Issue 15 / July 2026

EU Sustainability Developments

EFRAG consults on sustainability reporting standards for non-EU groups

What you need to know

- Under the CSRD, certain non-EU parent groups will be required to report sustainability information at a consolidated group level on financial year 2028 data.
- EFRAG issued a public consultation on ESRS for non-EU entity reporting, referred to as ESRS-40a.
- The proposed ESRS-40a is largely built on the 2026 ESRS, but only requires disclosure of impacts, not risks and opportunities.
- The proposed ESRS-40a introduces a "mixed approach" that allows non-EU parent groups, under certain circumstances, to limit most disclosures to EU-related impacts, except for climate-related impacts, which must be reported globally.
- Interoperability is a key topic in EFRAG's consultation on the proposed ESRS-40a, with proposed requirements intended to facilitate the use of information reported under other reporting frameworks and reduce duplicative reporting.
- The public consultation period is open until 31 October 2026.

As part of the Corporate Sustainability Reporting Directive (CSRD), Article 40a introduces sustainability reporting requirements for certain non-EU parent groups with significant business activity in the EU. The policy objectives are to promote transparency, accountability and a level playing field for non-EU companies with significant business on the EU market. Beginning in financial year 2028, in-scope EU subsidiaries and branches of qualifying non-EU parent groups will be required to publish sustainability information at the level of the ultimate non-EU parent group.

To support the implementation of Article 40a, the CSRD empowers the EC to adopt a specific set of European Sustainability Reporting Standards for non-EU parent groups (ESRS-40a). The reporting requirements for non-EU parent groups may be satisfied either by reporting under ESRS-40a, the European Sustainability Reporting Standards (2026 ESRS) or standards that are deemed equivalent by the European Commission (EC). EFRAG issued for public consultation a proposed ESRS-40a on 23 July 2026. The proposed ESRS-40a is derived from the ESRS (which were revised as part of the Omnibus Simplification Package, and adopted on 3 July 2026, hereafter referred to as the 2026 ESRS)[i]. It includes two cross-cutting standards on general requirements and disclosures and 10 topical sector-agnostic standards covering environmental, social and governance (ESG) topics. See also EY's publication *European Commission adopts revised ESRS for sustainability reporting*.

In contrast to the 2026 ESRS, which apply a double-materiality approach and requires reporting on impacts, risks and opportunities, the proposed ESRS-40a focuses solely on actual and potential impacts on people and the environment. That is, the draft ESRS-40a would require reporting based on impact materiality only.

The better the question. The better the answer. The better the world works.

Shape the future with confidence

The proposed ESRS-40a would also allow an optional mixed approach to reporting. Under this approach, climate-related disclosures would continue to cover the impacts of the non-EU parent group as a whole, while disclosures on other sustainability matters could be limited to EU-related impacts.

Comments are due on the proposed ESRS-40a by 31 October 2026. EFRAG also plans to field test the proposed ESRS-40a. EFRAG is seeking stakeholder feedback on several key aspects of the proposal, including:

- The use of the revised ESRS as the basis for ESRS-40a, including the proposed removal of disclosures relating to risks, opportunities, resilience and dependencies, as well as other adaptations made to reflect the requirements of Article 40a
- The mixed approach, including whether non-EU parent groups should be permitted, under certain circumstances, to limit most disclosures to EU-related impacts while continuing to report climate-related impacts at the global level
- Interoperability, presentation and incorporation by reference, including whether entities can efficiently leverage sustainability information reported under other frameworks to reduce duplicative reporting
- References to EU laws and regulations, including the feasibility of applying EU legal and regulatory concepts in the context of non-EU operations and value chains

This publication provides an overview of the proposed ESRS-40a and certain reporting considerations relevant to non-EU parent groups that may be subject to Article 40a of the Corporate Sustainability Reporting Directive (CSRD). Refer to our *Technical Line - How the EU's Corporate Sustainability Reporting Directive affects non-EU-based multinationals | EY - US*, for further information on the scope of the CSRD and how non-EU entities may be affected more broadly.

