues that could impact the financial health of a company (PwC, 2024).

Financial materiality necessitates the disclosure of sustainability-related issues that might significantly impact a company's financial trajectory - such as cash flows, financial status, or overall performance - over short-, medium-, or long-term periods. The evaluation extends beyond factors within the company's immediate control and will consider both the likelihood and potential magnitude of financial effects (KPMG IFRG Limited, 2023).

Possible scenarios for financial materiality include increases in CO_2 prices that could raise the costs of essential production materials, or penalties for not properly disposing of substances in water bodies. More broadly, financial materiality can also stem from a company's poor ESG profile, which might lead to decreased investor interest and subsequently higher capital costs. This approach is known as *"outside-in"*, because it considers how external factors internally affect the company (Kirchhoff et al., 2024).

The European Commission defines financial materiality as follows:

> *A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks or opportunities that have a material influence, or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term. Risks and opportunities may derive from past events or future events. The financial materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on material risks and opportunities attributable to business relationships beyond the scope of consolidation used in the preparation of financial statements.* (European Parliament and Council of the European Union, 2023a, p. 11)

4.7.3. Double Materiality Assessment

The figure illustrates the four key steps of the Double Materiality Assessment process as defined under the ESRS, forming the foundation for sustainability reporting under the CSRD:

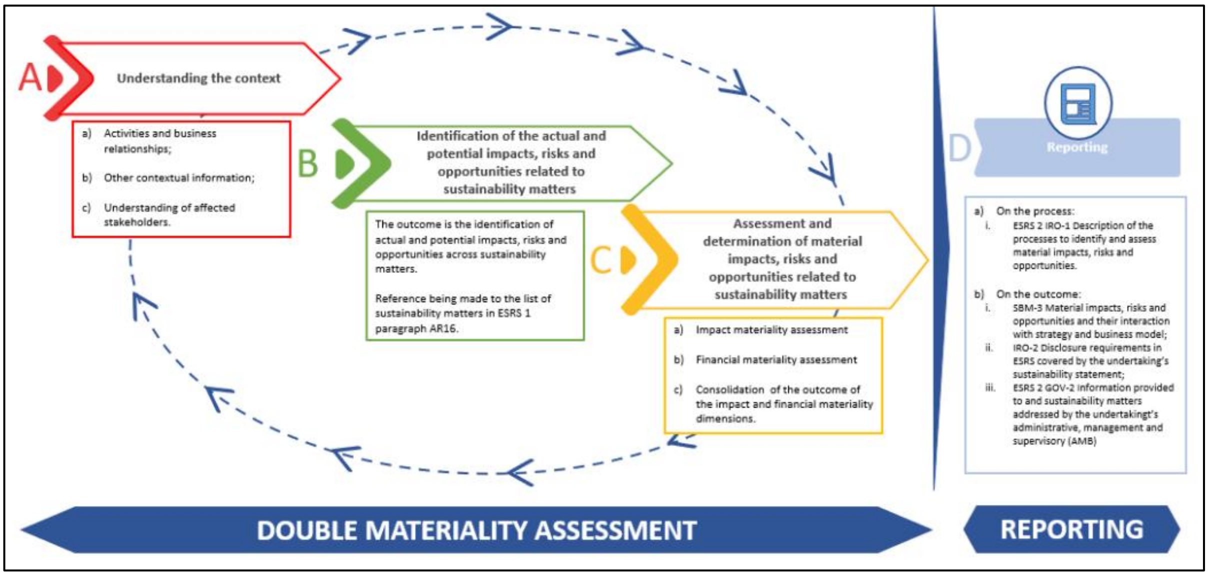

Figure 2: Double materiality assessment (EFRAG, 2023)

<u>Step A - Understanding the Context</u>: The process begins with an analysis of the undertaking's activities, business relationships, and the broader contextual environment. It includes identifying key stakeholders and gathering information from internal documentation, regulatory context, and stakeholder engagement.

<u>Step B - Identification of Impacts, Risks, and Opportunities (IROs)</u>: Based on the understanding developed in Step A, the company identifies a comprehensive list of actual and potential impacts, risks,

and opportunities related to sustainability across its value chain. This includes referencing ESRS 1 and other frameworks to ensure completeness.

Step C - Assessment and Determination of Material IROs: In this step, the undertaking assesses the list of IROs for both impact materiality and financial materiality (likelihood and magnitude of financial effects). The outcomes are consolidated to determine which IROs are material and should be disclosed.

Step D - Reporting: The final step involves reporting both on the process followed (methodology, thresholds, and criteria) and the outcomes (the material IROs), in line with ESRS 2 requirements (EFRAG, 2023).

4.8. Taxonomy Regulation

The EU's Taxonomy Regulation lays the foundation for a harmonised framework to classify economic activities based on their environmental sustainability. By applying scientific technical screening criteria, it evaluates how well these activities align with six clearly defined environmental objectives: climate change mitigation, climate change adaptation, sustainable use of water and marine resources, transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems (PwC, 2024).

Beyond its role as a green classification tool, the Regulation also supports a dual function: identifying activities that are already sustainable while enabling the transition of high-emission sectors. This evolving framework is particularly significant in industries such as steel, cement, and aviation, where criteria are expected to tighten over time to support the EU's long-term climate neutrality goals (Schütze & Stede, 2024).

As the EU's first comprehensive framework for sustainable finance, this initiative marks a key step towards enhancing the transparency, comparability, and credibility of sustainability disclosures. Its uniform definitions support institutional investors in making informed decisions, promoting green investment, and reducing greenwashing risks. By providing a standardised EU metric, the regulation also enables beneficiaries to choose investors based on the environmental sustainability of their portfolios, encouraging companies to adopt more sustainable practices (Pacces, 2021).

This regulatory framework enhances transparency, reduces the risks of greenwashing, and prevents market fragmentation by establishing a clear, common understanding of what constitutes environmentally sustainable economic activities. Importantly, the Taxonomy Regulation does not obligate investors to invest in activities that meet specific sustainability criteria (European Parliament and Council of the European Union, 2023b).

However, there are concerns that technical screening thresholds for some activities are not yet fully aligned with the EU's climate neutrality objectives, particularly in transition sectors. This calls for periodic reviews and stakeholder engagement to strengthen alignment over time (Schütze & Stede, 2024).

Data gaps, variations in methodologies among data providers, and potential conflicts of interest also underline the need for transparent and standardised sustainability assessments to ensure the credibility and effectiveness of the Taxonomy framework (Hoepner & Schneider, 2023).

4.9. Limited and Reasonable Assurance

The assurance profession currently differentiates between two types of engagements: limited assurance and reasonable assurance (IAASB, 2024).

Under the CSRD, the scope of auditing requirements has been extended to include initial audits of CSRD reports with limited assurance (Kirchhoff et al., 2024).

Mandatory assurance for CSRD reporting currently requires limited assurance, but this requirement will transition to reasonable assurance over time. The challenge lies not just in achieving compliance but also in consistently maintaining it as standards change. Companies within the scope of CSRD must establish a strong internal framework for sustainability reporting that can adapt to evolving requirements and endure thorough external audits (PwC, 2025a).

While the goal is to align the assurance levels of financial and sustainability reporting, the lack of a standardised approach for sustainability assurance remains a major obstacle (European Parliament and Council of the European Union, 2022).

For a gradual enhancement of assurance practices, this method allows the accommodation of the developing market for sustainability assurance and of the evolving reporting practices of undertakings. It also helps manage the cost impact on reporting entities, as limited assurance is less costly than reasonable assurance (European Parliament and Council of the European Union, 2022).

4.9.1. Limited Assurance Engagement

The conclusion of a limited assurance engagement typically uses a negative form of expression, indicating that nothing significant has been found to suggest that the subject matter is materially misstated. This type of engagement involves conducting fewer tests and procedures compared to a reasonable assurance engagement, which is more thorough and seeks to provide a higher level of assurance. Limited assurance aims to give a moderate level of confidence to stakeholders, assessing whether any material issues exist that would warrant further investigation or concern (European Parliament and Council of the European Union, 2022).

The International Auditing and Assurance Standards Board (IAASB) defines a limited assurance engagement as follows:

> *An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.* (IAASB, 2024, p. 10)

4.9.1.1. Requirements for Limited Assurance Statements under ISAE 3000 (Revised)

Under ISAE 3000 (Revised), the requirements for limited assurance statements are carefully outlined to ensure clarity and reliability in the assurance report. The report must be written, containing a clear expression of the practitioner's conclusion regarding the subject matter information. This conclusion should be distinctly separated from other sections such as Emphasis of Matter or Other Matter to ensure that such information does not affect the conclusion's integrity. The practitioner's conclusion plays a crucial role and must clarify that, in limited assurance engagements, the level of assurance provided is significantly lower than in reasonable assurance engagements. This is primarily due to differences in the nature, timing, and scope of the procedures carried out (IAASB, 2013).

Moreover, within the scope of a limited assurance engagement, practitioners must maintain vigilance for any indications of fraud or non-compliance with laws and regulations relevant to the sustainability statements under review. However, unless instances of non-compliance are detected, practitioners are not obligated to undertake specific procedures related to broader legal or regulatory compliance outside of those directly pertaining to the preparation of the sustainability statements (CEAOB, 2024).

According to IAASB (2013), the assurance report should include specific elements:

A title indicating that it is an independent assurance report, an addressee, and a description of the assurance level obtained. It must identify the subject matter, and the criteria applied during the assessment. It should also mention any significant inherent limitations of the evaluation process and note if the criteria are designed for a specific purpose, potentially limiting the report's applicability for other purposes.

Furthermore, the report should clarify the responsibilities of both the responsible party and the practitioner, stating that the engagement was conducted in accordance with ISAE 3000 or a relevant subject-matter-specific ISAE. It is important to affirm that the practitioner's firm adheres to quality control and complies with relevant ethical requirements, which are at least as demanding as those outlined in the IESBA Code.

The report should present a comprehensive overview of the procedures undertaken to support the practitioner’s conclusion, explicitly noting that the assurance level in limited assurance engagements is lower than that of reasonable assurance engagements. The practitioner’s conclusion should reflect whether any material misstatements have come to attention during the assurance process, phrased appropriately for the context of the assessed information and the criteria applied.

The report should conclude with the practitioner’s signature, the date the report was finalised, and the location of the practitioner’s practice. This comprehensive approach ensures that all essential aspects of the limited assurance engagement are transparently and rigorously documented, adhering to the standards set by ISAE 3000 (Revised).

4.9.2. Reasonable Assurance Engagement

In reasonable assurance engagements, conclusions are typically presented positively, providing an opinion on compliance with defined criteria. However, without similar assurance for sustainability reporting, the credibility of the disclosed information may be compromised. This lack of rigorous scrutiny fails to meet the needs of users who rely on this information. Introducing assurance requirements for sustainability reporting would bolster its reliability and align it more closely with the stringent standards seen in financial auditing, enhancing stakeholder trust (European Parliament and Council of the European Union, 2022).

The International Auditing and Assurance Standards Board (IAASB) defines a reasonable assurance engagement as follows:

> *An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the sustainability matters against the applicable criteria.* (IAASB, 2024, p. 10)

For instance, a conclusion appropriate for a reasonable assurance engagement could be expressed in positive terms about compliance with specific criteria, such as:

"*In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at [date] and its financial performance and its cash flows for the year then ended in accordance with XYZ framework."* (IAASB, 2013, p. 89)

5. Omnibus Directives

The European Union's Sustainability Omnibus package, first published by the European Commission on 26 February 2025, represents a pivotal strategy designed to enhance the competitiveness of EU businesses while steering them towards a more sustainable future. This initiative is crucial for several reasons, supporting its adoption as a progressive measure to reconcile economic growth with environmental stewardship (PwC, 2025b).

President Ursula von der Leyen has expressed strong support for this initiative, stating:

> *Simplification promised, simplification delivered! We are presenting our first proposal for far-reaching simplification. EU companies will benefit from streamlined rules on sustainable finance reporting, sustainability due diligence, and taxonomy. This will make life easier for our businesses while ensuring we stay firmly on course toward our decarbonisation goals. And more simplification is on the way.* (European Commission, 2025a, p. 1)

The simplification targets key areas such as sustainable finance reporting, sustainability due diligence, and the taxonomy of sustainable activities, which are essential for companies navigating the green transition.

This proposal is not only critical for maintaining the momentum of the EU's environmental objectives but also for ensuring that European businesses can operate more efficiently under clearer, more streamlined regulations. The anticipation of more simplification measures on the way creates a hopeful outlook for EU companies striving for both economic growth and sustainability (European Commission, 2025a).

The Omnibus package, part of the European Commission's initial simplification efforts, aims to streamline EU sustainability reporting requirements in line with the objectives of the Green Deal. It addresses the need to alleviate regulatory pressures on businesses, particularly SMEs. By proposing a targeted reduction of at least 25% in administrative burdens and 35% for SMEs, the package creates a more favourable business environment. This reduction in red tape enables businesses to focus more on innovation and expansion rather than compliance, thereby enhancing their competitiveness in the global market (PwC, 2025b).

As Marie-Laure Delarue, EY Global Assurance Leader, states:

> *As global assurance professionals, we see the EU Omnibus Simplification Package as an opportunity for companies to focus on material impacts that truly matter to their business and stakeholders. While it may not provide them with all the answers right now, it provides welcome clarity to companies after a short period of uncertainty.* (EY, 2025, p. 17)

This is essential for sustaining economic growth within the EU and for maintaining its position in the global economy. The amendments included in the package, such as those to the CSRD and the Corporate Sustainability Due Diligence Directive (CSDDD), streamline processes and make it easier for companies to transition towards sustainability (EY, 2025).

However, according to EY (2025), the Omnibus reforms represent not a weakening of sustainability ambition, but a recalibration of the reporting landscape to ensure that reporting obligations are proportionate to the capacities and relevance of different types of undertakings. This strategic move underpins the EU's long-term competitiveness goals while preserving the transformative agenda of the Green Deal and Clean Industrial Deal.

Additionally, the package aims to adjust the framework governing EU investment programmes, such as the InvestEU Regulation. By doing so, it enhances the ability of businesses to attract investments and secure funding necessary for their sustainable transitions. This is crucial for businesses looking to innovate in areas of renewable energy, waste reduction, and other sustainable practices (European Commission, 2025b; European Parliament and Council of the European Union, 2021).

5.1. Draghi Report

The package directly responds to the Draghi report, which outlines strategic recommendations to boost the EU's economic resilience and competitiveness. Aligned with the Competitiveness Compass, the report identifies three key priorities: closing the innovation gap, advancing decarbonisation alongside competitiveness, and strengthening Europe's security and strategic autonomy. At its core, the Draghi report emphasises raising productivity as essential for sustaining prosperity, public services, and Europe's social model amid growing challenges. This strategic alignment ensures that the EU's legislative actions are grounded in expert analysis and are aimed at addressing contemporary economic and environmental challenges effectively (Draghi, 2024).

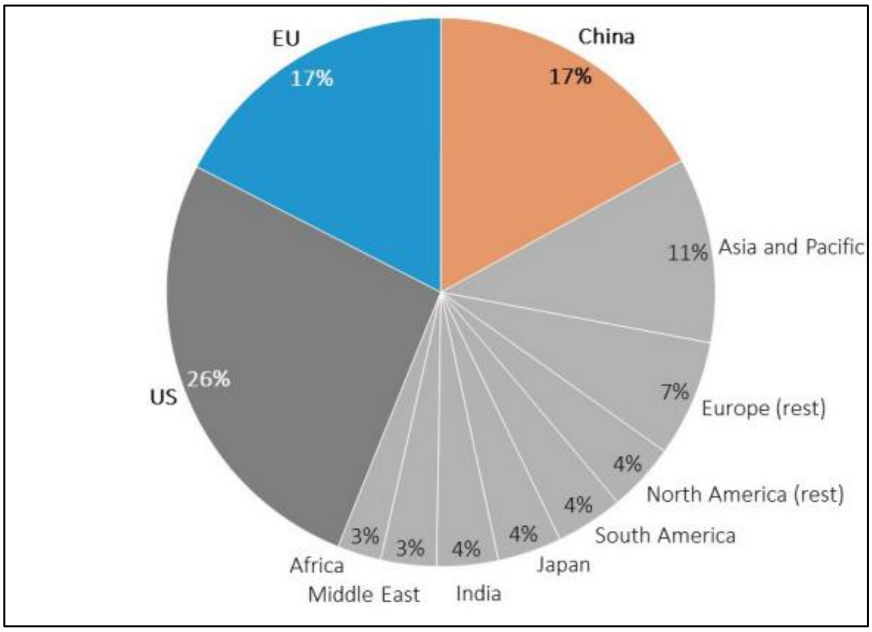

Figure 3: Share of World GDP 2023 (Draghi, 2024)

Note. Retrieved from Draghi (2024)

Figure 3 illustrates the share of world GDP in 2023, highlighting that the European Union accounts for 17% of global GDP, an equal share to China. Despite slower growth compared to the United States, which leads with 26%, the EU maintains a significant position in the global economy, supported by its large Single Market of 440 million consumers and 23 million companies. This economic weight, combined with Europe's strong governance, social standards, and sustainability leadership, underpins the EU's potential to remain a highly competitive economy on the world stage (Draghi, 2024).

5.2. Content Proposal and Stop the Clock Directive

As part of the Omnibus Package, the European Commission's initiative to refine the CSRD is structured into two distinct proposals: the so-called "Stop the Clock" proposal and the Content proposal. The Stop the Clock proposal, which now entered into force by means of Directive (EU) 2025/794 (European Parliament and Council of the European Union, 2025a), is relatively streamlined and seeks to defer the implementation of wave 2 and wave 3 reporting by two years. This postponement is strategically planned to allow sufficient time for the integration and adoption of the more comprehensive Content proposal (COM 2025 81) (European Parliament and Council of the European Union, 2025b; PwC, 2025b).

5.2.1. Content Proposal (COM 2025 81)

The Content proposal addresses four key areas of change within the CSRD framework:

	Current Requirements:	Proposed Changes:
Scope	Entities' inclusion under the CSRD depends on size and whether they are listed on an EU-regulated market. All entities mandated to report under CSRD must also comply with the EU Taxonomy Regulation.	The applicability of CSRD will now primarily hinge on having over 1,000 employees, making it easier for smaller entities to manage compliance. Entities with up to 1,000 employees could opt for voluntary reporting under a new, simplified framework tailored for micro, small, and medium-sized enterprises (VSMEs). For some, reporting in accordance with the EU Taxonomy will be optional.
Value Chain	The current rules limit the demands entities can place on their value chain partners regarding sustainability reporting.	A direct cap will be introduced on what can be requested from value chain partners, aligning the requirements strictly with the capacities and roles within the value chain. This change is specifically designed to limit the reporting burden on smaller entities.
Assurance	Initially, only limited assurance is required in reporting, but there are plans to transition to reasonable assurance with a standard set by the European Commission by 2026.	The requirement for moving to reasonable assurance will be removed. Instead, the European Commission will provide targeted assurance guidelines by 2026 to aid entities in meeting their reporting obligations.
Standards	The European Commission is mandated to issue sector-specific standards, with around 40 sector standards planned, under the current ESRS.	The mandate to issue sector-specific standards will be eliminated. The ESRS will be updated to substantially reduce the number of mandatory reporting datapoints, with a focus on enhancing quantitative data reporting over qualitative narratives, ensuring consistency with other EU legislations.

Table 1: Content Proposal

Note. Adapted from PwC (2025b) (https://viewpoint.pwc.com/dt/us/en/pwc/in_briefs/2025/2025-in-brief/int-european-commission-publishes-omnibus-proposals.html). Copyright 2025 by PwC

EY (2025) confirms a significant shift in the ESRS architecture: the removal of the mandate to develop 40 sector-specific standards. In their place, a more streamlined and quantitative core set of disclosures will be adopted, enhancing consistency and reducing duplication while still enabling comparability across sectors.

5.2.2. Stop the Clock Directive (EU) 2025/794

Current requirements	Stop the Clock proposal	Content proposal
Wave 1: Entities under the NFRD, including large entities that are publicly listed with over 500 employees. *(They are required to report under ESRS and EU Taxonomy)*	No change in timing. Applicable from financial years starting on or after January 1, 2024.	Reporting requirements are now tailored based on the type and size of the entity: -Large EU undertakings and parent companies of large groups listed on EU-regulated markets with debts or equity securities, having more than 1,000 employees and over €450 million in turnover, must adhere to revised ESRS and revised EU Taxonomy. -Other undertakings with more than 1,000 employees and up to €450 million turnover, must adhere to revised ESRS and voluntary reporting under the revised EU Taxonomy. -All other EU undertakings can choose voluntary reporting based on VSME standards.
Wave 2: All other large EU undertakings and large group parents. *(They are required to report under ESRS and EU Taxonomy)*	Two-year delay in effective date, with the new rules applicable from financial years beginning on or after January 1, 2027.	
Wave 3: SMEs and Financial Entities: Listed SMEs, certain small non-complex credit institutions, captive insurance companies, and reinsurance entities are included under this wave. *(SMEs and relevant financial entities will need to adhere to ESRS for LSMEs and the EU Taxonomy)*	Two-year delay in effective date, with the new rules applicable from financial years beginning on or after January 1, 2028.	
Non-EU Entities: Non-EU entities with considerable operations within the EU are subject to the following criteria for reporting: -They must have a consolidated turnover exceeding €150 million generated within the EU. -Additionally, these entities must either operate a large subsidiary or a listed SME subsidiary, or they must manage a branch that generates more than €40 million in turnover. *(The required reporting standard for these entities is the Non-EU ESRS)*	No change in timing. Applicable from financial years starting on or after January 1, 2028.	The reporting threshold would be revised as follows: -The requirement for consolidated turnover would be set at over €450 million generated within the EU. -Additionally, the reporting requirement would apply to either (1) a large subsidiary, or (2) a branch with a turnover exceeding €50 million. Entities meeting these criteria would need to adhere to the Non-EU ESRS.

Table 2: Stop the Clock Proposal

Note. Adapted from PwC (2025b) (https://viewpoint.pwc.com/dt/us/en/pwc/in_briefs/2025/2025-in-brief/int-european-commission-publishes-omnibus-proposals.html). Copyright 2025 by PwC

The revised guidelines will now exempt approximately 80% of companies previously under the CSRD, strategically focusing on the largest companies whose operations have substantial impacts on the environment and society. This strategic focus aims to concentrate efforts where they can be most effective. Additionally, the reforms ensure that large companies' sustainability reporting obligations do not disproportionately affect smaller companies in their value chains, preventing smaller entities from being overwhelmed by extensive reporting requirements (EY, 2025).

EY (2025) confirms that the Stop the Clock Directive will defer waves 2 and 3 by two years while maintaining the implementation timeline for wave 1. This delay is intended to facilitate a smoother transition to the new reporting framework, easing the integration process for businesses.

5.3. EU Taxonomy Proposal

The introduction of flexibility in reporting on activities that are partially in line with the EU Taxonomy fosters a gradual environmental transition of business activities. This flexibility encourages companies to progressively adapt their operations to meet sustainability criteria over time, thereby supporting the growth of transition finance and accompanying businesses throughout their sustainability journey (European Commission, 2025a).

While the CSRD focuses on entity-wide disclosures based on double materiality, the Taxonomy offers an activity-level classification system that enhances the granularity of environmental disclosures. Together, these frameworks aim to channel capital towards activities that are environmentally sustainable and verifiable (Schütze & Stede, 2024).

The proposed simplifications - including a reduction in reporting templates and a financial materiality threshold - are closely aligned with the Taxonomy's transitional role. These reforms are intended to reduce entry barriers for businesses at various stages of sustainability integration, especially in hard-to-abate sectors, thereby promoting a phased approach to environmental alignment (Schütze & Stede, 2024).

Moreover, the implementation of a financial materiality threshold for Taxonomy reporting, along with a 70% reduction in reporting templates, simplifies the reporting process considerably. These reductions in complexity are complemented by simplifications to the "Do No Significant Harm" (DNSH) criteria related to pollution prevention and control, which now focus on the use and presence of chemicals across various economic sectors (European Commission, 2025a).

EY (2025) confirms that these revisions are especially impactful for financial institutions, such as banks, whose Green Asset Ratio (GAR) calculations will now exclude exposures to companies below the new CSRD threshold of 1,000 employees or €50 million turnover.

6. Motivation of Research

Sustainability has become one of the defining challenges of the 21st century. Among its many facets, climate change stands out as a global crisis with far-reaching social, environmental, and economic consequences. As climate risks increasingly translate into financial risks, the integration of sustainability into corporate governance, finance, and assurance has become not just a regulatory imperative, but a societal necessity.

This growing convergence of sustainability and financial accountability inspired my decision to pursue research at the intersection of sustainability reporting and auditing. The evolving European regulatory landscape offers a unique opportunity to explore this intersection in depth.

The European Union's CSRD introduces one of the most ambitious regulatory overhauls in corporate reporting. Its phased implementation, starting with the requirement for limited assurance over sustainability information, represents a fundamental shift in both the expectations placed on reporting entities and the role of auditors. Companies are left preparing systems, controls, and disclosures for standards that remain instable.

At the same time, there is limited academic literature specifically addressing the transitional phase to limited assurance under CSRD. Much of the existing research tends to focus on high-level strategic implications or anticipates the eventual move towards reasonable assurance, while real-time challenges faced by stakeholders remain underexplored (Kirchhoff et al., 2024).

This creates a critical research gap on how preparers and auditors are currently operationalising assurance requirements under CSRD. The lack of standardised metrics and benchmarking practices further complicates efforts to build academic and practitioner consensus (Clarkson et al., 2019).

This thesis is motivated by the need to provide clarity in the light of regulatory and practical ambiguity. By investigating the barriers in the transition to limited assurance, this study seeks to capture real-time stakeholder experiences. Interviews with key actors have proven invaluable in this regard. These professionals are deeply embedded in the unfolding developments, and their first-hand insights offer a rare, nuanced view into how assurance, governance, and ESG systems are being built in practice, making them some of the most informed voices during this transitional moment.

At the same time, the pace of CSRD implementation varies considerably across EU Member States, adding another layer of complexity to the assurance landscape. Some countries have already transposed the directive into national law and begun mobilising institutional support for enforcement. However, even where the CSRD has been transposed into national law, especially reporting companies face a steep organisational and technological learning curve.

As a result, the comparability of sustainability disclosures is not only complicated outside the EU, but also within the EU itself.

The first ESG reports under the CSRD and ESRS mark a clear shift from traditional financial reporting, both in scope and format. Unlike financial reports, which are mostly quantitative, ESG disclosures rely heavily on qualitative narratives. Companies must not only report KPIs but also describe their sustainability strategies, governance, risk management, and stakeholder engagement in textual form.

This narrative focus adds complexity and makes cross-company comparisons difficult. Unlike standardised numerical data, qualitative content varies in style, emphasis, and terminology, making it harder to analyse systematically. This ambiguity complicates benchmarking, slows regulatory and investor assessments, and challenges the development of materiality thresholds and policy feedback mechanisms.

Ultimately, the purpose of this research is twofold:

- To explore the institutional and operational barriers faced by companies, assurance providers and other relevant stakeholders such as regulators, educational institutions and value chain partners during the transition to CSRD-aligned limited assurance; and

- To contribute empirical insights to the limited body of literature on CSRD implementation, by shedding light on the diverse experiences and perspectives of key stakeholder groups and enhancing the broader understanding of the transitional challenges they face.

7. Methodology

The objective of this research thesis, titled: *"Transition in Sustainability Reporting: Exploring Stakeholders' Barriers to Moving to Limited Assurance under the Corporate Sustainability Reporting Directive (CSRD)"* is to investigate in detail the specific barriers identified by different stakeholder groups that hinder the proper adoption and implementation of limited assurance as mandated by the CSRD. While the original directive envisioned a gradual shift from limited to reasonable assurance, recent developments in form of the Omnibus simplification package have altered the regulatory outlook. The shift towards reasonable assurance has been entirely removed from the current agenda.

In this context, this thesis focuses on understanding how stakeholders perceive and respond to the obstacles associated with limited assurance. Some actors are already adapting their internal processes and moving forward in anticipation of future requirements, while others remain stalled by regulatory ambiguity and operational uncertainty.

By exploring how each stakeholder group - regulators such as the European Commission and EFRAG, reporting companies, auditors, consultants and advisors, investors, educational institutions, and EU Member States - experiences and interprets the challenges of CSRD implementation, this study aims to generate practical insights into the barriers that obstruct effective compliance with the directive's assurance requirements. Special attention is also given to the role of conceptual complexity as a cross-cutting issue that affects understanding and implementation across all groups. Through this multi-stakeholder analysis, the research contributes to a deeper understanding of the fragmented landscape in which sustainability assurance is currently being operationalised across Europe.

To address the research objective, a qualitative research approach was adopted, based on semi-structured interviews and guided by an analytical framework developed during the theoretical phase of this thesis. Semi-structured interviews offer a flexible method of data collection, allowing questions to be tailored to each Interviewee's expertise while ensuring consistency across core themes. This framework, presented in Table 4, categorises the potential barriers that key stakeholder groups may encounter when implementing the CSRD's limited assurance requirements. Built upon an in-depth literature review, it provides a structured foundation for both empirical investigation and comparative analysis.

For each stakeholder group, hypothetical barrier categories were identified in Table 4. These categories not only reflect themes discussed in the academic literature but also serve to hypothesise which challenges are most likely to affect each stakeholder in practice.

The core objective of the empirical research is to assess whether the barriers hypothesised in the analytical framework are reflected in the perspectives expressed by stakeholders during the interviews. As the framework is exploratory and not intended to be exhaustive, the research also aims to capture additional challenges or insights that may not have been anticipated. Interview questions are therefore tailored to the assumed challenges of each stakeholder group, while the flexible format of the interviews allows participants to raise unexpected or divergent views that may complement or challenge the initial framework. To support this approach, I developed a structured interview guide (Appendix A) grounded in qualitative research methodology. The design draws specifically on techniques outlined in the literature from Herz et al. (2015), which emphasises the value of narrative-generating questions and visual mapping to uncover complex stakeholder perceptions.

To ensure consistency across interviews, a standardised semi-structured interview guide was used for all participants, based on the analytical framework developed during the literature review. The same core questions were posed in each interview, with follow-up prompts adapted to the Interviewee's expertise. This approach ensured procedural uniformity and minimised potential interviewer bias across stakeholder groups.

The interview sample comprises professionals across various seniority levels and European geographies to ensure heterogeneity and representativeness of perspectives. Participants include Senior Associates, Managers, Senior Managers, Directors, and Partners working in assurance and sustainability roles across major professional services firms in Belgium, Luxembourg, and Germany. To complement these practitioner insights, a written interview was also conducted with a member of the European Parliament to gain a deeper understanding of the legislative process and its implications on timing and policy. While these interviews provide valuable insight into the perspectives of auditors, consultants, and EU policymakers, not all stakeholder groups could be included within the scope of this study. In particular, reporting companies were not interviewed due to time constraints and limited resources. As a result, the findings are necessarily shaped by the viewpoints of those involved in assurance and regulation, which may introduce a degree of bias in how challenges are perceived and framed.

7.1. Sample of Interviewees

Nr	Name	Firm	Function	Country	Duration	Date
1	Pauline Rodberg	Smart2Circle	ESG Expert	Belgium	45 min	24/02/2025
2	Interviewee 2	Big Four	Senior Manager	Belgium	44 min	10/04/2025
3	Interviewee 3	Big Four	Director	Belgium	44 min	17/04/2025
4	Beatriz Garcia Irache	PwC	ESG Manager	Luxembourg	45 min	18/04/2025
5	Tamara Rauw	PwC	Senior Sustainability Associate	Luxembourg	40 min	20/04/2025
6	Sébastien Pauwels	Deloitte	Senior Manager	Belgium	52 min	25/04/2025
7	Interviewee 7	Big Four	Senior Sustainability Associate	Belgium	42 min	28/04/2025
8	Interviewee 8	Big Four	Partner in technical function	Germany	29 min	29/04/2025
9	Jeremy Chenoy	Deloitte	Sustainability Director	Belgium	57 min	30/04/2025
10	Interviewee 10	Big Four	Partner	Belgium	58 min	30/04/2025
11	Pascal Arimont	Lawyer/ Independent	Member of the European Parliament	Belgium	Written response	14/05/2025

Table 3: Sample of Interviewees

Note. Own Illustration.

All interviews were conducted online due to time constraints and the geographical dispersion of participants. However, thanks to today's advanced communication technologies such as high-quality microphones and cameras, the quality of interaction was comparable to that of in-person interviews. All conversations were recorded and transcribed verbatim to ensure the accuracy of data collection and to preserve the nuances of each participant's input. This detailed documentation is critical for the reliability of the thematic analysis, which forms the basis of the interpretation and conclusions of this study. The full transcripts are provided in Appendix B to L.

Before each interview, participants were informed about the objectives of the study and how their data would be collected, stored, and used. They were explicitly asked for their consent to participate and could sign a written consent form. This approach ensured that confidentiality and anonymity were respected according to their preferences, and that all participation was voluntary and informed.

Due to the recent implementation of the CSRD and the limited availability of empirical data, particularly following the release of the Omnibus simplification package in February 2025, a quantitative analysis of the impacts of the transition is currently not feasible.

7.2. Framework

Based on the methodological approach outlined in the previous section, the following framework (Table 4) was developed to systematically identify and categorise the key barriers to implement limited assurance under the CSRD.

The framework is structured around six key stakeholder groups: regulators, reporting companies, auditors, consultants and advisors, investors, educational institutions, and EU Member States. In addition to the stakeholder-based analysis, the research also highlights a cross-cutting barrier that affects all groups: conceptual complexity.

It was developed on the basis of a comprehensive literature review and early expert discussions, with the goal of capturing the diverse and interdependent challenges that arise in the implementation of limited assurance under the CSRD. Rather than assuming a one-size-fits-all approach, the framework acknowledges that each stakeholder group operates within a specific context and may encounter distinct obstacles. It provides the analytical foundation for the empirical phase of the research, guiding both the design of the interview questions and the interpretation of the resulting data.

Category	Description
1. Regulators (European Commission and EFRAG)	- Absence of a clear and stable legal framework (especially following the Omnibus simplification proposal) - Intense pressure to develop an ambitious framework within an accelerated timeline - Overly detailed and complex standards - Uncertainty around scope, timing, application, and technical requirements - Perceived negative impact on EU competitiveness (risk of company relocation) - Regulatory fragmentation and information asymmetry both within the EU and between EU and non-EU entities, leading to inconsistencies in implementation, comparability, and compliance expectations - Complex interplay between national transposition and EU-level ratification - Overregulation in the EU compared to other jurisdictions, potentially deterring investment and innovation
2. Reporting Companies	- Limited understanding of key concepts (e.g., double materiality assessment and scenario analysis) among internal and external information providers, in own operations and particularly across upstream and downstream value chain partners - Insufficient time to adapt internal systems and processes to new requirements - Lack of ESG-grade data management systems across entire group structures - Absence of audit trails, traceability along the value chain, and documented materiality assessments - Shortage of skilled professionals familiar with sustainability reporting and assurance

	- Perception of an unfavourable cost-benefit ratio - Doubts about the practical usefulness of reported information for readers - Challenges in reallocating resources to meet new reporting demands - Risk of greenwashing and potential misuse of ESG-related data due to immature controls or pressure to disclose
3. Auditors, Consultants, and Advisors	- Limited ESG-specific assurance expertise, particularly in emerging areas like double materiality, scenario analysis, and value chain assessment - Lack of standardised, consistent methodologies for verifying qualitative and narrative disclosures (e.g., policies, targets, action plans) - Limited time to develop robust internal methodologies and assurance frameworks adapted to CSRD/ESRS requirements - Shortage of skilled personnel trained in both sustainability topics and assurance techniques - Uncertainty about assurance scopes and levels - Difficulty in accessing and validating complex, decentralised ESG data across reporting companies' operations and supply chains
4. Investors	- Lack of comparable and reliable ESG data: Variations in the quality, scope, and assurance levels of sustainability reporting make comparisons across companies difficult - Complexity and overload of information (mostly narrative) - Time lag between sustainability reporting and investment decision cycles - High risk of greenwashing due to the novelty of sustainability reporting - Inconsistent methodologies and metrics across companies and countries - Fragmentation of regulatory landscapes both within the EU and between the EU and other regions
5. Educational Institutions	- Insufficient Specialised Programmes: Universities offer few programmes or certifications dedicated specifically to ESG assurance and sustainability accounting - Shortage of Qualified Educators: There is a lack of professors with academic expertise - Rapid Evolution of Standards: Constant changes in ESG regulations make it hard for universities to keep curricula up to date - Slow Institutional Adaptation: Administrative procedures for updating programmes are lengthy - Limited Academic Research: ESG assurance is still an emerging research field
6. EU Member States	- Delayed Transposition: In some countries (e.g., Germany, Luxembourg), the CSRD has not yet been transposed into national law - Legal and Administrative Complexity: Translating EU directives into national law involves complex legislative processes that slow implementation - Diverging National Priorities: ESG and sustainability might not be equally prioritised across Member States, leading to variable political commitment

7. Conceptual Complexity	- Concepts like DMA, proxies, and scenario-based targets do not align well with traditional financial audit logic - Internal Understanding Gaps: Notions like DMA, ESRS, or value chain are hard to grasp consistently across company levels - Data Overload: The volume of required ESG data can overwhelm preparers and users - Greenwashing Risk: Vague boundaries make it hard to distinguish real impact from abusive marketing - Cross-Country Divergence: Definitions are understood and applied differently across the EU, creating interpretation issues

Table 4: Framework: Barriers to Limited Assurance Under CSRD

Note. Own Illustration.

7.3. Use of Artificial Intelligence Tools

During the writing process generative AI tools were used in a limited and transparent manner to support the structuring and refinement of certain sections of the thesis. Specifically, AI assistance was employed to improve linguistic clarity, streamline complex sentences, and rephrase academic paragraphs while preserving the original meaning and analytical intent. All content was critically reviewed and edited by the author to ensure alignment with the research objectives and academic standards. No AI-generated content was accepted without thorough validation, and all data analysis and interpretation were conducted independently by the researcher. The use of AI tools is acknowledged as a supportive resource, similar to grammar checkers or reference managers, rather than as a substitute for original academic thinking or empirical work.

8. Results

This section starts by presenting the findings derived from the eleven semi-structured interviews conducted for this research. The information collected enables a detailed analysis of the perceived barriers and challenges related to the implementation of limited assurance under the CSRD. In this chapter, the perspectives, experiences, and expectations of the professionals interviewed are presented thematically, following the analytical framework developed in the previous chapters.

The results are structured as follows: Section 8.1 presents the predefined framework categories, while Section 8.2 introduces additional categories that emerged inductively from the interview data.

The interviews primarily involved auditors and consultants, most of whom work in Big Four firms. Additionally, one delegate from the European Commission was interviewed in written to shed light on the legislative and institutional aspects of the CSRD implementation. As such, while the data gathered is rich and insightful, the findings inherently reflect the viewpoints of these specific professionals. The standpoint is therefore biased, as other key stakeholder groups such as reporting companies, educational institutions, value chain partners, or investors are not directly represented in this empirical phase.

The Interviewees are summarised in Table 3: Sample of Interviewees, which provides an overview of their professional background and affiliation.

Nevertheless, the interview guide (Appendix A) allowed for open reflection on a wide range of topics, enabling participants to freely address the issues they considered most relevant.

The data is analysed thematically to provide a clear and structured overview of the barriers identified. While many points of convergence emerged across interviews, participants also shared individual experiences that add nuance to the overall results. It is important to note that the insights presented here are not intended to be generalised but rather reflect the perspectives of the eleven professionals interviewed for this thesis.

8.1. Predefined Framework Categories

8.1.1. Regulators (European Commission and EFRAG)

8.1.1.1. Structure of the Regulatory Framework

The structure of the CSRD shows a clear intention to build on existing international reporting practices. As Pauline Rodberg (Smart2Circle) explains: *"As for the structure of the CSRD, it's heavily inspired by existing international reporting frameworks."* The directive introduces ten European Sustainability Reporting Standards (ESRS): *"Five environmental, four social, and one on governance"* - alongside two cross-cutting standards that provide general principles and mandatory disclosures. This architecture draws from longstanding frameworks such as the GRI, which, as she notes, *"has been around for more than 30 years"* (Pauline Rodberg, personal communication, February 24, 2025).

The Omnibus proposal introduced by the European Commission consists of two key components. As Interviewee 3 (Big Four, Belgium) explains:

> *There are two main components. The first is the so-called 'Stop the Clock' element. This part aims to postpone the reporting requirements for wave 2 and wave 3 companies by two years. That specific element has already been voted on and approved at the European level - by both the European Commission and the European Parliament.*

This delay provides additional time for smaller or less-prepared companies to build internal capacity and align with the CSRD's technical demands.

"The second component is the Content proposal, which is still under discussion. This includes the simplification of the reporting standards" (Interviewee 3, personal communication, April 17, 2025).

Sébastien Pauwels (Deloitte, Belgium) echoes the importance of this delay, noting that *"the discussion of the content modifications will take time. While the break […] was needed by those companies to cope with everything."* His comment underscores that, while clarity on content remains important, the temporary pause is a practical and necessary relief for companies still adjusting to the directive's scope and ambition (Sébastien Pauwels, personal communication, April 25, 2025).

Concerns have also been raised about the standard-setting process led by EFRAG. As Interviewee 8 (Big Four, Germany) notes, *"EFRAG […] is not a traditional standard-setter and does not have the same level of experience in this role."* Compared to bodies like the IASB or ISSB, *"these organisations have long-standing experience and expertise in standard-setting"* and operate at a more deliberate pace.

The process is further complicated by significant time pressure from the European Commission. *"There is a real risk that this could undermine the quality of the standards they are developing,"* Interviewee 8 warns. *"It's unclear whether EFRAG's usual due process will be fully respected, which is not a good sign."* He stresses the need for clear, consistent, and material standards and cautions that high-quality legislation *"takes time"* (Interviewee 8, personal communication, April 29, 2025).

At the same time, Interviewee 10 (Big Four, Belgium) acknowledges that such challenges are part of the natural evolution of any new reporting framework: *"It's also understandable. If you look at IFRS in its early days, that framework wasn't mature either. It takes time to mature such a complex system"* (Interviewee 10, personal communication, April 30, 2025).

As Pascal Arimont (Member of EU Parliament) explains, EFRAG is an *"independent organisation"* that *"advises the European Commission in the development and implementation of sustainability reporting standards."* In the context of the Omnibus package, the Commission is also preparing a delegated act to simplify the ESRS. According to Arimont: *"EFRAG has probably been consulted in this process, particularly on how, for example, reporting templates could be simplified"* (Pascal Arimont, personal communication, May 14, 2025).

8.1.1.2. Reasons for the Revision of the CSRD

The introduction of the Omnibus Directive can be seen as a political compromise. As Beatriz Garcia Irache (PwC, Luxembourg) notes: *"When right-wing parties are in government, there tends to be less emphasis on sustainability reporting compared to when left-wing parties are in power."* The directive reflects an attempt to balance these shifting priorities while preserving the core of the CSRD (Beatriz Garcia Irache, personal communication, April 18, 2025).

