ESMA's 2024 Enforcement Priorities: Spotlight on Sustainability and EU Taxonomy Compliance

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On 24 October 2024, the European Securities and Markets Authority ("**ESMA**") released its 2024 European Common Enforcement Priorities ("**ECEP**") for corporate reporting, drawing particular attention to sustainability and taxonomy-related disclosures. With the backdrop of Europe's ambitious climate objectives and the growing impact of environmental, social, and governance ("**ESG**") factors on financial markets, ESMA's guidance for 2024 underscores the importance of transparent, high-quality sustainability reporting that is compliant with the ever increasing and developing regulations. This overview focuses on the sustainability-related priorities in the ECEP.

1. **CSRD – not a compliance exercise**

The 2024 ECEP places sustainability reporting at the heart of regulatory scrutiny, as companies across the European Economic Area adapt to new and comprehensive requirements under the Corporate Sustainability Reporting Directive ("**CSRD**"). The directive, in conjunction with the European Sustainability Reporting Standards ("**ESRS**") which detail the CSRD reporting requirements, obligates companies to provide more detailed and standardized disclosures on their environmental and social impacts. For 2024, ESMA is particularly focused on ensuring that companies present clear, comparable information on climate-related risks and other ESG factors that could materially affect their business performance and long-term viability.

A comprehensive materiality assessment, encompassing both impact and financial materiality, serves as the fundamental basis for determining the information to be disclosed in the sustainability statement. In this regard, ESMA reaffirms its recommendation to consider EFRAG's Implementation Guidance on Materiality Assessment.

ESMA emphasizes that sustainability disclosures should not be viewed as a compliance checkbox, but as essential and useful information for investors and other stakeholders.

2. **Linking sustainability and financial reporting**

ESMA underlines that the scope and structure of the CSRD sustainability statement requires alignment with the financial statements, ensuring that the same scope of consolidation is used for both. The statement must include material impacts, risks, and opportunities across the organization’s value chain, with an initial three-year period of transitional relief for gathering complete value chain data. ESMA notes that the structure of the sustainability statement is prescribed and issuers should carefully consider compliance of their approaches with the relevant ESRS requirements. Furthermore, any quantitative data shared between sustainability and financial reports should be cross-referenced, promoting coherence and enhancing the transparency and accessibility of sustainability reporting.

3. **EU Taxonomy-Related Disclosures: Aligning Business with Environmental Objectives**

ESMA’s guidance on Article 8 of the Taxonomy Regulation emphasizes strict adherence to standardized templates for environmental and climate disclosures, highlighting that issuers generally must use the Article 8 Delegated Act (Commission Delegated Regulation (EU) 2021/2178) templates without modification. ESMA underlines that issuers have to assess each economic activity against all applicable environmental objectives, especially as more objectives are considered eligible, and disclose eligibility and alignment per objective, with the primary objective emphasized in the templates. In cases where an activity aligns with multiple objectives, issuers may need to disaggregate turnover, CapEx, and OpEx across relevant lines in the templates. References to financial statements are required to facilitate reconciliation of CapEx KPI figures, aligning financial data with Taxonomy-aligned disclosures. ESMA also recommends that financial sector issuers consult the European Commission’s 2023 Draft Notice on voluntary disclosures, which includes guidelines on estimating alignment for exposures excluded from KPIs or lacking adequate data, ensuring that voluntary disclosures are clearly separated and accompanied by explanations of methodologies.

4. **Looking Ahead**

As we head into 2025, aligning with ESMA's guidance will be essential for issuers, auditors, and supervisory bodies. They should consider the topics and detailed recommendations when preparing, auditing, and supervising the 2024 annual financial reports.

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