Contents

1. CSRD requirements for reporting by non-EU parent groups

1.1. Scope and thresholds

Beginning for financial year 2028, Article 40a of the CSRD requires an EU branch or subsidiary of a non-EU parent group to report sustainability information if, at the ultimate parent level, it meets both of the following criteria:

- It generated more than EUR450 million in net turnover in the EU in each of the last two consecutive financial years (in the first year of application, financial years 2026 and 2027), and
- It has either an EU subsidiary or an EU branch that generated more than EUR200 million in net turnover in the preceding financial year.

Third-country parent undertakings which are financial holding undertakings whose subsidiaries' business models and operations are independent of one another can be exempt from reporting under the CSRD, and would not be required to publish a sustainability report under ESRS-40a.

How we see it

Net turnover generated in the EU. The CSRD does not specify how an entity should calculate whether it has EUR450 million in net turnover generated in the EU. Some entities have questioned whether the amount should include revenue generated by non-EU entities from customers in the EU. Other entities have questioned whether the amount should include revenue generated by EU subsidiaries from customers outside the EU. Based on our current understanding, we believe an entity should calculate the third-country group's revenue generated in the EU based on whether the customer is in the EU, regardless of the location of the entity that generated that revenue.

Financial holding company exemption requires careful assessment. The criteria defined in the Directive that a financial holding company is neither directly nor indirectly involved in the management of its subsidiaries, without prejudice to their rights as shareholders, and the subsidiaries' business models and operations are independent of one another may involve a degree of judgment. Such assessment will need to be made in the light of national transpositions which could introduce further precision to the scope of this new exemption.

Financial holding company exemption does not extend to in-scope EU subsidiaries. A parent entity that is considered a financial holding company exempt from reporting under the CSRD should carefully evaluate which of its subsidiaries are in scope of the CSRD and the reporting options available to the group, since the reporting relief provided to financial holding companies does not extend to subsidiaries within the group (i.e., subsidiaries in scope of the CSRD continue to have reporting obligations). A financial holding company may still choose to report sustainability information on a consolidated basis.

1.2. Applicable reporting standards

- A non-EU parent group in scope of Article 40a of the CSRD must report at the consolidated level by applying any of the following standards:
- The ESRS-40a
- The 2026 ESRS
- Standards that are deemed equivalent to those of the EU, which have not yet been determined by the EC

How we see it

Choice of reporting framework. Non-EU entity consolidated reporting may be in addition to reporting requirements that apply to EU subsidiaries that fall within the scope of the CSRD thresholds for EU entities in their own right (i.e., those entities based in the EU that meet the thresholds of over 1,000 employees and over EUR450 million turnover).

Non-EU parent groups with such in-scope EU entities should carefully evaluate the implications of their choice of reporting framework. Certain reporting exemptions may be available to in-scope EU subsidiaries where the ultimate parent prepares a sustainability statement under the 2026 ESRS (or equivalent standards). While ESRS-40a is intended to provide a reporting framework for certain non-EU groups, groups with EU subsidiaries that are subject to the CSRD at their own level may consider whether reporting at the group level under the 2026 ESRS would provide a more efficient overall reporting outcome.

In assessing the available reporting options, entities may wish to consider, among other factors: the maturity and geographic coverage of their data collection systems and internal controls (both within the EU and globally where applicable); the extent of sustainability information they are prepared to disclose publicly to meet reporting requirements (e.g., in some circumstances, an entity may wish to limit reported information to only EU subsidiaries); the implications of reporting at an individual or consolidated level; and whether any transitional or consolidation-based reporting options provide sufficient and durable relief over time.

Interoperability. As interoperability between ESRS-40a and IFRS Sustainability Disclosure Standards continues to develop, some groups may reconsider whether ESRS-40a, the 2026 ESRS, or an equivalent framework provides the most efficient reporting approach, taking into account both the reporting burden and the availability of reporting exemptions for EU entities within the group.

1.3. Assurance requirements and incomplete information

The CSRD requires limited assurance by an assurance provider authorised to give an opinion on the assurance of sustainability reporting under the national law of the non-EU parent group or of an EU Member State.