Certain observers initially interpreted the Omnibus Directive as a geopolitical response, particularly to the Trump announcement. However, Sébastien Pauwels offers a different perspective: *"Some people thought that it was linked to the Trump announcement. But in reality, it was also a bit accelerated by the Draghi report, I would say. On top of that, the complaints came even before the Draghi report* (Sébastien Pauwels, personal communication, April 25, 2025).

This view is reinforced by Pascal Arimont, who emphasises the pivotal role played by the Draghi Report in shaping the EU's current regulatory adjustments. He underlines that the Omnibus package *"must clearly be seen in the context of the Draghi Report",* which aims to strengthen the EU's economic competitiveness and addresses regulatory overreach. One of the Report's central claims is that the EU suffers from an *"overregulation"*: *"Between 2019 and 2024, the European Union enacted around 13,000 legal acts, whereas the United States adopted approximately 3,500 legislative texts and 2,000 federal-level decisions in the same period."*

The Report also criticises the EU's *"slow and fragmented political decision-making process,"* which typically takes an average of 19 months to adopt legislation, often slowed by multiple vetoes. This structural inefficiency, combined with what Arimont calls *"regulatory asymmetry"* in comparison to the US and China, results in *"significant compliance costs"* and *"reduces the resources companies can dedicate to innovation and performance improvement."* According to Arimont, the Draghi Report does not call for the abandonment of sustainability goals but insists on the need to streamline EU regulation and remove obstacles to business growth. As he summarises, *"investment alone is not enough - structural reforms are also necessary to achieve real progress"* (Pascal Arimont, personal communication, May 14, 2025).

Interviewee 3 points to a wider political and regulatory shift:

> *If you zoom out and look at the broader political and regulatory environment - what's happening in the U.S., for example […] combined with competitiveness concerns and the rise of more right-wing political influence within Europe and the EU, you start to see the full picture.*

In this light, the Omnibus proposal appears as *"a reaction to all of these factors. It's a swing to the other side of the spectrum"* (Interviewee 3, personal communication, April 17, 2025).

Pauline Rodberg observes a shift in the EU's priorities, noting that *"with recent political changes and so on, sustainability is no longer Europe's primary concern. Instead, the focus has shifted more towards competitiveness."* Her comment reflects a growing tension between long-term environmental goals and the EU's current emphasis on economic resilience and global competitiveness (Pauline Rodberg, personal communication, February 24, 2025).

A common criticism among Interviewees concerns the initial lack of phasing in the CSRD rollout. Sébastien Pauwels illustrates this vividly: *"They should have released it chapter by chapter, like a Netflix series - not all in one big 6-hour movie."* The simultaneous introduction of extensive requirements left little room for gradual adaptation, overwhelming many stakeholders (Sébastien Pauwels, personal communication, April 25, 2025).

As Interviewee 3 agrees and notes: *"The ambitions were very high - perhaps even a bit too high […] it could have been introduced more gradually."* A phased approach would have eased the transition, reduced pressure, and likely improved the quality of both reporting and assurance efforts from the outset.

"The CSRD may have gained […] a reputation as being a heavy compliance exercise," continues Interviewee 3. This perception is reinforced by their observation that many companies are struggling with the directive's extensive and complex requirements, which risk shifting the focus away from meaningful sustainability impacts towards mere regulatory box-ticking (Interviewee 3, personal communication, April 17, 2025).

The ISSA 5000 standard, intended to bring clarity and consistency to sustainability assurance, could help address this uncertainty. However, as Jeremy Chenoy (Deloitte, Belgium) notes: The *"ISSA 5000 […] initiative has now been put on hold […] and the standard won't be released in the near term."* This delay signals that regulators are still working on the final draft, making it difficult for auditors and companies to clearly define the scope and boundaries of limited assurance under the CSRD (Jeremy Chenoy, personal communication, April 30, 2025).

Sébastien Pauwels highlights that achieving meaningful, long-term impact through the CSRD requires more than compliance, it calls for early and active involvement from all stakeholders. As he explains:

> *The EU needed to listen to the market. To listen to the initial constraints and re-adapt, to make sure we actually reach the final value on the long term. In order to make a good impact, we need to make sure everyone is on board from the beginning.*

Simplification, phased implementation, and additional time for smaller companies are, in his view, sensible steps (Sébastien Pauwels, personal communication, April 25, 2025).

8.1.1.3. Pioneering

Even when the regulator faces criticism - particularly regarding the complexity and timing of implementation - the underlying concepts of the CSRD remain widely accepted and respected. As Sébastien Pauwels says, *"because the spirit, the mindset behind the CSRD, is all about this 'double materiality' concept. This is the key differentiator. This is where the Commission is really pioneering."* Rather than allowing companies to "*do whatever [they] want"*, he explains, the framework adapts *"data points to make it more focused on being transparent about the impact."* This shows that, despite operational challenges, the conceptual foundations of the directive are seen as innovative and forward-looking (Sébastien Pauwels, personal communication, April 25, 2025).

As Interviewee 10 further underlines, *"this is a transparency directive. It's not a directive that pushes companies to improve directly, but it does so indirectly",* by exposing company performance to stakeholders. This exposure influences investor behaviour and financial flows, creating pressure and incentives for companies to improve. Through this indirect mechanism, the CSRD helps align business strategies with the broader goals of the Green Deal (Interviewee 10, personal communication, April 30, 2025).

Interviewee 2 (Big Four, Belgium) highlights this same shift in mindset, emphasising that the directive marks a fundamental change in how corporate performance is assessed. *"It's a much more comprehensive approach to a company's performance, going beyond just financial indicators",* he explains. In the past, *"as long as it doesn't have a financial impact, it doesn't show up anywhere in the financial statements"* - a limitation the CSRD seeks to overcome. By broadening the scope of what is considered material, the directive encourages companies to account for their broader societal and environmental effects.

He also acknowledges the directive's implementation hurdles but emphasises its constructive intent. *"The initiative at its core is a good one, because it forces companies to reflect a bit on what their impacts are",* he notes. For him, the CSRD represents a valuable step towards fostering greater accountability and embedding sustainability into business thinking (Interviewee 2, personal communication, April 10, 2025).

8.1.2. Reporting Companies

8.1.2.1. Perceived Image and Awareness of the CSRD

The complexity and evolving nature of the CSRD create a sense of uncertainty among companies, particularly regarding how to interpret and implement the requirements in practice. This uncertainty discourages investment and increases confusion. As Beatriz Garcia Irache puts it: *"Clients tell us: 'This is crazy - I'm being told to do something, but no one is clearly telling me how.'"* Without clear guidance, many companies struggle to move beyond mere compliance (Beatriz Garcia Irache, personal communication, April 18, 2025).

The way companies perceive the CSRD varies significantly, both between organisations and within them. For many, the directive is still viewed *"primarily as a compliance requirement",* something they must do simply because regulators demand it. As Interviewee 3 explains, *"the regulator asks us to do it, so we'll do it - but they don't immediately perceive the value in it."* This compliance-driven mindset reflects a more reactive approach, where sustainability reporting is not yet integrated into the strategic thinking of the company (Interviewee 3, personal communication, April 17, 2025).

This compliance-oriented perspective often leads to a limited use of the sustainability data that companies collect. As Sébastien Pauwels points out, *"many of them collect it for compliance reasons only. They publish it… and nobody uses it."* In such cases, the data is gathered, reported, and archived without being actively leveraged for strategic decision-making, performance monitoring, or improvement initiatives.

He adds that *"some of them dealt with it more as a compliance cost - a burden - but they did it properly to pass the test."* This reflects a cautious approach, where the perceived costs and burdens currently outweigh the anticipated advantages. However, reflecting on the Omnibus proposal, Pauwels warns that *"you lose the benefits of those investments if you remove too much substance"* (Sébastien Pauwels, personal communication, April 25, 2025).

Many companies, especially those not previously covered by the NFRD, are *"starting entirely from scratch",* lacking internal sustainability teams and data systems. As Beatriz Garcia Irache notes: *"They didn't have the systems, nor the internal expertise, to collect the necessary data."* Even more experienced firms underestimated the scope and depth of the CSRD. They initially thought*: "'OK, just another reporting requirement', but once they began reading what was actually required, they were shocked"* (Beatriz Garcia Irache, personal communication, April 18, 2025).

As Interviewee 8 explains:

> *Technically, it was not yet required to apply the CSRD or the ESRS. […] However, the major, large companies proceeded anyway, because they recognised the need and the expectations from capital markets, stakeholders, and decision-makers to have access to this kind of information.* (Interviewee 8, personal communication, April 29, 2025)

Interestingly, the perception of the CSRD also differs within the same organisation, depending on the professional background of the person involved. As Interviewee 3 notes: *"It also depends on whom you ask within the organisation."* While sustainability teams may embrace the directive as a tool for long-term value creation, senior executives or financial leaders may still focus more on the cost and administrative burden, rather than on its strategic potential (Interviewee 3, personal communication, April 17, 2025).

Jeremy Chenoy summarises three distinct attitudes among companies facing the CSRD. Some are early movers with a clear strategic vision, others are focused on minimal compliance, and a third group prioritises concrete actions over reporting. As he explains: *"Sometimes, they tend to downplay the importance of reporting, believing that what matters most are the actions and the investments."* However, he stresses that visibility and awareness are equally crucial: *"How will the market know? How will your investors know? Your employees?"* For Chenoy, real impact and transparent communication must go hand in hand to drive credibility and long-term value (Jeremy Chenoy, personal communication, April 30, 2025).

At the same time, transparency comes with strategic considerations. As Sébastien Pauwels points out, premature disclosure can also expose companies to competitive disadvantages: *"You might have to talk about a new product that is still under development. Disclosing that too early could carry commercial risk"* (Sébastien Pauwels, personal communication, April 25, 2025).

8.1.2.2. Timing and Scope

The Omnibus proposal has been welcomed by many stakeholders as a necessary step to ease the initial implementation burden. As Jeremy Chenoy acknowledges, *"simplification is definitely appreciated and necessary"* (Jeremy Chenoy, personal communication, April 30, 2025).

For companies still building capacity and understanding the CSRD's technical demands, the adjustments offer short-term relief. However, not all experts view it positively. Beatriz Garcia Irache considers the Omnibus Directive a *"step back"* in some ways: *"From the NFRD to the CSRD already felt like jumping from zero to one hundred […] the Omnibus sits somewhere around 50%."* Her comment reflects a concern that the political compromise may weaken the transformative ambition of the original directive. She sees the Omnibus as *"a necessary step […] because it essentially means: less reporting, fewer people involved, lower costs"* (Beatriz Garcia Irache, personal communication, April 18, 2025).

Interviewee 10 expressed a similar concern, stating that: *"The scope of entities included went too far, and so did the depth and volume of reporting."* This reinforces the view that the original directive may have been too demanding in both breadth and detail (Interviewee 10, personal communication, April 30, 2025).

Sébastien Pauwels echoes this perspective by pointing to the overambitious scope of the original directive: asking companies to report simultaneously on *"climate, biodiversity, and communities was maybe a bit too much".*

While he acknowledges the ambitious nature of the CSRD, he also recognises that some firms were able to meet its demands. As he notes, *"the wave 1 companies were not happy, but they absorbed it, because they had the critical size necessary, and the resources to absorb the cost and tried to make it work."* This shows that, despite its complexity, the original CSRD framework was manageable for large firms. In contrast, wave 2 companies are more diverse and often less prepared, making the Omnibus a necessary buffer to ease their transition (Sébastien Pauwels, personal communication, April 25, 2025).

He illustrates this imbalance by noting that *"you had large companies with 5,000 employees and right next to them, companies with 50 employees."* Despite this enormous difference in scale, both were expected to meet the same requirements. This was largely due to the fact that *"the thresholds were including companies with specific characteristics (for example, asset intensive)"*, which brought smaller firms into scope based on structural criteria rather than actual readiness (Sébastien Pauwels, personal communication, April 25, 2025).

Uncertainty around scope inclusion is causing companies to hesitate in ESG investments. As Interviewee 3 notes: *"They don't know whether they'll remain in scope or fall out of it […] causing quite a bit of uncertainty for companies"* (Interviewee 3, personal communication, April 17, 2025).

However, Interviewee 3 raises critical concerns about the European Commission's Omnibus proposal, which was originally intended to reduce the administrative burden for companies implementing the CSRD. While acknowledging that *"the intention behind the proposal is reasonable"*, especially in terms of allowing companies more time and simplifying the reporting standards, they argue that *"the pendulum is now swinging a bit too far in the opposite direction"*, particularly regarding the scope of application.

As he explains:

> *Originally, the CSRD was expected to apply to approximately 50,000 companies across the EU. Under the new proposal, that number is reduced by about 80%, meaning that 80% of the companies initially in scope are no longer subject to CSRD. That's a significant shift.* (Interviewee 3, personal communication, April 17, 2025)

This narrowing of scope not only weakens the ambition of the CSRD but may also have unintended consequences for corporate sustainability engagement. *"In my view, this reduces both the ambition and the regulatory push - especially for companies in the mid-tier segment. There's a risk that many of those companies will stop prioritising sustainability altogether."* According to Interviewee 3, there were more proportionate alternatives available: *"I believe there was an opportunity to find a more balanced* *approach, for example by introducing tiered reporting obligations: smaller companies could still report, but under lighter requirements"* (Interviewee 3, personal communication, April 17, 2025).

Beatriz Garcia Irache adds that the compressed timelines, combined with first-time implementation, create severe capacity issues: *"Timing is definitely the most recurring issue. Clients often struggle with deadlines […] they simply don't know how to extract or share the data they've reported"* (Beatriz Garcia Irache, personal communication, April 18, 2025).

Interviewee 3 agrees that companies face significant time pressure in preparing for CSRD compliance. Many had to *"build everything from scratch"* within a very short timeframe to become *"audit ready",* a task that proved highly unrealistic given the scale of transformation required. This urgency was further amplified by the directive's wide scope. As Interviewee 3 explains: "*One of the biggest challenges companies face is the need to consider their entire value chain […] Companies are being required to evaluate and take responsibility for aspects of their business that were previously overlooked."* Interviewee 3 confirms that the combination of tight deadlines and broad reporting expectations has left many organisations unprepared, struggling to develop adequate internal systems and processes in time (Interviewee 3, personal communication, April 17, 2025).

8.1.2.3. Data Management

One of the most consistently reported barriers is the overwhelming scope of the CSRD, spanning environmental, social, and governance issues. *"We're talking about the E, the S, and the G, meaning* companies *[…] are required to disclose a wide range of information across all three pillars. That's a massive scope."* This broad coverage challenges companies that are unfamiliar with non-financial reporting or lack the internal structures to collect and consolidate ESG data. The need to involve multiple departments adds further complexity. As Chenoy notes: *"This includes designing proper processes and controls and that, too, is a major challenge."* The CSRD's ambition is clear, but for many organisations, the maturity level required is simply not yet there (Jeremy Chenoy, personal communication, April 30, 2025).

As Sébastien Pauwels notes: *"Companies often don't have enough resources to collect and manage all the new data properly"* (Sébastien Pauwels, personal communication, April 25, 2025).

Interviewee 7 (Big Four, Belgium) echoes this concern, adding:

> *Even when the data exists within the company, it's often not consolidated, it's just lost across different departments. You need to identify, quantify, and consolidate the data properly. So, overall, it requires a lot of money and a lot of time to get to a good final product.* (Interviewee 7, personal communication, April 28, 2025)

This makes them unprepared for the audit-like scrutiny required under limited assurance. Interviewee 3 confirms this concern, stating that *"the data isn't available yet, or there are no processes in place to collect it"* (Interviewee 3, personal communication, April 17, 2025).

Collecting reliable data for Scope 3 emissions remains one of the biggest hurdles in sustainability reporting. As Jeremy Chenoy explains: *"A large portion of the data, particularly for Scope 3 […] comes from the value chain. That means companies must rely on their suppliers to provide key data. This is extremely challenging"* (Jeremy Chenoy, personal communication, April 30, 2025).

As Jeremy Chenoy explains, this *"affects all stakeholders across the board. If you look at the entire value chain, upstream, downstream, and internal operations, data is a major challenge."* For example, *"if a company outsources construction work […] those non-employees are still part of the company's value chain and social impact"* (Jeremy Chenoy, personal communication, April 30, 2025).

This complexity is compounded internally, as Sébastien Pauwels highlights: "*You are bringing the whole organisation into the sustainability journey, but you can't do it just with the sustainability department alone."* Ensuring accurate ESG disclosures requires also internal alignment across departments and functions (Sébastien Pauwels, personal communication, April 25, 2025).

In addition to these coordination challenges, there is also a significant issue of responsibility for the reporting companies, as Interviewee 3 confirms: *"Companies are being asked to take responsibility for everything happening across their entire value chain"* (Interviewee 3, personal communication, April 17, 2025).

Data collection remains a major challenge, especially beyond direct suppliers. As Sébastien Pauwels notes: *"If you go beyond tier one, it becomes almost impossible to get the data."* This limited visibility highlights the practical limits of ESG reporting, particularly when deeper traceability and accountability are required (Sébastien Pauwels, personal communication, April 25, 2025).

A key challenge in CSRD implementation is the need to collect data across the entire value chain. As Interviewee 10 notes: *"You're not just reporting on your company, but also on your entire value chain. That means small companies in your supply chain are also expected to provide data, data they often don't have or can't provide."* This reliance on suppliers, particularly SMEs, can lead to delays and gaps in data, especially when partners lack the necessary systems or operate under different regulatory conditions (Interviewee 10, personal communication, April 30, 2025).

Many companies underestimated the time and effort required for CSRD compliance. As Jeremy Chenoy points out: *"Many companies took quite a long time to get started, which shortened the available time for proper implementation"* (Jeremy Chenoy, personal communication, April 30, 2025).

Even achieving limited assurance under the CSRD requires a high level of process maturity and internal control. As Interviewee 8 explains: *"The client must have very strong reporting processes and a robust internal control environment."* In practice, many companies are still in the early stages of developing the necessary systems and controls (Interviewee 8, personal communication, April 29, 2025).

This lack of readiness helps explain why, even in its first year, limited assurance is already proving to be an extensive and resource-intensive process. To give an idea of the workload, Jeremy Chenoy points out: *"For a wave 1 company, you can easily count around 1,500 hours of work just for the assurance or certification part."* That figure does not even include the 500 hours required for assurance readiness. These figures highlight the substantial investment of time and personnel required (Jeremy Chenoy, personal communication, April 30, 2025).

Beatriz Garcia Irache adds that the high costs of readiness without legal certainty are a major sticking point: *"Many clients were complaining that they had already invested a lot of money and internal resources,"* she explains, *"which now, with all the uncertainty, they might not even need anymore. So, there's a real sense of frustration"* (Beatriz Garcia Irache, personal communication, April 18, 2025).

8.1.2.4. Internal Adaptation Challenges

Some companies are beginning to form their own sustainability teams to prepare for the upcoming requirements. However, these teams are still adjusting to assurance expectations. As Beatriz Garcia Irache notes: *"Their sustainability teams are not as familiar with audit procedures […] they may not understand why we need certain documentation"* (Beatriz Garcia Irache, personal communication, April 18, 2025).

This internal learning curve further complicates the preparation process. Sébastien Pauwels adds that this challenge also presents an opportunity: *"We are collaborating more than before. […] There is a real willingness to exchange knowledge and move forward together"*. This highlights the need for joint learning and capacity building between auditors and companies (Sébastien Pauwels, personal communication, April 25, 2025).

As Interviewee 10 notes: *"For many, the first year of reporting and assurance was particularly tough. Companies essentially had to do it twice."* The initial burden is high, but it is seen as a necessary step towards long-term value (Interviewee 10, personal communication, April 30, 2025).

Nevertheless, a critical barrier remains the lack of in-house expertise, especially among smaller entities. As Interviewee 2 explains: *"Without either an internal person or a consultant with the required level of expertise, they are not prepared to do this type of reporting. Because it's too specific, too technical."* This competency gap may delay compliance efforts and increase dependence on costly external support (Interviewee 2, personal communication, April 10, 2025).

Tamara Rauw (PwC, Luxembourg) shares this concern, highlighting the pressure placed on employees who lack dedicated ESG roles: *"Most of them don't have a dedicated ESG manager [...] so they're trying to handle it on top of their actual job responsibilities. It's extremely time-consuming and a lot to manage all at once."* This reinforces the urgent need for upskilling and structural support, particularly within smaller or resource-constrained organisations (Tamara Rauw, personal communication, April 20, 2025).

Related to the pressure the CSRD places on SMEs that are integrated into the value chains of larger companies, Pascal Arimont emphasises that, while SMEs are not directly targeted by the directive, many are nonetheless indirectly affected: *"Because of the so-called 'trickle-down' effect, these larger companies pass on the reporting obligations imposed by the CSRD to their suppliers."*

Arimont cites the example of Steresys that manufactures sterilisation systems. Its clients, now subject to CSRD obligations, are demanding detailed ESG data that the firm struggles to deliver: *"The company simply does not have the manpower to handle this bureaucratic workload."* Without this data, Steresys risks losing contracts, highlighting how compliance pressure is passed down the value chain: *"Yet if they fail to provide the requested information, they risk losing the contract"* (Pascal Arimont, personal communication, May 14, 2025).

This example illustrates how even companies outside the formal scope of the CSRD are already facing significant operational risks. The administrative burden, coupled with a lack of internal expertise, creates a situation where SMEs may be penalised for not meeting standards they were never directly expected to fulfil.

8.1.2.5. Practical Issues

In addition to CSRD, companies face mounting pressure from regulations like EPR and CSDDD. As Sébastien Pauwels notes, *"that's where things get very heavy, especially with the push for circular economy regulations."* This is further complicated by downstream uncertainty, as companies often have *"difficulties controlling what happens when the product is disposed of"* (Sébastien Pauwels, personal communication, April 25, 2025).

While Belgian regulation is relatively lenient - marked by low sanctions and a stated intention to shield SMEs - market dynamics tell a different story. As Pascal Arimont explains: *"The main aim is to limit the scope [...] and ensure that SMEs are not excessively asked to provide sustainability information"* (Pascal Arimont, personal communication, May 14, 2025).

Yet, as Pauline Rodberg points out:

> *Belgium did take steps to protect SMEs. In theory, a large company subject to the CSRD cannot put pressure on small SMEs to demand complex information or impose strict quality standards for the data provided. I say 'in theory' because, in practice, if you're a large company, you might not care.*

Despite these protective intentions, many smaller firms still face indirect compliance pressure from clients or partners higher up the value chain, revealing a gap between regulatory design and real-world implementation (Pauline Rodberg, personal communication, February 24, 2025).

In assurance services, practitioners typically rely on the previous financial year to establish a baseline and understand trends. However, in the context of ESG assurance, this reference point is missing. As Interviewee 3 explains: *"This past year was the first cycle of ESG assurance",* highlighting the absence of historical precedent (Interviewee 3, personal communication, April 17, 2025).

This lack of prior-year data also shaped the audit methodology. As Interviewee 10 notes, *"since it was year 1, historical data often didn't exist […] we had to rely on 'test of details' for most KPIs."* Without trends or benchmarks to support analytical procedures, auditors were forced to conduct more substantive testing, increasing both the workload and the complexity of engagements (Interviewee 10, personal communication, April 30, 2025).

8.1.2.6. Strategic Challenges

However, there are also firms that approach the CSRD from a more proactive angle. These are often organisations that have already embedded sustainability into their business model or that *"already consider sustainability a key element of their strategy."* For them, the reporting requirements are not just regulatory obligations but opportunities to enhance credibility, transparency, and stakeholder engagement (Interviewee 3, personal communication, April 17, 2025).

Beyond compliance, the CSRD offers a real opportunity for companies to rethink their long-term positioning. Jeremy Chenoy emphasises that the directive can serve as a strategic catalyst: *"Many companies approached reporting from a strategic angle. [...] That's actually the most important thing. [...] The CSRD also acts as a lever to trigger strategic thinking."* By pushing companies to assess material impacts and long-term transition plans, the CSRD invites leadership teams to embed sustainability into core business strategy (Jeremy Chenoy, personal communication, April 30, 2025).

And even some companies excluded from the CSRD under the Omnibus proposal are still proceeding with sustainability reporting. As Jeremy Chenoy observes: *"Some of those companies want to publish anyway, even though they are no longer required to. [...] That's a strong signal and perhaps an even better outcome."* This reflects a growing strategic mindset: companies increasingly see sustainability disclosure not just as a legal obligation, but as a lever to strengthen transparency, stakeholder trust, and long-term positioning (Jeremy Chenoy, personal communication, April 30, 2025).

Tamara Rauw confirms this trend, noting that the demand for assurance goes beyond regulatory requirements: *"We have many clients who even request limited assurance voluntarily, they're not in scope of the CSRD at all, but still want their sustainability reports to be audited."* This proactive approach suggests that for many organisations, the value of credibility and external validation outweighs the immediate need for compliance, signalling a broader shift towards more responsible and transparent business practices (Tamara Rauw, personal communication, April 20, 2025).

8.1.2.7. International Coordination

Another significant barrier lies in the complexity of coordinating sustainability reporting across international operations, which gives rise to specific multinational strategy challenges.

A key challenge in CSRD implementation is the need for detailed, group-wide data collection. As Interviewee 8 explains, *"imagine a globally operating, highly diverse group: there are a lot of entities, and information must be collected from each of them."* Once a topic is deemed material, reporting must cover all relevant entities, which makes coordination and data consistency a complex task (Interviewee 8, personal communication, April 29, 2025).

Sébastien Pauwels points out that multinational groups are taking different strategic approaches to CSRD compliance. *"Some of our clients chose to go EU-first, then gradually extend",* he notes, highlighting a phased approach commonly seen among Japanese companies, where *"they take distance from the CSRD at HQ level."* In contrast, others adopt a more integrated strategy from the outset: *"Australian mainstream clients […] decided right away to disclose at global level, without trying to isolate Europe from the rest of their business"* (Sébastien Pauwels, personal communication, April 25, 2025).

8.1.3. Auditors, Consultants, and Advisors

8.1.3.1. Role

The role of auditors in the CSRD context is to ensure that sustainability information disclosed by companies is both accurate and trustworthy. As Jeremy Chenoy puts it: *"Are we confident that what companies are disclosing is accurate and complete? That's our role - to ensure the credibility of the information."* This responsibility is central to building stakeholder trust and reinforces the importance of robust processes, clear documentation, and professional judgement in the assurance of ESG data (Jeremy Chenoy, personal communication, April 30, 2025).

Tamara Rauw highlights the same point from a practical perspective, stating: *"That's actually why my job […] is important - because through auditing, you can help limit the amount of greenwashing and misstatements."* Her comment underlines the preventive function of assurance, not only in verifying facts but also in promoting transparency and accountability throughout the reporting process (Tamara Rauw, personal communication, April 20, 2025).

Interviewee 10 also welcomed the European Commission's decision to require assurance, noting:

> *The European Commission didn't say: 'Companies, just report whatever you want.' No, they not only created a framework but also required that the information be audited. Not audited in the full sense of the word - it's limited assurance - but in any case, it has to inspire trust.*

For him, the fact that disclosures must be audited is essential to ensuring the credibility of sustainability reporting and building trust with stakeholders from the outset (Interviewee 10, personal communication, April 30, 2025).

Interviewee 7, who works as a sustainability consultant, notes increasing collaboration between sustainability professionals and financial auditors: *"There's also a lot of work that financial auditors are starting to do for us or with us, because sometimes they cover more or less the same KPIs - especially on the social side."* This growing overlap reflects the convergence of financial and non-financial reporting, particularly in areas such as workforce data, diversity metrics, and employee wellbeing, where both audit teams may be examining similar datasets for different purposes (Interviewee 7, personal communication, April 28, 2025).

The immaturity of ESG data and reporting frameworks was a central concern raised by Interviewee 3. He described the situation vividly:

> *Many companies weren't fully ready and were, so to speak, building the car while driving it. Meanwhile, the auditors were trying to audit the car while it was still being built and driven. So, it was certainly a struggle to complete the audits and meet the deadlines.*

This metaphor captures the simultaneous challenges faced by preparers and auditors. According to him, the short timeline, combined with immature processes and unreliable data systems, made it difficult to meet CSRD expectations (Interviewee 3, personal communication, April 17, 2025).

Interviewee 10 also reflected on these difficulties, observing: *"Now, that we've seen the extent of what reporting actually requires for example, we have wave 1 clients who reported over 600 pages, it's clear that things went too far."* This highlights that, in hindsight, even auditors acknowledged that the scope and intensity of initial reporting expectations may have exceeded what was feasible in the first year of implementation (Interviewee 10, personal communication, April 30, 2025).

Adding to this complexity is the disproportionate cost of compliance for smaller firms. Interviewee 2 highlights that, *"companies making just a few million euros in turnover, with annual accounts that fit into thirty pages, [...] were going to have to produce a non-financial report of 150 to 200 pages. So, it was a bit disproportionate."* This underlines the significant internal and external burden CSRD may impose on SMEs, raising concerns about feasibility and proportionality (Interviewee 2, personal communication, April 10, 2025).

8.1.3.2. Risk Management

In ESG assurance, determining the right materiality threshold is key to effective risk management. As Interviewee 3 explains: *"A lower materiality threshold means there is less room for mistakes, while a higher threshold means we are more accepting minor inaccuracies."* The appropriate level depends on several factors, including *"the importance of the topic to stakeholders"*, *"the complexity of the information"*, *and "whether the KPI is linked to sustainability-linked loans"* or *"executive bonuses"*. When a KPI is tied to executive bonuses, Interviewee 3 adds, *"there may be a higher risk of bias,"* justifying a stricter threshold (Interviewee 3, personal communication, April 17, 2025).

8.1.3.3. Training

In terms of training, auditors are increasingly expected to take on responsibilities that go beyond their traditional expertise. Pauwels points out the gap in scientific knowledge, noting that most auditors are trained in euros and dollars, not in CO_2 or biodiversity metrics. As he puts it: *"It's almost like saying that financial auditors now have to become a little bit like engineers."* This lack of scientific training raises concerns about the credibility and consistency of non-financial assurance under the CSRD (Sébastien Pauwels, personal communication, April 25, 2025).

Pascal Arimont similarly emphasises the importance of expanding auditors' skill sets: *"Auditors will need to be properly trained - not just to assess financial statements […] but also to be familiar with ESG topics"* (Pascal Arimont, personal communication, May 14, 2025).

Financial auditors must now audit non-financial data, requiring extensive training and new competencies. As Interviewee 10 explained, *"this year we were required to complete 30 hours of training, and for next year, it was supposed to be 60 hours."* He added that *"auditors still need to have a solid foundational understanding of sustainability topics"*, highlighting the growing need for ESG-specific knowledge within traditional audit roles (Interviewee 10, personal communication, April 30, 2025).

While major firms like the Big Four have already invested heavily in internal training, they now face a shifting context. As Interviewee 2 notes: *"We've had a whole series of trainings over the past ten months [...] now there will be a sort of reduction in expectations, because the scope is going to decrease"* (Interviewee 2, personal communication, April 10, 2025).

Sébastien Pauwels observes that auditors are performing controls *“much more than what a limited assurance engagement would normally require”,* causing limited assurance to increasingly resemble reasonable assurance (Sébastien Pauwels, personal communication, April 25, 2025).

As Interviewee 3 notes: *“With fewer companies remaining in scope […] we do expect a decrease in consulting demand, at least in the short term.”* He adds that audit firms, which had already invested heavily in training and capacity-building, now face the challenge of realigning those investments to match a smaller and more uncertain market (Interviewee 3, personal communication, April 17, 2025).

8.1.3.4. Resource Allocation within Audit Firms

Resource allocation within audit firms is increasingly shaped by uncertainty around the CSRD and shifting client demand. As Interviewee 2 explains, *“if audit firms had anticipated [...] 10,000 hours of work [...] and now you reduce the scope by 80%, [...] that means they’re going to resize their teams accordingly.”* This illustrates how the sharp drop in anticipated demand has forced firms to rapidly adjust their planning and team structures (Interviewee 2, personal communication, April 10, 2025).

Instead of hiring new staff, Big Four firms are focusing on reallocating internal resources, particularly by drawing on personnel from traditional financial audit teams. As Beatriz Garcia Irache explains, *“what we’re trying to do now is leverage existing resources, particularly from the financial audit teams.”* She confirms that this strategy reflects broader cost-cutting measures and a cautious approach to planning: *“Yes, resource allocation has dropped to almost zero. There’s definitely a sense of uncertainty and concern internally as well.”* She notes, in this climate: *“What PwC has done is pause recruitment for sustainability roles, especially those with higher salary expectations”* (Beatriz Garcia Irache, personal communication, April 18, 2025).

This shift is echoed by Interviewee 10, who highlights the tension between past investments and current constraints: *“We had invested significantly in recruiting and upskilling people, and although that investment isn’t wasted, we now have to recalibrate our resourcing, which is never pleasant”* (Interviewee 10, personal communication, April 30, 2025).

8.1.3.5. Looking back on the Implementation

Looking back, auditors also recognised that one of the major obstacles during the first assurance cycle was the lack of timely guidance to interpret the standards effectively. As Interviewee 10 explained: *“In addition, there was a lack of guidance. We really needed FAQs and Q&As to interpret the standards properly, or at least to clarify certain practical applications. And those weren’t available when they were most needed.”* This absence of support tools added uncertainty to an already complex process (Interviewee 10, personal communication, April 30, 2025).

8.1.3.6. Future Outlook

Beatriz Garcia Irache does not expect the audit role to change significantly unless the shift to reasonable assurance occurs: *“Otherwise, the core responsibilities will stay the same.”* She sees future developments mainly driven by technology: *“AI will likely play a crucial role in automating parts of the documentation process and reducing the need for manual input and resources”* (Beatriz Garcia Irache, personal communication, April 18, 2025).

At the organisational level, Pauline Rodberg observes that companies are beginning to adapt their governance structures to the new ESG landscape. *“Some companies are creating dedicated sustainability audit committees, while others are integrating these responsibilities into existing audit committees.”* This structural transition remains uneven, reflecting not only varying levels of readiness and commitment but also deliberate strategic choices by different firms (Pauline Rodberg, personal communication, February 24, 2025).

Over time, a natural learning effect in sustainability reporting is expected to improve the consistency and efficiency of assurance processes. As Beatriz Garcia Irache notes: *"In the coming years, we expect the processes to become more standardised. We'll have a much clearer understanding of which testing procedures to perform for each disclosure, and we'll be more confident that we're not missing anything"* (Beatriz Garcia Irache, personal communication, April 18, 2025).

8.1.4. Investors

8.1.4.1. Investment Funds, Banks, and Private Equity

Financial incentives also encourage reporting beyond regulation. As Beatriz Garcia Irache notes: *"If a company wants access to […] financing options, it may be motivated to report, even without a regulatory obligation."* Investors thus play a key role in driving voluntary disclosure (Beatriz Garcia Irache, personal communication, April 18, 2025).

Pascal Arimont also underlines the influence of capital markets in this transition, stating: *"The sustainability of an activity will play a crucial role in determining whether or not to invest"* (Pascal Arimont, personal communication, May 14, 2025).

Financial institutions are becoming increasingly vocal in their expectations around ESG performance and transparency. As Interviewee 3 notes, *"the pressure from other key stakeholders - investors, insurers, financial institutions, and employees - will continue to grow"*. This amplifying pressure reinforces the strategic importance of sustainability reporting, even beyond regulatory obligations (Interviewee 3, personal communication, April 17, 2025).

However, the demand for reliable data is not yet fully met. As Interviewee 8 explains: *"They need high-quality information and ideally, information that has been assured."* While limited assurance may satisfy regulatory requirements, it often falls short of investor expectations for credibility and comparability. At the same time, not all investors view ESG issues with the same intensity. As Interviewee 8 points out, *"the extent to which investors focus on sustainability issues depends on the type of investor"* (Interviewee 8, personal communication, April 29, 2025).

At the same time, companies that rise to these expectations can secure clear advantages. As Sébastien Pauwels explains: *"Sustainability reporting will help attract investments: to be better rated compared to other companies, and to be recognised on the market as a top player or front-runner in sustainability for your sector, that alone is already a significant benefit"* (Sébastien Pauwels, personal communication, April 25, 2025).

Although tightening lending standards can push companies towards ESG alignment, Jeremy Chenoy warns that: *"If banks start adjusting interest rates based on sustainability, for example, offering higher rates to clients buying less energy-efficient homes, what happens from a social perspective? Aren't we putting more pressure on people who are already financially vulnerable?"* (Jeremy Chenoy, personal communication, April 30, 2025).

8.1.4.2. Insurance Companies

As Interviewee 3 explains: *"Insurance providers […] are increasingly requiring companies to demonstrate their sustainability to maintain coverage. The same applies to banks."* This evolving dynamic highlights how financial and risk-related actors are playing a growing role in enforcing sustainability standards, creating parallel pressure that reinforces formal regulatory requirements (Interviewee 3, personal communication, April 17, 2025).

Jeremy Chenoy adds that insurance is "*another major player where things are evolving*", as *"non-financial impacts can be directly material to them."* For instance, *"if floods become more frequent and more severe"*, this *"would have a real financial impact on insurers."* As a result, *"insurers are […] integrating these kinds of risks into their business models"*, though *"more from a risk perspective than a reporting perspective"*, focusing on *"managing the exposure rather than just reporting it under CSRD"* (Jeremy Chenoy, personal communication, April 30, 2025).

8.1.5. Educational Institutions

8.1.5.1. Universities

Despite signs of growing academic engagement, the pace of curricular change remains slow. Sébastien Pauwels points out, *"based on the junior profiles we interview, I would say that the overall level of knowledge remains very basic."* He attributes this to a limited institutional response, noting that *"it will probably take four or five more years for these topics to be properly integrated into classic master's programmes."* This gap between market needs and academic preparation underscores the urgency of accelerating curriculum development to better equip future professionals (Sébastien Pauwels, personal communication, April 25, 2025).

However, Jeremy Chenoy observes a positive shift in the academic world, noting growing engagement with the CSRD despite its novelty. *"We've seen a lot of universities either developing specific programmes or integrating the CSRD […] into their existing curricula."* Experts like him are increasingly invited to share their practical experience directly with students: *"I was invited to ICHEC in Brussels to give a lecture on what it means to conduct a limited assurance engagement on a CSRD report."* While momentum is clearly growing, education systems are still catching up with the complexity and technical nature of the standards, highlighting the need for stronger collaboration between academia and practitioners (Jeremy Chenoy, personal communication, April 30, 2025).

Interviewee 10 shares a similar view, pointing out that sustainability has only recently gained a solid foothold in traditional business education: *"Three years ago, that course didn't exist. Now, it's part of the curriculum, worth six ECTS credits."* He also notices a broader trend: *"What we now see is the creation of new study programmes and academic tracks specifically focused on sustainability."* This suggests that while a barrier may still exist today in terms of workforce readiness, it is being actively addressed by academia (Interviewee 10, personal communication, April 30, 2025).

While educators are making efforts to adapt, academic curricula are still catching up with the specific demands of the market. As Interviewee 3 points out: *"It's generally more focused on sustainability in a broad sense rather than specifically on the CSRD"* (Interviewee 3, personal communication, April 17, 2025).

Some Interviewees, however, observe a growing interest in sustainability assurance, particularly within academic and professional circles. As Interviewee 8 notes: *"I definitely see that this topic is getting more and more attention"*, though they acknowledge the absence of quantitative evidence to support this perception (Interviewee 8, personal communication, April 29, 2025).

At the same time, not all Interviewees are closely connected to the academic sphere. As Interviewee 2 notes: *"I don't really have much visibility on that [...] I suppose over time it will happen [...] but I don't think it'll go much further than that."* This slow integration into university curricula means that most of the learning is expected to happen within firms. *"People will likely train on the job once they start their professional careers"*, underscoring the growing reliance on practical, experience-based training rather than formal education pathways (Interviewee 2, personal communication, April 10, 2025).

8.1.6. EU Member States

8.1.6.1. Comparability

Comparability remains a major challenge, especially for internationally active companies. As Beatriz Garcia Irache notes: *“Comparability will always be a challenge, […] especially when comparing EU and non-EU companies.”* The lack of harmonisation across jurisdictions creates additional complexity for both reporters and auditors (Beatriz Garcia Irache, personal communication, April 18, 2025).

As Pauline Rodberg remarks: *“Practically speaking, it's very bureaucratic compared to other countries which are much more practical and more business-friendly.”* This highlights Belgium’s relatively slow and complex implementation of sustainability regulations. In contrast, other EU countries have taken a more proactive stance. *“Denmark, Spain, these are countries that are at least a bit more involved”*, she explains, adding that *“in France, too, they have introduced 'mission companies'”,* and that *“the Nordic countries […] are also advanced.”* These quotes underscore that Belgium is not a forerunner in the sustainability transition, but rather a follower: *“Consequently, Belgian companies may never have felt pressure from the Belgian state”* (Pauline Rodberg, personal communication, February 24, 2025).

However, despite the CSRD being an EU-wide regulation, its enforcement remains uneven across Member States. As Pauline Rodberg points out: *“Belgium completed the transposition only in November 2024”* but *“the sanctions are not particularly high […] compared to other countries like Italy.”* This inconsistency reduces the pressure on companies in countries like Belgium (Pauline Rodberg, personal communication, February 24, 2025).

In Luxembourg, the CSRD has not yet been transposed into national law, creating a legal vacuum for assurance providers. Beatriz Garcia Irache explains that, despite offering audit-like services, PwC currently operates under an advisory model: *“We’re […] reviewing these draft reports and assessing their content against the requirements of the ESRS. […] “The good thing is that this doesn’t involve issuing an audit opinion.”* Until the directive is formally implemented, their role remains limited to preparatory support rather than formal assurance. *“We issue recommendations […] this process helps them get ready for 2025”,* she adds, highlighting the transitional nature of current engagements and the lack of a clear assurance framework (Beatriz Garcia Irache, personal communication, April 18, 2025).

The challenge is compounded by the current political uncertainty in Germany, where recent difficulties in forming a stable government have delayed key regulatory processes. This situation is not unique to Luxembourg. As Interviewee 8 points out: *“In Germany, we failed to transpose it into local law on time.”* Such delays contribute to legislative uncertainty, adding another layer of complexity for assurance providers who must navigate evolving requirements without clear national guidance (Interviewee 8, personal communication, April 29, 2025).

Not all countries approached the CSRD from the same starting point. As Pauline Rodberg notes: *“The Nordic countries […] didn’t wait for the CSRD to start thinking about extra-financial disclosure.”* Their cultural alignment with transparency and sustainability meant they were already ahead, while others, like Germany, Luxembourg or Belgium, are still catching up (Pauline Rodberg, personal communication, February 24, 2025).

8.1.6.2. Information Asymmetry

Sébastien Pauwels highlights the risk of information asymmetry in sustainability reporting, noting that: *“If you have to disclose something that could place you in a less favourable position compared to a competitor, it could create sensitivity, yes.”* This imbalance can lead to market inequality, where transparency becomes a disadvantage rather than a strength. However, he challenges this perception by drawing on personal experience: *“How do you like to consume? […] Do you prefer to buy a product when you don’t know anything about it? […] Or do you prefer to buy a product where everything is* *disclosed?"* For him, transparency builds trust, even when imperfections exist: *"Personally, I'd rather buy a product that's transparent, where I know it's not perfect, than one I know nothing about"* (Sébastien Pauwels, personal communication, April 25, 2025).

However, most Interviewees acknowledge the existence of a certain degree of information asymmetry, even if only in the short term. As Jeremy Chenoy notes, *"the current setup may create a certain imbalance or an uneven playing field"* (Jeremy Chenoy, personal communication, April 30, 2025). His remark points to a broader structural concern: European companies subject to the CSRD may carry a disproportionate reporting burden compared to competitors based outside the EU, who are not bound by the same level of transparency.

8.1.6.3. Implementation

While the CSRD is widely regarded as a noble and much-needed initiative to strengthen corporate accountability and sustainability transparency, its practical implementation has drawn significant criticism - especially in light of the recent Omnibus proposal. Interviewee 10 expressed frustration with how the process unfolded:

> *The EU decided to introduce this regulation without fully understanding its impact. Look at Belgium, for instance: the transposition of the directive was only finalised in December, and the first company reported in early February. That's just not a reasonable timeline.*

The lack of coordination and foresight became even more apparent shortly thereafter:

> *And then, just one month later, by the end of February, they said: 'Actually, we're going to issue some proposals to revise it.' It was almost laughable. In my view, it reflects a lack of proper planning and foresight.*

These remarks reflect a broader concern that the credibility of the CSRD could be undermined by the way it has been rolled out and adjusted within a short timeframe. This *"mismanagement"* contributes to uncertainty among stakeholders and risks eroding trust in the long-term stability of the regulatory framework (Interviewee 10, personal communication, April 30, 2025).

In response to the initial implementation challenges, some Interviewees defend the recent adjustments. As Pascal Arimont notes: *"The Omnibus package is definitely a necessary step to reduce the bureaucratic burden on our businesses."* This illustrates the EU's attempt to address concerns from companies and adapt the directive accordingly (Pascal Arimont, personal communication, May 14, 2025).

8.1.6.4. Non-EU Sustainability Reporting

However, Europe is not the only region moving towards greater ESG transparency. As Pauline Rodberg notes, *"the Shanghai Stock Exchange that also requires listed companies to report, especially on dual materiality. So, in the end, it's not only Europe that's taking action."* This points to a broader international trend, suggesting that while the EU may be leading, other jurisdictions are beginning to follow with similar expectations (Pauline Rodberg, personal communication, February 24, 2025).

As sustainability reporting frameworks develop globally, discussions around assurance levels are gaining relevance beyond the EU. Sébastien Pauwels highlights this evolving landscape, noting: *"I could even imagine that, later on, reasonable assurance will come back."* He points to international examples to support this view: *"Why do I say that? Because if you look at other reporting frameworks like the Australian Sustainability Reporting Standards (ASRS), they also started with limited assurance, but with a clear evolution plan towards reasonable assurance"* (Sébastien Pauwels, personal communication, April 25, 2025).

8.1.7. Conceptual Complexity

8.1.7.1. Interpretation of Definitions

A recurring concern raised by Interviewees relates to the inconsistent interpretation of ESG concepts across organisations. As they explain, *"each entity might interpret the same concept differently […] how reliable is it, really?"* Interviewee 3 reinforces this concern by emphasising that the lack of standardisation and clarity in ESG concepts often leads to inconsistencies across subsidiaries, undermining the reliability and comparability of the reported data (Interviewee 3, personal communication, April 17, 2025).

This issue has been particularly evident in the first year of CSRD implementation. As Jeremy Chenoy remarks: *"How do we interpret certain definitions? What exactly is meant in a particular section of the standards? These questions are difficult not only for our clients but also for us as auditors."* The lack of clarity around terminology and expectations continues to create significant obstacles for consistent and reliable ESG reporting (Jeremy Chenoy, personal communication, April 30, 2025).

Sébastien Pauwels highlights one of the core challenges: the absence of harmonised definitions across countries. *"Is an 'employee' in Belgium defined the same way as […] in South Africa or Australia? What is an FTE ?"* Such discrepancies complicate data interpretation, hinder standardisation, and make the assurance process more complex for international organisations (Sébastien Pauwels, personal communication, April 25, 2025).

The lack of clear definitions in the ESRS adds to the complexity of implementation. As Interviewee 8 notes, *"unfortunately, there is no definition of 'own operations' within the ESRS, which makes things rather difficult."* Such ambiguity forces companies to interpret key terms independently, potentially leading to inconsistent reporting practices (Interviewee 8, personal communication, April 29, 2025).

In addition to definitional gaps, many aspects of the CSRD rely heavily on professional judgement. As Interviewee 8 points out, *"some aspects of the standards are highly judgement-based, which creates further uncertainty."* While judgement is not new to auditors, the extent and complexity of interpretation required under the CSRD go beyond what is typically seen in financial reporting, increasing the risk of inconsistent application across companies and sectors (Interviewee 8, personal communication, April 29, 2025).

Tamara Rauw adds another layer to the critique by pointing out internal inconsistencies within the directive itself. She criticises the repetition and overlapping content in the reporting requirements: *"In one chapter a company is required to report on a certain topic, and then in the next chapter, it has to report on basically the same thing, just in a different way."* This redundancy not only adds to the reporting burden but also creates confusion and inefficiencies for preparers and auditors alike (Tamara Rauw, personal communication, April 20, 2025).

Faced with technical ambiguities and unclear expectations, many organisations turned to the regulator for clarification. As Tamara Rauw explains: *"The European Commission received a lot of questions after publishing the text, they even organised Q&A sessions"* because *"some parts were too difficult to interpret or apply."* This highlights the ongoing demand for interpretive support, especially in the early phases of implementation when consistent application across sectors and Member States is most critical (Tamara Rauw, personal communication, April 20, 2025).

8.1.7.2. Level of Assurance

Even under the current limited assurance model, the workload can be substantial. As Interviewee 2 points out, for *"a limited review, if you still identify a material or significant risk of error, you're still going to perform detailed tests*" (Interviewee 2, personal communication, April 10, 2025).

Interviewee 10 similarly notes that, *"even though this is a limited assurance engagement, you still look at how the client organises the reporting process,"* confirming that the scope of work already demands thorough examination of internal systems and procedures (Interviewee 10, personal communication, April 30, 2025).

At the same time, the idea of transitioning to reasonable assurance raises practical concerns. Auditors are fully aware that it would bring greater credibility and trust in the long term. However, as Interviewee 2 warns: *"Reasonable assurance would have gone quite far into detail, for reports whose actual use is still uncertain."* This underscores a broader dilemma: although a higher level of assurance could enhance the credibility of sustainability reports, the uncertain degree of stakeholder reliance makes it difficult to justify the additional effort and cost at this stage (Interviewee 2, personal communication, April 10, 2025).

Nonetheless, Interviewee 10 sees a natural progression in the assurance landscape: *"In the long term, we naturally evolve towards reasonable assurance for non-financial information, just like we did for financial audits."* While limited assurance remains the default due to current capacity and maturity constraints, there is clear openness within the profession to move towards more robust assurance models (Interviewee 10, personal communication, April 30, 2025).

However, despite this gradual shift in mindset towards more robust assurance, the reality on the ground shows that many companies are still struggling to meet even the current expectations. As Tamara Rauw observes: *"Even with limited assurance, we're already seeing that many companies aren't ready to be audited. [...] It would be extremely difficult to carry out an audit"* under reasonable assurance conditions (Tamara Rauw, personal communication, April 20, 2025).

A further challenge lies in the general understanding of assurance among stakeholders. As Interviewee 8 notes:

> *Most people don't really understand the difference between limited and reasonable assurance. This is always a challenge in the assurance space, there tends to be an expectation gap between what the assurance opinion actually means and what people think it means.* (Interviewee 8, personal communication, April 29, 2025)

This gap in understanding can lead to misinterpretations of the assurance level provided, especially among those unfamiliar with CSRD or non-financial reporting frameworks.

8.2. Additional Categories Emerged from Interview Data

8.2.1. Climate

At the heart of the CSRD lies the European Green Deal's environmental ambition, a commitment to accelerating the transition towards climate neutrality. Yet with the Omnibus proposal, concerns have emerged about the dilution of this original intent, particularly regarding climate-related disclosures. Jeremy Chenoy expresses this clearly: *"Now, with the Omnibus proposal, the scope is reduced so much that it even falls below the scope of the previous directive, the NFRD. That feels a bit counterintuitive."* This narrowing of scope risks sending conflicting signals at a time when clear and consistent climate reporting is more needed than ever (Jeremy Chenoy, personal communication, April 30, 2025).

Interviewee 2 highlights this tension, stating:

> *From the environmental standpoint, it's unfortunate, because we won't have a view of the impact many companies have on the environment, which could have been interesting. [...] In the end, the Omnibus is more about the cost-benefit ratio and the economic impact than about real environmental impact.* (Interviewee 2, personal communication, April 10, 2025)

This shift in focus is a pity for the environment, as it weakens efforts to hold companies accountable for their ecological footprint at a time when greater transparency is sorely needed.

Furthermore, Interviewee 3 points to the broader political and economic pressures influencing the rollback:

> *So, I would say the main elements behind the proposal are the broader political landscape and the mounting pressure on European businesses. It's not just about the CSRD. It's about the entire EU Green Deal legislative framework, which is putting a lot of pressure on companies.* (Interviewee 3, personal communication, April 17, 2025)

This perspective suggests that the Omnibus proposal cannot be seen in isolation. Rather, it reflects a growing tension between long-term environmental commitments and short-term economic and political considerations. While reducing the burden on businesses may be a legitimate objective, doing so at the expense of climate transparency risks undermining the EU's broader climate ambitions.

8.2.2. Employees

8.2.2.1. Unions and Working Conditions

Companies are not only under pressure from external stakeholders but also from within. Jeremy Chenoy highlights that employees - and particularly unions - are increasingly vocal when they perceive a gap between reporting and reality. *"They were highly challenged, the unions and workers pushed back on certain elements, especially specific actions and policies that were mentioned in the report."* This internal scrutiny reflects a growing awareness among employees, who expect their organisations to truly walk the talk and not merely use sustainability reporting as a communication tool (Jeremy Chenoy, personal communication, April 30, 2025).

But under the CSRD and the evolving ESG reporting landscape, companies are now being asked to go far beyond internal alignment. As Interviewee 3 explains: *"Companies are being asked to take responsibility for everything happening across their entire value chain."* This responsibility applies both upstream and downstream and requires a much deeper understanding of sourcing practices and indirect impacts. For example: *"If a company sources a product whose raw materials come from a mine in Africa, it now needs to consider what is happening at that mine. Is there child labour? Are there unsafe working conditions or environmental degradation?"* This marks a significant shift from previous practices, where companies often lacked visibility or accountability for such upstream issues. Today, *"you're responsible for the impact your products have along the entire value chain,"* Interviewee 3 stresses, and that includes the ethical and environmental consequences of extraction, processing, and labour conditions (Interviewee 3, personal communication, April 17, 2025).

This expanded scope forces companies to confront uncomfortable questions about their indirect contributions to human rights abuses or environmental harm. As Interviewee 3 explains: *"This means companies must account for the fact that […] they may be indirectly supporting child labour, poor working conditions, or significant environmental damage - such as impacts on biodiversity from mining activities"* (Interviewee 3, personal communication, April 17, 2025).

8.2.2.2. Employee Preferences

Sustainability is increasingly becoming a factor in employer branding and talent acquisition. As Interviewee 3 emphasises: *"It's also essential for attracting talents. More and more, employees want to work for companies that take sustainability seriously and show concern for their broader impact."* This reflects a generational shift in employee preferences, where purpose and values play a central role in career choices (Interviewee 3, personal communication, April 17, 2025).

This trend is equally visible within the audit and advisory profession. Interviewee 10 highlights the strong appeal of sustainability-related roles, noting:

> *For the audit and advisory profession, there's also a clear opportunity. Every time we open positions related to ESG or sustainability, we see strong interest. People are drawn to this topic because it's fun, relevant, and socially important. It really resonates with today's professionals.* (Interviewee 10, personal communication, April 30, 2025)

This reinforces the idea that sustainability is not only a strategic business imperative but also a key lever for attracting and retaining motivated, value-driven employees.

8.2.3. Local Communities and the Broader Public

Interviewee 2 notes that many people may have expected to gain insight into the environmental risks posed by nearby businesses: *"Some of those people probably thought: 'Hey, maybe we'll be able to see what risky or impactful elements exist for us.'"* However, he explains that with the reduced CSRD scope, *"they'll only get to see it for the really big companies",* which are often *"fairly isolated, compared to smaller structures"* (Interviewee 2, personal communication, April 10, 2025).

This shift limits transparency for communities living near smaller companies that may still pose significant local impacts.

While the principle of double materiality could in theory help address such local issues, its practical implementation remains uncertain. Local nuisances like noise pollution, for example, are rarely reported. As Interviewee 2 observes: *"This kind of noise pollution […] doesn't show up anywhere in the financial statements."* Interviewee 2 adds that corporate activities can have direct health consequences for people living nearby: *"When you have a factory that produces and discharges wastewater […] it affects their living environment, it affects their health"* (Interviewee 2, personal communication, April 10, 2025).

In parallel, broader societal expectations are also evolving. As Pauline Rodberg observes: *"We have Belgian companies, their suppliers, and their clients gradually asking, 'What are you actually doing for the environment? What are you doing for society? What are you doing about governance issues?'"* (Pauline Rodberg, personal communication, February 24, 2025).

This growing scrutiny from interconnected actors across the value chain reflects increasing public demand for transparency, accountability, and genuine commitment to sustainable business practices.

9. Discussion

This chapter aims to answer the research questions by connecting the theoretical insights developed in the literature review with the empirical findings gathered through eleven expert interviews.

To guide this investigation and illuminate the diverse perspectives uncovered through the interviews, the following research questions have been formulated:

What are the key barriers to implementing limited assurance under the CSRD, and how do these challenges differ across stakeholder groups such as regulators, reporting companies, auditors, investors, educators, and EU Member States?

To address these research questions, the discussion is organised thematically according to the main categories of barriers identified in the literature and validated through the interviews. Each section focuses on a specific challenge related to the implementation of limited assurance under the CSRD, including regulatory volatility, organisational readiness, value chain complexity, conceptual ambiguities, assurance expectations, and human resource limitations. A comparative perspective then highlights how these challenges differ across stakeholder groups. This is followed by a reflection on the practical implications for policy and business practice. Finally, the discussion integrates emergent themes that go beyond the initial analytical framework, shedding light on additional stakeholder dynamics and broader implications for sustainable transformation.

9.1. Regulatory Complexity and Political Volatility

One of the most pronounced barriers to the implementation of limited assurance under the CSRD, as revealed through the expert interviews, are the regulatory complexity surrounding the directive and the perceived volatility of the European Union's policy landscape. While the CSRD was seen as a cornerstone of the European Green Deal to foster transparency and comparability in sustainability reporting (Mio et al., 2024), its rapid development and subsequent revisions via the Omnibus proposal have introduced significant uncertainty into the assurance process. This is particularly evident in relation to the delayed finalisation of the ISSA 5000 standard (Jeremy Chenoy, personal communication, April 30, 2025). These developments, although intended to improve clarity and reduce burden, have in practice generated confusion, especially among auditors and reporting companies, who describe the situation as one of *"building the car while driving it"* (Interviewee 3, personal communication, April 17, 2025).

The literature underscores the necessity for a robust regulatory framework to drive corporate sustainability (Kirchhoff et al., 2024; Interviewee 8, personal communication, April 29, 2025), but the implementation trajectory of the CSRD illustrates a tension between regulatory ambition and market readiness. The recent Omnibus reform was particularly cited in the interviews as a source of "*uncertainty*": although its goal is to reduce administrative and compliance burdens for companies, it simultaneously weakens the perceived stability of the reporting framework. Experts express concerns that political compromises - such as the reduction of the scope or the removal of reasonable assurance - send conflicting signals to companies and undermine long-term investment in sustainability infrastructure.

Interviewee 8 highlights that EFRAG lacks the background and expertise typically associated with traditional standard-setting bodies. In contrast to organisations such as the IASB or ISSB, which benefit from long-standing experience and a well-established methodology, EFRAG is still developing its role and tends to operate under more pressing timelines.

Similarly, Interviewee 10 points out that the current challenges facing the CSRD framework are not unusual in the context of regulatory development. Drawing parallels with the early stages of IFRS, he notes that it is natural for a complex system like this to take time to reach full maturity. Sustainability reporting, like any major regulatory shift, requires time to mature. Even widely accepted frameworks such as IFRS went through a long phase of adjustment and refinement before achieving consistency and broad stakeholder confidence. The early implementation challenges of the CSRD should therefore be seen as part of a normal development trajectory rather than a sign of structural failure. Credibility can grow over time if early-stage feedback from stakeholders is acknowledged and constructively integrated into ongoing regulatory improvements.

Notably, this is a novel observation that builds on but also extends the literature. While Kirchhoff et al. (2024) and Krueger et al. (2024) highlight the challenges inherent in non-financial reporting, especially the lack of uniform standards and assurance guidelines, the findings suggest that the timing and fluidity of regulatory change pose equally significant challenges. The expression of *"compliance burden"* is frequently cited by Interviewees, who report difficulties in keeping pace with evolving expectations and adapting internal systems accordingly. This practical insight reinforces the call for gradualism (Interviewee 3, personal communication, April 17, 2025) and proportionality (Interviewee 10, personal communication, April 30, 2025).

This perspective is further supported by Pascal Arimont, who highlights the Draghi Report as a key driver behind the EU's recent regulatory adjustments. He argues that the Omnibus package must be understood in this broader context, aimed at boosting economic competitiveness and addressing concerns of *"overregulation".* The Report notes that between 2019 and 2024, the EU enacted around 13,000 legal acts, compared to 5,500 in the United States - fuelling debates on the need to streamline legislation.

In this light, the compliance burden identified by Interviewees is not only a matter of organisational capacity but also a reflection of broader institutional and political pressures shaping the implementation of the CSRD. The findings suggest that regulatory uncertainty, driven by frequent adjustments and political negotiation, has become a central challenge in itself.

Furthermore, while earlier research largely focuses on the content of regulation and its technical shortcomings (Clarkson et al., 2019; Kolk & Perego, 2010), the empirical results introduce the political economy of sustainability reporting as an emerging theme. Several Interviewees referred to the politicisation of the CSRD, noting the influence of lobbying from industry groups and the tension between regulatory ambition and competitiveness, a phenomenon echoed in the Draghi Report (Draghi, 2024).

A notable illustration of this politicisation is the introduction of the Omnibus Package, which many Interviewees interpret as a political compromise. According to Beatriz Garcia Irache, the evolving political landscape significantly influences the trajectory of sustainability regulation. In particular, right-leaning governments tend to place greater emphasis on reducing administrative burdens and supporting business competitiveness, often at the expense of strong sustainability requirements. Left-leaning governments, by contrast, are generally more inclined to push for ambitious sustainability measures. The Omnibus Directive thus reflects an attempt to reconcile these opposing political priorities while maintaining the overall integrity of the CSRD framework. This tension is particularly relevant in light of the recent elections across several EU Member States, which have signalled a broad shift towards right-leaning governments, further reinforcing the political pressure to ease regulatory obligations for companies. As such, the findings point to a broader shift: assurance under the CSRD is not only a technical exercise but a negotiated process shaped by dynamic institutional and political forces.

In sum, the regulatory landscape surrounding the CSRD is not simply complex, it is also unstable in the eyes of practitioners. This perceived volatility, compounded by the delayed issuance of critical guidance, changing scope definitions, and the ambiguity surrounding assurance requirements, undermines confidence and slows organisational adaptation. This insight contributes a new layer to the literature by highlighting how policy inconsistency and reform overload can themselves become barriers to effective assurance implementation. At present, regulators are not yet providing the level of stability that stakeholders expect, an issue that, while understandable given the novelty of the framework, reinforces the perception of uncertainty. However, this should not be interpreted as a structural flaw, but rather as an indication of a necessary learning effect.

9.2. Organisational Readiness and Maturity Gaps

A second critical barrier is the widespread lack of organisational readiness, especially in terms of internal control systems, data management capacity, and sustainability maturity. While the CSRD initially aimed to elevate non-financial reporting to the same level of reliability as financial reporting (PwC, 2024), many organisations in the second reporting wave remain insufficiently prepared to meet these demands.

This maturity gap, both operational and cultural, was consistently emphasised by Interviewees who compared the assurance process as *"trying to audit the car while it was still being built and driven"* (Interviewee 3, personal communication, April 17, 2025). This highlights an important nuance that extends beyond what is discussed in the literature: while scholars such as Mio et al. (2024) and Edmans (2023) focus on the strategic potential and investor-driven value of ESG reporting, the findings suggest that the actual technical and procedural readiness of many organisations remains far from the level needed for limited assurance. Several Interviewees note that environmental data, for instance, often lacks documentation, is based on estimations rather than verifiable measurements, and is dispersed across departments without centralised oversight.

Furthermore, the results suggest that organisational maturity is not only about system readiness but also about cultural and behavioural alignment. Some companies, especially those with prior experience in voluntary ESG reporting, approach CSRD compliance strategically and invest proactively in infrastructure, training, and stakeholder engagement (Fuhrmann et al., 2017; Mio et al., 2024). Others, however, adopt a compliance minimalism approach, viewing assurance as an external requirement rather than an internal improvement opportunity. However, it is clear that companies must be willing to engage seriously with these topics, management plays a critical role in leading the way and raising awareness across all organisational levels. Without such leadership and internal mobilisation, organisations risk falling behind, as more proactive competitors may gain a significant competitive advantage through early adaptation, enhanced credibility, and improved stakeholder trust.

What is novel in the findings is how the lack of ESG-specific training creates methodological ambiguity for auditors. Faced with immature data systems and unclear reporting processes, auditors often have to apply more substantive procedures than expected under limited assurance.

In summary, while the CSRD envisions a unified advancement of sustainability disclosure practices, the findings indicate that the field remains heterogeneous and unevenly prepared. The literature rightly emphasises the need for mandatory frameworks and increased assurance (Krueger et al., 2024; Interviewee 8, personal communication, April 29, 2025) but the interviews reveal that readiness gaps, at both system and mindset levels, are likely to become critical obstacles in the early stages of implementation. The message from the corporate world has been clear: more time and less complexity. In this context, the Omnibus proposal represents a constructive response, offering much-needed relief to reporting companies by temporarily easing the timeline pressure. However, this extension must be used strategically to strengthen internal readiness and avoid further delays in realising the directive's broader objectives.

9.3. Value Chain Complexity and Data Availability

A further challenge concerns the collection and verification of data across the value chain. While the directive requires reporting companies to assess and disclose sustainability impacts beyond their own operations, many companies are not prepared to meet this expectation in practice. The interviews reveal widespread difficulties in accessing reliable data from suppliers and partners, particularly when it comes to environmental indicators such as Scope 3 emissions or social conditions in upstream operations.

The literature recognises the relevance of the value chain in sustainability reporting and calls for broader disclosure boundaries under frameworks such as double materiality (European Parliament and Council of the European Union, 2023a; Kirchhoff et al., 2024). However, the findings suggest that the current capacities of companies and their partners often fall short. Some rely on proxies or estimates, others struggle to gather any data at all. Auditors noted that the absence of supporting documentation complicates assurance procedures and increases the risk of inconsistencies. Interviewees 3 and 10 highlight that data collection and data management are key challenges, as sustainability data is often fragmented, inconsistently defined and difficult to verify across entities.

Next to the timing and complexity barrier, data management presents a major difficulty for most companies. As several Interviewees emphasise, the process begins internally, where companies must first develop the necessary capabilities to collect and organise sustainability-related data within their core operations. This initial step already requires substantial learning, process adjustments, and often new digital infrastructures. Only when this internal foundation is established the focus can shift to the broader value chain, a stage described by many as significantly more demanding.

At this point, companies are expected to identify which suppliers and upstream partners fall within the scope of reporting obligations, a task that is far from straightforward. Beyond the identification phase, firms must then clearly communicate what kind of information is required, ensure that suppliers understand these expectations, and finally attempt to collect the data in a structured and verifiable manner. The quality of this information is critical: Interviewee 8 insists that sustainability information must be *“high-quality information and ideally […] assured”.*

In this context, managing data throughout the value chain remains a complex and costly challenge (Baumgart, 2023). Although one Interviewee mentioned the potential use of AI-based tools as a promising approach for future improvements, such as in automating data gathering, standardising formats, or detecting inconsistencies, these technologies are not yet widespread, and their implementation raises additional challenges in terms of costs, system compatibility, and governance. Today, data is often scattered, inconsistent, and hard to verify, which makes it very difficult to produce reliable sustainability reports and carry out proper assurance under the CSRD.

9.4. Conceptual Ambiguities and Interpretive Gaps

Another barrier identified during the interviews relates to uncertainties in interpreting key concepts within the CSRD and the ESRS. While the directive sets out an ambitious reporting framework based on double materiality and standardised disclosures (European Parliament and Council of the European Union, 2023a; Mio et al., 2024), many terms remain open to interpretation. Interviewees mention confusion around concepts such as *"own operations"*, *"value chain"*, or other definitions. These uncertainties are further increased by the fact that interpretations often vary across countries, making it even more difficult for companies to navigate compliance. This variation complicates efforts to ensure consistency and comparability in reporting, which undermines one of the core goals of the CSRD: to create a level playing field across the European Union.

The literature acknowledges that the success of mandatory ESG reporting depends on the clarity and precision of definitions (IAASB, 2013; Kirchhoff et al., 2024). However, the findings point to a more immediate concern: the absence of practical guidance leaves companies and assurance providers uncertain about how to apply these concepts in concrete reporting situations. Interviewees note that essential clarifications such as FAQs or Q&As were missing at the time they were most needed.

One of the most frequently mentioned challenges in the interviews concerns the format and content of CSRD reports, particularly in relation to their narrative character. Interviewees note that, without more detailed guidance or illustrative examples, early CSRD reports may differ widely in scope and structure, especially given the high volume of narrative content, which complicates assurance and reduces user confidence. One critical difference compared to financial reporting is precisely this narrative nature: whereas financial reports are primarily based on numbers and ratios, sustainability reports under the CSRD often span hundreds of pages filled with qualitative disclosures. This shift introduces several barriers. First, such reports are difficult to compile, especially for companies new to non-financial reporting. Second, they are hard to interpret due to their length and lack of structure, making it difficult for users, such as investors, regulators, or auditors, to find the information they need. Third, the absence of standardised formats and limited use of quantitative benchmarks makes comparisons across companies nearly impossible. Finally, the preparation of such detailed narrative reports is costly, both in terms of time and financial resources.

9.5. Understanding and Perception of Limited Assurance

The literature explains limited assurance as a moderate level of confidence, typically involving fewer procedures and expressed in a negative form (IAASB, 2024). However, the findings suggest that in practice, limited assurance under the CSRD often requires substantial effort, particularly in the absence of internal ESG systems. Auditors report that the current workload already approaches the level of reasonable assurance, due to weak data quality and the need to compensate for missing controls.

Moreover, one Interviewee highlights a gap in how users perceive the assurance level: some readers of sustainability reports do not clearly distinguish which level of assurance has been applied. They may read the report and assume a higher level of scrutiny than what limited assurance entails, simply because they are unfamiliar with the technical distinctions. This lack of awareness risks creating a mismatch between user expectations and the actual robustness of the assurance performed. However, in general, readers of such reports are expected to have sufficient experience to be aware of the type of assurance applied and to interpret its implications accordingly.

9.6. Human Resources and Skills Gaps

A key barrier to implementing limited assurance under the CSRD lies in the lack of qualified personnel, both within companies and among assurance providers. While the directive assumes a baseline of ESG expertise, many organisations are still building this capacity. Interviewees describe situations where employees manage CSRD tasks in addition to their initial roles, highlighting overstretched teams and limited internal knowledge.

The literature highlights the increasing need for interdisciplinary knowledge in sustainability reporting, combining financial, environmental, and social dimensions (Mio et al., 2024). However, the interviews reveal that, in practice, most staff involved in sustainability work have limited experience with assurance processes. Auditors also report having to quickly develop scientific or technical competencies beyond their traditional scope.

At the same time, sustainability roles are increasingly attractive. *"Every time we open positions related to ESG or sustainability, we see strong interest […] because it's fun, relevant, and socially important",* noted Interviewee 10. This aligns with findings from (Kirchhoff et al., 2024), who highlight that meaningful ESG commitments help attract skilled professionals and responsible investors.

This contrast reveals a disconnect: while talent is available and motivated, many organisations are not yet fully prepared to integrate or support it effectively.

9.7. Cross-Stakeholder Comparison of Barriers

The empirical findings reveal that the challenges of implementing limited assurance under the CSRD differ markedly across stakeholder groups. While the literature acknowledges the complexity of ESG reporting and the need for standardisation (Kolk & Perego, 2010; Krueger et al., 2024), the research offers a more differentiated view by showing how these challenges play out in practice depending on the actor involved.

Reporting companies, especially those new to non-financial disclosure, struggle with internal capacity, unclear benefits, and coordination across departments, often treating the CSRD as a compliance exercise rather than a strategic tool.

Auditors, in turn, face methodological uncertainty and an absence of established benchmarks, often performing procedures closer to reasonable assurance due to weak data systems. As Sébastien Pauwels notes, auditors almost have to become engineers to understand technical indicators, assess data quality, and evaluate processes that go far beyond traditional financial metrics.

Regulators, while promoting transparency (Mio et al., 2024), must navigate political trade-offs and the practical need for simplification, as shown in the Omnibus adjustments.

The research also surfaces less visible groups. Educators, for example, are not yet fully integrated into the assurance ecosystem, leaving a gap in ESG skills development. Meanwhile, value chain actors, particularly SMEs, lack resources, incentives and tools to provide reliable data, which undermines the broader reporting effort.

Importantly, the requirement for independent assurance can serve as a safeguard against selective or misleading reporting practices. As Clarkson et al. (2019) note, in the absence of a standardised reporting framework, there is a risk of greenwashing, where companies may present self-serving or less reliable CSR information. In this context, Interviewees note that auditors play a crucial role by applying professional scepticism and verification procedures that enhance the credibility of sustainability disclosures and strengthen stakeholder confidence.

Investors are emerging as a key stakeholder group exerting indirect but growing pressure on sustainability reporting. While not involved in assurance provision, they increasingly rely on ESG data for lending, underwriting, and investment decisions. As Interviewee 3 notes, *"the pressure from investors, insurers, and financial institutions will continue to grow"*, pushing companies beyond mere compliance. Yet, as Interviewee 8 emphasises, *"they need high-quality information and ideally, information that has been assured"*, a demand not always met by limited assurance. This dynamic can drive proactive reporting, but may also burden firms, especially when financing is tied to ESG ratings. As Pauline Rodberg warns, this could unintentionally disadvantage smaller or structurally weaker actors.

9.8. Practical Implications

The findings of this research highlight a clear need for tailored and coordinated efforts to support the implementation of limited assurance under the CSRD. While the directive aims to professionalise sustainability reporting (Mio et al., 2024), many companies remain unprepared to meet assurance requirements, particularly in terms of systems, skills, and conceptual clarity. From a business perspective, the CSRD offers more than a compliance obligation, it presents an opportunity to embed sustainability into core strategy. This aligns with Kirchhoff et al. (2024), who argue that ESG disclosure can enhance market value and stakeholder trust.

The interviews suggest several concrete steps: companies should invest in ESG governance structures, internal controls, and cross-departmental collaboration. One notable mechanism is the creation of a sustainability audit committee, which is widely cited as essential for anchoring ESG at the board level and bridging the gap between strategy and operational reporting. Such committees play a crucial role in ensuring that sustainability is treated not merely as a reporting exercise but as a topic of strategic relevance. They help clarify responsibilities, improve internal coordination, and provide the necessary oversight to embed ESG into corporate governance.

Auditors and consultants, in turn, must develop interdisciplinary expertise and flexible methodologies suited to emerging ESG domains. Regulators should provide clearer guidance and consider phased implementation for smaller or less mature entities. What is new in the findings is the extent to which misalignment between ambition and readiness disrupts implementation. The lack of human resources, internal maturity, and stable regulatory signals risks turning a strategic transformation into a procedural burden.

9.9. Emergent Themes Beyond the Initial Framework

Beyond the predefined categories derived from the analytical framework, the interview process reveals additional stakeholder groups that had not initially been considered. Notably, the perspectives of employees and the broader climate as a stakeholder emerged as recurring themes across several interviews. Although not included in the original framework, these stakeholder groups were discussed in relation to internal change management, staff engagement, and long-term environmental responsibility, illustrating how the CSRD can have far-reaching implications beyond formal reporting structures.

The role of employees is emphasised in relation to engagement, awareness, and resistance. Several Interviewees underline that the success of CSRD implementation depends not only on technical compliance but also on how effectively the transition is supported across the organisation. Sustainability reporting is often described as a transversal challenge, requiring collaboration between multiple departments such as HR, supply chain, finance, and risk management. These areas are not always accustomed to their data being externally scrutinised or assured. This insight highlights the need for inclusive internal communication and adequate training, elements commonly discussed in change management literature but often overlooked in discussions of assurance readiness. Without such engagement, sustainability reporting risks being perceived as a technical burden rather than a shared strategic responsibility.

Several Interviewees expressed concerns that the Omnibus proposal weakens the directive's original environmental ambition by narrowing the scope of climate-related disclosures. One Interviewee offers a clear critique of the revised scope, contending that it falls below the standards set by the previous NFRD and constitutes a step backwards for climate transparency. This shift, perceived as prioritising short-term economic considerations over long-term ecological accountability, risks undermining the transparency and consistency needed to address corporate environmental impacts effectively. As such, the climate becomes a silent stakeholder whose interests are increasingly sidelined in the evolving regulatory landscape.

Additionally, across most of the predefined categories, insights emerge that go beyond the initial assumptions and expectations formulated during the construction of the analytical framework. Nevertheless, in order to maintain clarity, readability, and structural consistency, these new insights are not isolated into separate subcategories. Instead, they are systematically integrated into the corresponding predefined stakeholder categories. This approach allows for a cohesive presentation of findings while still capturing the evolving nature of stakeholder experiences and perceptions.

10. Limitations

First, while the sample includes a diverse range of stakeholders, the total number of Interviewees remains limited to eleven, with a concentration of participants from the audit and consulting sectors. As such, certain perspectives, such as those from civil society, SMEs, or investors, may be underrepresented.

Second, the research was conducted during a transitional period in which the CSRD and its related assurance requirements were still being clarified at the EU level, particularly in light of the pending Omnibus Directive. This timing constraint may have affected the stability of responses and the comparability of stakeholder expectations.

Third, as in any qualitative study, the interpretation of findings inevitably reflects the researcher's perspective. As a Master's student in Financial Analysis and Audit with a strong interest in sustainability, and with some exposure to ESG assurance topics through academic work and a recent internship, I was aware that my professional orientation might shape the way I perceived and analysed the barriers to CSRD implementation. To mitigate the potential influence of these preconceptions, I adopted a reflexive approach throughout the research process. Therefore, I captured initial impressions and emotional reactions, deliberately seeking out diverging or critical viewpoints among Interviewees, and regularly discussing emerging interpretations with my supervisor.

11. Conclusion

The Corporate Sustainability Reporting Directive (CSRD) represents a paradigm shift in the regulation of non-financial reporting in the European Union. By mandating comprehensive sustainability disclosures and introducing limited assurance as a minimum requirement, it brings ESG reporting closer to the rigour and reliability traditionally associated with financial reporting. Yet, as this thesis has demonstrated, the transition to limited assurance is filled with structural, operational, and conceptual challenges that affect all stakeholder groups involved in sustainability reporting.

Through eleven semi-structured interviews with professionals across key stakeholder groups, this thesis sheds light on the barriers that hinder the effective implementation of limited assurance under the CSRD. These barriers are not only technical but are deeply intertwined with broader institutional, regulatory, and professional dynamics. In answering the central research questions - **What are the key barriers to implementing limited assurance under the CSRD, and how do these challenges differ across stakeholder groups such as regulators, reporting companies, auditors, investors, educators, and EU Member States?** - this study reveals a complex interplay of factors that vary across institutional contexts and professional roles.

One of the most prominent findings concerns the significant operational challenges faced by reporting companies as they prepare for limited assurance under the CSRD. Many companies struggle with a lack of internal expertise, fragmented data systems, and unclear methodological guidance. The complexity of the European Sustainability Reporting Standards (ESRS) adds another layer of difficulty, particularly in applying the principle of double materiality in a consistent and meaningful way. Companies often face uncertainty about how to determine what is material, how to structure internal processes to ensure audit-readiness, and how to align sustainability disclosures with strategic business objectives. Moreover, the absence of historical benchmarks and the evolving nature of the standards make it difficult to plan investments and develop long-term ESG strategies with confidence. A central issue across all these challenges is the management and collection of ESG data: companies frequently lack centralised data systems, face difficulties in gathering reliable information from across departments and subsidiaries, and encounter inconsistencies in data quality.

The challenges are even more pronounced for smaller companies within the value chain. These firms, though not directly in the scope of the CSRD, are increasingly being asked by their larger clients to provide detailed ESG data to support consolidated reporting and assurance. Many of these companies lack the resources, technical know-how, or digital infrastructure to meet these demands, leading to a growing asymmetry of capacity within the reporting ecosystem. As a result, the CSRD's ambition to create a harmonised reporting landscape may unintentionally place a disproportionate pressure on companies that are least equipped to respond.

Another finding is the regulatory ambiguity surrounding the CSRD's assurance requirements. While the directive is ambitious in scope, its ongoing evolution has generated uncertainty about timelines, reporting boundaries, and the eventual move towards reasonable assurance. This has left many companies and assurance providers in a state of cautious preparation, lacking stable benchmarks against which to design systems and processes. The incomplete transposition of the directive at the national level only increases this uncertainty, creating significant variability in implementation readiness across EU Member States. However, some companies that are not (yet) formally in scope have chosen to report on their sustainability performance voluntarily, which signals a positive and proactive engagement with the directive's objectives.

Another key insight relates to the limited availability of sustainability assurance expertise. Auditors and consultants alike emphasise a severe talent gap, particularly in professionals who possess both audit rigour and ESG-specific knowledge. This shortage raises concerns about the consistency and quality of limited assurance engagements, particularly during the initial reporting cycles. In response to this challenge, educators are slowly but steadily shifting towards adapted curricula aimed at equipping future professionals with the interdisciplinary skills required for ESG assurance. Investors, while not directly involved in assurance, are emerging as a key stakeholder group pushing for higher-quality, assured ESG data. For insurers, the growing climate risks represent not only a sustainability concern but also a major threat to their core business, reinforcing their interest in robust and reliable ESG disclosures.

Furthermore, the conceptual complexity of ESG reporting, especially around double materiality assessments, remains a considerable obstacle. Interviewees note the difficulty of translating IROs into audit-relevant evidence. In this respect, many stakeholders express the need for further guidance from regulators and standard-setters, particularly on how to operationalise materiality thresholds and verify management assumptions within limited assurance engagements.

Key institutions such as the European Commission and EFRAG are expected to play a central role in providing a stable and coherent framework that professionals can rely on. However, in light of the strong criticism received during the initial CSRD, Omnibus and the recent political shift towards more right-leaning governments, these institutions have struggled to fully meet that expectation. Some Interviewees even describe aspects of the standard-setting process as "*mismanagement*," pointing to a lack of clarity, inconsistent messaging, and insufficient responsiveness to stakeholder concerns.

From a broader perspective, this thesis contributes to an emerging academic discussion on how ESG assurance is shaping the accountability infrastructure of the European corporate sector. By focusing on the real-time barriers experienced by practitioners, it adds empirical depth to the theoretical discourse around sustainability regulation and assurance. Building on these insights, further research could deepen the understanding of assurance dynamics under the CSRD.

One key direction would be to broaden the Interviewee sample to better capture the views of other stakeholder groups, particularly reporting companies themselves, as well as suppliers and partners in their value chain, who may face some of the most pressing operational challenges in implementing CSRD-compliant reporting.

Another complementary line of research would be to conduct longitudinal studies once the CSRD enters full effect, tracking how assurance practices, regulatory interpretations, and stakeholder expectations evolve over time. Comparative studies across Member States, or between sectors with differing sustainability maturity levels, could also provide deeper insights into the varied implementation trajectories of the directive.

In conclusion, while the CSRD establishes a new standard for Corporate Sustainability Reporting in Europe, its successful implementation hinges on more than regulatory compliance. It demands a coordinated effort across institutions, professions, and corporate actors to overcome a complex web of operational, conceptual, and regulatory barriers. Ensuring the credibility and consistency of limited assurance will require not only clear and stable guidance from regulators and standard-setters but also targeted investment in expertise, education, and data infrastructure.

As this thesis has shown, understanding these challenges - and addressing them pragmatically - is essential for turning the CSRD's ambition into lasting impact.

Only through sustained collaboration and institutional commitment can the directive contribute to a more transparent, responsible, and resilient corporate landscape across the European Union - for a green future.

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13. Appendix

A. Interview Guide

1. Introduction

- Can you briefly introduce yourself, explain your role, and how you are involved in the CSRD?
- And how do you see your current role evolving in the next year?
- Before the introduction of the Omnibus proposal, what were your initial impressions of the CSRD initiative?
- Now, that the Omnibus proposal has been issued, how has your opinion on the CSRD evolved?
- It seems quite similar to a financial audit, but what are the main differences? Specifically, what types of documents are you requesting in a sustainability audit compared to a financial one?
- Are they willing to spend that amount of money on a report that, for now, doesn't really add any tangible value?
- How do you collect, manage, and verify the data you receive? Is there a specific tool or system you use, or how does it work in practice?
- Are there any additional stakeholders you believe are relevant to this discussion?
- And now, a more macroeconomic question: with everything currently happening in the world - the war in Ukraine, the political situation in the United States, particularly with Trump's return - what is the European Union's intention in terms of competitiveness? How do you see this evolving?
- Another more macroeconomic question: the European Union has some weight on the global stage, but its current pollution emissions remain relatively low compared to other major powers. So, what is the real impact of its efforts - particularly in ESG reporting - on climate change, knowing that other countries that pollute much more are not committing to this type of reporting?

2. Auditors, Consultants, and Advisors

- And for auditors, will sustainability reporting just become an additional area they cover - something they add to their existing portfolio - or how is this expected to work in practice?
- Once everything is fully implemented, how do you think the auditor's work will change? Will there be additional procedures alongside the existing ones? What will it look like in practice?
- Regarding other stakeholders, like auditors for example: do you think they're ready to face this evolution? Are some departments already starting to structure or specialise in this area to anticipate the upcoming changes? What's the current trend?

3. Reporting Companies

- How do you see the role of companies in this context? What are the main challenges they are facing? In your view, what are companies most concerned about, and what kind of information are they still unprepared to provide?
- Given the introduction of the Omnibus proposal, which aims to simplify the CSRD and reduce some of its administrative burden, do you believe this is a step in the right direction? What is your perspective on the proposal and its potential impact?
- Based on your experience working with various clients on their sustainability reporting under the CSRD, what would you say are the main challenges they are facing? What concerns or fears do they most commonly express during the reporting process?
- Based on your discussions with companies, how do they perceive the cost-benefit ratio of CSRD compliance? At this stage, do they see it as a worthwhile investment, or are they primarily focused on the burdens and challenges?
- Has the Omnibus proposal led to any internal shifts within your company in terms of strategy, resource planning, or how you are approaching CSRD-related work?