The EU branch or EU subsidiary in scope of Article 40a is required to publish and make accessible the consolidated sustainability report at their non-EU parent group level, together with the assurance report, within 12 months of the balance sheet date of the financial year to which the report relates. The sustainability report and assurance report must be made available in at least one of the official languages of the EU.

If the non-EU parent does not provide all information necessary to prepare the required sustainability report to the EU subsidiary or branch in-scope of Article 40a, after requesting it, the EU subsidiary or branch is required to publish and make accessible a sustainability report containing all information in its possession and issue a statement indicating that the non-EU parent did not make the remaining necessary information available. Similarly, if the non-EU parent does not provide the required assurance opinion, the EU subsidiary or branch must disclose that fact. Penalties for non-compliance are determined under the national laws of the relevant Member State.

How we see it

Assurance expectations will continue to evolve. The forthcoming limited assurance standard on sustainability reporting is expected to be based on IAASB International Standard on Sustainability Assurance (ISSA) 5000. In the near term, companies should focus on 'auditability' of processes and controls (data lineage, governance, documentation and consistency), while monitoring how Member States and assurance regulators implement the updated framework.

Voluntary reasonable assurance on the sustainability report as a whole or on single KPIs continues to be possible, and can be performed on the basis of any assurance standard applicable in the relevant Member State (International Standard on Assurance Engagements (ISAE) 3000 (Revised) until ISSA 5000 becomes effective in 2027, or local assurance standards).

2. Reporting under the proposed ESRS-40a

The proposed ESRS-40a would specify the information that a non-EU parent group subject to Article 40a would be required to disclose. While the disclosure requirements under the proposed ESRS-40a would be broadly aligned with the 2026 ESRS, the proposed ESRS-40a contains provisions tailored to the context of reporting under Article 40a, including in relation to materiality, the "mixed approach" for reporting and interoperability with other sustainability reporting frameworks.

2.1. Overall approach and materiality

The 2026 ESRS uses the concept of "double materiality", which means a disclosure is material if it is material from an impact perspective, a financial perspective, or a combination of both. The proposed ESRS-40a would only focus on impact materiality. Consistent with the 2026 ESRS, under the proposed ESRS-40a, a sustainability matter would be material from an impact perspective if it pertains to the entity's material actual or potential, positive or negative impacts on people or the environment, including its upstream and downstream value chain.

The proposed ESRS-40a would, therefore, not require several disclosures in the 2026 ESRS that are based on financial materiality. In particular, entities would not be required to provide disclosures about sustainability-related risks and opportunities, current or anticipated financial effects, resilience, or dependencies. However, financial information is not strictly excluded from the proposed ESRS-40a reporting if it or other contextual information is required to understand material information about an entity's impacts. Further, the focus on impact materiality would not exclude reporting on impacts that do or may result in financial risks and opportunities or actions taken to address certain risks or seize opportunities.

The concept of material information under the proposed ESRS-40a would remain unchanged as compared to the 2026 ESRS. Material information would continue to be assessed based on its decision-usefulness to primary users of general-purpose financial reporting and other users of general purpose sustainability statements. Consistent with the 2026 ESRS, fair presentation would remain a fundamental objective of sustainability reporting under ESRS-40a. Fair presentation requires information to be comparable, verifiable and understandable, and may require additional entity-specific disclosures when the proposed ESRS-40a requirements alone are not sufficient for users to understand the entity's material impacts and how those impacts are managed.

The proposed ESRS-40a would retain the reporting reliefs introduced in the 2026 ESRS, including the ability to disclose partial-scope metrics.

How we see it

Impact materiality. Many topics that are material under the 2026 ESRS are both impact material and financially material. In addition, the majority of the metrics from the 2026 ESRS are included in the proposed ESRS-40a. Consequently, the practical reduction in reporting effort may be less significant than some entities initially expect, particularly where a broad range of sustainability impacts are determined to be material. The consultation provides stakeholders with an opportunity to comment on whether EFRAG has appropriately implemented the provisions of Articles 40a–40d, particularly in its proposed removal of disclosures related to risks, opportunities, resilience and dependencies, while retaining financial information that provides useful contextual information to understand impacts and how those impacts are managed.