- As companies will soon be faced with this type of reporting, what feedback are you getting as someone on the ground? What are entrepreneurs saying? What are their main fears or concerns regarding these new obligations?
- Given that ESG reports will be added on top of standard financial reports, will they generally be handled by the same audit firms? Because otherwise, companies might have to deal with two different entities, sometimes with similar questions, which could complicate things even more for them. Is there any proposal or solution to avoid this kind of situation?
- Approximately how many clients are you currently working with, and what is the scope of your activities with them?
- You're now focusing on assessing companies' readiness - can you explain what exactly you're evaluating in these assessments?
- Given your experience working with several clients involved in sustainability reporting, what kind of feedback do you hear from them? What are their main concerns or fears? What concrete challenges are they facing?
- Do you think the Omnibus proposal was a step in the right direction for the CSRD initiative, or did it go too far by excluding around 80% of companies from its scope?
- When you say that companies are not ready, what does that actually involve? What kind of feedback do you hear from them?
- What feedback do you get from companies regarding the cost-benefit ratio of CSRD compliance? Do they feel it's worth the investment?
- What are companies currently most concerned about? Based on your work with them, what kind of feedback or concerns do they share with you?
- Once everything is listed and needs to be scored, is it you who does the scoring, or is it the client who handles that part?
- What advice would you give to companies that are just starting out with ESG or CSRD reporting? What would be your key recommendations?
- Since companies must also report on their entire value chain, do you think they might face difficulties in collecting data across all upstream and downstream activities?
- How have companies been trying to adapt to these challenges so far? Based on your experience as a consultant, what key lessons or patterns have you observed?
- ESG reporting is becoming similar to financial reporting, but the necessary framework and infrastructure to secure and manage the information are not yet fully in place. Would you agree that this is one of the major issues companies are facing?
- Have your clients expressed any specific fears or concerns to you? If so, what were they most worried about?
- There seems to be a significant short-term investment - in terms of money, time, and effort - required to comply with these new requirements. While companies may currently be focused on the challenges, the long-term perspective suggests it could create real value. What are your thoughts on that?
- From your perspective, how are companies progressing in their CSRD implementation? Do you observe a learning curve or positive trends, and what are some concrete examples of how they are improving?
- Based on your work with companies that are required to report, do you observe that they are questioning the short-term investments involved - such as the high initial costs - especially since the value of these efforts often only becomes visible in the long term? Do you think this short-term burden is affecting their overall perception or awareness of the CSRD's intended benefits?
- And since we're still at the early stages of the CSRD, companies are facing quite a bit of uncertainty. How can they best prepare? Should they turn to external consultants? Are there technological tools, like artificial intelligence, which could help them? More broadly, what kinds of resources or solutions could they look at in order to better manage this transition?
- Do you think a company's access to funding could depend on whether or not it publishes sustainability reports?

- How has the role and behaviour of investors - such as banks, investment firms, and private equity - evolved since the implementation of the CSRD?
- Many companies might say they are investing a lot of money in reporting that, in the end, will only be read by a few investors. In your view, what is the real added value for them?
- You mentioned NGOs earlier - in your view, what role do they play, and how might their role evolve with the implementation of the CSRD?
- On a more practical level, what is your step-by-step approach when working with a new client? From start to finish, what does your work actually involve?
- Could you walk me through one sustainability-related project you have worked on? Even if it is voluntary for larger companies, how does it work in practice?
- From a competitiveness perspective, do you believe there is an issue of information asymmetry between European companies that are required to report under the CSRD and non-European companies that are not subject to the same obligations?
- Don't you think it could be risky, from a global competitiveness perspective, to impose such demanding requirements on companies?
- And throughout this process, are there certain issues or challenges that tend to come up more frequently than others?
- Have you observed any reactions or challenges coming from internal stakeholders, such as employees or unions, in response to CSRD disclosures?

4. EU Member States

- Could you provide an update on the progress France and Spain have made in environmental and sustainability policies, especially in comparison to other countries?
- Considering the global shift towards sustainability, how have Belgian laws and corporate practices evolved to meet these challenges?
- So far, the CSRD hasn't been transposed into national legislation in Luxembourg, and you are applying limited assurance. When do you expect it to be transposed into law?
- So far, I have mainly focused on companies in Belgium and Luxembourg, so I'm less familiar with the situation in Germany. If I understand correctly, the CSRD has not yet been transposed into national law there. Once it is, will it directly include the simplified version introduced through the Omnibus proposal?

5. Regulators (European Commission and EFRAG)

- Would you say that one of the regulators' roles is also to ensure stability and confidence in the markets?
- How do you perceive the role of the European Union? Should it primarily act as a regulator promoting stability - and if so, do you feel it is currently fulfilling that role?
- The EU, as a key stakeholder, is expected to provide stability through its regulations and frameworks. However, with the CSRD moving forward and then the Omnibus partially reversing course, this stability seems challenged. How do you perceive the EU's position in this context?
- Would you say that the draft of the regulation isn't properly structured, with some elements repeated and certain issues appearing more than once?
- In your opinion, what are the main reasons that led the EU to introduce the Omnibus proposals to amend the CSRD? Do you believe this was primarily driven by concerns around competitiveness, or were there other key factors at play?
- The Omnibus proposal is currently still just a proposal, and for it to become effective, it must go through both the EU legislative process and, eventually, implementation at the national level. Could you explain what steps are required for the proposal to be adopted, and at which levels - EU and national - these steps take place?

- What is the current legislative progress of the Stop the Clock proposals and the Content proposals?
- Can you explain what steps are necessary for the Omnibus proposal to become legally binding? What roles do the Parliament, the Council, and the Member States play in this process?
- Do you think that, despite the adjustments, European companies are at a competitive disadvantage internationally because of the CSRD, for example compared to companies from the US or China
- In your view, what is the role of the European Commission in the implementation and future development of the CSRD?
- How does the cooperation between the European Commission and EFRAG work in practice? And how would you describe the balance of influence between the two?

6. Educational Institutions

- In relation to other stakeholders impacted by the CSRD, do you observe a shift in the education sector? For instance, are universities and high schools beginning to adapt their curricula to better educate students on ESG-related topics?
- And what about other stakeholders, like training centres, universities, or schools - do you think they're also starting to prepare for these changes? Or are they staying on the sidelines for now? In your opinion, what are their expectations or challenges?
- Another important stakeholder is the academic world - how are universities and educators reacting to the CSRD and the Omnibus? Are they prepared, or are they still in the process of adapting?

7. Investors

- Earlier, we discussed the short-term investment required for sustainability reporting to create long-term value. In your view, will this effort facilitate access to funding? What do you see as the long-term benefits of sustainability reporting?

8. Conceptual Complexity

- As people become more aware of sustainability reporting, do you think the risk of greenwashing also increases - making it more common and harder to uncover?
- Currently, sustainability reporting under the CSRD requires only limited assurance, while the initial plan for reasonable assurance has been removed with the Omnibus proposal. In your opinion, is the current assurance level sufficient? Do you believe reasonable assurance will be reintroduced in the future?
- The CSRD introduces complex concepts like double materiality and thousands of data points. Do you think that understanding these concepts itself is a barrier for the different stakeholders?
- Related to the concept of Double Materiality Assessment (DMA): since the concept of double materiality doesn't exist in financial audit, how does it influence your work in practice? How is it applied in real audit situations?
- So essentially, similar to a financial audit, you start by assessing materiality - except in this case, it's double materiality. From there, do you verify whether the process and outcomes are appropriate and aligned with the requirements?
- So, is the Double Materiality Assessment determined at the beginning of the audit?
- Could you briefly explain how the EU Taxonomy fits into the reporting process and what role it plays?
- So, is the materiality level always expressed as a number or a quantitative attribute?
- What exactly do you test under limited assurance, and how would that change if it were a reasonable assurance engagement?

B. Interview 1

<u>Pauline Rodberg; ESG Expert at Smart2Circle</u>

<u>Interview on 24 February 2025 for 45 minutes</u>

Note: Due to technical issues, the recording of the interview did not work properly. As the interview partner was not available for a follow-up after the introduction of the Omnibus proposal, it was not possible to redo the interview. The interview is therefore quite short and only covers part of the conversation.

Can you discuss the current focus of European environmental policies compared to other global regions, particularly in terms of sustainability versus economic competitiveness?

Well, it's clear that with recent political changes and so on, sustainability is no longer Europe's primary concern. Instead, the focus has shifted more towards competitiveness, etc. However, it's completely false to say that only Europe is dealing with climate issues. It's hardly discussed, but China, for example, is developing what has become the world's largest wind farm - not Europe. While coal industries are still present, they remain as long as there hasn't been a sufficient shift towards renewables in the markets. I think it's the Shanghai Stock Exchange that also requires listed companies to report, especially on dual materiality. So, in the end, it's not only Europe that's taking action.

Europe uses its competitiveness as an argument. And yes, it's the CSRD; it's very complex, administratively burdensome, which is a major problem for Europe. When it is implemented into practice, it's not at all practical. Practically speaking, it's very bureaucratic compared to other countries which are much more practical and more business-friendly.

But to miss the mark and say we should backtrack and eventually remove all the regulations around this, etc., is also detrimental to its competitiveness because, meanwhile, in places like the United States, and especially in China or Asia, they are certainly planning to make advancements.

Considering the global shift towards sustainability, how have Belgian laws and corporate practices evolved to meet these challenges?

Belgium has always been somewhat behind on these issues or at least not as proactive as other countries. Denmark, Spain, these are countries that are at least a bit more involved. For several years in Italy, for instance, mission-led companies have existed. In France, too, they have introduced "mission companies".

And not to forget the Nordic countries that are also advanced. So, Belgium has always followed; it has never positioned itself first, always being somewhat of a follower. Consequently, Belgian companies may never have felt pressure from the Belgian State, but what Belgian companies do feel is that they are not only active in the Belgian market; they interact with French, Italian, and Nordic companies, which are already more progressive on sustainability issues. And aside from that, there are Belgian companies that are acting not because the government forces them but out of their own accord.

Over time, through B Corp and EcoVadis certifications, as well as other countries that are more proactive, we have Belgian companies, their suppliers, and their clients gradually asking, "What are you actually doing for the environment? What are you doing for society? What are you doing about governance issues?" So, they have to start taking actions even before we talk about these laws or before Belgium transposes them into law.

How has Belgium implemented the CSRD, and what impact has it had on companies, particularly SMEs?

Belgium has transposed the CSRD into its national law. It was supposed to be done by July 2024, but Belgium completed the transposition only in November 2024, with about a six-month delay. It's important to note that neither Belgium nor any other EU Member State could modify the content of the CSRD itself. What each country could do, however, was define the sanctions - that is, determine the amount of the fines to be imposed if companies failed to comply with the directive.

Belgium positioned itself accordingly, and as usual, the sanctions are not particularly high, especially compared to other countries like Italy. We are really far from that level.

On the other hand, Belgium did take steps to protect SMEs. In theory, a large company subject to the CSRD cannot put pressure on small SMEs to demand complex information or impose strict quality standards for the data provided. I say ”in theory” because, in practice, if you're a large company, you might not care. I don't think all companies follow this, and I believe the pressure on SMEs still exists, even if the law says it shouldn't.

Could you provide an update on the progress France and Spain have made in environmental and sustainability policies, especially in comparison to other countries?

Historically, France has always been more advanced when it comes to issues of non-financial reporting. If I recall correctly, they transposed the NFRD (Non-Financial Reporting Directive) and made it even stricter. The PACTE law, in particular, introduced additional requirements. Notably, France was one of the first European countries to allow certain companies to include in their statutes a purpose that goes beyond profit-making, emphasising their commitment to broader societal or environmental objectives. This is what we call a *mission-driven company*, and it existed even before the now well-known CSRD.

Culturally, France seems to be further ahead in this area. For instance, their accounting standards authority - although primarily focused on financial matters - regularly publishes resources and reports to support companies and research centres in understanding non-financial reporting. They also have greater means available to them.

Italy has also had the concept of mission-driven companies well before the CSRD was introduced. As for Spain, their stance has been slightly different: they were actually one of the first countries to openly advocate for retaining the TCFD framework (Task Force on Climate-Related Financial Disclosures), recognising its value. However, while France was initially ahead, recent political shifts at the EU level have led France to somewhat step back from its leadership position in this field.

When looking for examples of countries that are leading in non-financial reporting and sustainability, France and Spain are definitely worth mentioning. The Nordic countries are also strong in this regard - they didn't wait for the CSRD to start thinking about extra-financial disclosure. Culturally, they were already aligned with these values long before legal obligations came into play.

In terms of companies taking the CSRD seriously, Denmark is a good example. Many Danish companies have embraced the reporting requirements and are doing the work thoroughly. So, while it's too early to compare how all countries are implementing the CSRD - given that the first official reports are just now being released - we can say that Denmark is among the more advanced nations in terms of cultural and strategic alignment with sustainability goals.

To be clear, I'm not referring here to countries simply complying with CSRD obligations. I'm talking about countries that were already reflecting on non-financial and sustainability issues before these became mandatory. This cultural difference is significant.

As for the structure of the CSRD, it's heavily inspired by existing international reporting frameworks. It includes ten European Sustainability Reporting Standards (ESRS): five environmental, four social, and one on governance. Additionally, there are two cross-cutting standards. One sets out the general principles of CSRD reporting, while the other includes mandatory disclosures that all companies must provide, regardless of their materiality assessments.

The structure was inspired in part by initiatives like the GRI (Global Reporting Initiative), which has been around for more than 30 years. CSRD didn't come out of nowhere - it filled a gap where voluntary international frameworks lacked legal power. Laws, of course, carry more authority than certifications or voluntary standards.

Regarding companies' preparedness, we can already observe a range of operational and structural adjustments. Some companies are creating dedicated sustainability audit committees, while others are integrating these responsibilities into existing audit committees. Some are establishing entirely new departments, and some are even redefining their strategies and missions to align more closely with environmental and societal objectives.

Ultimately, it all depends on the people leading the company. And because people are different, the approaches and responses vary widely.

C. Interview 2

<u>Senior Manager at a Big Four company in Belgium</u>
<u>Interview on 10 April 2025 for 44 minutes</u>

Can you briefly introduce yourself, explain your role, and how you are involved in the CSRD?

So, I am a Senior Manager in the industry sector, mainly focusing on the audit of financial statements for industrial or service companies. I don't handle anything related to banking or insurance, so to put it differently, I deal with all other companies and types of activities. That's what I do. And I also don't work with real estate companies. That's a bit more specific - I don't deal much with real estate either. Now, regarding my involvement in the CSRD, it's as follows: I'm what we call the point of contact for CSRD-related questions at the office. So, I keep myself informed earlier than others about developments in terms of CSRD, legislation, organisation, methodology, etc. People come to me at the office if they have questions. In terms of experience, as I mentioned to you last time, in my portfolio I don't have any "wave 1" clients, so I haven't yet been directly involved in reviewing a non-financial report in detail. I've only applied the law on certain aspects in other cases. But my involvement is limited.

What is your opinion on the CSRD and the initiative that was taken before the "Omnibus" legislative proposal?

The initiative at its core is a good one, because it forces companies to reflect a bit on what their impacts are on the environment and on the populations affected by their activities. So, in that sense, it's a good thing because it brings attention back to certain elements that tended to be somewhat "swept away" and "swept under the rug" by companies so as not to show that, in reality, their activity pollutes, that their activity is harmful to the environment. So, that's a positive. And even with the Omnibus, the core objective still remains. It's just that the constraints have been made more flexible. So, the constraints have been somewhat lightened for smaller companies because, well, you have to keep in mind that when you read the entire CSRD, all the standards, the ESRS that follow from it, it's extremely heavy in terms of reporting, in terms of the resources that need to be put in place to collect all that information, analyse it, and report on it.

So, I'll give you an example - companies making just a few million euros in turnover, with annual accounts that fit into thirty pages, and they were going to have to produce a non-financial report of 150 to 200 pages. So, it was a bit disproportionate compared to the resources allocated to standard reporting. But yes, it is a good initiative at its foundation.

And then there was also the aspect - as we also discussed - the aspect of competition with companies that operate in the same sector but are based outside the European Union, which can still afford to put all those aspects on the back burner to reduce their administrative costs, because they don't have to report, and therefore are more competitive on the market.

So that was also, you know, a concern raised by European companies and by some countries, to ease this CSRD which, initially, was already very comprehensive - and even more was planned, since there were supposed to be a whole series of additional sector-specific standards. So, it was really going to become very heavy in terms of reporting.

Since you say it's very heavy, do you think the Omnibus Directive was necessary? And was the removal of the reasonable assurance requirement necessary to stay competitive?

Yes, from a competitiveness point of view, it was necessary because we were realising - especially based on the first fee quotes we submitted - that sometimes we were ending up with fees that were higher than those for financial audits. And that's not even counting the money the company would have to spend internally to implement this reporting. So yes, it was going to have a significant impact on companies' finances. So, it was very heavy.

Now, this will still have an impact for the companies that remain in scope, but those companies - that employ more than 1,000 people, according to the Omnibus proposal - are naturally larger. It's easier for them to absorb €100,000, €200,000, or €300,000 in additional costs because they already employ more than 1,000 people and probably have revenues in the hundreds of millions of euros, if not in the billions. Whereas, you see, the reporting requirements were more or less the same for companies with just over €50 million in revenue and only 100 or 150 employees… You see: €300,000 on €50 million in revenue versus €300,000 on €5 billion - it's not the same thing. So, from the competitiveness angle, it was necessary.

Now, from the environmental standpoint, it's unfortunate, because we won't have a view of the impact many companies have on the environment, which could have been interesting. But then again, you have to ask yourself if people were really going to read these reports, because I'm not sure that a company with €50 million in revenue, privately owned - since there are quite a few - and not financed on the markets, for example… I'm not sure many people would actually read that non-financial report.

So, is it really worth spending €50,000 each year on a report that might be read by a bank and maybe two or three environmental NGOs? So, in the end, the Omnibus is more about the cost-benefit ratio and the economic impact than about real environmental impact.

And since ESG reports are currently subject to limited assurance, do you think that's sufficient for now? Or, in terms of trust, do you think it would be better to have reasonable assurance, like for financial audits?

Well, in terms of assurance, of course, reasonable assurance is much more comfortable. Those who know how auditing works are well aware that reasonable assurance goes much further in terms of testing, so we obviously have more comfort. But again, we need to look at the cost/benefit ratio. Is it really worth going into detail or performing detailed tests? So, you who did a bit of audit work during your internship - do you think it's worth starting to perform detailed tests, calculating specific materialities?

For a limited review, you'll have to do some of that too, but specific materialities that would lead to sample sizes that could still be significant for each KPI - I don't think so. Because in a limited review, if you still identify a material or significant risk of error, you're still going to perform detailed tests. So, in the beginning, I think it's sufficient. A review will be done, and as the reports evolve... auditors will be able to identify the risk areas, and we'll see how things progress. But limited assurance seems appropriate in this context. Reasonable assurance would have gone quite far into detail, for reports whose actual use is still uncertain.

It's hard to say - maybe what I'm telling you now, I won't say the same in one year, two years, or three years. It's still a bit new. We also need to see who will be using these reports, for what purpose they'll be used, and whether they will actually be used. Because originally, the idea behind preparing these reports was also tied to access to market financing, to better rates, or to access to bank loans at more favourable rates.

So yes, we'll have to see whether this actually has an impact. If having access to financing at better rates encourages companies to "cheat" a little on this type of non-financial reporting - then does that mean, to be sure there are no errors, we'd need to perform more audit procedures and thus move to reasonable assurance? We'll see over time. That could evolve in the coming years.

And now, a more macroeconomic question: with everything currently happening in the world - the war in Ukraine, the political situation in the United States, particularly with Trump's return - what is the European Union's intention in terms of competitiveness? How do you see this evolving?

Hard to say. What I think is that the Omnibus proposal is already a response to that. You see, they sensed which way the wind was blowing, and they realised that with Trump coming back in the US, well, they would tend to ease up on this kind of reporting. And that was going to generate real extra costs and a commercial handicap for European companies - hence the easing. So, I think, yes, they've already taken that factor into account, and it's reflected in the Omnibus proposals.

Since this is still only a legislative proposal, and it's a package that is likely to evolve over time, how should its incorporation into EU legislation - and then into national law - ideally take place? Can you explain how this process works and what deadlines must be met to ensure effective implementation?

Well, in terms of timing, it's not great. Because, you see, the transposition into Belgian law already happened at the very last minute. That had to be done for the CSRD, and it was only done at the beginning of December. Here, it's a bit the same: to make these changes effective, the law must pass - so it has to be approved by the Union, by the European Union Parliament this year - and then it has to be transposed into national legislation by the end of the year. Because, as of today, when you read the Companies Code, companies that generate more than €50,000,000 in revenue and have more than €25,000,000 in total assets are still subject to the CSRD. So, they must report based on the current criteria. That means, to cancel this obligation, the law has to change before the end of the financial year.

Otherwise, they'll have to pass - and I don't know if this is legally possible - some kind of retroactive law. In general, in terms of timing, it's very tight. So yes, ideally, to comply with the rules, all this needs to go through before the end of 2025. Now... will they do it? Won't they do it? Legislative processes and the discussions from one country to another... it's always a bit of a black box, in the sense that political agendas sometimes push this kind of text to the background. All it takes is a crisis somewhere, and the focus shifts. They'll say: "Yeah okay, we get it, but that's secondary." So, you never know.

But to answer your question: ideally, all of this has to happen in the coming months before the end of the year. But saying how it should happen, well, how it *will* happen? There are too many unknowns. It depends on discussions at the EU level, and then on discussions within the Member States. But well, the way it's being discussed, presented, the will of companies... I think - it's my opinion - but I think there's a very high probability that the Omnibus package will be adopted as it is, and that it will be transposed pretty much as it is into national law.

Another more macroeconomic question: the European Union has some weight on the global stage, but its current pollution emissions remain relatively low compared to other major powers. So, what is the real impact of its efforts - particularly in ESG reporting - on climate change, knowing that other countries that pollute much more are not committing to this type of reporting?

Yes, but there have to be pioneers. There need to be companies, countries, or regions that take the first step in this kind of reporting; otherwise, no one will ever do anything. Obviously, it's not purely altruistic, because we also shouldn't forget that if the European Union were the world's biggest polluter, I'm not sure it would be pushing this point as hard. It's also in its interest - from an economic standpoint - to emphasise this, to show that it's better than the others. It's not in China's interest, for example, because it pollutes much more. They don't want to show the whole world that they pollute two or three times more than Europeans.

And it's the same with the United States. They know they pollute more, so they don't want to ask their companies to confirm on financial markets that they pollute twice as much as their European competitors, who sell comparable products at the same price. So, there's a certain economic, financial, and political logic behind it. And Europe is taking the lead because there are real climate issues. And like I said, someone has to take the lead. And in general, like everywhere - whether in school or at work - it's the best students who go first. When I say "best students" here, I mean those for whom it makes the most sense to do so. Clearly, someone who pollutes a lot doesn't have much interest in starting to report that they pollute a lot. Whereas someone who is already careful about their greenhouse gas emissions will be more inclined to say that over the past ten years, they've reduced them by 50%. Of course, that looks good in the report.

But like I said, it all starts from the global ambitions to reduce pollution - those famous COP 28... well, COP, each year the number goes up - because the planet is warming, and that creates problems: more hurricanes, more rainfall, more flooding, more land being swallowed by the sea along coastlines where people live. So yes, there's a real urgency behind all of this. And as I said, once again: it's those who are preparing the best report cards who will be more inclined to report on this first. And if no one ever does it, then no one ever will. Someone has to take the lead.

As companies will soon be faced with this type of reporting, what feedback are you getting as someone on the ground? What are entrepreneurs saying? What are their main fears or concerns regarding these new obligations?

Well, we're still very much at the beginning. So, the feedback we're getting at the moment is more about the constraints this brings than the benefits they might gain from it. Some already see the benefit side - some are in a business that can be strongly highlighted thanks to this type of reporting - but that's still quite rare. So, most of the time, well-established companies, or companies with an industrial cycle, or that operate in highly polluting sectors... for them, it's not ideal. Because it means they'll have to find alternatives, they'll have to make efforts to pollute less.

So yes, for them, it's more a problem to solve than an opportunity. For now, at least, that's how it comes across. And as I said, it's because we're at the beginning. It's because, first, people see the difficulty, they see that they'll have to report on a lot of new KPIs. On top of that, it will cost money, it will take time, and they don't necessarily have the budget for that.

So, for now, companies see it more as a constraint. Because, as I was saying earlier, it's not yet entirely clear what added value this will bring them.

At the end of the day, a company is created for profit. So, when it reports on something, ideally, it's to get something in return - like lower-cost financing, or to increase its revenue, its customer base, etc. At the moment, since it's new, we don't really have a track record, it's not yet clear what the positive impacts for companies will be. They tend to focus more on the negative impacts, the constraints.

Even though, overall, everyone agrees that we do need to move in this direction - at least in Europe - but within a certain calibration. So yes: for large entities to report, that makes sense because they have a big impact. But for all the small ones, for the local SMEs to report on the same criteria - that's a bit exaggerated.

Regarding other stakeholders, like auditors for example: do you think they're ready to face this evolution? Are some departments already starting to structure or specialise in this area to anticipate the upcoming changes? What's the current trend?

From what I've seen, at least in the Big Four and the larger audit firms - so those that are already part of a network - they have organised themselves, developed services or departments that specialise in this area. So, we have that at the Big Four companies. They anticipated this demand. In fact, they anticipated it based on the CSRD at the time. And so now… we're taking a bit of a step back, because with the postponement of the reporting deadline by two years, and the fact that the scope has been reduced by nearly 80%, well obviously, if audit firms had anticipated that they'd have... I don't know, say 10,000 hours of work to do on reporting, and now you reduce the scope by 80%, that means we go from 10,000 hours to 2,000 hours. So that means they're going to resize their teams accordingly. But yes, these were things that were anticipated, and that they had already started working on.

In our company for example: we've had a whole series of trainings over the past ten months to upgrade our knowledge in terms of requirements, the law, the legislation. So: how is the audit going to work? What's the difference between a limited review and reasonable assurance? What are the standards that will apply? So, all of that was anticipated by the audit firms.

But like I said, now there will be a sort of reduction in expectations, because the scope is going to decrease. And logically, we no longer need as many people, as many hours, to meet the market demand - I'll put it that way.

Given that ESG reports will be added on top of standard financial reports, will they generally be handled by the same audit firms? Because otherwise, companies might have to deal with two different entities, sometimes with similar questions, which could complicate things even more for them. Is there any proposal or solution to avoid this kind of situation?

At the moment, there isn't really a proposal. I think the option to distinguish - or at least separate - the auditors for each still exists. But what we've historically seen here is that companies hire the same firm, for the reasons you mentioned: it's much easier. You don't have to redo the entire understanding of the company. A single auditor can more easily connect the financial data, and the figures included in the non-financial report. It's also cheaper in the end - you still have economies of scale by having just one party involved. So, I'm almost certain that in the vast majority of cases, it will be the same audit firm - where applicable - that will audit the financial statements and the non-financial reporting.

And what about other stakeholders, like training centres, universities, or schools - do you think they're also starting to prepare for these changes? Or are they staying on the sidelines for now? In your opinion, what are their expectations or challenges?

Well, I don't really have much visibility on that, to be honest. I don't know if universities have already adapted or are in the process of adapting their programmes to include this. I suppose over time it will happen. It probably won't be a course entirely dedicated to this, but there will probably be a small module or a part of a course that will cover this regulation. But I don't think it'll go much further than that. People will likely train on the job once they start their professional careers. That's my impression, at least. But honestly, I don't have a clear view on what the other stakeholders are doing regarding this.

Since we've already talked about shareholders, the European Union, companies, and auditors, are there other stakeholders who are significantly impacted by this evolution? Who else is meaningfully concerned?

Directly, no, but… indirectly, some stakeholders are impacted. It's not something we talk about often, but for example, when you have a factory that produces and discharges wastewater, then potentially, all the people living near that factory are stakeholders from a CSRD reporting, non-financial reporting perspective, etc. Because they are interested in knowing what the company is doing to avoid polluting. Because they're directly concerned: it affects their living environment, it affects their health.

So yes, for those people, for instance, reducing the scope is unfortunate. Because some of those people probably thought: "Hey, maybe we'll be able to see what risky or impactful elements exist for us." And in the end, they'll only get to see it for the really big companies. And generally, the really big companies have sites that are fairly isolated, compared to smaller structures. Otherwise, nothing else really comes to my mind.

Since the concept of double materiality is relatively new and doesn't really exist in classical financial auditing, what do you see as the value of this approach? And how could its implementation work in practice?

I'll go back to the example I gave you. On the one hand, you have financial materiality: that is, what is the impact of certain phenomena - such as pollution or the company's production methods - on its accounts. For example, the effects of climate change, environmental regulation, etc. What will be the concrete financial consequences for the company? This is what we call the outside-in approach.

And then, you have environmental or societal materiality - the inside-out approach. Here, we look at the company's impact on its environment, in the broad sense: people, communities, nature, etc. And that, in classical financial audits, doesn't really exist.

When you perform a financial audit, you only verify elements that can have a direct impact on the accounts. For example: if a neighbour files a complaint because they observe pollution, it could lead to a provision being recorded in the accounts. In that case, yes, it falls within the scope of the audit.

But on the other hand, if we know that a company is located next to a village, and it makes constant noise (say a forge or a very noisy factory), to the point where residents can't relax at home, can't enjoy a drink on their terrace, or children can't sleep… this kind of noise pollution, as long as it doesn't have a financial impact, it doesn't show up anywhere in the financial statements.

And that's the whole point of non-financial reporting. With double materiality, the company will have to consult all its stakeholders: shareholders, banks, employees, but also local residents. And if, for instance, these residents highlight that the constant noise is a real issue, then that element can be recognised as material. From that point on, the company will have to report on what it is doing, what it's not doing, or what it plans to implement to reduce the noise pollution.

So yes, the value of double materiality is to capture all real impacts, including those that don't appear in the accounts but that have a genuine effect on stakeholders. It's a much more comprehensive approach to a company's performance, going beyond just financial indicators.

And since we're still at the early stages of the CSRD, companies are facing quite a bit of uncertainty. How can they best prepare? Should they turn to external consultants? Are there technological tools, like artificial intelligence, which could help them? More broadly, what kinds of resources or solutions could they look at in order to better manage this transition?

What I'm seeing is that, indeed, companies either turn to consultants because they don't have the in-house expertise, or they hire someone, or they appoint someone as the point of contact, and that person gradually trains themselves. But clearly, without either an internal person or a consultant with the required level of expertise, they are not prepared to do this type of reporting. Because it's too specific, too technical.

There are an enormous number of data points, the standards span several hundred - even over a thousand - pages. At one point, there were more than 1,000 indicators to take into account (well, that's going to be reduced with the Omnibus), but as it stands, it's simply unmanageable without assistance.

So, the smaller structures, either they hire someone who already has the expertise - which is still rare at the moment - or they train someone internally, or they call in consultants. In any case, that's how it's going in most of the companies I've encountered on this subject.

How do you see the evolution of the CSRD? We first had a very detailed framework, then a readjustment with the Omnibus. Do you think we are now on the right track globally? Or how do you think this will evolve in the coming years?

I'd say it's complicated. As we already touched on at the beginning, it's still too early to make a clear judgement because all of this is still new. I think the first version of the CSRD was really, really burdensome. With the Omnibus, we now have a framework that is a bit better calibrated. But is it enough? Is it still too much? Honestly, we'll have to wait and see in the coming months and years. It's hard to say. We'll need to observe how the market and other stakeholders react. We'll also need to see if other continents follow - because that's a key factor.

Maybe in a few years, they'll gradually make some elements more stringent again, step by step, to make progress. Or, on the contrary, they might realise that the markets are no longer really paying attention to these reports, that other continents - America, Asia - are not following at all, and that this ultimately has no concrete impact on business. And in that case, companies might start saying: "We're spending money to produce reports that are useless." In that case, they could lighten the framework even further. So yes, for me, it's really hard to predict at this stage. We'll have to see how it all plays out in practice.

D. Interview 3

Director at a Big Four company in Belgium

Interview on 17 April 2025 for 44 minutes

Could you please introduce yourself and describe your current role? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

I work in a Big Four company in Belgium, where I lead the Sustainability Reporting and Assurance team. It's a team of around 50 people focused entirely on ESG - specifically ESG reporting and ESG assurance. We also have some team members who concentrate more on climate change and the value chain, but overall, our primary focus is on reporting.

The CSRD has become a major part of our work. We are currently supporting clients in setting up CSRD compliance from the ground up. This includes defining material topics, establishing ESG reporting mechanisms, developing data collection processes, and advising clients on their policies, targets, and actions. We also help them understand how to report all of this in the sustainability statements at the end of the process.

In addition, we are conducting and supporting audits related to CSRD. For the companies in "wave 1" that published their first CSRD reports in 2024, we provided limited assurance as required. So far, this has involved around 20 companies that are within the scope of our company's client base.

That's my role - I lead this team as part of our broader assurance line of service.

Before the introduction of the Omnibus proposal, what were your initial impressions of the CSRD initiative?

In my view, the CSRD is full of very good intentions, and it is sometimes a bit underestimated because it is primarily seen as a full compliance burden. However, the principles behind the CSRD and its setup are actually very comprehensive, in the sense that it encompasses the full spectrum of how a company should be thinking and acting on sustainability matters.

So, the concept and the intention behind the CSRD are very strong. But what I see as a bit of a missed opportunity - or where things may have gone a bit too far - is in how these intentions were translated into specific reporting requirements. The directive comes with a large number of disclosure obligations, which are required to be interpreted very strictly. This has made it quite difficult for many companies to meet those expectations.

Essentially, while the intentions were good, the detailed requirements on how to report have proven to be too demanding. Because of that, the CSRD may have gained - not necessarily a bad reputation - but a reputation as being a heavy compliance exercise. And indeed, it is a significant compliance burden.

In general, I believe that if the same strong intentions and overall structure had been implemented with a bit more flexibility, if the reporting requirements have been slightly less rigid - then the efforts needed for implementation would be more manageable, and the CSRD would likely be perceived more positively.

That's my view. If you're, for example, an industrial group with entities all over the world and you need to comply fully with the CSRD, the requirements are indeed very comprehensive. Especially considering the timeline: companies had to build everything from scratch and immediately ensure a maturity level that was audit ready. That's not easy.

When you think about financial reporting, it has been in place for a long time. Companies are used to it, and they have the necessary checks and balances to ensure the reported information is complete and accurate. But with sustainability reporting, the topic is inherently less mature. Many areas have not previously been subject to audit, and suddenly, companies were required to implement sustainability reporting and have it audited right away.

So, the step up has been huge, and in my opinion, it could have been introduced more gradually, built-up step by step towards robust ESG reporting. The ambitions were very high - perhaps even a bit too high.

Given the introduction of the Omnibus proposal, which aims to simplify the CSRD and reduce some of its administrative burden, do you believe this is a step in the right direction? What is your perspective on the proposal and its potential impact?

This is my personal opinion. I think the pendulum is now swinging a bit too far in the opposite direction. Conceptually, as I mentioned earlier, it's not a bad idea to introduce simplifications, especially since the burden is indeed quite high and the disclosure requirements are very strict.

It would have made sense to, first of all, give companies more time to prepare. Of course, the wave 1 reporters are already reporting, so for them it's too late. But there are still many companies in wave 2, and for them, it does make sense to allow more preparation time.

Simplifying the reporting standards also makes sense. However, we don't yet have full clarity on what those simplifications will look like. From that perspective, the intention behind the proposal is reasonable.

Where I think the Omnibus proposal went too far is in changing the scope of application. Originally, the CSRD was expected to apply to approximately 50,000 companies across the EU. Under the new proposal, that number is reduced by about 80%, meaning that 80% of the companies initially in scope are no longer subject to CSRD. That's a significant shift.

In my view, this reduces both the ambition and the regulatory push - especially for companies in the mid-tier segment. There's a risk that many of those companies will stop prioritising sustainability altogether. I believe there was an opportunity to find a more balanced approach, for example by introducing tiered reporting obligations: smaller companies could still report, but under lighter requirements.

Instead, the result is almost black-and-white. Now, only large companies are required to report, while smaller ones are no longer obligated to do anything. I see this as a missed opportunity to strike the right balance.

Hopefully, that balance can still be found, because I believe it lies somewhere in the middle.

In your opinion, what are the main reasons that led the EU to introduce the Omnibus proposals to amend the CSRD? Do you believe this was primarily driven by concerns around competitiveness, or were there other key factors at play?

Yeah, well, the main reason is indeed competitiveness. That's also what we've been hearing from a number of clients. You have to look at the CSRD requirements - they demand a lot of focus, attention, investment, and costs, not just from a consulting and internal resources perspective, but also in terms of audit. There have been complaints that too many resources are being devoted to compliance and administrative tasks. As I mentioned earlier, it has become too much of an administrative burden.

To reduce that burden, the initiative behind the Omnibus proposal was essentially to improve competitiveness. That's really the core rationale.

But I think if you zoom out and look at the broader political and regulatory environment - what's happening in the U.S., for example, and the overall shift in thinking there - combined with competitiveness concerns and the rise of more right-wing political influence within Europe and the EU, you start to see the full picture. The Omnibus proposal is, in a way, a reaction to all of these factors. It's a swing to the other side of the spectrum.

So, I would say the main elements behind the proposal are the broader political landscape and the mounting pressure on European businesses. It's not just about the CSRD. It's about the entire EU Green Deal legislative framework, which is putting a lot of pressure on companies.

Take, for instance, an international food company. They're not only dealing with CSRD - which is already a huge undertaking - but also with the new deforestation regulation that requires them to implement a due diligence system around the sourcing of certain food-related products. Then there's also the Corporate Sustainability Due Diligence Directive (CSDDD), which introduces obligations around human rights due diligence in the supply chain.

So overall, the EU Green Deal has introduced a lot of overlapping and heavy regulatory requirements in a short amount of time. For many international companies, it simply became too much.

How do you see the removal of the reasonable assurance requirement under the CSRD? Would you consider it a strategic simplification? Do you believe limited assurance is sufficient, or not?

Well, yes, I think in a way, limited assurance should be sufficient. Personally, I believe limited assurance is enough. Initially, the idea was to place sustainability information and reporting on the same level as financial reporting, where you typically have reasonable assurance.

However, if you look at the current state of sustainability reporting - especially in these early days - I think limited assurance already places significant pressure on companies and the market. Given the maturity level of sustainability data and processes, I see limited value in pushing for reasonable assurance at this stage.

So overall, it makes sense to go with a limited assurance opinion, which is already quite rigorous and resource intensive.

From a competitiveness perspective, do you believe there is an issue of information asymmetry between European companies that are required to report under the CSRD and non-European companies that are not subject to the same obligations? For example, if a European company discloses sustainability impacts that may reflect poorly, while a non-reporting competitor - potentially with worse practices - does not disclose anything, stakeholders may not have a fair basis for comparison.

Yes, exactly - that's really the whole point when it comes to competitiveness, and it's one of the key reasons behind the recent shift to relaxing some of the CSRD requirements.

Now, when we talk about competitiveness, what's often overlooked is that sustainability shouldn't be seen as something separate from a company's competitive position. If you focus your sustainability efforts on the aspects that truly matter to your business, it should actually contribute to your company's long-term durability and resilience.

From that perspective, encouraging or even requiring organisations to reflect more actively on what can be done in terms of sustainability - and how to integrate that into their strategy - should ultimately lead to a competitive advantage. The problem is that, when companies are pushed too hard in the short term with heavy reporting requirements, that longer-term value can get overshadowed by the burden of compliance.

That's really the challenge: shifting the focus from reporting as a compliance exercise to recognising the actual value sustainability brings to the business. The real value doesn't lie in reporting itself but in becoming more resilient - by improving the sustainability of your products or services, reducing dependency on critical raw materials, and adjusting your operations accordingly.

This also ties into stakeholder expectations. Insurance providers, for example, are increasingly requiring companies to demonstrate their sustainability to maintain coverage. The same applies to banks: securing funding will increasingly depend on showing that your business is sustainable and creates long-term value.

It's also essential for attracting talents. More and more, employees want to work for companies that take sustainability seriously and show concern for their broader impact. So even if regulatory pressure decreases, the pressure from other key stakeholders - investors, insurers, financial institutions, and employees - will continue to grow.

In that sense, sustainability remains strategically important, not just for compliance, but as a driver of long-term business values.

Based on your experience working with various clients on their sustainability reporting under the CSRD, what would you say are the main challenges they are facing? What concerns or fears do they most commonly express during the reporting process?

Yeah, I think it depends a bit on the level at which you look at it. If you focus purely on the reporting aspect, it has been a challenge for most - if not all - companies to compile their report fully in line with what the CSRD requires. This is largely due to the extensiveness of the requirements.

One of the biggest issues in that process is data collection and data management. When it comes to ESG-related data, it's very different from financial reporting. For financial data, each entity knows what's expected; definitions are clear and standardised, everyone knows what a cost or OpEx item is. But for sustainability information, it's not that straightforward. Often, the data isn't available yet, or there are no processes in place to collect it. There's also a lack of consistent understanding across entities regarding how to interpret ESG data.

Take something like waste or recyclable content, for example. The definition might be there, but how that definition is applied can vary greatly depending on the type of product or the nature of the business. In large groups with multiple entities, each entity might interpret the same concept differently. So, when you compile the data at group level, it raises the question: how reliable is it, really? That's why data management and ensuring data reliability are major challenges - especially for large, multinational companies.

Then, beyond the reporting side, if we look at ESG performance itself, one of the biggest challenges is related to the value chain.

Historically, sustainability reporting focused mostly on a company's own operations - areas within its direct control. Even if the data wasn't perfect, at least the company had access to it and could influence it.

But under CSRD and the current ESG reporting landscape, companies are being asked to take responsibility for everything happening across their entire value chain - both upstream and downstream. That means understanding where raw materials come from - not just your immediate supplier, but the actual origin. For instance, if a company sources a product whose raw materials come from a mine in Africa, it now needs to consider what is happening at that mine. Is there child labour? Are there unsafe working conditions or environmental degradation?

In the past, companies weren't always aware or held accountable for those upstream impacts. But under CSRD, you're responsible for the impact your products have along the entire value chain. This means companies must account for the fact that, by putting certain products on the market, they may be indirectly supporting child labour, poor working conditions, or significant environmental damage - such as impacts on biodiversity from mining activities.

On the downstream side, it's about the impacts of the products during their use phase. Some products are obviously polluting - like cars, for example - but others are more hidden. A known example is GSK, the pharmaceutical company. They put a certain buffer product on the market (I may not have the exact English term), and it turned out to be quite polluting in its use phase. So even when the product itself isn't seen as harmful at first glance, deeper sustainability analysis might reveal otherwise.

Yeah, like a little machine - an inhaler - for people with asthma, for instance. It helps them breathe more easily. But there were some substances in that product which, when used, actually pollute the environment significantly - more than all of the company's other operations combined across the globe.

This example shows how the use phase of a product can have a disproportionate environmental impact, even when the product itself is medically beneficial. So, CSRD and broader ESG reporting frameworks are now pushing companies to look beyond their operational footprint and consider the full lifecycle impact of their products - from sourcing to end use.

As a result, companies are being required to evaluate and take responsibility for aspects of their business that were previously overlooked. It demands a more systemic, value chain-wide perspective, requiring new forms of collaboration, better data systems, and deeper understanding of impacts. That's a major shift, and it's one of the key challenges they're now facing.

Companies also need to take responsibility for how their products are used by end users - how polluting that use phase may be, and look for ways to reduce those impacts. This even extends to end-of-life scenarios: what happens when a consumer finishes using a product? Is it simply thrown away, or is it returned into a circular system where parts are reused or recycled?

So, in short, one of the biggest challenges companies face is the need to consider their entire value chain. They're now expected to take responsibility for what happens across that chain and to report on those activities. That requires a high degree of collaboration and information sharing between all the actors involved.

And these information flows often don't exist yet. So, it's a major challenge for companies - first, to understand what their impacts are across the value chain, and second, to be able to report on those impacts, take action, and improve their ESG performance accordingly.

This is, in my opinion, one of the most significant challenges we see in sustainability reporting. Of course, it's not just about reporting - the scope is broader - but the reporting requirements are now pushing companies to confront issues that they haven't had to address before.

As you mentioned, the process of collecting information across the entire value chain is highly extensive and often comes with significant costs. Based on your discussions with companies, how do they perceive the cost-benefit ratio of CSRD compliance? At this stage, do they see it as a worthwhile investment, or are they primarily focused on the burdens and challenges?

Well, it depends on the type of company. For many, as I mentioned earlier, it's seen primarily as a compliance requirement: the regulator asks us to do it, so we'll do it - but they don't immediately perceive the value in it.

There are others that are a bit more ahead of the curve and do see the value. These tend to be companies that already consider sustainability a key element of their strategy or that already have a more developed sustainability framework. So, it really varies from company to company.

It also depends on whom you ask within the organisation. If you speak to the sustainability teams, they're often much more forward-looking. They want to do the right thing and genuinely aim to build sustainable companies. But if you talk to more senior executives, the perspective can be quite different. Some see sustainability requirements as an obstacle to doing business. They tend to view it from a financial angle and may see it primarily as a cost without immediate return.

Others do see the longer-term value it could bring. But overall, if I'm being honest, the general perception at this stage leans more towards viewing it as not being particularly cost beneficial.

I have a question regarding the legislative process. The Omnibus proposal is currently still just a proposal, and for it to become effective, it must go through both the EU legislative process and, eventually, implementation at the national level. Could you explain what steps are required for the proposal to be adopted, and at which levels - EU and national - these steps take place?

Yes, so with the Omnibus proposal, there are two main components. The first is the so-called "Stop the Clock" element. This part aims to postpone the reporting requirements for wave 2 and wave 3 companies by two years. That specific element has already been voted on and approved at the European level - by both the European Commission and the European Parliament.

It still needs to be transposed into national legislation in each Member State to become fully effective. This is expected to happen during the remainder of this year, and the latest deadline for transposition should be by the end of the year. While we can't predict the future with certainty, we don't currently foresee any major issues with that part of the process. Once it is transposed, companies will officially have more time to prepare.

The second component is the Content proposal, which is still under discussion. This includes the simplification of the reporting standards. EFRAG is now working on that. The first draft for public consultation is expected by the end of October, and by mid-2026, the final version should be ready and put to a vote by the European Parliament. After that, like the "Stop the Clock" element, it will also need to be transposed into national legislation.

Additionally, the scope criteria are still in the proposal phase. Nothing has been fully confirmed yet, and things can still change. That's causing quite a bit of uncertainty for companies at the moment. They don't know whether they'll remain in scope or fall out of it. They also don't know yet how extensive the simplifications to the reporting standards will be or what those changes will look like in practice.

So, from a company's perspective, there's currently a lot of uncertainty. Hopefully, more clarity will come soon so that businesses can plan accordingly.

In relation to other stakeholders impacted by the CSRD, do you observe a shift in the education sector? For instance, are universities and high schools beginning to adapt their curricula to better educate students on ESG-related topics?

Yes, I think we're starting to see more ESG-related programmes emerging at universities. It's generally more focused on sustainability in a broad sense rather than specifically on the CSRD, but the topic is definitely gaining attention.

We've also been involved in guest lecturing or contributing to university programmes from time to time, which shows there's growing interest and demand. So, there is definitely a shift happening in the education sector, and it's been developing gradually over the past two to three years.

Auditors are key stakeholders in the CSRD process. In addition to their responsibilities around financial reporting, they will now also have to deal with ESG-related assurance. In your view, are auditors ready for this shift? Will they require additional training or capacity-building, and how do you see this transition unfolding?

Yes, we've already been conducting audits over the past year for wave 1 reporters, which have been possible - but not without challenges. It's been a difficult process, both for clients and auditors. Many companies weren't fully ready and were, so to speak, building the car while driving it. Meanwhile, the auditors were trying to audit the car while it was still being built and driven. So, it was certainly a struggle to complete the audits and meet the deadlines.

That said, I believe the Big Four and other large audit firms are ready to handle sustainability report audits. Of course, there's still a learning curve. This past year was the first cycle of ESG assurance, and there's still some adjustment required, particularly around determining the right level at which to set the audit bar. That balance will naturally evolve with experience.

With the "Stop the Clock" component of the Omnibus proposal, wave 2 reporting has now been postponed by two years. That additional time will be valuable, it allows auditors to gain more experience through ongoing work with wave 1 reporters. By the time wave 2 companies begin reporting, auditors will likely be more experienced, and the standards will have matured to a more stable and well-balanced form.

So yes, auditors are ready, but the entire ecosystem still needs time to settle and find the right balance in terms of expectations, assurance depth, and execution.

Do you observe an increase in demand for sustainability expertise and a shift in how companies allocate resources towards ESG reporting? Given the recent Omnibus proposal, do you see this momentum shifting?

Yes, I think companies were beginning to realise that they need dedicated ESG or ESG reporting professionals - essentially someone to take on the role of an ESG controller or lead ESG reporting efforts.

However, with the Omnibus proposal and the potential changes to the scope, some companies that may now fall out of scope will likely be less inclined to establish such roles, simply because there's no longer a reporting requirement for them. So, in that sense, the market will need to recalibrate a bit.

Right now, we're in a kind of holding pattern - waiting to see exactly how the CSRD scope will be finalised. Once that's clear, we'll have a better sense of how the demand for ESG resources and roles will evolve.

Has the Omnibus proposal led to any internal shifts within your firm in terms of strategy, resource planning, or how you're approaching CSRD-related work?

Yes, I think it's clear that the Omnibus proposal also impacts consulting and audit firms. In our firm, we were preparing for wave 2 reporting, expecting that a significant number of companies would require a CSRD audit. While wave 1 involved around 20 companies, wave 2 was expected to include a total population of around 100 companies requiring audits under CSRD.

Now, with the scope being reduced and the timeline postponed, that number is dropping, and the audit peak for wave 2 will come later and be smaller than initially expected. Naturally, this has an impact on the volume of work for auditors.

From a consulting perspective, there will be an impact as well. With fewer companies remaining in scope and those still affected having more time to prepare, some may choose to manage the reporting more independently. The extended timeline gives them space to build internal capabilities rather than rely as heavily on external consultants. So, we do expect a decrease in consulting demand, at least in the short term.

What is your step-by-step approach when conducting a limited assurance engagement on a CSRD sustainability report? Could you walk me through the concrete actions you take from start to finish?

Roughly, our approach starts with reviewing the double materiality assessment carried out by the client. We evaluate whether it's compliant with ESRS requirements and aligns with the methodology set out in the standards. That's the first step - checking compliance.

We also perform what we call "stand-back" procedures to assess whether the overall process and outcome make sense. We look at whether relevant stakeholders were sufficiently involved and whether the methodology has been properly applied.

From there, the company determines its material topics - specifically the relevant ESRS topics and subtopics. Linked to that, they identify which disclosure requirements are mandatory for them. At this stage, we conduct a gap assessment: we evaluate management's identification of applicable disclosure requirements and challenge it if we believe anything is missing or incomplete.

Next, we review the KPI processes the company has in place for each material domain. This includes understanding their policies, data collection processes, and calculation methods - for example, how they calculate their emissions. This phase is critical to gaining a thorough understanding of the internal systems and controls.

Depending on the company's timeline and readiness, we then begin limited testing on the reported metrics. This testing is done using a materiality threshold set per KPI. This means that, unlike financial reporting where there is typically a single materiality threshold, in sustainability reporting, materiality is determined for each metric individually. We only flag an issue if the identified error exceeds that materiality threshold.

The limited testing typically occurs during the "hard close" phase - towards the end of the year, when preliminary data is available. We test the available figures and later revisit the final data to ensure everything reported in the sustainability statement is accurate.

In parallel, we review the draft sustainability statements, particularly the qualitative disclosures. First, we check whether all required disclosures are included. Then we conduct limited testing on selected qualitative elements. For example, if the company discloses that it has a diversity and inclusion policy, we request that policy and verify its existence. We're not evaluating the quality of the policy itself, only ensuring that what's being disclosed aligns with reality.

Finally, we review the final version of the sustainability statement, verify any changes in presentation, and issue our limited assurance opinion.

That's the process in a nutshell - though in practice, each of these steps requires considerable time and effort.

So essentially, similar to a financial audit, you start by assessing materiality - except in this case, it's double materiality. From there, you verify whether the processes and outcomes are appropriate and aligned with the requirements?

Yes, but it's important not to confuse the concepts. Double materiality is different from the kind of materiality I referred to earlier - like in financial reporting. Double materiality involves management's assessment of what constitutes the material impacts, risks, and opportunities, which then determine the relevant reporting requirements.

When we talk about KPIs, we apply a materiality threshold per metric. This type of materiality refers to the level at which an error or deviation is still considered acceptable or tolerable in the context of assurance work.

It can be a bit confusing because the term "materiality" is used in both cases, but the concepts are quite different.

So, is the materiality level always expressed as a number or a quantitative attribute?

Yes, it's always a number, specifically, it's expressed as a percentage. For example, take Scope 1 emissions. Let's say we set the materiality level at 5%. If errors in that KPI exceed 5%, it would be considered a material misstatement, and we wouldn't be able to issue a clean opinion on that metric.

Depending on the materiality level set, we are either tightening or loosening the tolerance for errors. A lower materiality threshold means there is less room for mistakes, while a higher threshold means we are more accepting minor inaccuracies.

The decision on what materiality level to apply depends on multiple factors.

These include:

- The importance of the topic to stakeholders
- The complexity of the information and how difficult it is to obtain it
- Whether the data comes from multiple sources
- Whether the KPI is linked to sustainability-linked loans
- Whether management's remuneration is tied to the metric

If, for example, a KPI is tied to executive bonuses, there may be a higher risk of bias, and that could warrant a stricter materiality level.

So, all these considerations influence the final threshold applied for a given KPI.

E. Interview 4

<u>Beatriz Garcia Irache; ESG Manager at PwC Luxembourg</u>

<u>Interview on 18 April 2025 for 45 Minutes</u>

Could you please introduce yourself and describe your current role at PwC? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

My name is Beatriz Garcia Irache, and I'm an ESG Manager at PwC Luxembourg. I originally joined the firm in 2019 as a financial auditor, but in September 2023, I transitioned to the ESG audit team.

Our team isn't solely focused on audit work - we also handle advisory projects, as the regulatory landscape in this area is constantly evolving and still lacks stability. For example, in Luxembourg, the CSRD has not yet been transposed into national law, which means there's currently no legal requirement to publish a CSRD-compliant report. As a result, the assurance procedures we perform are still quite limited.

This is why our team operates in a hybrid mode, combining both advisory and assurance services. In summary, there is an overview of my current role and how I'm involved in sustainability-related work at PwC.

Approximately how many clients are you currently working with, and what is the scope of your activities with them?

That's actually a bit tricky to quantify. Initially, we had a portfolio of 16 clients, but since the CSRD hasn't been transposed into national law in Luxembourg, about 70% of them withdrew their engagements with PwC - they simply decided not to report for now. This had a significant impact on our business, especially due to the Omnibus Directive and its implications.

At the moment, we're shifting our focus towards readiness assessments, which are projects where we evaluate how prepared companies are to comply with the CSRD, so they can avoid any surprises down the line.

So yes, our portfolio is now quite reduced. We started with 16 clients who were part of wave 1 for audit, but that number has dropped significantly. As for advisory work, it's quite ad hoc at the moment, so I can't really give you a concrete number right now.

You're now focusing on assessing companies' readiness - can you explain what exactly you're evaluating in these assessments?

Yes, so basically what companies do is they provide us with a draft of what their CSRD-compliant report should look like. Many of them were already quite advanced in preparing their disclosures, both qualitative and quantitative, because, as you know, the Omnibus Directive came quite late, in late February, and many companies had reporting deadlines at the end of March or beginning of April.

So, what we're doing at PwC is reviewing these draft reports and assessing their content against the requirements of the ESRS (European Sustainability Reporting Standards). Essentially, I read through the report, compare it with what the ESRS requires, and flag any gaps I found.

The good thing is that this doesn't involve issuing an audit opinion - there's no formal conclusion like a qualified or unqualified opinion. Instead, we issue recommendations as the final deliverable, which allows companies to identify and address any misstatements or omissions.

This process helps them get ready for 2025, in case the CSRD is transposed into national law and an actual audit becomes mandatory.

What are your initial thoughts on the EU's long-term emission goals and the CSRD? What do you think about their implications - is this the right direction to take?

For me, the key point with sustainability and ESG - and this is something I truly believe - is that no matter how much you try to impose something, if companies don't genuinely believe in what they're reporting on, it won't be effective. If they don't care about climate change, pollution, human rights, or making a positive impact, especially in sectors like mining or precious gems and diamonds, then sustainability reporting will always be viewed as just another compliance procedure.

In those cases, companies will simply see it as another regulatory requirement from the European Commission. They'll do the bare minimum just to pass the test and then duplicate the same content next year, without truly engaging.

That said, I do think the CSRD is a good initiative. Based on my experience, I've seen that when management teams are confronted with these requirements, some of them actually start to engage and realise the real impact their company has. They begin to see opportunities to do better and to improve - not only for the planet but also in terms of strategic positioning in the market.

But of course, I've also seen the opposite. Some stakeholders simply react by focusing on the administrative burden, saying: "Once again, I have to spend more time, money, and resources on something I don't see as valuable."

There's also a clear difference across industries. It's not the same to report on ESG if you're in banking or insurance, compared to a heavy operational sector like iron and steel. The challenges and attitudes vary greatly.

So, yes, overall, I believe it's a good step, but it really depends on how it's perceived and embraced by each company.

Up to now, the CSRD hasn't been transposed into national legislation in Luxembourg, and you're applying limited assurance. When do you expect it to be transposed into law?

Good question. Unfortunately, there's no official deadline at the moment. The Prime Minister in Luxembourg had initially waited for the Omnibus package to be released, but now there's no further update. It's currently not on the agenda to be discussed in Parliament.

That said, we believe that 2025 must be the deadline for transposition. I can't give you a specific month, as there's no publicly available information about it for now. However, we do think that the European Commission will push the Member States that haven't yet transposed the directive - Spain, for example, hasn't done so either - to take action by the end of 2025 at the latest.

Right now, wave 1 clients are in a sort of legal limbo, where they feel that without a clear law, they can essentially do whatever they want. That's why there really needs to be a clear legal framework so that companies know definitively whether they are expected to report under the CSRD or not.

In your view, was the Omnibus proposal necessary to maintain competitiveness, or do you think it went too far and has now weakened environmental protection?

I think, for me, the Omnibus proposal feels like a step back. Coming from the NFRD to the CSRD already felt like jumping from zero to one hundred. So, in that sense, the Omnibus sits somewhere around 50%, and maybe that's where we should have started in the first place.

The transition from NFRD to CSRD brought a huge increase in requirements, and in my opinion, it all felt a bit rushed. When reading the ESRS and the detailed requirements, you could clearly see a lot of duplication, repetition, and lack of clarity. So, to me, the Omnibus feels like a response to the complaints of many wave 1 undertakings, who were really struggling to meet the obligations set out in the first set of ESRS standards.

In that sense, I think it was necessary - not so much in terms of weakening environmental goals, but more to help with the onboarding process and the readiness of companies to report. At least, now, companies are aware that they need to report on sustainability and on non-financial information, and the mindset is shifting. There's more awareness and understanding of what's coming.

So, I see the Omnibus as a kind of transitional tool, taking us from zero to fifty, a necessary step. Later on, I expect things will become stricter, with more robust requirements and a transition from limited to reasonable assurance. That said, I do think it came too late. But at this stage, it's a helpful middle ground.

But looking at it with some perspective now, I think the Omnibus is ultimately a good thing for everyone, as long as it serves as a transitional step towards something more robust in the future, with stronger requirements. What wouldn't be ideal is if we just stay stuck at the Omnibus level and nothing further develops.

Given your experience working with several clients involved in sustainability reporting, what kind of feedback do you hear from them? What are their main concerns or fears? What concrete challenges are they facing?

I would actually divide my clients into two groups. The first includes those that were already covered under the NFRD, so they had some kind of ESG or sustainability team in place. They already had someone who was at least somewhat knowledgeable about sustainability or at least knew how to compile data. The second group consists of those who weren't covered by the NFRD, often because they weren't EU-based, but they now meet the CSRD thresholds, meaning they're starting entirely from scratch.

For both groups, though, the main fears and challenges are the same: time, resources, and the availability of data.

As I mentioned before, going from the NFRD, which I see as a "0", to the CSRD, which is more like "100", was a massive leap. Most companies simply weren't used to this type of reporting, especially the level of detail the ESRS requires. They didn't have the systems, nor the internal expertise, to collect the necessary data. And they definitely didn't have the time, especially at the start, because many initially thought: "OK, just another reporting requirement". But once they began reading what was actually required, they were shocked by how extensive it is.

For many, this translated into a fear of receiving a qualified audit opinion, which in their eyes meant: "I'm not good enough. I failed." And beyond that, it becomes a reputational issue, no one wants to be the company with a qualified opinion on their sustainability report.

Now, with the Omnibus Directive and the simplification package, one of the main concerns is the instability of the regulatory landscape. Companies are unsure of what they're expected to do. In Luxembourg, it's even more complicated, since the CSRD hasn't yet been transposed into national law. So, the feeling is, "I don't have any law to follow, but I still have to report. I just don't know on what basis."

Many clients tell us: "This is crazy - I'm being told to do something, but no one is clearly telling me how." And there's a real fear that if they stop preparing, thinking there's no legal basis yet, then suddenly one day Luxembourg passes the law and says: "OK, full CSRD reporting from now on" - and they'll be caught unprepared by a very strict and demanding framework.

So, yes, I'd say those are the main points clients are bringing up with us right now - uncertainty, lack of clarity, and the pressure to comply without a stable regulatory foundation.

And what about the costs - do clients talk about that as well? Because at the moment, it seems like they mostly see the burdens rather than the added value.

Yes, definitely. That's actually why I think the Omnibus was a good move, because it essentially means: less reporting, fewer people involved, lower costs.

Many clients were complaining that they had already invested a lot of money and internal resources, especially in tasks like the double materiality assessment, which, thankfully, is still required under the Omnibus. But they also invested heavily in preparing for the full CSRD reporting requirements, which now, with all the uncertainty, they might not even need anymore. So, there's a real sense of frustration.

This uncertainty is also affecting sustainability teams internally. There's a growing fear: "Will I lose my job?" It's the other side of the story. There was a lot of buzz around sustainability being the next big thing, the future focus area. But now, with everything being scaled back or delayed, some people feel like that momentum is fading.

So, it's not exactly a technical challenge, but it's more of a psychological and strategic concern for these teams, wondering whether their role will still be relevant in the near future.

And within PwC - how is resource allocation evolving? At one point, there was a significant budget and investment in sustainability, but now it seems like things are slowing down again.

Yes, resource allocation has dropped to almost zero. There's definitely a sense of uncertainty and concern internally as well. What PwC has done is pause recruitment for sustainability roles, especially those with higher salary expectations.

Instead, what we're trying to do now is leverage existing resources, particularly from the financial audit teams. Because at the end of the day, our core expertise is still auditing, and we can adapt that skillset to support ESG and sustainability-related work when needed.

So, the approach now is: if there's a peak in demand, we won't hire externally. Instead, we'll reallocate internal resources from financial audit to support ESG work.

Once the directive is transposed into national legislation, how do you expect the auditor's role to change?

Not much, actually. We don't expect any major changes in the auditor's role once the directive is transposed into national legislation.

The only difference will be that, instead of conducting our work based on the first set of ESRS, we'll be working with the revised set. So that's the main shift.

And now, with the Omnibus Directive, the requirement for reasonable assurance has been removed, so we don't anticipate any significant evolution in our responsibilities over the next few years.

In short, the change will mainly be in the framework we audit against, moving from standards like GRI or SASB to the ESRS, but not in the fundamental nature of our work.

And for auditors, will sustainability reporting just become an additional area they cover - something they add to their existing portfolio, or how is this expected to work in practice?

Actually, it's quite the opposite, I think some elements will be removed from our scope. Previously, we had this very extensive CSRD library, which was quite broad and demanding. But now, with the recent changes, that's likely to be simplified.

So, in practice, we might actually see fewer requirements, both in terms of documentation and audit procedures. Also, considering that the EU Taxonomy will no longer be applicable for many of our clients, the audit of the taxonomy disclosures will also be less demanding or even off our plates entirely at some point.

So, rather than expanding our audit portfolios significantly, this might actually mean a reduction in certain audit areas, especially compared to what was initially foreseen.

Another important stakeholder is the academic world - how are universities and educators reacting to the CSRD and the Omnibus? Are they prepared, or are they still in the process of adapting?

I honestly have no idea I'm not in contact with universities or involved in that space, so I can't really say how they're reacting or preparing.

What I do know is that here at PwC, through the PwC Academy, we've been offering training sessions specifically on the CSRD, both internally for our employees and externally for clients who were interested in the topic. However, for now, those trainings have been paused.

As for universities, the only thing I can comment on is the potential impact on the demand for sustainability-certified students. I mean, degrees focused on sustainability. What will their future look like now with the Omnibus and the adjusted reporting requirements? Of course, I believe the need will still exist, but the changes do raise questions about how those academic programmes will evolve in response.

On a more practical level, could you walk me through the full process of how you work with a client - from start to finish? What kind of information do you request, and what do you need to confirm along the way?

Sure! So, typically, clients have a fiscal year that runs from January 1st to December 31st. The process we follow starts with what we call the "engagement procedures". This usually begins before the summer, when we reach out to clients, who are often recurring audit clients. In most cases, if we are already performing their financial audit, we are also appointed as their sustainability auditors, so we already have an established relationship.

At this early stage, we schedule a brief touchpoint to:

- check in on how they're doing

- agree on the budget for our engagement
- define the phases of the engagement
- confirm the availability of data
- align on planning and resource allocation

The goal is to ensure we'll have the necessary time and input to complete all audit procedures. Then, typically in September, once everyone is back from summer break, we begin planning. For example, if we're performing interim procedures in September, the first step is reviewing the Double Materiality Assessment (DMA) - as this is something most clients already have ready by that point.
This step is critical because the DMA impacts the entire scope of the CSRD report. If we identify a misstatement in the DMA - for example, if a certain standard has not been deemed material, but based on our analysis (such as impact-risk-opportunity identification, stakeholder engagement, or scoring), we believe it should be. If this is the case, then it will change the number and nature of disclosure requirements the company must report on. So, the DMA must be cleared before year-end, i.e. before the client closes their fiscal year.

If everything looks good, we then proceed with drafting our EGAs (Engagement General Activities) for the planning phase. This involves conducting walkthroughs to understand all the material standards identified by the client. For example, if a client has identified E1 (climate change) as material, we'll hold meetings with their environmental teams to understand how they carried out the reporting, gathered data, and structured roles and responsibilities. We do this for each material topic included in the CSRD scope.

Then, after year-end, typically in January, we enter what we call the execution phase. This is when we conduct the actual testing of disclosure requirements included in the CSRD report. This includes:

- Sample testing of both qualitative and quantitative information
- Requesting invoices to verify metrics and figures
- Reviewing policies to ensure their content aligns with what's reported in the sustainability statement

This is usually the longest phase, involving a lot of back-and-forth with the client and PwC Luxembourg's PRLC team, because the client needs time to gather the requested samples, send them back, and then we analyse them.

Once we are satisfied with everything, we give clearance over the sustainability statement and move into the completion procedures. This includes:

- Drafting the representation letter
- Drafting the audit opinion that will be included in the CSRD report

In the opinion, we state whether we identified any material misstatements or if it's a clean audit report, meaning everything is in order.

So, to summarise, our process includes three main phases:

1. Engagement and Planning
2. Execution and Testing
3. Completion and Reporting

It seems quite similar to a financial audit, but what are the main differences? Specifically, what types of documents are you requesting in a sustainability audit compared to a financial one?

So, for example, when it comes to environmental topics, we request specific supporting documents. For electricity consumption, we ask for invoices to verify usage. For water, we request the actual calculations of water withdrawal and water consumption. In the case of biodiversity, we ask for any assessments that may have been conducted on the loss of protected species in the area where the client's facility is located.

For human resources topics, such as human rights violations, we ask for supporting documentation - any internal or external reports that might indicate whether such violations have occurred. Of course, in many of these areas, we leverage the work done by the financial auditors. For instance, when it comes to headcount, that's already validated during the financial audit, so we simply ask them to confirm that the numbers match, and if they do, we're good.

We also rely on financial auditors when it comes to lawyer confirmations. If a client is involved in penalties, legal cases, or filings, these confirmations typically cover those areas. If there's anything related to human rights violations, it should also appear there. That's why collaboration between the sustainability and financial audit teams - both on the client side and within PwC - is so important.

In summary, while the overall audit structure is similar, the nature of the documents we request in a sustainability audit is different and much more topic-specific, depending on the environmental, social, or governance matters being reviewed. And wherever possible, we build on existing financial audit procedures to ensure efficiency and consistency.

And throughout this process, are there certain issues or challenges that tend to come up more frequently than others?

Yes, timing is definitely the most recurring issue. Clients often struggle with deadlines, especially since for many of them, this is their first year reporting under the CSRD framework.

They often don't fully understand what an audit entails, particularly because their sustainability teams are not as familiar with audit procedures as their financial teams might be. So, there's a learning curve, and that can cause delays.

For example, they may not understand why we need certain documentation, or they're slow in providing it. In some cases, they simply don't know how to extract or share the data they've reported, which causes further delays.

So, yes, those are the two most common challenges: tight timelines and a general lack of familiarity with audit expectations within sustainability teams.

How do you see your role evolving over the next few years? Do you think it's likely to change, and if so, in what way?

To be honest, I don't think the role itself will change significantly, unless there's a shift to reasonable assurance. Otherwise, the core responsibilities will stay the same.

What I do think will change is the way we work, particularly due to the introduction of technologies like artificial intelligence. AI will likely play a crucial role in automating parts of the documentation process and reducing the need for manual input and resources. So, while the role of the auditor stays the same, the tools we use and the efficiency of our work will improve.

This is actually similar to what happens in financial audit. If the framework doesn't change - say, we continue working under IFRS - then our work remains the same. Of course, if the client introduces something new, like IFRS 16, then we need to learn how that standard works and how to audit it. But beyond those changes in scope or standards, the nature of the auditor's role remains stable.

So, unless there's a regulatory or framework shift, I think the fundamentals of our job will remain the same, just more tech-enabled over time. It's really the same structure: you need to understand the topic during the planning phase, document everything properly, and then cross-check the information during the execution phase. Finally, you draw a conclusion based on the evidence, whether in numbers or narratives. So, in that sense, the process is very similar for sustainability as it is for financial audit.

Since this is the first year and the beginning of the CSRD journey, there's naturally a learning curve - but it should become easier over time.

Oh yes, that's right - exactly. These first years are definitely the most challenging, and I think this year in particular has been extremely tough, simply because no one was fully ready, neither the clients nor us. When it's the first year of something new, and everything is being implemented for the first time, things are naturally more complex. But in the coming years, we expect the processes to become more standardised. We'll have a much clearer understanding of which testing procedures to perform for each disclosure, and we'll be more confident that we're not missing anything.

But for now, yes, it's definitely a very complex and evolving process.

Related to competitiveness: There seems to be a kind of information asymmetry - European companies are required to report on sustainability, while many non-European companies are not. So, for investors, the level of information isn't the same. What are your thoughts on that?"

Well, you know who's currently in power in the United States. I think this ties back to a point I made earlier. When right-wing parties are in government, there tends to be less emphasis on sustainability reporting compared to when left-wing parties are in power.

So, yes, comparability will always be a challenge, even within the EU, but especially when comparing EU and non-EU companies. And for me, the key point is still what I said before: if a company doesn't believe in what it's reporting, the value added is minimal.

For example, I work with many companies that have their holdings in Luxembourg, but their headquarters or parent companies are outside the EU - in Japan, the U.S., the Cayman Islands, and so on. Some of them are still doing sustainability reports, not because they are required to, but because it's part of their core values and they genuinely believe in it.

So, for me, the real issue is the comparability of disclosures. In non-EU countries, where there's no unified framework, consistency is much harder to achieve. Of course, we're seeing some developments - like the SEC in the U.S., which is planning (or may already have) regulations related to climate disclosure, and globally with the ISSB introducing IFRS S1 and S2.

But even with those frameworks, the requirements won't be as detailed or complex as the CSRD and ESRS. So, yes, the information asymmetry remains, and it's something investors really need to be aware of.

I think the tricky part, and I'm not an expert here, is when we talk about sustainability-linked financial products, like loans or bonds. If a company wants access to those kinds of financing options, it may be motivated to report, even without a regulatory obligation.

But again, without a legal requirement in places like the U.S., it's hard to say how much this will truly influence investors' decisions, or whether it might even lead some companies to leave the EU and relocate to jurisdictions with fewer reporting requirements.

Related to the concept of Double Materiality Assessment (DMA): since the concept of double materiality doesn't exist in financial audit, how does it influence your work in practice? How is it applied in real audit situations?

The Double Materiality Assessment (DMA) is absolutely central to CSRD reporting. The concept of double materiality has two dimensions: one is called financial materiality, and the other is impact materiality.

In simple terms, it means assessing both how the company impacts the outside world, and how external factors impact the company. That's why it's called *double* - it considers two directions: from the company to the world, and from the world to the company.

This assessment is what determines what is relevant - and therefore material - for the company to report on. If we look at the 12 ESRS standards, two of them are mandatory for all undertakings, while the other ten are sector-agnostic and only apply if deemed material. That decision is made through the DMA.

Here's how the process works in practice:

1. Identify Impacts, Risks, and Opportunities (IROs):

Companies must define their IROs - those that are impact-based or financially relevant - based on an internal understanding of their business.

2. Stakeholder Engagement:

They then need to engage with both internal and external stakeholders to hear their perspectives and understand what matters most to them.

3. Scoring Methodology:

After identifying the IROs, companies must score them based on a methodology - often developed with the help of the risk function - to assess the severity, likelihood, or relevance of each topic.

4. Linking to ESRS Standards:

The material IROs identified through this process are then mapped to the corresponding ESRS topics, subtopics, and sub-subtopics.

So, for us, the DMA functions as a scoping tool. You start with the full list of ESRS topics, determine what's relevant through the DMA process, and based on that, identify the disclosure requirements and data points you need to include in the CSRD report.

Without the Double Materiality Assessment, there is no CSRD report. It's absolutely key - for companies, and for us as auditors - to have a clear and robust DMA in place.

So, the Double Materiality Assessment is determined at the beginning of the audit?

So, it’s not that auditors determine the Double Materiality Assessment, it’s the client who has to conduct the assessment themselves. Our role is to review and give clearance over the process, not to define what’s material for the company.

In sustainability auditing, what we evaluate is whether the process makes sense, whether it follows all the necessary steps, and whether the company is not omitting any relevant information. We’re not there to say, *"I think this impact you identified is wrong.”*, or *"This topic should definitely be material for you."* If the company has a clear rationale and the assessment is properly conducted in line with CSRD and ESRS requirements, we accept it.

It's important to understand that materiality in sustainability is not like in financial audit, it's not a number. We don't apply a quantitative threshold, like *"5% of net revenue or assets is material."* It’s a broader concept, much more qualitative and narrative-driven. There’s a story and reasoning behind each decision.

So, no, Double Materiality isn’t just calculated or decided like a financial ratio. It involves a deeper qualitative assessment, and our job is to ensure that this process is robust, well-documented, and aligned with regulatory expectations.

If I understand correctly, your role at the moment is more focused on advising and consulting rather than on pure auditing - is that accurate?

No, I’m actually doing a lot of audit work, but not yet under the CSRD, because we’re still working with frameworks like GRI and SASB. Many clients still want us to audit selected sustainability information under those standards, so that’s what we’re currently focusing on.

F. Interview 5

<u>Tamara Rauw; Senior Sustainability Associate at PwC Luxembourg</u>

<u>Interview on 20 April 2025 for 40 minutes</u>

Could you please introduce yourself and describe your current role at PwC? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

I'm a Senior Associate in ESG Audit. We do limited assurance of sustainability reports. I also work on some advisory projects where we help companies implement sustainability reports, but it's really reporting-focused, so I'm on the reporting side of the advisory jobs, let's say. What else do you want to know?

How many clients in your overall portfolio at PwC are related to ESG reporting?

Well, in the department I'm in, we have around 25 to 30 clients that we're currently working with. But basically, all companies that are PwC Luxembourg clients could potentially become ESG clients as well, depending on whether they fall within the scope of the CSRD at some point, or if they decide to publish a sustainability report and have it audited.

What are your initial reflections on the CSRD initiative and its broader implications?

I think it was a very good initiative at the beginning. However, after reading the 200-something pages from top to bottom, I realised that it goes into a lot of detail - to the point where it sometimes feels like over-reporting. For example, in one chapter a company is required to report on a certain topic, and then in the next chapter, it has to report on basically the same thing, just in a different way. So at times, it felt a bit too much, in my opinion.

That's why I think it makes sense to have an Omnibus regulation to review and adjust the directive, to make it a bit more grounded, let's say. But then again, the Omnibus also reduced the scope of the CSRD, which I don't think is a productive approach. Many companies that were initially in scope are no longer included and won't be required to publish a sustainability report anymore.

Do you think the Omnibus proposal was a step in the right direction for the CSRD initiative, or did it go too far by excluding around 80% of companies from its scope?

They should have limited the scope of the CSRD from the beginning, because clearly, the companies that were initially in scope for 2025 were not ready at all - they were only doing it because they had to. But now, many of them had already started preparing, and with the Omnibus proposal, they suddenly don't have to report anymore. So, a lot of them have just stopped where they left off back in January. Honestly, it's a big mess.

When you say that companies are not ready, what does that actually involve? What kind of feedback do you hear from them?

For example, many companies haven't implemented any carbon accounting systems to track their GHG emissions. Instead, they were making rough estimates - like a finger in the air - saying, 'I think I emit this amount of GHG because of XYZ.' So, there was a lot of guesswork, with either undocumented processes or no processes in place at all.

On the social and governance side, it was similar. Many companies were only just beginning to reflect - thanks to the CSRD - on the impact they have. But under the CSRD, you also need to have defined policies, concrete actions, and clear targets for all the impacts you have on society, as well as the risks and opportunities that society presents for your business. And the reality is, most companies didn’t have those. They hadn’t developed policies, hadn’t thought through the necessary actions related to their impacts, and hadn’t set any targets yet, because they were still at the very beginning of the process.

As auditors, it’s really tricky to assess or audit something that doesn’t exist. So, in that sense, it was a bit chaotic. I’m actually glad the Omnibus came in, it gives these companies more time to prepare and really think through what they want to do in terms of sustainability and how they can actually achieve their goals.

What feedback do you get from companies regarding the cost-benefit ratio of CSRD compliance? Do they feel it's worth the investment?

I would say it really depends on what the company does. I've worked with a lot of insurance and banking clients, and for them, implementing sustainability isn’t necessarily that cost-beneficial. The main advantages they might see are attracting more clients or investors, but I doubt they would say the cost-benefit ratio is favourable, considering all the measures they have to implement to actually become sustainable.

However, for operational companies, it’s a different story. If they implement circular economy principles, for example, it can really benefit their supply chain and bring cost efficiencies. So, in that sense, yes, it can be worthwhile.

Are they willing to spend that amount of money on a report that, for now, doesn’t really add any tangible value?

Are they willing to? I would say yes. We have many clients who even request limited assurance voluntarily, they’re not in scope of the CSRD at all, but still want their sustainability reports to be audited. So, in that sense, yes, they are willing.

However, with the CSRD, there were also many companies that only complied because they had to. Naturally, they tried to cut costs wherever possible and spent only what was absolutely necessary, without going any further.

What do you think led the European Commission to revise the directive and introduce a simplification package like the Omnibus?

Good question. I think it’s a mix of different factors. You have the broader political developments - for example, Trump pulling out of the Paris Agreement and similar events - and also a lot of pressure from the companies that were required to report. Many of them simply weren’t ready. We saw that as auditors as well.

Even the CSRD text itself - I don’t know if you’ve read it - contains a lot of redundancy. As I mentioned earlier, some points are stated multiple times, or in ways that, when you actually try to report on them, you realise they don’t make much sense. The European Commission received a lot of questions after publishing the text, they even organised Q&A sessions, and I think a lot of practitioners on the ground raised concerns or asked how to comply with certain requirements.

For example, in double materiality, you're required to identify your impacts, risks, and opportunities. Once identified, you need to score them to determine which ones are material for your company. But then came the question: when you score them, should you take into account any mitigation measures already in place? For instance, if you have a negative impact related to GHG emissions, and you've already implemented actions to reduce them, do you still score the impact based on the initial problem, or do you factor in the mitigation efforts? These types of questions only arose after the directive was released.

So, I think the Commission realised that, in practice, some parts were too difficult to interpret or apply and that's what led them to revise the directive and introduce the Omnibus as a simplification package.

Would you say that the draft of the regulation isn't properly structured, with some elements repeated and certain issues appearing more than once?

Well, it is properly done, but I think that once you really start working with it, you begin to realise what's not quite right and what could be improved. I hope they revise it in a way that makes it easier for everyone to understand and work with it, because as it stands now, it's really tricky.

What are your thoughts on the removal of reasonable assurance under the CSRD, meaning that only limited assurance will be required for now?

I think it aligns with all the other aspects we've discussed. If companies aren't even ready to report, you can imagine how tricky it is to audit anything. Auditing requires reviewing documentation - and if the company isn't ready to report, it won't have the level of documentation needed for an audit, like formalised procedures clearly outlining what is done, who is responsible, what controls are in place, etc.

Under reasonable assurance, it would be extremely difficult to carry out an audit. Even with limited assurance, we're already seeing that many companies aren't ready to be audited. So, I'd say it makes sense that reasonable assurance is on hold for now.

Do you think that once everything runs more smoothly and companies gain experience with limited assurance, there's a chance the shift to reasonable assurance might be reconsidered in the future?

I hope so - that was the initial idea, to bring it to the same level as a financial audit. I really hope it gets to that point. I'd be happy, at least, because it helps keep my job alive.

What are companies currently most concerned about? Based on your work with them, what kind of feedback or concerns do they share with you?

Well, I had some clients who were generally afraid of the CSRD because they were only doing it out of obligation. I would say the biggest challenge for them is having to read and understand this massive package of regulations - and that's actually one of the reasons they turn to PwC, for example, through the advisory projects I've worked on. We help them implement everything that's required, because it really is a lot, and it can feel overwhelming.

Most of them don't have a dedicated ESG manager or someone working full-time on sustainability, so they're trying to handle it on top of their actual job responsibilities. It's extremely time-consuming and a lot to manage all at once.

Since it hasn't been implemented into legislation in Luxembourg yet, what timeline do you expect, and what developments do you foresee over the next year?

I have no idea, to be honest. I wasn't really surprised that they haven't transposed it yet, because I think, in the background, they already suspected that something like the Omnibus might happen. So, I believe they waited a bit to see what the EU would do. But honestly, I have no idea how this will develop.

How are universities, as the ones responsible for educating us, responding to the CSRD reporting requirements? Are they adapting their programmes, and what trends do you see emerging?

Honestly, I'm not too sure. It's been a while since I last looked into what universities are doing, so I don't really know. I assume they're adapting their courses, but to be honest, you probably know better than I do.

Once everything is fully implemented, how do you think the auditor's work will change? Will there be additional procedures alongside the existing ones? What will it look like in practice?

Well, we've already seen a lot of changes. Even before the Omnibus came in, we had started doing some CSRD assurance work. Compared to what we used to do, like the standard limited assurance for sustainability, it was already significantly more demanding.

We were reviewing everything by disclosure requirement. And as you know, the CSRD contains over a thousand disclosure requirements. So, you can imagine the volume.

And yes, it's a lot more work, because you also have to review qualitative data in much more detail, along with all the policies, actions, and targets that companies have implemented, things we usually don't go into as deeply when doing a standard sustainability report with just a few limited KPIs.

On a more practical level, what is your step-by-step approach when working with a new client? From start to finish, what does your work actually involve?

Well, when we start a project, we usually have a kick-off meeting to inform the client about which KPIs we're going to review, whether it's water consumption, GHG emissions, number of employees, or others. These KPIs are usually pre-agreed with the client, depending on what they want to have audited. Since the CSRD hasn't been implemented yet, most of what we do now is voluntary limited assurance.

From there, it follows the standard audit process: planning, execution, and completion. We hold meetings with the client to understand their processes and internal controls, gather evidence - such as invoices backing the reported figures and perform sample testing. This part is quite similar to what we do in financial audits.

The main difference lies in the type of documentation behind the figures, but overall, the approach is very similar.

Could you give me some examples of financial statement line items that you review? And what kind of documents do you typically need to check for those?

We don't really call them financial statement line items, since they're not financial figures. We refer to them as KPIs, or key performance indicators. For example, if we're doing assurance over water consumption, we usually receive meter readings either taken daily or weekly and then we get extracts from the systems where these readings are recorded.

We cross-check that information with water invoices from the municipality, for instance. Or, if we're performing limited assurance over the number of employees, we typically meet with the HR representative. They usually use an HR system, so we extract a report from that system, select a sample of employees, and then check their contracts to confirm whether they actually work for the company, verify gender, and determine whether they're permanent or temporary, depending on the specific information we need to verify.

But overall, the way we carry out the process is very similar to financial audit procedures, I would say.

The concept of double materiality is relatively new and doesn't exist in financial auditing in this way. How is it applied in ESG reporting?

Companies that implement double materiality have to follow the full process described in the CSRD, specifically in the ESRS. In fact, the first chapter is entirely dedicated to double materiality and how to apply it. The process usually takes around six months to complete.

It starts with identifying your impacts on the external world, as well as the risks and opportunities that the external world poses for your business. Once that's done, you list all these elements and then assess them as I explained earlier to determine which ones are actually material for your company. This assessment forms the basis for your sustainability reporting.

To me, it really makes sense to go through this exercise, because it's how you determine what will be included in your sustainability report it's the foundation. The concept of financial materiality, by contrast, is quite different. It's more about saying, 'My profit is XYZ, and that's material to me because it generates significant revenue or costs.' That's just one small element that would feed into a double materiality assessment.

Once everything is listed and needs to be scored, is it you who does the scoring, or is it the client who handles that part?

It depends. In audit, we don't perform the double materiality assessment for the client, that's something we only support in advisory projects. In audit, we simply take the final result and evaluate it. We assess whether it makes sense, whether something seems off, and we ask questions to challenge the client's assessment, like 'Why did you score this this way?'

In advisory, it depends on what's been agreed with the client. Sometimes they ask us to carry out the double materiality assessment for them, in which case PwC would score the impacts, risks, and opportunities. Other times, the client does it themselves, and we just support them by guiding how to do it.

How do you collect, manage, and verify the data you receive? Is there a specific tool or system you use, or how does it work in practice?

At PwC, we use a dedicated platform where we grant the client access. That's where we request the necessary documentation, and they upload everything directly to the platform that's generally how we operate. Sometimes, though, we also receive documents by email. In addition, we hold audit meetings with the client, where we ask a lot of questions to better understand their processes.

For certain clients and specific KPI testing, we also perform on-site visits. For example, next week I'm going to Angola to visit a client, to check on-site that the processes are actually being followed as described, and that the information they share with us isn't just theoretical. We'll verify things like meter readings and other data directly at the source.

I'm not sure if that answered every part of your question, but that's generally how it works in practice.

What advice would you give to companies that are just starting out with ESG or CSRD reporting? What would be your key recommendations?

First of all, I would advise them to hire someone dedicated specifically to sustainability, because otherwise it becomes too much for everyone else to handle. Then, I'd suggest setting up working groups for each topic they want to address, involving a wide range of people across the company and at different levels. I think it's important that even the input from frontline workers is included in the final outcome.

What exactly do you test under limited assurance, and how would that change if it were a reasonable assurance engagement?

Well, under limited assurance, we are currently only testing specific KPIs and only quantitative data. We come in once the final draft of the sustainability report is ready. At that point, we simply verify that the figures we audited are correctly reflected in the sustainability statement, and that there's no sentence contradicting those figures. But in general, we don't review the qualitative parts.

We also don't rely on internal controls or IT systems. We only ask for an understanding of the processes and how the controls are implemented, but we don't audit the controls themselves, and we don't audit the IT systems either.

In a reasonable assurance engagement, you would actually have to do that. You'd need to go into much more detail on every part of the audit. So, it's a lot more work.

It's even more work than a financial audit. For example, when PwC audits financial statements, they involve the IT department to perform an IT audit as part of that process. They work together on that part. We don't do that yet, because we don't rely on IT systems. But yes, that's how it would change.

And how do you see your current role evolving in the next year?

I don't think it will change too much, but once all the companies in scope of CSRD have to report in 2027/2028, I believe we'll get additional work. I hope it continues like that.

But there's also a lot of work that financial auditors are starting to do for us or with us, because sometimes they cover more or less the same KPIs - especially on the social side. For example, the number of employees is also included in the financial statements, and sometimes they audit that as well. So, we wouldn't do it a second time.

Do you think it's fair from a competitiveness standpoint that EU companies will be subject to detailed reporting requirements, while non-EU companies might not have to report at all or only at a different standard?

No, not at all. I think it's a good step that the EU is taking the lead kind of showing how sustainability reporting can be done and setting an example. But there's definitely a lot of room for improvement globally. If the EU ends up being the only region implementing these requirements, then companies that don't want to comply might simply move their headquarters outside the EU.

That said, there are also international initiatives underway. For example, I don't know if you've heard of the ISSB, I think it stands for the International Sustainability Standards Board. They're trying to implement something similar to IFRS for financial audits but focused on sustainability. So far, they've only released two standards related to social topics, but there's definitely momentum building at the global level. So, let's see how that develops.

Don't you think it could be risky, from a global competitiveness perspective, to impose such demanding requirements on companies?

Yeah, I see where you're coming from. I think yes, in terms of global competitiveness, it might not be ideal for the EU, it could make it harder to stay competitive.

But at the same time, there's a purpose behind these requirements. When a company can demonstrate through a sustainability report that it's truly sustainable, it might also attract different types of investors and clients - even those outside of Europe.

So, I'm not sure... maybe there's a balance between the potential loss in competitiveness due to reporting obligations and the gains you get from being recognised as a sustainable company. Let's see how it all evolves.

Do you think a company's access to funding could depend on whether or not it publishes sustainability reports?

Of course. I think if a company chooses not to report - or even leaves Europe just to avoid having to comply with CSRD, what does that say about the company? It suggests that they don't want to be transparent about their practices, possibly because they're not sustainable.

So, in that sense, I think it's important for companies to report. And yes, doing so can definitely help them access additional funding from investors who are specifically looking to invest in sustainable businesses.

As people become more aware of sustainability reporting, do you think the risk of greenwashing also increases, making it more common and harder to uncover?

Yes, definitely. That's actually why my job, for example, is important, because through auditing, you can help limit the amount of greenwashing and misstatements.

And so far, has there been any kind of scandal or major issue?

Not yet, but I'm sure one will come eventually. A lot of companies are reporting things like, *"We're the best",* or *"We're doing everything in a sustainable way",* when in reality, they're not. But for now, I haven't heard of a major scandal.

G. Interview 6

<u>Sébastien Pauwels; Senior Manager at Deloitte Brussels</u>

<u>Interview on 25 April 2025 for 52 minutes</u>

Could you please introduce yourself and describe your current role at Deloitte? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

Sure, so my name is Sébastien Pauwels. I'm part of Deloitte for the last 7 years. I was initially in the tax and legal departments, dealing with public Funding for Research and Innovations but three years and a half ago I made an internal switch and I joined the sustainability team. Because I was quiet interested in those topics without knowing into details the technicalities and then more or less at the same time, the first draft of the CSRD was published. It grasped a lot of attention from the Market and we started to build our knowledge around this new piece of directive. For the last three years, that's basically what we did for our clients, very roughly and CSRD is broad of course. So, when we speak about preparing CSRD, we speak about preparing there GHG accounting, we speak about climate risk assessment, we speak about social aspects, and alike. So that made us busy for a long time with a lot of clients.

Saying that, I'm also leading the offering at Deloitte for climate risk assessment, EU taxonomy analysis and co-leading the CSRD in itself, which is too big to be led by only one person.

Before the introduction of the Omnibus proposal, what were your initial impressions or opinion of the CSRD initiative?

When it was published, I think it was a big game changer for the market. I really saw that as going from the marketing world to the finance world. And what I mean by finance is the rigour and the structure of the finance world, while the marketing world is a little bit more fancy, that is how I see it.

So, when the CSRD came out, we suddenly saw on the market new roles being created - or rules moving from communication teams to finance teams, or communication teams to more structured sustainability teams. So, that was, for us, a strong signal that this was no longer just a fancy report with nice pictures of a few initiatives picked up throughout the firm. But really now about transparency, comparability of the data, and also drastically reducing greenwashing.

So, yeah, that was definitely a big change for the market. Because the information that we expect to get from those reports is much more exploitable, but also in terms of efforts - that is a kind of tsunami for companies. Because they suddenly have to hire three, four, five people just focusing on data reporting, with many data points to capture.

So, it comes with that hope of seeing, for the first time I would say, structured and comparable ESG data. It involves a major investment for companies, and our role is to support and optimise that journey - managing it step by step to avoid putting too much pressure on them.

That was our first initial challenge, I would say.

And what do you think of its level of detail?

I think the philosophy of the Commission was to be exhaustive from the beginning in defining what sustainability means, because you can look at it from various angles. And you also have interactions between those angles.

We say that the climate transition is all about social aspects, and I think it's perfectly true when you look at the geopolitical implications and at who's suffering first from climate change, it's not the industrialised countries.

So, not going too much into detail, it's logical to embed all of those notions in a single framework, because of the wide spectrum. The Commission wanted to be more phased-in - and I'm still speaking before the Omnibus, of course - but asking companies to deal, at the same time, with climate, biodiversity, and communities was maybe a bit too much.

So, I was saying that with all those notions, they tried to be somewhat exhaustive in what sustainability means. But at the same time, not giving enough phasing made companies a little bit afraid. Because they were just starting to understand a little bit what GHG emissions mean, and then they had to learn what biodiversity means and it's a brand new world.

So that's… how to put it… it's very ambitious. And I think it would be unrealistic to expect companies to absorb all those notions in two years. Two years and a half, a little bit less for the wave 1 companies.

So, yeah, I would say that the level of detail should be the final result of the journey, but they should have released it chapter by chapter, like a Netflix series - not all in one big 6-hour movie. I think that's a good comparison.

Given the introduction of the Omnibus proposal, which aims to simplify the CSRD and reduce some of its administrative burden, do you believe this is a step in the right direction?

I think, it's linked to the fact that the first package was quite heavy. So, it's right and the wave 1 companies were not happy, but they absorbed it, because they had the critical size necessary, and the resources to absorb the cost and tried to make it work. Some of them even did that as a key strategic piece, because they were already embedding sustainability into the strategy.

And some of them dealt with it more as a compliance cost - a burden - but they did it properly to pass the test. That's for wave 1.

But then, when it started to touch wave 2 so let's say two years, one year and a half before wave 2 reporting, then, the companies were much more diverse in terms of size. You had large companies with 5,000 employees and right next to them, companies with 50 employees. Because the thresholds were including companies with specific characteristics (for example, asset intensive).

For example, we had a client who is a transporter. They have some boats, they operate those boats, or they lease those boats. But they only have around fifty employees. The rest is subcontracted. But due to the volume of assets, they were in scope of the CSRD with the same level of effort expected as for a multinational, that has completely different means.

So that was a shock, something that triggered market reactions. And those reactions were justified and acceptable.

So, I think it's a legitimate request, and fortunately the EU reacted to that. I think there was a misunderstanding about the timing of the Omnibus, because some people thought that it was linked to the Trump announcement. But in reality, it was also a bit accelerated by the Draghi report, I would say.

On top of that, the complaints came even before the Draghi report. So, I would not try to put the Omnibus too much into a geopolitical context. For me, it's not really about that.

And so, lastly, yeah, we can look at what's in the Omnibus itself, but the two-year delay is a good idea. It gives time to breathe and to see how to adapt properly. The risk is and we will also need to see what

EFRAG is proposing that these simplifications might lead to a loss of substance of the CSRD. Because the spirit, the mindset behind the CSRD, is all about this "double materiality" concept. This is the key differentiator. This is where the Commission is really pioneering. They don't say "do whatever you want", but they adapt data points to make it more focused on being transparent about the impact. For example, we lose a lot that notion of taking negative externalities into account. So, that's where the risk stands. I think it's really not a weakness of the EU framework, but rather a struggle to operationalise what the Commission asked for. They had to propose a roadmap one or two weeks ago and they didn't manage to do that.

So, the discussion of the content modifications will take time. While the break, the pause, was what was needed by those companies to cope with everything.

In your opinion, what are the main reasons that led the EU to introduce the Omnibus proposals to amend the CSRD? Do you believe this was primarily driven by concerns around competitiveness, or were there other key factors at play? You mentioned the Draghi report for example.

First, it was in response to complaints, complaints from different companies. And yes, the EU timed the announcement in a way that looked like: "we are doing something for competitiveness."

That's probably true for some wave 2 companies, for which it really made sense. But for others, the argument is weaker. We don't even have the fruits of the CSRD yet, we don't have the benefits of it. So, speaking about competitiveness here is a bit early. Let's not forget that the whole basis of that report and the CSRD is to bring long-term fruitful new markets and improve the global positioning of our European companies. It's not only about burdens, it's also about potential. So, yes, we are convinced about ESG as a key differentiator. That may not be shared by everyone, but that was clearly the strategy of the Commission with the Green Deal.

Of course, I could also see the Draghi report as part of a larger sequence, maybe with some elements of political marketing. I would say in the short term, yes, it allows companies to save a bit of money. But in the long term, you lose the benefits of those investments if you remove too much substance. So, it's a very tricky pick for them.

Everybody was okay with taking a break, the two-year pause was welcomed. But for the rest, it would be a mistake to go too far. Fewer obligations, fewer requirements, that's not the goal. The main reason, in my view, is that the EU needed to listen to the market. To listen to the initial constraints and re-adapt, to make sure we actually reach the final value on the long term. In order to make a good impact, we need to make sure everyone is on board from the beginning. So, yes, simplification, phasing in, giving more time for smaller companies to absorb it, that makes sense. But we also need to think about how companies can *use* the data they collect. Because today, many of them collect it for compliance reasons only. They publish it… and nobody uses it.

But when Member States and other stakeholders start integrating some of those data points at a board level, at a public level *then* it makes a big difference. Because you start to use the data and you exploit it. And that's when we'll really see the value.

So yes, the problem right now is a timing issue, that's what triggered most of the debate.

How do you see the removal of the reasonable assurance requirement under the CSRD? Would you consider it a strategic simplification? Do you believe limited assurance is sufficient, or not? Will reasonable assurance come back again in the future?

For assurance so, I'm not part of the assurance department myself, but we work closely with our colleagues from assurance services, I would say the market is super immature for now.

What I mean by that is: we don't yet have a fully accepted framework. The real reference is still ISAE 3000 (revised), which was proposed, but it's not yet truly accepted by the Commission. It gives some guidelines, but auditors are really struggling to find their way.

What we saw during the first audit wave was that the position auditors adopted was extremely defensive. They controlled much more than what a limited assurance engagement would normally require. They even tended to extend the scope of verifications.

In the end, it's a bit of a shortcut, but the limited assurance we are seeing now for some clients looks almost like reasonable assurance, not in the official conclusions published, but in the background processes: the way they track, trace, and double-check all the data.

And the reason for that is the lack of a clear, commonly accepted framework and commonly accepted methodologies.

Now, regarding the Commission's plan: originally, they said that in five years, all actors would move towards reasonable assurance. And now they propose to remove that?

Honestly, I don't think it will make a big change. If they had removed the audit requirement completely, then yes, that would have killed a lot of the value of the CSRD. We would have gone back to the marketing world that I mentioned at the beginning. But no, they are keeping limited assurance.

I could even imagine that, later on, reasonable assurance will come back. Why do I say that? Because if you look at other reporting frameworks like the Australian Sustainability Reporting Standards (ASRS), they also started with limited assurance, but with a clear evolution plan towards reasonable assurance. They have that in mind, and it's still in the law. They just focus reporting efforts first on specific topics, like climate, to control one part really well before expanding further.

It's like a Netflix series: episode one is now out. And yes, they will only control that first episode, but with a potentially better level of control. That's also what we are doing with the CSRD.

So, in the short term, I see no big impact. Because anyway, it was only planned to have limited assurance at first. Companies are already putting processes in place to ensure that their data is accurate, reasonable, and comparable.

Reasonable assurance would have been the cherry on the cake, but not a real game changer at the end of the day if you look at the overall objective of such reports.

Do you believe there is an issue of information asymmetry between European companies that are required to report under the CSRD and non-European companies that are not subject to the same obligations? For example, if a European company discloses sustainability impacts that may reflect poorly, while a non-reporting competitor - potentially with worse practices - does not disclose anything, stakeholders may not have a fair basis for comparison.

Yes, that's a very valid point. Historically, our business world has not been a fan of being transparent about everything. It's not really how it works.

So first, what we see now on the market, and with our clients is a tendency to control the information disclosed. It's not so much about the fear of being perceived as "not good" compared to your competitors, or even the risk of bad PR. It's more about the business risks related to disclosure.

For instance, if you're building a new factory, that might be visible in your physical risk assessment, because you'll have to disclose where you are, or where you plan to be. Or in the case of circular economy, you might have to talk about a new product that is still under development. Disclosing that too early could carry commercial risk.

So, companies are being cautious. There's a real concern about sharing information that could be captured and exploited by competitors who don't have to disclose the same, which creates an uneven playing field.

As a result, some clients ask us: "How can we still be compliant while protecting sensitive information?" There are indeed some paragraphs in the CSRD standards that don't *force* you to disclose information that would create significant business issues. I don't recall the exact term, but you can use that to justify not disclosing everything as long as you explain clearly and seriously to your auditors why you're doing so.

There's another side to it, too. If you have to disclose something that could place you in a less favourable position compared to a competitor, it could create sensitivity, yes.

But then again and I'll take a more personal example how do *you* like to consume?

Do you prefer to buy a product when you don't know anything about it? Say it's made in China, probably involves chemicals, maybe poor working conditions, but you don't really know, so you just buy it.

Or do you prefer to buy a product where everything is disclosed? Something that says: "Okay, it's made in Portugal. We haven't managed to exclude all chemicals, but we're working on it." Personally, I'd rather buy a product that's transparent, where I *know* it's not perfect, than one I know nothing about.

So yes, while at first it may seem like a disadvantage, that transparency could actually trigger new markets, and attract new clients, especially those who care about knowing what they buy. That could turn into a competitive advantage for companies that are perceived as honest.

You show that you're not perfect, but you have a plan. You show your weaknesses, but also that you're taking action. So yes, it might actually be seen positively. It's a matter of framing, and a step towards a more responsible and resilient brand image.

What are the main concerns, challenges, and difficulties that reporting companies are encountering during their transition to the CSRD (and the adjustments introduced by the Omnibus proposal)?

There are many things and it also depends on how companies have structured sustainability internally. If sustainability is not handled by the finance department, if it's not managed at board level, then the transition brings a lot of resource issues and major challenges.

If we go through the typical journey:

You would usually start by doing a scoping exercise. At first, this seems easy to understand: you have to make a strategic choice. For example, should you report at the EU entity level and then later extend to non-EU entities? Or should you immediately report at the global consolidated group level, even though it goes beyond the EU scope?

Choosing to consolidate everything at group level usually means disclosing much more than initially expected. That's the first strategic choice companies face.

Some of our clients chose to go EU-first, then gradually extend (which is what Japanese companies often do: they take distance from the CSRD at HQ level). Others like Australian mainstream clients decided right away to disclose at global level, without trying to isolate Europe from the rest of their business. But it also depends on the structure of the business.

Then, once you've made that decision, you move to the Double Materiality Assessment (DMA). Here, the main challenge lies in the bias. When you evaluate topics to determine what is material or not, you can easily misjudge their importance.

We usually conduct consultations outside the company for example, with suppliers and clients to get external viewpoints. At the end of the process, you often realise that sustainability, which in CSRD covers eleven or twelve major pillars, actually boils down to six key topics for your company, based on real impacts, risks, and opportunities.

But when companies re-evaluate these topics internally, the challenge appears: Each department tends to defend its own relevance. For instance, HR will want employee-related topics to be treated as material. Procurement will defend supply chain topics, and so on.

So, there's a tendency to overestimate materiality ("everything is material"), or sometimes underestimate it, depending on internal politics. This psychological bias in the materiality assessment is a real problem.

To avoid that, you need a sort of governance circle at C level a transversal senior management group that can make balanced decisions based on business reality. Otherwise, experts will pull decisions towards their own fields of expertise, and you end up with a distorted materiality map.

This is a crucial point: business judgement must prevail over mechanical evaluation rules. It's not just about filling out an Excel sheet and saying "this topic is 5, not 4." You need judgement, structure, and real discussion.

Then comes the second big phase: collecting the data. And here, another huge challenge appears: companies realise that for many topics, they are starting from zero. They have no existing data.

Collecting that data will take at least one year because everything is new. It's important to take the time during the DMA to challenge different levels and ensure you build a global, corporate-wide view. Once you know what's material, you can look at the gaps, identify what you have, what you don't have, and to what level of quality. That could be the third real challenge.

Then comes the technical collection - and that's where you hit two additional difficulties:

- First, who will collect the data? Who will verify it?

Companies will need to structure completely new data flows - and distribute responsibility across functions.

- Second, the definition of the data itself.

Is an "employee" in Belgium defined the same way as an "employee" in South Africa or Australia? What is an FTE ?
Do you include expats? Exclude them?
The devil is in the details, and global companies must align on single, consistent definitions despite national and cultural differences for a global firm.

So, if I summarise:

- The first main challenge is deciding on the reporting level (EU-first or global-first).

- The second challenge is ensuring no bias during the Double Materiality Assessment. You really need to take enough time to structure everything correctly, despite the pressure.
- The third challenge is data collection, starting from scratch for many topics.
- The fourth challenge is about definitions, making sure data is comparable globally.

And underlying all this is a final critical issue: companies often don't have enough resources to collect and manage all the new data properly.

Since companies must also report on their entire value chain, do you think they might face difficulties in collecting data across all upstream and downstream activities?

Well, if you go beyond tier one, it becomes almost impossible to get the data.

When you look into supply chains, companies know their direct suppliers. But here again, there's a big difference between a company that has ten thousand suppliers and a company that has a hundred. The nature of the relationship is not the same in those two cases.

And then, the almost impossible task is to understand who your tier-two suppliers are, where they are located, and how you can, for example, check for human rights risks at your suppliers' suppliers. It's like a family tree, it becomes super complex as soon as you go beyond the second level, and almost impossible to monitor properly at the third level.

Companies are just now opening that box, realising how messy things are. You might have heard that the Corporate Sustainability Due Diligence Directive (CSDDD) is also on the table, and even that law is being limited to tier-one suppliers.

This already shows a shift compared to the original ambition of the law, because initially, it was created following the Rana Plaza disaster, when a building collapsed in Bangladesh about ten or twelve years ago, killing thousands of people. That building was producing clothes for very well-known brands.

The point was: it's not enough to say "it's not me, it's my supplier", because, in the end, you benefit from it economically. So yes, companies are accountable for their supply chains.

That's why we needed the CSDDD text (Corporate Sustainability Due Diligence Directive), but even in the latest versions, the obligations have been watered down. And you can see that: even when signed, there were debates about whether tier-two suppliers or tier-three suppliers should be in scope.

In reality, for most companies, it's a massive workload to even map and monitor their tier-two supply chains. Sometimes, companies don't even know all their tier-one suppliers properly. So yes, it's definitely a huge challenge upstream.

On the downstream side: Of course, companies usually know their direct clients, that's part of good marketing and sales relationships. You have your CRM, you know your clients.

But what you know less about is your clients' clients, or the final users, and especially what happens at the end of the product's life cycle.

For example, companies producing consumer goods have difficulties controlling what happens when the product is disposed of. Are they recycled properly? Are they thrown away? Are they reused?

Companies are somewhat responsible, but they don't really have full control over this. That's also related to an EU Regulation which is called Extended Producer Responsibility (EPR), which is kind of forcing companies to be responsible not only for producing the good but also for its end-of-life phase.

And that's where things get very heavy, especially with the push for circular economy regulations. Companies are increasingly being asked to design products that are easier to recycle and to ensure recycling actually happens, otherwise, they have to pay.

For many companies, this implies a massive transformation of how they design, manufacture, and manage products and yes, it's a huge challenge, definitely.

Is there any other barrier or problem that we haven't discussed yet that you would like to mention?

Yes - change management overall.

Because once you address the CSRD topics, it's no longer just the small, newly created sustainability team that is involved. You have to reach out to many internal stakeholders across the company. Some of them are not familiar at all with the CSRD, or even with basic sustainability concepts.

For example, when you talk about Double Materiality Assessment (DMA), impact materiality versus financial risk and opportunity materiality. It seems simple at first (just two arrows on a diagram). But really understanding these notions, and then asking people to evaluate them correctly thirty minutes later, is a huge challenge.

So yes, awareness-raising and change management around these new concepts are critical sticking points. It's really a major transformation that you introduce into a company and it takes time.

There are two additional points to highlight here:

- It takes time for employees to understand what the real benefits are for them personally and for the company. You are bringing the whole organisation into the sustainability journey, but you can't do it just with the sustainability department alone.
- You absolutely need the operational departments, because the data needed for CSRD reporting is often not in the hands of the sustainability team. It's spread across HR, Procurement, Operations, IT... And these departments might not be used to socialising or formalising such data for sustainability purposes yet.

In what ways will the work of auditors change with the implementation of the CSRD?

The role of auditors… well, it's a huge challenge, both for them and for the companies.

First, it's important to understand that classic financial auditors people trained with standards like IFRS are very educated in figures, in currency like euros or dollars. But now, with CSRD, they are being asked to shift to non-financial data to things like grams of CO_2 instead of euros and that's a massive change.

At first glance, you might think: "Okay, collecting figures, whether it's in euros or grams of CO_2, it's the same." But in terms of control, good practices, and traceability, it's much more complex.

From the company's perspective: Internal control systems, which are traditionally very strong for financial data, now have to evolve to cover new types of sustainability data. And auditors must build up their knowledge to be able to replicate and validate those controls.

However, you can't correctly check the trustworthiness of a sustainability data point if you don't understand the physical concepts behind it.

For example: If you are checking GHG emissions, you need to understand how energy consumption links to emissions:

- You need energy invoices.
- You need to check the kilowatt/hours consumed to GHG emissions

- You need to understand the national energy mix for example, whether the energy comes from Belgium, France, or elsewhere because this impacts the calculation.

So, you need to open a new box of knowledge: not just financial concepts, but physical, scientific, and environmental concepts that most auditors were not trained for. It's almost like saying that financial auditors now have to become a little bit like engineers. And that's the big challenge. I'm pushing the comparison a bit, but it really feels like opening a completely new dimension of expertise.

Therefore, auditors will need to educate their teams, and companies will need to educate their internal control teams, too.

The positive side is that we're all learning together:

- Companies,
- Auditors,
- Advisors.

We are collaborating more than before. We literally push the boundaries, and companies are sharing with auditors what they are doing well, what they are struggling with. During audit discussions like pre-assurance missions or double materiality checks we are having transparent, open conversations. Of course, everyone keeps their independence, but there is a real willingness to exchange knowledge and move forward together.

So yes, there is a huge complexity to manage. But there is also something very positive about this dynamic of shared learning.

***Do you observe a shift in universities, with educators increasingly focusing on sustainability or the CSRD*?**

I'm not a sociologist, but I think that some universities very specific ones are starting to offer complementary master's programmes to cover these topics.

However, based on the junior profiles we interview, I would say that the overall level of knowledge remains very basic. When we're lucky, they know what the acronym CSRD means and can define a few basic notions, but that's about it. It's still very new. So yes, you can see some first moves: some complementary, sustainability- or CSRD-oriented master's programmes are starting to appear. But it will probably take four or five more years for these topics to be properly integrated into classic master's programmes, at the same level as finance, law, or marketing. At the moment, it's still early days.

The EU, as a key stakeholder, is expected to provide stability through its regulations and frameworks. However, with the CSRD moving forward and then the Omnibus partially reversing course, this stability seems challenged. How do you perceive the EU's position in this context?

It's a bit like what you expect from any regulator: you want stability.

There was definitely a feeling of panic when the Omnibus was announced, a lot of discussions, a lot of people calling, trying to understand what happened. People were asking: "Is this the end of the CSRD?" There was some panic, clearly.

But if you look at it more calmly, the future path is still there. Companies have already spent two years preparing for CSRD, and now, almost everyone is convinced: Stopping now everything would be stupid.

Very concretely, even the companies that would fall below the new thresholds especially SMEs (which, by the way, are not yet officially covered; the SME sustainability standards are not yet even debated and agreed) even they have not all decided to stop working on the topic. Some companies have taken a pause, yes, but many are continuing the work they initiated, because they see the strategic value behind sustainability reporting.

And don't forget: there are other regulations, too. If you look globally, my feeling is that all countries are now starting to launch their own sustainability reporting standards. You also see a wave of taxonomy frameworks appearing. I think there are already more than sixty or seventy taxonomies worldwide. And almost all of them are inspired either by the EU Commission (CSRD, taxonomy) or by the ISSB (International Sustainability Standards Board). Those are the two main sources of inspiration. The SEC from the US "left almost the battle", they are not at all a source of inspiration for the countries.

Yes, today it feels messy, but we are still moving in the right direction: towards more transparency, more reliable information for investors, and better decision-making.

My hope is that in a few years, investors will really be able to use sustainability data in their models to decide where to allocate money, because they will find real correlations between sustainability performance and financial performance (revenues, margins, risk). If no value comes out of it, then it will just be another reporting burden. But that's not what I would bet on. And finally: we need time and adjustments. If you compare it to financial reporting: when IFRS was first published, it took fifteen years to reach the amazing level of global alignment we have today in financial markets.

So yes, we need to be patient. The CSRD, the Omnibus, all the adjustments: it's part of the natural post-launch adjustments that happen when you introduce such a major change.

The CSRD introduces complex concepts like double materiality and thousands of data points. Do you think that understanding these concepts itself is a barrier for the different stakeholders?

From the point of view of information, yes, we came to a situation where it's a bit too much, I think. With the CSRD, more than one thousand data points were introduced, and all the consultants and clients are saying, "Hey, this is complex! You need us!" So yes, you need support, and this naturally creates a market for advisory missions.

But when you take a step back: At a high level, it can seem frightening. However, once you start working on it, you realise you have to break it down into your own "episodes", step by step, topic by topic. The Double Materiality Assessment (DMA) is the first critical piece to master. Once you have identified what is material, you can focus your attention on the few topics (E1 for example) where you are the most advanced. For the rest, you capitalise on a minimum compliance approach: you cover the basic requirements without overinvesting. It's all about organising your work at your own pace and adapting the reporting process to your company's reality. This was accepted for wave 1 companies, who faced a lot of pressure. Now, with more time for the others (thanks to the Omnibus adjustments), companies can tackle it in a more structured and less stressful way. Also, it's important to understand that it's not really one thousand separate data points in the end. It's maybe around one hundred truly quantitative data points, and sometimes, a "data point" can actually be a subcomponent of another data point, depending on how you count them.

The most complex part will actually be the qualitative disclosures.

And here, the real challenge is about truly understanding:

- What are we doing here?
- How is it connected to our business?
- Or is it just a record for marketing purposes, disconnected from our strategy?

Because if you keep it disconnected, you won't extract any value from it. You'll just fulfil a reporting obligation, but you'll miss the opportunity to drive strategic insights and improvements.

Earlier, we discussed the short-term investment required for sustainability reporting to create long-term value. In your view, will this effort facilitate access to funding? What do you see as the long-term benefits of sustainability reporting?

Yes, there is definitely a bright side - and many hopes. The first point is clearly linked to investors. Sustainability reporting will help attract investments: to be better rated compared to other companies, and to be recognised on the market as a top player or front-runner in sustainability for your sector, that alone is already a significant benefit.

Then, you also have the banks: Banks are asking for more and more ESG data to grant loans under specific conditions. For example, the price of the loan (the interest rate) can vary depending on your ESG performance. So, better performance could mean better financing terms. Private equity funds are also moving in this direction. Even before the CSRD was published, many private equity firms had already created their own ESG frameworks. They were evaluating their portfolio companies with structured sustainability criteria. From experience, when I looked at the correlation between ESG performance and financial margins, it was quite clear:

- Social and governance aspects were already fairly well correlated.
- Environmental performance was a bit less clear maybe because it's newer but you could still start seeing meaningful trends.

Of course, some things still need to be discovered and confirmed with stronger, more structured data. But for that, we first need consistent and organised data collection.

Beyond funding, there's also the reputation aspect. Companies that will be the first to properly exploit sustainability data, not just doing it because they "have to", but because they understand how it fits into their business strategy, those companies will be the winners of tomorrow.

H. Interview 7

<u>Senior Sustainability Consultant at a Big Four company in Belgium</u>

<u>Interview on 28 April 2025 for 42 minutes</u>

Could you please introduce yourself and describe your current role? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

I'm actually from Spain, but I've been working in Belgium for the last four years, and specifically at a Big Four company in Belgium for the last two years. I am part of the Sustainable Business Solutions team, where we mainly help our clients to comply with regulations, particularly with the EU Taxonomy. Currently, of course, our work is increasingly focused on the CSRD and the regulatory changes it brings. We will have to reorganise our business offering to adapt to this, but so far, we have always been compliance-focused.

Before the introduction of the Omnibus proposal, what were your initial impressions of the CSRD initiative?

OK, so my personal opinion, I think the ESRS (European Sustainability Reporting Standards) were very, very necessary. Without them, I feel that in Europe, and also in the European Union more broadly, there were so many different standards. It was not harmonised at all, meaning that it was very difficult to compare information from one company to another because each company was choosing under which specific standards it would report and they were not always the same. So, there was definitely a need for harmonisation, that's for sure.

What I did think and I still think is that the CSRD and the ESRS were very ambitious. We went from not exactly zero, because before the CSRD we had the NFRD, but the NFRD had very low-level requirements. And then, we moved to something extremely ambitious, asking companies to report on hundreds of data points. Maybe it would have been better to adopt a step-by-step approach rather than moving from almost zero to 100 all at once.

I think that's what we are seeing now with the Omnibus proposal: the European Commission realised it was a heavy burden for companies and is now trying to deregulate a bit to compensate. But this is also creating a lot of uncertainty. It would have been much better to proceed step by step rather than making such a big leap from the beginning.

By the way, my role is Senior Consultant within the team, I don't think I mentioned that at the start.

Do you believe that the introduction of the Omnibus proposal was necessary?

No, I mean, it's been a mess. It's putting a lot of work at risk, so I wouldn't call it necessary. I do partially understand the reasons why it's happening, but I wouldn't say it was necessary. I think things could have been done differently, because changing the law just after it became applicable is basically creating a lot of uncertainty.

So, although I understand the European Commission's line of thought, I don't think it was needed. Many companies had already made significant efforts and spent a lot of money, time, and resources to start implementing the CSRD. I would have just let it continue and maybe given the market a bit more time to adapt, meaning not being overly strict in the beginning.

For instance, in Belgium, the FSMA (the Financial Services and Markets Authority) is the institution that controls how companies comply with these obligations. Maybe I would have advised the national institutions to be a bit more lenient during the first years of implementation.

It would have been better to let the market regulate itself gradually rather than changing the directive completely. This change is creating a lot of uncertainty, not only for companies but also for the organisations supporting companies in implementing the directive and related regulations.

So no, the Omnibus proposal was not needed, that's my final answer.

In your view, what were the reasons behind the issuance of the Omnibus proposal by the EU? For example, do you think it was also linked to concerns about competitiveness or broader geopolitical factors?

I think, it's both. I think, the world is changing, and sustainability is definitely no longer the priority it was during the previous European Commission. As you know, the European Commission recently changed, and during the previous term, the Green Deal was the central agenda, it was the major achievement of the five years of work of the former Commission. Whereas now, with the complex geopolitical situation, sustainability is clearly not the top priority anymore.

We are also seeing, for example, that in the U.S., which has a lot of weight in the international market, sustainability is not really being prioritised at all. As a result, the European Union feels the need to become much more competitive.

So, I think, it's a combination of both:

- trying to make the EU market more competitive, and
- adjusting to the complex geopolitical context.

Which I do understand. At the same time, however, as I've said many times already in the few minutes we've been speaking, I believe that this situation is mainly creating a lot of legal uncertainty. And I'm not sure to what extent that's actually helping.

How do you perceive the role of the European Union? Should it primarily act as a regulator promoting stability - and if so, do you feel it is currently fulfilling that role?

I think, the European Union should act as a regulator and ensure that there is stability in business. But I believe that right now, this is not really the case. It exists, but it is acting when it should not necessarily be acting. I think it should have handled things better instead of changing them now. I don't know to what extent this is actually helping, especially for the wave 1 clients.

Wave 1 and wave 2 clients are the most impacted. Wave 3 clients (SMEs) still have some time before they need to implement the new changes coming from the Omnibus proposal, so they are less immediately affected. But for wave 1 and wave 2 companies, the lack of clarity is already having a full impact.

How do you see the work of auditors and consultants evolving, given that they are also key stakeholders impacted by these changes?

Well, the thing is, the CSRD was supposed to work in waves, meaning that it wouldn't affect the entire market at once, but progressively wave by wave. At the beginning, it was, I don't know the exact percentage, but let's say it was impacting about 15% of the market. Then, with wave 2, it would have impacted around 30%, and later even 50%.

So, both auditors and consultants, but also a lot of startups and software companies, were preparing for this. We've seen many companies developing AI-based tools to help businesses consolidate and gather data in order to report properly. So, it's not just consulting and auditing there are many other players involved.

We were all investing and preparing ourselves to be ready to support the much larger number of clients that were expected with the upcoming waves. We were getting ready for those waves to arrive.

And now, from one day to the next, it's not that those waves aren't coming anymore, but the timeline and scope have changed significantly. As a result, even the existing clients that were supposed to report under these directives are impacted.

It's having a huge impact. We had been preparing extensively for this.

Now, we're just preparing to be ready for the market and the market has just completely changed from one day to the other. So, like giving us no time to adapt to the changes. So, we're like, at least a team member and I'm sure everyone else is doing so, which is like very busy trying to develop their business offering and other services. But they won't be compliance-based anymore, because not that many companies will have to be compliant, at least not from a mandatory perspective.

How do you see the role of companies in this context? What are the main challenges they are facing? In your view, what are companies most concerned about, and what kind of information are they still unprepared to provide?

OK, companies in terms of our clients, right? The main issue was, first of all, that this was something completely new. As I said before, we came from the NFRD, which was mandatory for a very limited number of companies and required very limited information. It was also not very specific about how and what you had to report. Whereas the ESRS are extremely specific and involve many, many data points.

So, companies first need to make sure they understand not only the CSRD but also the EU Taxonomy, because if you have to comply with the CSRD, you also have to report according to the EU Taxonomy and that regulation is very, very complex.

First, you need to ensure that there is someone within the company who has the knowledge to understand both directives.

Second, you need to create awareness internally, because this involves multiple departments. All the different teams that will have to provide information for the reporting at the end of the fiscal year might not even be aware of the need to collect that information properly. So, you have to explain the need and make them aware that their contribution is critical. Otherwise, the person managing CSRD compliance won't get any support.

Third, even when the data exists within the company, it's often not consolidated, it's just lost across different departments. You need to identify, quantify, and consolidate the data properly.

So, overall, it requires a lot of money and a lot of time to get to a good final product.

To summarise, the three key points are:

- creating awareness across the organisation,
- starting the proper collection and consolidation of data, and
- deeply understanding the complexity of the regulation.

How have companies been trying to adapt to these challenges so far? Based on your experience as a consultant, what key lessons or patterns have you observed?

What I see is that my clients have already started creating internal workshops to educate the company and the various internal stakeholders involved in the reporting process. Companies that have the budget are also beginning to develop data tools to make their data collection systems much more efficient, rather than continuing to manage everything manually.

Of course, this also depends on the budget that each client has. But overall, they are definitely starting to invest significantly more money to be able to manage all of this properly.

ESG reporting is becoming similar to financial reporting, but the necessary framework and infrastructure to secure and manage the information are not yet fully in place. Would you agree that this is one of the major issues companies are facing?

It's OK, it's understandable that it's not ready yet, because this is the first time, or at least the first year, that these companies are required to do this. They need to create internal processes, policies, and data collection systems in order to gather all the necessary information. They must first collect the data, then analyse it, and finally report it. And all of that requires both money and time from companies.

Do you believe there is an issue of information asymmetry between European companies that are required to report under the CSRD and non-European companies that are not subject to the same obligations? For example, if a European company discloses sustainability impacts that may reflect poorly, while a non-reporting competitor - potentially with worse practices - does not disclose anything, stakeholders may not have a fair basis for comparison.

Indeed. That's a good point. The idea with the current scope of the CSRD is that, in a few years from now, I don't remember exactly when, third-country companies that have a significant turnover in the European Union will also have to comply with the CSRD. That would kind of solve the issue, because if you're competing in the European market, you would then have to be subject to the same rules. And that makes full sense.

But I think those international companies that are not based in the European Union will be among the last waves impacted by the CSRD. So, for a few years, we will indeed face this lack of comparability between information from EU companies that are already compliant with the directives and those companies outside the EU that are not yet required to report.

It is definitely a disadvantage for companies operating within the European Union market, indeed.

Have your clients expressed any specific fears or concerns to you? If so, what were they most worried about?

Personally, no client has specifically mentioned it directly to me. But I do think it is an issue - and not only when we talk about sustainability reporting. It's also similar when we talk about, for example, food products coming from outside the European Union. If imported food has to comply with far fewer obligations than food produced within the EU, it creates an imbalance. It's the same kind of problem: different standards leading to unfair competition.

Most of the time, it's easier to import tomatoes from Morocco than from Spain, which is ironic. Within the European Union, we have tons of regulations and try to make things work properly, but in an international context where we are not only interacting within the EU market but also with markets outside the EU, we have to make sure that imported goods from third countries are somehow influenced or aligned with EU restrictions. Otherwise, we will be penalised internally and lose competitiveness.

***Do you observe a shift in universities, with educators increasingly focusing on sustainability or the CSRD*?**

I personally don't have a clear view on that, no, sorry. I haven't been in contact with universities recently.

Are there any additional stakeholders you believe are relevant to this discussion?

Maybe EFRAG should be mentioned - because although it is different from the European Commission, it is the body actually developing the ESRS. EFRAG is a dependent body from the European Commission but, at the same time, it is also independent in how it operates.

Then, there are sector associations which represent different sectors of the market and give a voice to many companies.

I would also mention NGOs - they represent a broader society and can express how society views these regulatory changes. Because ultimately, the CSRD was initially expected to increase corporate responsibility, but now it seems that companies might not be held as accountable as originally intended.

And of course, investors should also be mentioned. They are key users of this information.

I'm not sure if there are others we haven't already talked about.

At the end of the day, the goal of reporting sustainability-related information is to create transparency and allow for comparability between different companies. And the users of this information are indeed society, but also investors, who will use it to see which companies are more sustainable than others.

Currently, sustainability reporting under the CSRD requires only limited assurance, while the initial plan for reasonable assurance has been removed with the Omnibus proposal. In your opinion, is the current assurance level sufficient? Do you believe reasonable assurance will be reintroduced in the future?

What I mean is that the primary goal was to bring sustainability-related information to the same level as financial information. And financial information requires reasonable assurance. If we keep sustainability information at the level of limited assurance, it will never reach the same level of quality or trust as financial information. So, yes, we will never truly achieve that equivalence if it stays at limited assurance.

Because, in the end, with limited assurance, what you're doing as an auditor is essentially disclaiming that nothing has come to your attention that indicates non-compliance with the standards but it's much less detailed and tangible compared to reasonable assurance.

Many companies might say they are investing a lot of money in reporting that, in the end, will only be read by a few investors. In your view, what is the real added value for them?

I mean, it’s not just about access to funding, it's also about reputation. It’s strategic, too, because you can decide how you want to position yourself in the market compared to your peers. Do you want to take the lead in sustainability? What are your peers actually doing? If everyone else is taking sustainability seriously, you need to do the same; otherwise, you won’t be seen as a good performer within your sector.

So, the added value is about facilitating access to funding, improving reputation, but also positioning yourself strategically. Moreover, with a properly developed report, especially one that follows the double materiality assessment, it forces you to understand not only the impact your company has on the world but also how the world can impact your company.

This is very obvious when it comes to climate change. For example, think about the floods that occurred a few months ago in Valencia, where unfortunately around 200 people died. Consider the impact for all those companies affected by the floods, the millions in losses, and this is not only happening in Spain, but it also happened in Belgium a couple of years ago.

Climate change is a fact; it's no longer a theoretical risk. And the double materiality assessment under the CSRD forces companies to stop, reflect, and analyse what’s going on and how it might impact their business.

So personally, I do believe it is indeed a real added value from different perspectives.

You mentioned double materiality, which is a new concept that doesn’t exist in the same way in financial auditing. How does it work in practice?

So, I mean, in order to report under the CSRD, everything stems from the output of the double materiality assessment, right? What we have actually done many times because, as you said, it’s a new concept, is to support companies, since at this stage they don’t yet know how to do it properly. They will learn with time and eventually won’t need consultants anymore.

But for now, we basically support and also teach clients how to perform the assessment. We work together with them on this exercise. We study and analyse not only the client itself but also the market, and we help them identify all the different issues that could potentially impact the company in terms of both impact materiality and financial materiality.

Then, we create a scoring mechanism to assess all those impacts, risks, and opportunities that have been identified. Through this, we determine which ones have the highest potential to influence the company. Those issues that have a higher likelihood and greater potential impact are deemed material, and the company must then report on them.

Yes, we have done a lot of work on double materiality assessments. In the beginning, we even had to develop the methodology ourselves, because there wasn’t much structured guidance available. There is some guidance now from EFRAG, but at certain points, EFRAG gives flexibility, a "green card" for companies to adjust the approach to their own particularities, because obviously, not two companies are the same, and the assessment must be tailored accordingly.

So yes, this has definitely been a big part of consulting work over the past years.

Could you briefly explain how the EU Taxonomy fits into the reporting process and what role it plays?

Oh yes, you're actually asking the right person, I've been working very closely with the EU Taxonomy.

OK, so basically, the EU Taxonomy is an initiative from the European Commission to create a common understanding of what is considered sustainable and what is not. As the word itself suggests, it's about creating a shared definition of sustainability for everyone.

Before the Taxonomy, companies could claim they were very sustainable, but there was no real transparency. There was no standardised way to compare what one company considered sustainable with what another company considered sustainable.

What the European Commission aimed to do with the Taxonomy was to create a common framework. This framework is divided by economic activities, meaning that it's not the company itself that is labelled sustainable, but rather the specific economic activities the company performs.

Now, in practice, here's how it works: Let's say I'm a cement manufacturer. The first thing I need to do is analyse what I do as an economic activity in this case, manufacturing cement.

I would then check the EU Taxonomy regulation and all the different delegated acts. There's also a very useful resource called the EU Taxonomy Compass, a website that presents all the recognised economic activities in a more user-friendly way.

You check whether your economic activity is listed as potentially sustainable. If the description of what your company does, matches the definition in the Taxonomy, then you can say your activity is "eligible". At this stage, it simply means that your economic activity has the potential to be considered sustainable.

After confirming eligibility, you move on to assess "alignment". Alignment means determining whether your activity truly meets the criteria for being sustainable.

The alignment assessment consists of three main steps:

1. Technical Screening Criteria:

You must check whether you meet specific technical standards developed for each economic activity (e.g., cement manufacturing has its own technical criteria, different from car manufacturing).

2. Do No Significant Harm (DNSH):

While contributing to one environmental objective, you must ensure that you are not harming the others.
The EU Taxonomy identifies six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

For example, if your cement manufacturing process contributes to climate change mitigation, you must ensure that it does not cause water pollution.

3. Minimum Safeguards:

You must ensure you respect human rights and labour standards, sustainability is seen broadly, not just in climate terms but also in terms of social responsibility. So yes, the Taxonomy is very complex. There are many delegated acts and technical documents you need to check to make sure you are fully compliant.
The overall goal is to create transparency and comparability between companies, and to help redirect investments towards sustainable economic activities.

Is it working? Well, we're still in the early years. Companies are really struggling to make sure they comply, so I wouldn't say yet that it has reached its full potential. We'll have to wait a bit to see whether it truly becomes as useful as intended or whether it remains just an additional burden.

Since the Omnibus proposal is still only a proposal and not yet adopted into law, how do you see the timing for its implementation? How will it need to be transposed both at the EU level and at the national level?

Yeah, well, you know that the Omnibus is actually divided into two proposals: the Stop the Clock proposal and the Content proposal. The "Stop the Clock" proposal has already been accepted and published, so that part is official. This means that companies now have more time - they can wait and see what the final changes will look like.

I think that postponing everything until the new changes are negotiated, decided, and put into practice was a smart move.

Now, because the Omnibus affects two different directives, the CSRD and the Accounting Directive, it has different implications in terms of implementation. For changes related to the Accounting Directive, they will become automatically effective once they are published in the Official Journal of the European Union. But for changes to the CSRD (since it's a directive), they will first have to be transposed into national law. I believe this transposition must happen within 12 months after publication.

Until these changes are transposed into national law, the existing national law continues to apply. In Belgium, for example, the CSRD has already been transposed, so for now, companies must continue respecting the Belgian national law.

However, the government will eventually need to amend the timing requirements, for example, recognising that wave 3 companies will now report for the fiscal year 2028 and disclose in 2029.

We'll have to see how quickly national authorities move to transpose these amendments. I hope they will hurry up because I think, everyone recognises that the current situation is creating a lot of uncertainty.

I. Interview 8

<u>Partner in technical function of a Big Four company in Germany</u>

<u>Interview on 29 April 2025 for 29 minutes</u>

To begin, could you please introduce yourself, describe your role, and explain how you're currently involved in sustainability reporting?

I'm part of our national quality network, which is our technical function dealing with corporate reporting. We are split into several teams, covering both financial and sustainability reporting. I lead the group responsible for sustainability reporting, and I'm also involved in various roles within our global network.

I chair the Cross-Cutting Working Group as well as the Social and Governance Working Group. In addition, I'm part of the so-called Core Reviewer Team, which issues our Global Sustainability Reporting Guidance, a comprehensive manual on how to apply ESRS as well as ISSB sustainability standards.

What was your perspective on the CSRD prior to the introduction of the Omnibus proposal?

The CSRD is generally appreciated, I think the intention behind the legislation is good. It's important to have proper reporting on sustainability issues and related matters.

That said, the Delegated Act, the ESRS, and the detailed requirements of the CSRD do present some challenges, both for preparers and for auditors. The legislation is not always clear and often leaves room for a lot of judgement.

So yes, overall, it's a good and necessary initiative, but due to the difficulties I mentioned, it's a positive step to revisit and revise certain aspects of it.

Given the challenges you mentioned, do you believe that a proposal like the Omnibus proposal is necessary?

So, if you want to look at it from another angle, there are two aspects to consider. On the one hand, as I mentioned before, it's important to have proper reporting, to have a robust reporting framework, and to ensure that the information is assured, just like in financial reporting, in order to build trust and confidence among capital markets and decision-makers.

But, of course, reporting always comes with a burden, which can be a challenge for companies. So, it's a good thing to reflect on, whether the legislation is fit for purpose, whether it strikes the right balance between burden and the creation of meaningful information.

That being said, there is certainly room for improvement. It is necessary to make some adjustments.

So, yes, overall, the Omnibus proposal is welcome. What I personally struggle with is the very tight timeline. The ESRS were originally developed and implemented under a very ambitious timeframe, which has led to some deficiencies in the legislation, as I mentioned earlier, including issues with definitions and occasional contradictions.

The risk now is that once again, things are being rushed too much, which could undermine the robustness and quality of the framework.

In your opinion, what are the main reasons that led the EU to introduce the Omnibus proposals to amend the CSRD?

I think the main reason is the pressure coming from preparers, who argue that the reporting burden is too high, that it's simply too much work. In many cases, it's not clear what exactly the standard-setters want to know, or what the standards are really asking for. It's about collecting a large amount of information without having sufficient time to put proper reporting procedures and policies in place to gather all the necessary data.

Additionally, some aspects of the standards are highly judgement-based, which creates further uncertainty. As stated in the Omnibus proposal itself, one of the main drivers for its introduction is the burden of reporting.

Could it also be linked to concerns about global competitiveness?

Well, regarding competitiveness, I think it's very important to have a robust reporting framework. Especially for large or major companies, the information they report needs to be comparable on a global level.

You know, the ESRS are not limited to European companies; non-EU-based companies operating in the EU also have to apply the ESRS. Then, we have the international reporting framework set by the ISSB, so there needs to be comparability in the reporting content to ensure competitiveness.

Another aspect of competitiveness is again the issue of burden, because preparing the reporting takes time and certainly incurs costs. And of course, spending money can always lead to a decrease in competitiveness.

This is something the Omnibus proposal addresses. You have the large, global clients on one side, who are generally better prepared, and then you have what was formerly referred to as wave 2 and wave 3 companies, which are often less prepared in terms of reporting. They might not yet have proper procedures in place, so for them, it's a real challenge to build up such reporting structures from scratch.

What are the main concerns, challenges, and difficulties that reporting companies are encountering during their transition to the CSRD (and the adjustments introduced by the Omnibus proposal)?

I think, you can clearly see some of the main concerns. As you may know, the CSRD, being a directive, has to be transposed into national law in each EU Member State. For example, in Germany, we failed to transpose it into local law on time. So technically, it was not yet required to apply the CSRD or the ESRS.

However, the major, large companies proceeded anyway, because they recognised the need and the expectations from capital markets, stakeholders, and decision-makers to have access to this kind of information. It is information they rely on for their decision-making processes. Companies also want to communicate their own sustainability efforts to tell their story about how they are addressing sustainability challenges.

Overall, the CSRD is appreciated because it addresses an important issue. Society has recognised that sustainability matters and that change is necessary due to climate change and other environmental issues. So, having proper sustainability reporting in place is critical.

But on the other hand, it is very difficult to collect all the necessary information. There is a high level of granularity required in the data collection to properly report. Once a company assesses a topic as material, the reporting and metrics have to cover the entire group.

Now, imagine a globally operating, highly diverse group: there are a lot of entities, and information must be collected from each of them. For some entities, proper reporting procedures already exist, for example for financial reporting, but for others, they don't and that creates major challenges.

Another difficulty is that the legislation itself, as I mentioned earlier, is not always clear. There is a lot of room for judgement. Some definitions are lacking clarity, and in some cases, definitions are not provided at all.

For example, the term "own operations" is really fundamental for reporting, some metrics must be prepared for own operations, others for the upstream or downstream value chain. But unfortunately, there is no definition of "own operations" within the ESRS, which makes things rather difficult.

So far, I have mainly focused on companies in Belgium and Luxembourg, so I'm less familiar with the situation in Germany. If I understand correctly, the CSRD has not yet been transposed into national law there. Once it is, will it directly include the simplified version introduced through the Omnibus proposal?"

Maybe, maybe not, it's not entirely clear, yet. It depends on when the simplified version will be finalised and whether it will be incorporated into the legislative process. Also, we recently had a change in government, so there is some uncertainty around this.

However, there is a strong likelihood that the revised set will eventually be adopted. Nevertheless, many entities, especially the wave 1 companies, have already started reporting voluntarily based on the current standards, and they are likely to continue doing so.

In what ways will the work of auditors and advisors change with the implementation of the CSRD?

Well, I would not say that auditors are stakeholders in the strict sense, but for sure, it's business for auditors, consulting firms, and advisors.

There are two aspects to consider:

First, if the number of entities applying the ESRS decreases because the burden of applying the standards reduces the number of companies in scope, then the number of potential clients for auditors and advisors also decreases. Consulting firms and auditors have invested heavily in recruiting people and building up knowledge and capacities, which costs money. If the size of the market shrinks, that represents a financial loss.

On the other hand, any change also creates a need for implementation, and this opens up new business opportunities. So, there's a balance between loss and new prospects.

Content-wise, from an auditor's perspective, it is always welcome to have clear and robust rules for the entities to apply. Having a strong reporting framework provides clarity, which is crucial for carrying out assurance work effectively.

Another important stakeholder in my view is the EU and EFRAG, acting as regulators in this context. In your opinion, what should their role be, and how well are they fulfilling it?

EFRAG is currently working on the revision of the standards. They should take the necessary time and they should be given that time by the Commission, to create a robust reporting framework and to carry out the work properly. At the moment, there is a lot of time pressure, and it's unclear whether EFRAG's usual due process will be fully respected, which is not a good sign. When you are creating legislation, you must follow a proper and thorough process.

From what I understand, the Commission is putting significant time pressure on EFRAG, and there is a real risk that this could undermine the quality of the standards they are developing.

EFRAG and the EU should focus on providing good legislation, and preparing high-quality legislation takes time. If you compare it to the pace at which financial reporting standards are issued for example, by the IASB (for financial reporting) or the ISSB (for sustainability reporting), these organisations have long-standing experience and expertise in standard-setting.

EFRAG, on the other hand, although it consists of many very clever and knowledgeable people, is not a traditional standard-setter and does not have the same level of experience in this role. That's why it's crucial they are given the necessary time to develop high-quality, clear, and consistent standards that work well together and that are genuinely fit for purpose.

The standards should focus on material information, meaning information that is truly useful for decision-makers and stakeholders. Of course, you can then have a discussion about whether all stakeholders are decision-makers. For example, NGOs are clearly considered a stakeholder group under the ESRS framework, but they might not be decision-makers in the traditional sense.

In your opinion, what role do investors play in this context, and how is their role likely to evolve with the introduction of these new reports?

Investors have a clear objective: making good investments that yield returns, ensuring they get their money back if they are debt investors, and receiving interest payments or seeing an increase in shareholder value if they are equity investors.

Of course, the extent to which investors focus on sustainability issues depends on the type of investor. However, I definitely see growing interest from investors in making sustainable investments.

For that, they need high-quality information and ideally, information that has been assured, preferably by an auditor or an audit firm, to gain confidence in both the quantitative data and the qualitative, narrative reporting.

***Do you observe a shift in universities, with educators increasingly focusing on sustainability or the CSRD*?**

I can't really prove it with numbers or quantitative analysis, but I definitely see that this topic is getting more and more attention.

You mentioned NGOs earlier, in your view, what role do they play, and how might their role evolve with the implementation of the CSRD?

Well, NGOs are a good example when we talk about stakeholders, especially when it comes to addressing how we treat nature or people for instance, working to prevent child labour. NGOs focus on raising awareness in society about issues that are recognised as problematic or unethical.

Naturally, NGOs are very interested in this kind of sustainability-related information. We also know that some investor-focused NGOs are already challenging aspects of financial reporting for example, management analyses and commentaries and are pushing for greater transparency.

So yes, there is definitely a strong demand from NGOs for high-quality, reliable sustainability information.

The CSRD introduces complex concepts like double materiality and thousands of data points. Do you think that understanding these concepts itself is a barrier for the different stakeholders?

Yes, absolutely. First of all, the double materiality assessment is not an easy task. But conceptually, I think, it’s the right approach because it addresses the needs of various stakeholder groups.

Even when looking at just the impact materiality dimension, it’s clear that more guidance is needed. It’s definitely not simple to apply, but from a conceptual standpoint, it’s the right direction to take.

Even if it's not yet fully embedded in legislation, how does the double materiality assessment translate into practice?

Those reporting under the ESRS are already conducting their materiality assessments based on the concept of double materiality. So, yes, they are putting considerable effort into carrying out this kind of assessment, which involves extensive internal discussions.

In practice, we’re seeing different approaches. Some entities are actively engaging with external stakeholder groups, while others are using proxies for example, consulting groups they consider to be representative of stakeholder interests. Others focus more on internal discussions, involving key people within the organisation.

Could you walk me through one sustainability-related project you've worked on? Even if it's voluntary for larger companies, how does it work in practice?

Well, I’m personally not involved in any projects myself. I work in an internal advisory function, so I don’t run projects directly.

There seems to be a significant short-term investment in terms of money, time, and effort required to comply with these new requirements. While companies may currently be focused on the challenges, the long-term perspective suggests it could create real value. What are your thoughts on that?

Yes, absolutely. As we’ve just discussed, conducting a double materiality assessment is quite challenging. But once it's done, it only needs to be updated in the future, it doesn’t have to be started from scratch each time.

It also offers a valuable opportunity to better understand your own business, to focus on what truly matters or what you believe is most important. There’s a significant chance to improve your business, increase profitability, and create more shareholder value.

So yes, this is indeed an investment, but one that will hopefully pay off in the medium-, and long-term.

Under the Omnibus proposal, the requirement for reasonable assurance has been removed, leaving only limited assurance. In your view, is that sufficient, or do you think reasonable assurance might be reintroduced in the future?

Well, they've decided to remove this requirement, and at the end of the day, most people don't really understand the difference between limited and reasonable assurance. This is always a challenge in the assurance space, there tends to be an expectation gap between what the assurance opinion actually means and what people think it means.

That said, reasonable assurance is definitely welcomed, and some clients are even requesting it on a voluntary basis.

However, in order to be in a position to issue a reasonable assurance opinion, the client must have very strong reporting processes and a robust internal control environment. Reasonable assurance is more demanding for the reporting entity, but it also provides a higher level of credibility. The higher the level of assurance, the more useful and trustworthy the information is for users and stakeholders.

I understand why they've decided to step back from this requirement for now to return to common ground. Perhaps it will be revisited during a post-implementation review. But given all the concerns around burden, bureaucracy, and complexity, I don't think it's very likely that we'll see this discussion return in the next 5 to 10 years.

Is there any other stakeholder we haven't discussed yet that you think should be included in this conversation?

No, I don't think so. As I mentioned earlier, I believe the main stakeholders are those who base their decision-making on this reporting and that's what really matters.

J. Interview 9

<u>Jeremy Chenoy; Sustainability Director at Deloitte Brussels</u>

<u>Interview on 30 April 2025 for 57 minutes</u>

Could you please introduce yourself and describe your current role at Deloitte? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

My name is Jeremy Chenoy and I'm happy to participate in your thesis. Of course, I went through that myself a couple of years ago.

I started my career at Deloitte in 2010 with a background in financial audit, where I was involved more on the financial side for what we call the FSI sector - so the financial services - with a focus on banks and investment companies.

I would say I transitioned to ESG - so the sustainability field - which is also part of what we call Audit & Assurance, specifically within the certification department where we offer ESG services.

Today, I'm a director in that service line, wearing several hats. One of them involves leading assurance engagements, meaning the certification of non-financial information. In that context, I've been involved in several engagements where companies published their first CSRD report last year, and I participated in the certification of that information.

I'm also involved on the other side, where companies are preparing to publish. So, I've been advising those companies on the implementation of the new reporting requirements. So, I would say I work on both sides - certification and preparation.

This applies to both the FSI sector - financial services - and the corporate world. So, I'm active in both areas.

Before the introduction of the Omnibus proposal, what were your initial impressions or opinion of the CSRD?

The first reason is that we had many different standards on the market - you may have heard of GRI, TCFD, SASB standards - so a lot of existing standards were already out there. Companies were using those frameworks to publish their sustainability information, but the level of comparability and transparency wasn't always very high.

So, when the CSRD and the ESRS were first announced, both the firm and I were quite happy to see that, because it meant that all corporations would move towards a single way of measuring and disclosing. For me, that was hugely beneficial - to have one common framework for reporting.

The second element I'd highlight is the increased scope of companies. I guess we'll come back to that with the Omnibus proposal, but initially, I saw it as a positive step to broaden the range of companies that would have to disclose such information. Of course, that also brings challenges, because it means implementing new processes and collecting the right data - which remains the most difficult part, even today.

So, those two aspects - better comparability and broader scope - were, in my view, highly beneficial.

And if I may add a third point: what we've seen already in the first year of implementation is that many companies approached reporting from a strategic angle. They used the reporting obligation as an opportunity to reflect on what they should do in terms of ESG at a strategic level. For me, and I'll conclude with this, that's actually the most important thing. If you want a company to set the right course and define its path for the coming years, it has to start with a strategic vision, and then reporting comes afterwards.

So, in that sense, the CSRD also acts as a lever to trigger strategic thinking. Of course, not all companies are using it this way, but I think that's an important added value. So, I'd say those three aspects were particularly interesting for me when the CSRD was first announced.

And how has your opinion evolved now, that the Omnibus proposal aims to simplify the directive?

Mixed feelings: On the positive side, simplifications are welcome. If you read the ESRS or the reporting standards in general, they are highly complex. And if you look at the Taxonomy, it's even more complex, especially when you have to assess alignment criteria, etc. It's extremely technical, and when you're helping companies implement these standards or verify them through assurance, any simplification is definitely appreciated and necessary.

On the other hand, I think we may be missing the point by reducing the scope so drastically. In the initial version, we had more than 50,000 - 60,000 companies in Europe expected to report. Now, with the Omnibus proposal, the scope is reduced so much that it even falls below the scope of the previous directive, the NFRD. That feels a bit counterintuitive. We're imposing new requirements, but in the end, the number of companies covered is significantly smaller.

This is just my personal opinion, not Deloitte's position, but I believe the thresholds should have been reconsidered more carefully. Companies should still have been obliged to report. So yes, mixed feelings. On the one hand, simplification is necessary and welcome because the standards are very complex. On the other hand, reducing the scope so drastically brings us back several steps.

One interesting observation: some companies that were initially part of what we call "wave 2", I don't know if you're familiar with the term, are still planning to publish. So, wave 1 refers to the first batch of companies: listed and public-interest entities that are disclosing in 2024-2025. Wave 2 refers to companies that were supposed to be included later but many of them are no longer in scope under the Omnibus proposal.

Still, some of those companies want to publish anyway, even though they are no longer required to. So, there's still some market traction. The Omnibus took everyone by surprise, it was quick, it was bold. But we're now seeing a trend: even if companies are not formally in scope, some of them still intend to report. Will it be a full CSRD-compliant report? Maybe not. But they may still choose to disclose certain elements, and to do so in accordance with the ESRS.

So, the market is, in a way, transitioning independently in that direction.

In your opinion, what are the main reasons that led the EU to introduce the Omnibus proposals to amend the CSRD? Do you believe this was primarily driven by concerns around competitiveness, or were there other key factors at play?

I think, it's a combination of factors.

There was a report that specifically looked into the need for simplification and for reducing the regulatory burden. Was that truly necessary? It's hard for me to judge, I mean, who am I to decide that? Simplification is certainly welcome, but whether it was essential is difficult to assess.

At the same time, we are in a specific political and economic environment, including the context of upcoming elections in the US, which also plays a role. I think, there's been a push to reposition Europe, to put it back at the centre and to make it appear as simplified and business-friendly as possible.

Is that a good thing? Yes and no. As I mentioned earlier, some of the companies that are no longer in scope under the Omnibus proposal, what we call wave 2, still intend to go ahead with reporting. That's a sort of silver lining. If companies don't see sustainability reporting as just a compliance exercise, but rather as something core to their strategy, then that's even better.

So, I try to look at the positive side of all this.

As for why the EU introduced the Omnibus proposal, yes, I believe it was about making Europe more attractive and competitive by simplifying the regulation. But if companies choose to continue this path on their own, even without a legal obligation, then that's a strong signal and perhaps an even better outcome.

What are the main concerns, challenges, and difficulties that reporting companies are encountering during their transition to the CSRD (and the adjustments introduced by the Omnibus proposal)?

A lot of challenges, actually I could talk for an hour about them, but I'll try to highlight just a few key points.

I think, the first major challenge is the breadth of the reporting requirements. We're talking about the E, the S, and the G, meaning companies, depending on their double materiality assessment and their size, are required to disclose a wide range of information across all three pillars. That's a massive scope.

So, one of the first big challenges is: how do they obtain the data needed for that? The ESRS might clearly state that a company has to disclose certain data points, but do companies actually *have* those data? First, they need to identify *what* they have to disclose, and then comes the *how*, how to access and collect the necessary data.

This leads to the data issue, which is a huge challenge. Some of the required data are internal, so the first question is whether the company has proper access to those internal sources. But a large portion of the data, particularly for Scope 3 - carbon emissions, for example, comes from the value chain. That means companies must rely on their suppliers to provide key data. This is extremely challenging, both for corporates and for financial services companies.

The second challenge comes from the internal coordination required. Given the breadth of CSRD reporting, almost every department within the company needs to be involved, finance, human capital, legal, HR, operations, etc. In a small company of around 100 people, it's easier to identify who is responsible for what. But in large organisations with thousands of employees, it's much harder to coordinate all the necessary roles. So, once you've dealt with the data issue, the next question is how to organise and structure the reporting process internally. This includes designing proper processes and controls and that, too, is a major challenge.

The third challenge I want to mention is the interpretation of the regulation and the standards. Since it's the first year of application, there are still many open questions: How do we interpret certain definitions? What exactly is meant in a particular section of the standards? These questions are difficult not only for our clients but also for us as auditors. If the client isn't sure about something, they'll ask us for our opinion but giving a position as an auditor is never neutral. Once we give our view, it becomes a reference, potentially even a precedent. So, this interpretive work has been a huge part of our role, especially in the first two years making sure everyone understands the requirements as they are meant to be applied.

The fourth challenge is timing. Many companies took quite a long time to get started, which shortened the available time for proper implementation in the first year. That's why we're seeing the Stop the Clock approach in the Omnibus proposal, with a delay of two years for wave 2 companies. In fact, that's exactly what these companies need. That's also the message we're trying to communicate to them: *You now have two more years, use that time wisely*. Start working on your processes, your data, and your internal organisation.

So yes, there are challenges, but they also come with opportunities.

Do you believe there is an issue of information asymmetry between European companies that are required to report under the CSRD and non-European companies that are not subject to the same obligations? For example, if a European company discloses sustainability impacts that may reflect poorly, while a non-reporting competitor - potentially with worse practices - does not disclose anything, stakeholders may not have a fair basis for comparison.

Yes, but this issue was actually addressed in the CSRD itself.

Under specific conditions, non-European companies are also required to report. If a non-EU company has a significant presence in Europe - meaning it generates more than €150 million in revenue within the EU - then, it will also be required to publish a sustainability report in line with the CSRD or an equivalent standard. That was already part of the initial CSRD framework.

So, yes, in the short term, the current setup may create a certain imbalance or an uneven playing field. But the objective is to restore that balance by 2029, when those non-European companies will also be required to report.

I do think that's necessary, especially if we want to be able to compare companies fairly. After all, the CSRD report is now part of what we call the *management report* - the board of directors' report - which is an integral part of the financial statements.

That's the actual goal: to have one unified set of information, both financial and non-financial, so that stakeholders - whether investors or others - can access everything in one place. So, yes, I believe it's an essential step to also include non-European companies in order to ensure a level playing field in the market.

From your perspective, how are companies progressing in their CSRD implementation? Do you observe a learning curve or positive trends, and what are some concrete examples of how they are improving?

Good question. To be honest, I've seen different things.

Some companies took the topic seriously very early on, I would say they started already about two and a half years ago and these companies are now much better equipped. They're thinking about how to strengthen their processes, how to make them more efficient.

(Interview connection briefly lost)

As I was saying, it really varies from company to company, so I wouldn't generalise too much. But in general, the companies that anticipated the requirements early are now in a better position. They're focused not only on improving efficiency, but also on strategic reflection. These companies aren't just saying, *"We did our first report blindly, not knowing how the market would react"*. Now, they want to align the depth and quality of their reporting with what the market is doing.

There's always a delicate balance between transparency, meeting the minimum disclosure requirements, and going beyond them. These early movers are now in a state of mind where they're asking themselves: *"How can we improve? How can we use this strategically? How can we position ourselves in the market?"*

Then, you have another group of companies that started much later and here again, I'm being careful not to generalise. But in many cases, these companies tend to see CSRD reporting primarily as a compliance exercise. Their approach is more: *"Let's just do the minimum required to be compliant."* They tend to limit their investment in reporting, and they're less likely to go beyond the baseline requirements.

Finally, I would mention a third category of companies that I found particularly interesting. These companies are less focused on the reporting itself, but more interested in concrete ESG actions in what they're implementing day-to-day and planning for the long term to improve their ESG profile.

I've worked with a few companies like that, and I found it really insightful. I tried to encourage them by saying: *"Yes, what you're doing in practice is the most important thing, absolutely but make sure you're also using the reporting framework to reflect that maturity."*

Sometimes, they tend to downplay the importance of reporting, believing that what matters most are the actions and the investments and I completely agree with that. But I also point out: *"If your reporting isn't solid, how will the market know? How will your investors know? Your employees?"* There's always that communication gap to consider.

So, not to generalise too much, but these are the three main profiles I've seen during this first year of CSRD implementation.

How would you describe the role of the regulator, meaning the European Commission and EFRAG, the main challenges they face, and how effectively they are performing in fulfilling that role?

That's a tough question. I'm not sure I have all the answers, to be honest.

I mean, of course, one of the key roles of the regulator, meaning the European Commission and EFRAG, is to develop and define the regulatory framework. So, you have the publication process at the European level, followed by validation by the Council and the Parliament, and their task is also to build consensus and lay down the roadmap for the coming years, particularly regarding certification and assurance.

Speaking from my point of view, especially on the assurance requirements initially, the plan was to move from limited assurance to reasonable assurance. That transition is now being reconsidered.

Another element was the development of a dedicated assurance standard, known as ISSA 5000 (International Standard on Sustainability Assurance), which you may have heard of. That initiative has now been put on hold, it's been "parked," so to speak and the standard won't be released in the near term. They still want to publish guidance for auditors to perform assurance. There were a lot of debates on whether or not auditors were going too far in the audits, especially in the international context, involving all of Europe. In that sense, I think guidance is welcome for everyone.

At the same time, we've heard that the regulators also recognise the importance of having this information, the CSRD data, assured and certified. That was a big debate. The question was: Do we drop the assurance requirement altogether? But if you do that, you leave the door open for companies to publish something that might not comply with the requirements.

So, yes, I think we were always fair with companies but it hasn't been easy, especially in this first year of implementation.

Let me give you an example that illustrates both the requirement and Europe's push for assurance. We had one company that had already published their taxonomy KPIs in the past. After the first year of assurance, they had to reduce their taxonomy-aligned activities by half which is quite a lot. In their report, they initially wrote that they had to decrease the reported figures by 50%, because the auditors asked them to do so.

But it wasn't because the auditors *asked* them to do it, it was because they were not compliant with the regulation and the alignment criteria. So, they weren't able to justify those figures under the Taxonomy Regulation. Otherwise, the company would have published something that wasn't accurate.

So, yes, what is the role of Europe here? It's a difficult question. But my answer was more about how Europe is trying to keep assurance in the picture.

Would you say that one of the regulator's roles is also to ensure stability and confidence in the markets?

I think if there's one thing we can be sure of, it's that the regulator plays a key role, especially within the broader effort to maintain global temperature targets. We often talk about production, but one thing that has also been reaffirmed through the Omnibus Directive is the importance of climate. And yes, the CSRD is being used as a tool to support that goal by imposing transition plans as part of the disclosure requirements - and aligning those with the SFDR as well.

That requirement has been maintained and even highlighted. So, when we talk about stability, I'd say it's one of the indirect effects of the climate strategy. Because if companies are not able to deal with the impacts of climate change, whether financial or non-financial, we simply won't have stability.

So, yes, indirectly, I do think we'll get there.

How do you expect the roles of auditors, advisors, and consultants to evolve with the implementation of the CSRD?

I think there are two different aspects to consider here. One is the role of consultants and advisors, I tend to use both terms interchangeably and the other is the role of assurance providers, meaning those responsible for certification.

Starting with the advisory/consulting side:

I believe one of the key added values of hiring a consultant to support a company in implementing the CSRD lies in the perspective they can bring. A company will naturally be exposed to its own internal practices, but a consultant comes with an external point of view, informed by experience with multiple companies across different sectors.

We also have access to important networks and early-stage information. For example, one of our partners is a permanent representative in the EFRAG expert working group. That means we are, so to speak, at the very beginning of where decisions and proposals are being developed. So, when a company hires a consultant, they're not only getting a market-based perspective, but also one that's close to the regulator.

That allows us to advise on best practices, on what should and shouldn't be done, and on how to implement things more efficiently. That's the role we try to play with companies: to advise them throughout the implementation process by bringing that broader point of view.

Of course, that doesn't mean we have the answer to everything certainly not in this first year. I often tell clients, "That's a very good question to be honest, I don't have the answer right now." But then, I'll mobilise my team and my network to look into it, come up with a well-informed point of view, and then have that discussion with the client.

On the assurance side, I think the role is closely aligned with our core business, which has always been about bringing comfort to the market and to stakeholders. Are we confident that what companies are disclosing is accurate and complete? That's our role to ensure the credibility of the information disclosed.

So, in that sense, companies are really looking to us not only for verification, but also for support throughout their journey towards greater transparency.

***Do you observe a shift in universities, with educators increasingly focusing on sustainability or the CSRD*?**

Yes, definitely. We've seen a lot of universities either developing specific programmes or integrating the CSRD and, more broadly, sustainability into their existing curricula. In some cases, they've even developed dedicated classes on the CSRD, on climate change mitigation and transition (CCMT), and on assurance and certification. So, yes, we've observed a clear shift in that direction.

We, as consultants and auditors, are also involved in some of these initiatives. For example, I can give you two examples: we were hired to give a full lecture series on sustainable development and transformation (SDT). It was a full quarter of classes, I believe we gave eight lectures in total, each covering a different topic. Team members from our side actually helped define the curriculum. We did one class on sustainable finance, another on CSRD reporting, one on the EU Taxonomy, and so on. There was clearly both a need and a willingness from the university to integrate these subjects.

We're also sometimes invited to individual schools to give a one-off lecture on a specific topic. For instance, I was invited to ICHEC in Brussels to give a lecture on what it means to conduct a limited assurance engagement on a CSRD report.

So, yes, in terms of competencies and how students are being trained, there's clearly a growing push from the education sector to teach these topics. And what we also see is that the new generation entering the job market is actively requesting to work on these issues. That's something we're seeing more and more.

How has the role of investors evolved with the implementation of the CSRD compared to before?

That's a difficult question. I'll try to answer carefully, because I also have my own point of view on this.

The first element to consider is that financial institutions, such as banks, are directly exposed to the CSRD and are required to disclose most of the impacts they generate, both financial and non-financial. However, many of these impacts are indirect, because they result from the financing they provide to the market.

Take a simple example: if a bank finances a mortgage, they'll now look at the details of the house being purchased. What's the EPC (Energy Performance Certificate) rating? What's the energy efficiency of the building? So even though the bank isn't directly responsible for the house itself, they're still expected to assess and report on its sustainability impact - and that's just one example.

Everything a financial institution does is now connected, at least indirectly, to ESG impacts. The challenge they often mention is how to motivate those they finance both retail clients like you and me, and corporate clients to meet ESG expectations. For example, if a bank finances a project for a company, it's the company that drives the environmental or social impact, but the bank is still indirectly involved and exposed.

So, the point I'm trying to make is: yes, investors and financial institutions recognise the need to act, and they're working on it, but they also highlight how difficult it is to influence everything. Sure, they can tighten lending criteria. For example, they might make it harder for companies that are not ESG-aligned to get a loan, or offer them less favourable terms like higher interest rates. So, there are levers they can use. Is this approach fully operational yet across the sector? Probably not. But we're moving in that direction.

At the same time, it raises other questions. If banks start adjusting interest rates based on sustainability, for example, offering higher rates to clients buying less energy-efficient homes, what happens from a social perspective? Aren't we putting more pressure on people who are already financially vulnerable?

So, yes, banks are looking at these issues, but from a different angle. We can't put all the responsibility on them. They're trying to find a balance between enabling ESG progress and not worsening social inequalities.

And here I'm also bringing in a bit of my own point of view. But it's clear: this is a complex issue in the financial sector.

And what about other types of investors, such as investment firms or private equity - how is their role evolving under the CSRD, given that they operate differently from banks?

Yes, if I look at private equity firms or investment companies, my perception is that many of them currently view the CSRD more as a compliance exercise. At this stage, they often aim to do the minimum required to meet the standards.

That said, we are starting to see some movement among certain players including in private equity who are beginning to approach this more strategically. You can also observe a clear segmentation between different types of funds. Some funds are starting to look at their investments from an impact perspective really identifying projects based on the positive impact they can generate.

But overall, I would say that the broader market still approaches this more from a compliance point of view.

If we look at the financial services industry more broadly including insurance, that's another major player where things are evolving. It's actually quite interesting in the insurance sector, because non-financial impacts can be directly material to them. For example, what happens if floods become more frequent and more severe? That would have a real financial impact on insurers.

They would have to adjust premiums, and at the same time, their claims would also likely increase as these physical climate events occur more often. So, in that context, insurers are definitely integrating these kinds of risks into their business models more and more. But here, it's more from a risk perspective than a reporting perspective. Their focus is on understanding and managing the exposure rather than just reporting it under CSRD.

Are there other stakeholders not yet mentioned that would be important to include in the discussion?

For the CSRD, yes, absolutely. There's the whole set of stakeholders in the value chain that should also be considered. So far, we've talked about the financial side, but other important stakeholders include employees and the broader workforce. They're directly impacted by the company in terms of diversity, wellbeing at work, health, and safety.

And this doesn't apply only to the company's own employees, but also extends to those involved through suppliers. For example, if a company outsources construction work or other services, those non-employees are still part of the company's value chain and social impact. That makes them relevant stakeholders as well.

Then, of course, there are the regulators. They play a key role, as they set the direction and define the framework companies must follow.

So, beyond suppliers and employees, we also have communities. These may be less relevant for a bank, but for companies in sectors like construction or manufacturing especially when operating in countries like those in Africa, the local communities can be significantly affected by their activities.

We're also seeing more companies engaging directly with these stakeholders in the context of CSRD, which expands the scope of dialogue and accountability.

Have you observed any reactions or challenges coming from internal stakeholders, such as employees or unions, in response to CSRD disclosures?

Yes, and let me give you an example to illustrate this. In one company, before they officially published their CSRD report, they submitted it to the company's unions and employee representatives. And they were highly challenged, the unions and workers pushed back on certain elements, especially specific actions and policies that were mentioned in the report.

They said things like, "Okay, you've written this in the report, but in practice, you're not actually doing it." So, while it wasn't necessarily a barrier in the formal sense, it really highlighted the need for companies to be fully transparent with their own workforce about what they're disclosing.

That's why I mention this particular stakeholder group, employees and their representatives because it's clear that companies also need to take them into account. It's part of applying the double materiality principle: not only assessing impacts and dependencies, but also ensuring that the people directly affected like workers are aligned with and informed about what's being reported.

The CSRD introduces complex concepts like double materiality and thousands of data points. Do you think that understanding these concepts itself is a barrier for the different stakeholders?

Absolutely, that's true. And when it comes to data, this challenge affects all stakeholders across the board. If you look at the entire value chain, upstream, downstream, and internal operations, data is a major challenge throughout. It's a shared difficulty across the whole chain.

Can you walk me through one of your CSRD-related projects - from initial engagement to final delivery - to help illustrate how such an assignment typically unfolds in practice?

Sure, I can walk you through a project, though I'll need to keep it quite summarised, these assignments are complex. But just to give you an idea, for a wave 1 company, you can easily count around 1,500 hours of work just for the assurance or certification part. That doesn't even include what we call the assurance readiness work beforehand, which typically adds another 500 hours. So, altogether, you're looking at around 2,000 hours of effort.

<u>1. Assurance Readiness Phase</u>

Before starting with formal assurance, we support companies through an "assurance readiness" phase. One of the first and most important steps here is the Double Materiality Assessment (DMA). It's critical because it determines which topics and data points the company must report on and at the end of the process, the DMA itself is also subject to assurance.

We usually start working on the DMA process review one and a half to two years in advance. That allows us to align early on with the company about which topics they'll disclose on, so they can begin setting up their entire reporting framework accordingly.

Then comes the mapping exercise: linking the material topics identified through the DMA with the actual data points to be reported. This is a complex step, because it's not a one-to-one match. It requires detailed analysis and judgement. We also conduct a gap assessment to determine whether the company's data systems are equipped to deliver what's required, even before the report itself is produced.

2. Limited Assurance Phase

Once the readiness work is complete, we move into the limited assurance phase, which is structured similarly to a financial audit, broken into three main stages:

a. Planning Phase

The focus here is on risk assessment. We need to understand the entire data process: from the raw data source, say, an employee database with parameters like gender, salary, and contract type to the final KPI reported in the CSRD. This means analysing data flows, systems, interfaces, and process controls. The purpose is to identify where risks lie in the reporting chain, so we can focus our testing accordingly. This step alone takes about 20 - 25% of the total project time, especially in the first year, when processes are not yet fully defined.

b. Interim Phase

This involves testing internal controls the company has put in place for data collection and reporting. The stronger the controls, the less substantive testing we need to perform.

Another key component of the interim phase is the anticipation of testing, which many companies do through a "dry run" using Q2 or Q3 data. We test these datasets early to catch problems before the final figures are due. In the first year, this was incredibly challenging, we identified many inconsistencies and misunderstandings around definitions, initial data, and lack of documentation. Still, doing this early was critical to ensuring that final reporting would meet the requirements. This interim testing made up about 40% of total project time.

c. Final Phase

Here, we verify the final data and, crucially, assess the first draft of the CSRD report itself. Just like we performed a gap assessment on the data points earlier, we now do one on the report to ensure full compliance with the standards.

Interestingly, while the ESRS define the content very clearly, they leave much more flexibility in structure. So, we've seen huge differences in how companies present their reports structurally very diverse, even if the data itself is comparable. Reviewing and advising on this report structure is a big part of our work, especially in the first year.

So, in summary, the project goes through several key phases:

- Double Materiality Review
- Gap Assessment (on data and later on the report)
- Limited Assurance, with
    - Planning (risk assessment)

- Interim (control testing and early testing on draft data)
- Final (data and report verification)

It’s a very demanding and iterative process, especially in year one, but it’s also where we bring a lot of value to the client.

K. Interview 10

Partner at a Big Four company in Belgium

Interview on 30 April 2025 for 58 minutes

Could you please introduce yourself and describe your current role? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

Yes, of course. So, I'm a partner and have been in audit for 20 years. I'm a financial auditor by background. But with the CSRD coming into effect, financial auditors are becoming integrated auditors. All financial auditors who have clients requesting sustainability reporting to be signed off are in fact the same people who are doing that, or are currently doing it, since the first wave of reporting is now underway.

That's one angle. But I also lead transformation projects. For about a year and a half, maybe two years now, I've been in charge of this area because of the significant volume of work coming our way. We already had a sustainability expert team in place, but all of our financial auditors had to be upskilled. We had to recruit new people to handle this volume of work, and we had to create new methodologies and risk and quality procedures.

From a business development perspective, we also had to develop a go-to-market approach. So, there was a lot to manage what we internally refer to in one word as "transformation" and I've been leading that, and I still am.

I'm therefore involved in most aspects of this, but I've also been directly involved in sustainability assurance engagements for several clients, which I signed off. I've been closely involved with these types of engagements. That's my introduction.

Before the introduction of the Omnibus proposal, what is your opinion of the CSRD?

Yes. So, I think the objective was very noble. You have the Green Deal of the European Commission, of course, and that objective can't be met without taking certain measures. One of those measures were the CSRD and the EU Taxonomy, which force companies to report on sustainability.

And here I really want to emphasise something: this is a transparency directive. It's not a directive that pushes companies to improve directly, but it does so indirectly. Because once your stakeholders can read and assess your performance, even if it's bad, it pushes you to improve, again indirectly. It also affects financial flows: investors, banks, and other financiers are increasingly directing funds towards green activities and businesses. That evolution is clearly underway. So, this directive and the resulting company disclosures facilitate these financial flows, which ultimately support the Green Deal's objectives.

In that sense, I think the framework is very good. Europe is front-running in this area.

But, and this is a big *but*, while I am fully convinced by the objective and the overall setup, the number of companies in scope was enormous, especially among the wave 2 companies.

Now, that we've seen the extent of what reporting actually requires for example, we have wave 1 clients who reported over 600 pages, it's clear that things went too far. That kind of volume is crazy. Of course, wave 2 companies may not need to report that much, but still, the extent of reporting is enormous. If you're a company with "only" €15 million in turnover, this is completely out of proportion.

So, yes, the objective is great, and the measure, the transparency directive, makes sense. But the scope of entities included went too far, and so did the depth and volume of reporting.

And one of your other questions, which I know we'll come back to, is whether the CSRD still meets its objective. Well, if stakeholders have to go through 600 pages to find what's relevant to them, the objective is lost. It's no longer readable or accessible, and the data collection burden is excessive.

There's another angle to this - still related to scope - which is that you're not just reporting on your company, but also on your entire value chain. That means small companies in your supply chain are also expected to provide data, data they often don't have or can't provide. But again, that's the whole point: by reporting on your value chain, you indirectly push the whole business ecosystem in a greener direction.

So, I think that's my nutshell view of the CSRD before the Omnibus proposal.

I also want to add something I really liked, maybe it's because I'm an auditor. The European Commission didn't say: "Companies, just report whatever you want." No, they not only created a framework but also required that the information be audited. Not audited in the full sense of the word - it's limited assurance - but in any case, it has to inspire trust. That's a big signal to both companies and the market. It strengthens our profession and adds credibility to sustainability disclosures. So, I think that's another important pre-Omnibus element.

So, in summary:

- Positive: the objective is solid, the means are valid via the transparency directive, and companies can choose how far they go, but they must be transparent.
- Also positive: the fact that disclosures must be audited, creating trust.
- Downside: the reporting goes too far in terms of data volume, affects too many entities in the value chain, and has an out-of-proportion scope, especially considering the inclusion of many smaller companies.

That would be my summary.

Now, that the Omnibus proposal has been issued, how has your opinion on the CSRD evolved?

I think, it makes sense that some corrective measures were taken, and I believe the negative points I previously mentioned have been addressed, at least partially, through the Omnibus proposal.

For example, the ESRS will be revised and simplified. The focus is expected to shift more towards quantitative data points rather than qualitative ones. If you've looked at some of the first reports - I don't know how many you've reviewed so far - you'll have seen there's a huge amount of narrative content. So, reducing that and focusing more on measurable data is a step in the right direction. It's still under development, so we don't know exactly where it will land, but the objective to reduce and simplify the reporting burden is clear, and that's a positive evolution.

Another positive point: the double materiality assessment has not been scrapped. That's a big topic - it's a lot of work for companies - but it's extremely valuable for understanding your stakeholders and identifying what's important for them and for the company itself. So, the fact that it was retained is a positive signal.

There was also some debate at one point about removing limited assurance, but it's still in place. That's another positive point. The fact that we're not moving towards reasonable assurance… well, I think that's a bit of a "pity", because reasonable assurance would add value. But still, having some form of assurance is better than nothing, so I can live with that, I would say.

Then, there's the scope of entities. The threshold is being raised to 1,000 employees. For our firm and our clients, that means we go from approximately 100 clients in scope down to about 40. So, there's a significant reduction in the number of entities subject to CSRD, which addresses the concern I mentioned earlier about the scope being too broad.

And of course, there's also a delay in implementation. But that delay is connected to the ESRS revision process. So, now we have essentially two more years to rework the standards. By the time wave 2 companies need to report, they will have had a bit more time to prepare, which is also a good thing.

Overall, I see these as positive changes. The downside, however, is that reasonable assurance has been abandoned, which I do think has value. And from a business perspective, we had prepared for a substantial workload this year related to wave 2, but that didn't materialise. We had invested significantly in recruiting and upskilling people, and although that investment isn't wasted, we now have to recalibrate our resourcing, which is never pleasant.

And then, what's really crazy is how late the decision was made on February 26th and it was still only a proposal at that point. It still needed approval. The Stop the Clock measure has since been approved, but the Content proposal still awaits formal adoption. Making such a major decision in the reporting year itself is, frankly, ridiculously late.

So, yes, that's my feedback on the current situation.

In your opinion, what are the main reasons that led the EU to introduce the Omnibus proposals to amend the CSRD?

I think, there were two main drivers, let's say *official* drivers behind the Omnibus proposal.

First, as I already mentioned, the reporting burden was extremely high. So, the first major driver was the broader trend to reduce administrative and compliance burdens for companies. That's not only something we see globally, but also within Europe specifically. So, I think that was clearly one motivation.

The second driver is competitiveness. Companies in the EU are required to report on a wide range of sustainability topics that companies outside the EU simply don't have to disclose. The reporting burden comes with real costs, and that has a significant impact on competitiveness.

Of course, this could also be an opportunity in the long term, but for now, the general perception is that it's a burden and a disadvantage, and that has a clear effect on how competitive European companies are. I believe this is something the European Commission heard and decided to address through the Omnibus proposal.

To be honest, though, part of me sees this as a case of mismanagement. The EU decided to introduce this regulation without fully understanding its impact. Look at Belgium, for instance: the transposition of the directive was only finalised in December, and the first company reported in early February. That's just not a reasonable timeline.

And then, just one month later, by the end of February, they said: "Actually, we're going to issue some proposals to revise it." It was almost laughable. In my view, it reflects a lack of proper planning and foresight.

So, yes, that's my political feedback on the matter.

From a competitiveness perspective, do you believe there is an issue of information asymmetry between European companies that are required to report under the CSRD and non-European companies that are not subject to the same obligations? For example, if a European company discloses sustainability impacts that may reflect poorly, while a non-reporting competitor - potentially with worse practices - does not disclose anything, stakeholders may not have a fair basis for comparison.

Yes, absolutely. And it's not just about the information asymmetry, it's also about the cost of reporting and the administrative burden that comes with it. So, it’s a bit of a double hit.

On the one hand, you’re at a competitive disadvantage, because you have to be transparent about things that other companies, particularly non-European ones, don’t need to disclose at all. And that includes risks and issues throughout your value chain, which may not reflect well on your company.

On the other hand, there’s a financial impact. If your administrative burden costs several times more than that of a competitor, you’ll have to absorb or pass on those costs somehow, whether through your pricing or elsewhere.

So, when I think about how this affects competitiveness, I see it as twofold: one part is the asymmetry of disclosure, and the other is the added cost burden that EU companies face.

What are the main concerns, challenges, and difficulties that reporting companies are encountering during their transition to the CSRD (and the adjustments introduced by the Omnibus proposal)?

As I mentioned earlier, this is a very extensive reporting exercise. That means companies need to invest a lot of time and also a lot of money to manage it. You need dedicated internal resources, or you need to hire external consultants, which of course comes at a cost. So that’s already a major concern: time and money spent.

But it doesn’t stop there. There’s also the challenge of data, an enormous amount of data. And one of the biggest issues for companies is that they don’t always have the data they need.

So, I would say there are two main issues. First, the magnitude of the investment required in terms of time and financial resources. And second, the quality and availability of data.

And the data challenge has multiple dimensions. Internally, financial reporting systems are quite mature, but non-financial reporting is only just beginning. Some companies may have already been working on it with a few KPIs, but now the scope is much broader.

On top of that, you also need to gather data from your value chain. That means engaging with your customers and suppliers, getting them involved, asking them to provide specific information. And that adds an entirely new layer of complexity.

So, yes, in my opinion, those are the main challenges companies are facing right now.

In what ways will the work of auditors, advisors, and consultants change with the implementation of the CSRD?

Well, in the past, we were only financial auditors. Now, we also need to audit non-financial information.

And in Belgium, that can only be done by statutory auditors, but only by those who have sufficient knowledge, obtained through proper training. I don’t know if you’re familiar with the rules, but this year we were required to complete 30 hours of training, and for next year, it was supposed to be 60 hours, though I believe that has now been revised with the Omnibus proposal.

So, the first challenge is that we had to upskill ourselves, we needed to develop new competencies, because this is new territory. Of course, we work with experts in this area, but auditors still need to have a solid foundational understanding of sustainability topics.

The second challenge is scaling up. We had been preparing for wave 2, which involved a large number of companies that would have had to report. So, we had to invest in people, in recruiting, training, and building capacity.

Now, it's a bit unfortunate, because we won't benefit from that investment immediately, and we need to reorganise ourselves as a result.

You can link this back to what I mentioned earlier about my transformation role, this is the kind of transformation that an audit firm had to go through to prepare for CSRD implementation. And that transformation is, in itself, a major challenge.

***Do you observe a shift in universities, with educators increasingly focusing on sustainability or the CSRD*?**

Absolutely. And since you're talking about challenges, perhaps it's also worth mentioning that this shift presents opportunities both for companies and for audit firms like ours.

For reporting companies, one clear opportunity is that sustainability is now something all companies are being forced to think about. They're being pushed to reflect on their policies, their direction, and to actually describe and document it. So, although the reporting obligation is a challenge, it also acts as a catalyst for companies to start or deepen their sustainability journey. Not all companies were doing this proactively before, and now the CSRD has facilitated that process. So, yes, it's a challenge, but also a real opportunity.

For the audit and advisory profession, there's also a clear opportunity. Every time we open positions related to ESG or sustainability, we see strong interest. People are drawn to this topic because it's fun, relevant, and socially important. It really resonates with today's professionals.

Naturally, the same trend is emerging in universities and schools. What we now see is the creation of new study programmes and academic tracks specifically focused on sustainability. And it's also becoming embedded in existing programmes.

For example, I'm going to teach a course next year at university called *Sustainability Reporting and Assurance*. Three years ago, that course didn't exist. Now, it's part of the curriculum, worth six ECTS credits. So, in just a few years, we've gone from nothing to having core sustainability courses fully integrated into business education.

So, yes, there's a significant evolution happening in the education sector as well.

How have the role and behaviour of investors - such as banks, investment firms, and private equity - evolved since the implementation of the CSRD?

Investment companies, yes, well, that's an interesting point. If you look at investment funds, especially those open to retail investors, many of them began offering funds with a sustainability label, and for a while, that really gained traction.

But, I think, we're seeing a bit of a shift now. For example, take the current interest in defence investments. A few years ago, defence was not considered a sustainable sector at all, nobody wanted to invest in it. Now, however, that sentiment is changing, and defence is starting to attract investments again. So, in that sense, things are moving slightly in the opposite direction.

That said, sustainability-focused investment funds, those that invest specifically in sustainable businesses, did gain momentum. There are even some studies suggesting that returns from sustainable investments might be higher, although that's still being debated. But the narrative is definitely out there.

When it comes to financing, particularly with banks, we now see companies receiving interest rate reductions if they link their financing to sustainability KPIs. These are often structured as sustainability-linked loans. And then you also have green bonds, which are becoming more and more popular. So, yes, these financial instruments tied to ESG performance are growing, even if they may also be part of a temporary trend.

So, overall, I would say it's a mixed picture. There's definitely growing interest and movement in the direction of sustainability, but we're also seeing a bit of pushback or reversal in certain areas.

That's just my personal point of view, though. I would strongly suggest that you also speak directly with stakeholders from the investment world, because they can offer a more comprehensive and detailed perspective - maybe even a more mature one.

The EU, as a key stakeholder, is expected to provide stability through its regulations and frameworks. However, with the CSRD moving forward and then the Omnibus partially reversing course, this stability seems challenged. How do you perceive the EU's position in this context?

Yes, regarding the European Commission, I've already shared my opinion earlier. I think the objective behind the CSRD is noble, and that's great. But what followed was, in my view, a case of mismanagement.

That's just my personal perspective, of course. If you asked the European Commission, they would probably present it quite differently. For example, if you look at their communication around the Omnibus proposal, they positioned it as: *"We've done a great job."* But to be honest, it came too late, and it wasn't nearly proactive enough.

As I mentioned before, there's also EFRAG, which is responsible for developing the reporting frameworks. What we're seeing now is what I sometimes refer to as "ESRS Light", which is currently being developed. The original setup was almost unworkable, it went too far in terms of complexity and granularity.

So, yes, a revision is underway, and the challenge now is that EU institutions, particularly EFRAG, have to rethink and adjust the framework to make it more manageable.

What I could perhaps add here is that the original ESRS went too far, especially in their initial design. In addition, there was a lack of guidance. We really needed FAQs and Q&As to interpret the standards properly, or at least to clarify certain practical applications. And those weren't available when they were most needed.

That said, it's also understandable. If you look at IFRS in its early days, that framework wasn't mature either. It takes time to mature such a complex system.

So, doing an evaluation after just one year is, in my view, a bit premature. But even so, the general consensus now is clear: the ESRS, as originally created, went way too far. And yes, that is a major challenge the EU must now confront.

How do you see the removal of the reasonable assurance requirement under the CSRD? Would you consider it a strategic simplification? Do you believe limited assurance is sufficient, or not? Will reasonable assurance come back again in the future?

I'm not 100% convinced that reasonable assurance will never come.

In some regions, you can already see signs of it developing. For example, in Belgium, not many companies have gone that far yet. I believe UCB is the only one that has included reasonable assurance for a selected number of KPIs in their report. The vast majority of companies reporting under CSRD today are still sticking to limited assurance.

But, if you look at Germany, for example, you have Allianz, an insurance company, that has already reported using reasonable assurance. And in France, you also see a combination of assurance levels, some disclosures are under limited assurance, but for certain KPIs they already apply reasonable assurance. Typically, this happens for the KPIs that are considered particularly material - like emissions, for instance. That could be because those KPIs are linked to sustainability-linked loans or other important commitments.

So, you can already see market-driven movements in that direction. And yes, it could very well be that, in the long term, we naturally evolve towards reasonable assurance for non-financial information, just like we did for financial audits.

That said, this is really my personal view. I don't think we're fully aligned on this yet as a practice or profession.

Based on your work with companies that are required to report, do you observe that they are questioning the short-term investments involved - such as the high initial costs - especially since the value of these efforts often only becomes visible in the long term? Do you think this short-term burden is affecting their overall perception or awareness of the CSRD's intended benefits?

Yes, absolutely.

As I mentioned earlier, it's a real challenge. It comes with a significant cost, not just in terms of what you pay to your auditor or to consultants, but also in terms of internal costs. There are many people involved internally, and they all need to spend time on it and that time has a price, too.

That said, we also see that some clients do recognise the value of the exercise, especially because, during the audit process, a lot of errors came to light. When you want to publish something, it needs to be correct. And that's exactly the role we play as auditors.

Some companies see this positively, while others see it more as a compliance burden. But honestly, that's not so different from what we experience in financial audits, some companies value it, others just want to get through it.

So, yes, there's a mixed view. But, I would say that for many, the first year of reporting and assurance was particularly tough. Companies essentially had to do it twice: first, they had to prepare and publish their report, and then afterwards, they still had to go through the process of having it challenged and reviewed by an external party.

Could you walk me through one of your sustainability reporting engagements, explaining how the process typically unfolds from start to finish?

Yes, of course. I think, the first step for all companies was the double materiality assessment. It's a really interesting exercise, and quite unfamiliar for everyone at the beginning, because it's a new concept (DMA). That was definitely the starting point, because based on that, you determine what the company actually needs to report on.

We would then look into stakeholder engagements: How was it conducted? Did they use proxies? Did they carry out interviews? Did they send out surveys? So, we'd examine the methodology, and from there, identify the material topics and the relevant ESRS requirements.

In our firm, we added an extra layer of quality control by having each double materiality assessment reviewed by a Double Materiality Review Committee. This committee included representatives from:

- our risk function,
- the National Office (our quality team for assurance),
- the CRS team (our reporting experts), and
- our sustainability experts with technical knowledge.

The goal was to benchmark and ensure consistency, especially since this was all new, not just for companies, but also for us. We wanted to avoid situations like one insurance company reporting a certain topic as material, while another in the same sector did not. So that benchmarking element was important. This was done both within our firm and across our European network.

The next phase involved determining what data needed to be collected, and evaluating how the client's processes were organised. Was data gathering centralised or decentralised? Were Excel files used? Did they have systems in place? What control layers existed?

Even though this is a limited assurance engagement, you still look at how the client organises the reporting process. We also identify risks. For example, if a KPI is linked to executive bonuses, then naturally the risk of error or bias increases, even if unintentionally. So, we identify which KPIs carry higher or lower risk, and tailor our testing approach accordingly.

Since this was the first reporting year for many clients, we mainly performed substantive testing. In theory, limited assurance allows for analytical procedures - like comparing data year over year - but since it was year 1, historical data often didn't exist. However, some companies already had NFRD reporting or voluntary assurance in the past, so in those cases, we could use analytics. But for my clients specifically, that wasn't the case, we had to rely on "test of details" for most KPIs.

During testing, of course, we encountered issues. These needed to be addressed, and we always tried to understand the root cause to assess whether the problem might affect other parts of the report.

Then comes the reporting phase. All the data points are now collected and audited, and we review how they are integrated into the sustainability report. At this point, we review the full document to ensure consistency between the narrative and the data. We're also on the lookout for greenwashing, whether it's downplaying negative KPIs or overemphasising positive ones. The goal is to ensure the language is neutral, with no excessive adjectives or promotional tone.

The final step is the assurance report itself. We assess whether the report is qualified or unqualified, and determine what exactly will be included in our assurance opinion.

Throughout the entire process, there's constant interaction and dialogue with the client, ongoing discussions to guide them and clarify expectations.

So that's more or less the overall process. It's quite general, but it reflects the same structure we followed in the two client engagements I was personally involved in. It was really fun, really interesting, and yes, definitely a valuable experience.

L. Interview 11

__Pascal Arimont; Member of the European Parliament__

__Interview on 14 May 2025 (written response)__

Note: Pascal Arimont was initially scheduled for a spoken interview but was unable to attend due to two unforeseen scheduling conflicts. As a result, he completed the interview questions in written form on 14/05/2025.

(Original)

Kannst du dich bitte kurz vorstellen, deine aktuelle Rolle erklären und sagen, wie du in die Entwicklung oder Umsetzung der CSRD eingebunden bist?

Pascal ARIMONT, Mitglied des Europäischen Parlaments seit 2014. Heute bin ich Mitglied des Umweltausschusses (ENVI), des Ausschusses für Beschäftigung (EMPL), und des Regionalausschusses (REGI).

Eingebunden in die Ausarbeitung der CSRD war ich in der vergangenen Legislaturperiode „nur“ als reguläres Mitglied des Rechtsausschusses (JURI), der federführend für das Dossier zuständig war. Ich war aber nicht Teil des Verhandlungsteams, das direkt den Text im EP ausgehandelt hat und anschließend die EP-Position ggü. dem Rat verteidigt hat. Ich habe aber an den entscheidenden Ausschussabstimmungen und Abstimmungen im Plenum teilgenommen.

Wie war dein erster Eindruck von der CSRD, bevor der Omnibus-Vorschlag kam?

Ich mache wöchentlich Unternehmensbesuche in meinem Wahlkreis. In Ostbelgien gibt es nicht viele Betriebe die mehr als 250 Mitarbeiter haben, und somit direkt in den Anwendungsbereich der Richtlinie fallen. Allerdings befinden sich einige dieser Unternehmen in der Lieferkette dieser größeren Firmen. Die wälzen die Berichterstattungspflichten, die ihnen die CSRD vorschreibt, an ihre Zulieferer ab. Die Konsequenz ist, dass kleinere Unternehmen - obwohl sie nicht in den Anwendungsbereich der CSRD fallen - in der Praxis sehr wohl von den Verpflichtungen zur Berichterstattung erfasst werden. Das führt zu einem erhöhten Bürokratieaufwand, die gerade die kleinen Betriebe sehr hart trifft.

Bsp: das Unternehmen Steresys in Raeren baut Sterilisationsanlagen für Medizinproduktehersteller. Diese Hersteller fordern von Steresys alle möglichen Informationen an. Dazu fehlt dem Betrieb aber die Manpower, um diesen Bürokratieaufwand zu bewältigen. Stellen sie die Informationen jedoch nicht bereit, verlieren sie den Auftrag.

Wie hat sich dieser verändert durch den Omnibus-Vorschlag?

Es handelt sich ja um ein ganzes Omnibus-Paket, das vor allen Dingen aus diesen 3 großen Vorschlägen besteht:

1) Richtlinienvorschlag zur inhaltlichen Abänderung der CSRD und CSDDD

2) Richtlinienvorschlag zur zeitlichen Verschiebung des Geltungsbeginn bestimmter Anforderungen der CSRD und CSDDD (sog. ‚Stop the Clock‘-Richtlinie)

3) Verordnungsvorschlag der den bürokratischen Aufwand in Bezug zur CBAM-Verordnung reduziert

Die Stop the Clock-Richtlinie hat im Eilverfahren die Gesetzgebungsprozedur durchlaufen, und ist als RiLi 2025/794 am 15. April 2025 in Kraft getreten. Konkret hat das zur Folge:

- CSRD-Berichterstattung wird um zwei Jahre verschoben (große Unternehmen von 2025 auf 2027, börsennotierte KMU von 2026 auf 2028)
- CSDDD-Verpflichtungen werden um ein Jahr verschoben (von 2026 auf 2027 und weiter)

Die Vorschläge zu den inhaltlichen Anpassungen der CSRD (und CSDDD) werden derzeit sowohl im EP als auch im Rat beraten. Dabei geht es vordergründig darum, den Anwendungsbereich der CSRD auf große Unternehmen mit mehr als 1.000 Mitarbeitern zu beschränken. Damit soll sichergestellt werden, dass von KMU nicht mehr übermäßig viele Nachhaltigkeitsinformationen angefordert werden, wenn sie Teil der Wertschöpfungskette sind. Zudem sollen auch die Standards für die Nachhaltigkeitsberichterstattung (sog. European Sustainability Reporting Standards, ESRS) vereinfacht werden.

Was sind aus deiner Sicht die Hauptgründe dafür, dass die EU-Kommission den Omnibus-Vorschlag eingebracht hat? Gehe auf die Politische Entwicklung in Europa, sowie z.B. Amerika ein.

Das Omnibus-Paket ist ganz klar im Kontext des Draghi-Berichts zu betrachten. Dieser Bericht gibt den politischen Entscheidungsträgern Pisten an die Hand, wie die Wettbewerbsfähigkeit der EU und das Wohlergehen der EU-Wirtschaft gestärkt werden können.

Mario Draghi betont, dass zur Steigerung der Wettbewerbsfähigkeit und Ankurbelung des Wachstums die EU ein günstigeres Geschäftsumfeld schaffen muss, und insbesondere dafür Sorge zu tragen hat, dass Unternehmen nicht mit Regelungen überfrachtet werden. Dadurch kann Wachstum entstehen, Arbeitsplätze werden geschaffen, was in der Folge für Investoren attraktiv ist.

Im Draghi-Bericht wird ein bemerkenswerter Vergleich zwischen der Anzahl der verabschiedeten Gesetze in der EU und den USA gezogen. Demnach hat die Europäische Union zwischen 2019 und 2024 rund 13.000 Rechtsakte erlassen, während die USA im gleichen Zeitraum etwa 3.500 Gesetzestexte und 2.000 Beschlüsse auf Bundesebene verabschiedet haben.

Draghi nutzt diesen Vergleich, um auf die ausufernde Regulierung in der EU hinzuweisen, die seiner Ansicht nach ein Hemmnis für wirtschaftliches Wachstum und Innovation darstellt. Er kritisiert, dass der politische Entscheidungsprozess in Europa langsam und uneinheitlich ist, was die EU daran hindert, effektiv auf globale Herausforderungen zu reagieren. Im Durchschnitt dauert es 19 Monate, um neue Gesetze zu verabschieden, wobei es bis zur endgültigen Verabschiedung zu mehreren Vetos kommen kann.

Ein weiteres Problem, das Draghi anspricht, ist die sogenannte "Asymmetrie in der Regulierung". EU-Unternehmen sehen sich im Vergleich zu ihren Wettbewerbern in den USA oder China mit einer höheren regulatorischen Belastung konfrontiert, was zu ungleichen Wettbewerbsbedingungen führt. Diese Überregulierung verursacht erhebliche Befolgungskosten für Unternehmen und schmälert deren Ressourcen für Innovation und Leistungsverbesserungen. Eine Folge davon ist der besorgniserregende Trend der Verlagerung von Unternehmen in Drittländer.

Draghi plädiert daher für eine Vereinfachung und Straffung der EU-Vorschriften, um die Wettbewerbsfähigkeit Europas zu stärken. Er betont, dass Investitionen allein nicht ausreichen, sondern dass auch strukturelle Reformen notwendig sind, um bedeutende Fortschritte zu erzielen.

Dazu gehört die Vollendung des Binnenmarkts, die Beseitigung von Hindernissen und die Priorisierung eines kohärenten Ansatzes zur Verringerung des Verwaltungsaufwands.

Insgesamt zeigt der Draghi-Bericht auf, dass die EU ihre regulatorischen Prozesse überdenken muss, um flexibler, effizienter und wettbewerbsfähiger zu werden.

Wie ist der jetzige legislative Verlauf des Stop the Clock proposals sowie des Content proposals?

Die Stop the Clock-Richtlinie ist als Richtlinie 2025/794 am 15.04.2025 in Kraft getreten. Der Vorschlag wurde im Eilverfahren sowohl im EP als auch im Rat angenommen.

Der Vorschlag mit den inhaltlichen Anpassungen wird grundsätzlich, wie jeder andere Vorschlag, von den Gesetzgebern bearbeitet. Im EP soll bis zum Ende des Jahres die Position beschlossen werden.

Kannst du erklären, welche Schritte notwendig sind, damit der Omnibus-Vorschlag wirklich verbindlich wird? Welche Rolle spielen dabei das Parlament, der Rat und die Mitgliedstaaten?

Mit dem ersten Teil des Omnibus-Pakets - der Stop the Clock-Richtlinie - wurde ja schon ein erster verbindlicher Text verabschiedet.

Gestern (13.05.) ist im zuständigen ENVI-Ausschuss der Omnibus-Text zu CBAM angenommen worden. Dieser muss jetzt noch vom Plenum abgestimmt werden, damit EP und Rat sich schnell einigen können.

Der andere Vorschlag mit den inhaltlichen Anpassungen zur CSRD & CSDDD, ist derzeit Gegenstand eines ordentlichen Gesetzgebungsverfahrens. Das bedeutet, dass sowohl im EP als auch im Rat der von der KOM vorgeschlagene Text beraten und bearbeitet wird.

Im EP ist dafür der Rechtsausschuss (JURI) federführend zuständig. Ein sog. Berichterstatter (Jörg WABORN aus Schweden für die EVP) ist Verhandlungsführer, der - sobald er mit den anderen Fraktionsvertretern einen Text ausgehandelt hat - die EP-Position im Namen des EP gegenüber dem Rat verteidigen wird. Diese Verhandlungsphase zwischen EP und Rat nennt man Trilog und endet damit, dass es ein Kompromiss gefunden wird, auf den sich die Gesetzgeber einigen. Dieser Kompromiss ist der finale Text, der zum Gesetz wird.

Ist der Omnibus-Vorschlag für dich ein sinnvoller Schritt oder eher eine Abschwächung der ursprünglichen Ambitionen der CSRD?

Das Omnibus-Paket ist auf jeden Fall ein notwendiger Schritt, um die Bürokratielast unserer Unternehmen zu reduzieren.

Der Kontext, in dem in der vergangenen Legislaturperiode sowohl die CSRD als auch die CSDDD angenommen wurden, war höchst ideologie-getrieben. „Die bösen Unternehmen müssen strikter in Bezug auf Umwelt- und Sozialvorgaben kontrolliert werden“ + „Alles hat sich dem Klimaschutz unterzuordnen“. Es ist gut, dass diese Ideologie mit der letzten Europawahl durchbrochen wurde und wir wieder zu etwas mehr Realismus zurückkommen.

Grundsätzlich geht es auch nicht darum weniger ambitioniert etwa beim Klimaschutz zu sein. Wir müssen aber den Weg dorthin nicht bis ins letzte Detail regulieren.

Denkst du, dass europäische Unternehmen durch die CSRD (trotz der Anpassungen) im internationalen Vergleich benachteiligt werden - zum Beispiel gegenüber Unternehmen aus den USA oder China?

Ohne Omnibus glaube ich schon, dass Europa den Anschluss an USA und China verlieren kann bzw. wird.

Grundsätzlich müssen wir stark an unserer Wettbewerbsfähigkeit arbeiten, um auch in Zukunft eine interessante Region zu sein, wo Industrie nachhaltig wachsen kann. Europa kann die Region sein, wo gute Synergien zwischen Wirtschaft und Umwelt (Ökologie & Ökonomie) geschaffen werden.

Welche Rolle siehst du für die EU-Kommission im Kontext der CSRD?

Die Kommission ist prinzipiell für die Einhaltung des gesamten EU-Rechts zuständig. Wenn ein Mitgliedstaat beispielsweise die neue CSRD nicht umsetzen wird, kann sie diesen Mitgliedstaat rügen und notfalls ein Verfahren vor dem EuGH einleiten.

Sie wird bzw. kann auch sicherlich eine beratende und unterstützende Rolle bei der Umsetzung spielen.

Wie läuft die Zusammenarbeit zwischen der EU-Kommission und EFRAG konkret ab? Und wie würdest du die Einflussverhältnisse zwischen beiden beschreiben?

Mit dem sog. European Financial Reporting Advisory Group hatte ich noch keinen Kontakt. Diese unabhängige Organisation berät die KOM bei der Entwicklung und Einführung von Nachhaltigkeitsberichtsstandards.

Das Omnibus-Paket sieht vor, dass neben den eigentlichen Gesetzesvorschlägen, die KOM auch einen sog. delegierten Rechtsakt ausarbeitet, der die European Sustainability Reporting Standards vereinfachen soll. EFRAG ist dabei sicherlich konsultiert worden, wenn es darum geht, wie etwa Meldebögen vereinfacht werden können.

Wie verändert sich aus deiner Sicht die Aufgabe der Auditoren durch die CSRD?

Auditoren werden mit CSRD die Nachhaltigkeitsberichte der Unternehmen prüfen müssen. Bislang geschieht dies freiwillig.

Das hat natürlich zur Folge, dass sie auch entsprechend ausgebildet / geschult werden müssen, nicht nur Bilanzen und Geschäftsberichte beurteilen zu können. Sie werden sich auch eben auch mit ESG-Themen, Klimarisiken, Menschenrechten, Lieferketten, Co2-Bilanzen, etc. auskennen müssen.

Wie verändert sich aus deiner Sicht die Aufgabe der Investoren durch die CSRD?

Investoren werden in Zukunft Unternehmen bzw. einen Geschäftsbereich (und das damit verbundene Risiko) etwas anders bewerten. So wird die Nachhaltigkeit einer Aktivität eine ganz entscheidende Rolle spielen, ob investiert wird oder nicht.

<u>Pascal Arimont; Member of the European Parliament</u>

<u>Interview on 14 May 2025 (written response)</u>

Note: Pascal Arimont was initially scheduled for a spoken interview but was unable to attend due to two unforeseen scheduling conflicts. As a result, he completed the interview questions in written form on 14/05/2025.

(Translation)

Could you please introduce yourself and describe your current role? I'd also be interested to hear how you are currently involved in sustainability-related work, particularly in the context of the CSRD.

Pascal ARIMONT, Member of the European Parliament since 2014. I am currently a member of the Committee on the Environment (ENVI), the Committee on Employment and Social Affairs (EMPL), and the Committee on Regional Development (REGI).

During the previous legislative term, I was involved in the development of the CSRD only as an ordinary member of the Legal Affairs Committee (JURI), which was the lead committee for the file. However, I was not part of the negotiation team that directly negotiated the text within the Parliament and later defended the Parliament's position in talks with the Council. Nevertheless, I participated in the key committee votes and the final votes in the plenary.

Before the introduction of the Omnibus proposal, what is your opinion of the CSRD?

I visit companies in my constituency every week. In East Belgium, there are not many businesses with more than 250 employees, meaning that most do not directly fall within the scope of the CSRD. However, some of these smaller companies are part of the supply chains of larger firms that do fall under the directive. Because of the so-called "trickle-down" effect, these larger companies pass on the reporting obligations imposed by the CSRD to their suppliers.

The result is that smaller companies - although not formally subject to the CSRD - are nonetheless affected by its reporting requirements in practice. This leads to increased bureaucratic burdens, which hit small businesses particularly hard.

For example, the company Steresys in Raeren builds sterilisation systems for manufacturers of medical products. These manufacturers are now requesting all sorts of information from Steresys. However, the company simply does not have the manpower to handle this bureaucratic workload. Yet if they fail to provide the requested information, they risk losing the contract.

Now, that the Omnibus proposal has been issued, how has your opinion on the CSRD evolved?

We are talking about an entire Omnibus package, which mainly consists of these three major proposals:

1. A directive proposal to amend the content of the CSRD and the CSDDD
2. A directive proposal to postpone the start of certain requirements under the CSRD and CSDDD (the so-called 'Stop the Clock' Directive)
3. A regulation proposal aimed at reducing the bureaucratic burden related to the CBAM regulation.

The Stop the Clock Directive went through the legislative procedure in fast track and officially entered into force as Directive 2025/794 on 15 April 2025. Specifically, this means:

- CSRD reporting obligations are delayed by two years (for large companies from 2025 to 2027, for listed SMEs from 2026 to 2028)
- CSDDD obligations are postponed by one year (from 2026 to 2027 and beyond).

The proposals concerning the substantive amendments to the CSRD (and CSDDD) are currently being debated both in the European Parliament and in the Council. The main aim is to limit the scope of the CSRD to large companies with more than 1,000 employees. This is intended to ensure that SMEs are not excessively asked to provide sustainability information when they are part of the value chain. Additionally, the European Sustainability Reporting Standards (ESRS) are to be simplified.

In your view, what prompted the EU to introduce the Omnibus proposals to amend the CSRD, considering both political developments in Europe and external influences such as in the US?

The Omnibus package must clearly be seen in the context of the Draghi Report. This report provides political decision-makers with guidance on how to strengthen the EU's competitiveness and the overall health of the European economy.

Mario Draghi emphasises that, in order to boost competitiveness and stimulate growth, the EU must create a more business-friendly environment—particularly by ensuring that companies are not overburdened with regulation. This, in turn, can drive growth, create jobs, and make the EU more attractive to investors.

The Draghi Report draws a striking comparison between the number of laws adopted in the EU and in the US. Between 2019 and 2024, the European Union enacted around 13,000 legal acts, whereas the United States adopted approximately 3,500 legislative texts and 2,000 federal-level decisions in the same period.

Draghi uses this comparison to highlight the extent of overregulation in the EU, which he considers a major obstacle to economic growth and innovation. He also criticises the EU's slow and fragmented political decision-making process, which he believes prevents the Union from responding effectively to global challenges. On average, it takes 19 months to pass new legislation in the EU, often involving several vetoes before final adoption.

Another issue raised in the report is the so-called "regulatory asymmetry". EU companies face a heavier regulatory burden compared to their competitors in the US or China, which creates unequal conditions for competition. This overregulation leads to significant compliance costs and reduces the resources companies can dedicate to innovation and performance improvement. As a result, there is a worrying trend of businesses relocating to third countries.

Draghi therefore calls for a simplification and streamlining of EU regulations to strengthen Europe's competitiveness. He stresses that investment alone is not enough - structural reforms are also necessary to achieve real progress. This includes completing the internal market, removing barriers, and prioritising a more coherent approach to reducing administrative burdens.

Overall, the Draghi Report makes clear that the EU must rethink its regulatory processes to become more flexible, efficient, and competitive.

What is the current legislative progress of the Stop the Clock proposals and the Content Proposals?

The Stop the Clock Directive entered into force as Directive 2025/794 on 15 April 2025. The proposal was adopted through a fast-track procedure by both the European Parliament and the Council.

The proposal concerning the content-related amendments is being handled by the legislators in the usual way, like any other legislative proposal. In the European Parliament, the aim is to adopt a position by the end of the year.

Can you explain what steps are necessary for the Omnibus proposal to become legally binding? What roles do the Parliament, the Council, and the Member States play in this process?

With the first part of the Omnibus package - the Stop the Clock Directive - a legally binding text has already been adopted.

Yesterday (13 May), the ENVI Committee adopted the Omnibus text concerning CBAM. This text now needs to be voted on in the plenary so that the European Parliament and the Council can quickly reach an agreement.

The other proposal, which contains the substantive amendments to the CSRD and the CSDDD, is currently going through the ordinary legislative procedure. This means that both the European Parliament and the Council are reviewing and working on the text proposed by the European Commission.

In the European Parliament, the Legal Affairs Committee (JURI) is taking the lead on this file. A so-called "*rapporteur*" (in this case, Jörgen Warborn from Sweden for the EPP) acts as the lead negotiator. Once he has agreed on a draft with the other political groups, he will represent the European Parliament's position in negotiations with the Council.

This negotiation phase between the Parliament and the Council is called a trilogue and ends with a compromise being found. This compromise forms the final version of the text, which is then adopted as law.

Do you see the Omnibus proposal as a necessary step forward or rather as a weakening of the original ambitions of the CSRD?

The Omnibus package is definitely a necessary step to reduce the bureaucratic burden on our businesses.

The context in which both the CSRD and the CSDDD were adopted during the previous legislative term was highly ideologically driven. The mindset was: "*Evil corporations must be strictly controlled when it comes to environmental and social requirements*" and "*Everything must be subordinated to climate protection.*"

It's a positive development that these ideological approaches were broken by the last European elections, and that we are now returning to a more realistic perspective.

Ultimately, this is not about being less ambitious when it comes to climate protection. But we don't need to regulate every step of the way in excessive detail.

Do you think that, despite the adjustments, European companies are at a competitive disadvantage internationally because of the CSRD, for example compared to companies from the US or China?

Without the Omnibus proposals, I do believe that Europe could lose ground to the US and China—or in fact will.

Fundamentally, we need to work hard on improving our competitiveness if we want Europe to remain an attractive region where industry can grow sustainably. Europe has the potential to be a place where strong synergies between the economy and the environment—between ecology and economy—can be created.

In your view, what is the role of the European Commission in the implementation and future development of the CSRD?

In principle, the Commission is responsible for ensuring compliance with all EU law. If a Member State, for example, fails to implement the new CSRD, the Commission can issue a formal warning and, if necessary, initiate proceedings before the European Court of Justice.

It will also likely play, or can play, a supportive and advisory role in the implementation process.

How does the cooperation between the European Commission and EFRAG work in practice? And how would you describe the balance of influence between the two?

I haven't had any direct contact with the so-called European Financial Reporting Advisory Group (EFRAG). This independent organisation advises the European Commission in the development and implementation of sustainability reporting standards.

As part of the Omnibus package, in addition to the actual legislative proposals, the Commission is also preparing a delegated act aimed at simplifying the European Sustainability Reporting Standards. EFRAG has probably been consulted in this process, particularly on how, for example, reporting templates could be simplified.

How do you think the CSRD is reshaping the responsibilities and role of auditors?

With the CSRD, auditors will be required to review companies' sustainability reports. Until now, this has been done on a voluntary basis.

This naturally means that auditors will need to be properly trained - not just to assess financial statements and annual reports, but also to be familiar with ESG topics, climate risks, human rights, supply chains, carbon footprints, and so on.

In your opinion, how is the CSRD changing the role and responsibilities of investors?

In the future, investors will assess companies or specific business areas and the associated risks differently. The sustainability of an activity will play a crucial role in determining whether or not to invest.

M. Annual Reports on Economic and ESG performance

To gain a practical understanding of how companies approach ESG reporting in line with regulatory developments, I examined the 2024 annual reports of Tryg A/S (2025), Givaudan (2025), and H&M Group (2025). These reports illustrate how ESG disclosures are increasingly taking up space alongside traditional financial reporting. Across all three reports, the ESG sections are extensive and rich in narrative content, offering detailed descriptions of sustainability strategies, environmental impact measures, and stakeholder engagement initiatives. By contrast, the financial sections are more concise and structured around quantitative data that follows long-established reporting norms.

14. Executive Summary

This thesis investigates the transition towards limited assurance under the Corporate Sustainability Reporting Directive (CSRD) and the multifaceted barriers encountered by stakeholders during its implementation. The CSRD represents a fundamental shift in corporate transparency, extending mandatory sustainability reporting obligations to a much broader scope of companies across the European Union. By mandating the application of European Sustainability Reporting Standards (ESRS) and the principle of double materiality, the directive introduces unprecedented complexity in data collection, governance, and assurance practices.

Although the CSRD sets out a phased approach beginning with limited assurance, many reporting companies face considerable difficulties in operationalising the new requirements. These include insufficient guidance on ESRS application, unclear regulatory expectations across Member States, and a lack of internal preparedness to produce verifiable ESG data. Assurance providers, meanwhile, must adapt their methodologies to non-financial reporting, balancing stakeholder trust with still-developing standards.

The empirical analysis is based on eleven semi-structured expert interviews with professionals from Big Four audit firms, sustainability consultants, and a European Commission delegate. Using a stakeholder-centric framework, the study identifies key barriers across six predefined groups: reporting companies, auditors and consultants, regulators, investors, educational institutions, and Member States. Additional insights emerged around conceptual complexity, data availability, and value chain transparency. While barriers varied by stakeholder, recurring themes included regulatory ambiguity, capacity gaps, and divergent interpretations of limited assurance.

The findings reveal that the implementation of limited assurance under the CSRD is not only a technical challenge but also a conceptual and organisational transformation. Many undertakings struggle with limited ESG maturity, the need for cultural change, and the absence of clear audit benchmarks. Furthermore, national differences in transposition and assurance traditions compound the complexity of ensuring comparability and credibility across jurisdictions.

This thesis contributes to academic and professional discourse by offering a structured overview of real-time obstacles and emergent opportunities. It highlights the strategic importance of assurance in reinforcing the CSRD's objectives and improving ESG data reliability. At the same time, it underscores the need for clearer regulatory guidance, harmonised practices, and targeted capacity-building initiatives to facilitate an effective transition.

In conclusion, the move to limited assurance is a pivotal milestone in the European sustainability agenda. Yet, without addressing the identified stakeholder barriers, there is a risk that assurance becomes a box-ticking exercise rather than a meaningful enhancement of sustainability governance and transparency. This research calls for pragmatic reform, collaborative implementation, and continuous stakeholder engagement to support a robust and trusted sustainability reporting in order to contribute to a sustainable ecosystem.

Keywords: CSRD (Corporate Sustainability Reporting Directive) - Limited Assurance - Reasonable Assurance - Sustainability Reporting - ESRS (European Sustainability Reporting Standards) - Double Materiality - Stakeholder Barriers - Reporting Companies - Value Chain - Omnibus - Audit and Assurance

Word count = 29,894