2.2. The mixed approach

Under the proposed ESRS-40a, a non-EU parent group would be required to prepare the sustainability report at the level of the ultimate third-country parent, including all of its subsidiaries (i.e., the same reporting entity as the group financial statements of the ultimate parent). Accordingly, the sustainability report would cover the impacts of the non-EU parent group at the global level.

2.2.1 Determining EU-related impacts

The proposed ESRS-40a includes an option to apply a mixed approach, under which climate-related impacts would be reported at the global level, but other sustainability matters could be limited to EU-related impacts. For this purpose, EU-related impacts would include impacts that arise from both of the following elements:

- Customer based impacts: impacts arising from products and services that were or are reasonably assumed to be sold or provided in the EU market, including by third parties (e.g., downstream value chain actors such as distributors and traders), and
- Location based impacts: impacts of the entity's activities in the EU, to the extent they are not already included in its customer based impacts.

For example, a non-EU parent group would be required to report climate-related impacts for its entire global operations, but could elect to limit disclosures on biodiversity impacts to EU-related impacts. In making that assessment, biodiversity impacts associated with operations located in the EU would generally be considered EU-related under the location-based component. In addition, biodiversity impacts associated with products sold in the EU market could be considered EU-related under the customer-based component, even if those products are manufactured or the underlying activities occur outside the EU. Consequently, the determination of EU-related biodiversity impacts may require consideration of multiple components rather than a simple distinction between activities occurring inside and outside the EU.

2.2.2 Conditions for applying the mixed approach

The mixed approach may only be applied if the entity can meaningfully identify EU-related impacts and faithfully represent those impacts, aligned with:

- How its own operations, its products and its service offering are structured or managed, and
- How its upstream and downstream value chain(s) are structured and operate.

When assessing whether EU-related impacts can be meaningfully identified, an entity would consider factors such as the existence of a separate business segment dedicated to serving the EU market, products or services specifically designed for the EU-market, separate management of EU-related impacts, or value chains dedicated to the products and services that were or are reasonably assumed to be sold or provided in the EU market.

2.2.3 *Topic-specific application guidance*

The ESRS-40a includes topic-specific application guidance for determining EU-related impacts when the mixed approach is applied. The guidance is intended to help entities assess whether EU-related impacts can be meaningfully identified and faithfully represented and, if so, how certain disclosure requirements should be applied. The guidance is provided for selected disclosure requirements within the following standards:

- Pollution (ESRS-40a E2), including disclosures related to microplastics, substances of concern (SoC), and substances of very high concern (SVHC);
- Own workforce (ESRS-40a S1), including certain own workforce metrics, such as top management diversity and compensation disclosures related to the highest-paid individual;
- Business conduct (ESRS-40a G1), including disclosures related to convictions, sanctions and fines, political influence and lobbying activities, and standard payment practices.

2.2.4 *Application by topic, sub-topic, or group of impacts*

This option may be applied flexibly on a topic, sub-topic or group of impacts basis (or even to different groups of impacts related to a topic or sub-topic), allowing an entity to disclose EU-related impacts for some sustainability information while reporting others at the global level. For example, an entity that can meaningfully identify EU-related workforce impacts may apply the mixed approach when reporting workforce metrics under ESRS-40a S1, while limiting disclosures to the impacts determined to be EU-related and material.

2.2.5 *Disclosure requirements when the mixed approach is applied*

An entity that elects the mixed approach would be required to disclose that election and explain, for each topic, sub-topic, or group of impacts, how it determined that the conditions for applying the mixed approach were met and how it identified the relevant EU-related impacts. The disclosure would describe the methodology and parameters used to estimate the reporting boundary, as well as the assumptions and inputs used in the estimation techniques to establish the reporting boundary and distinguish EU-related impacts from broader global impacts.

How we see it

According to EFRAG, the mixed approach is intended to balance the policy objectives of Article 40a with the practical challenges that non-EU parent groups may face in identifying and reporting impacts across complex global operations. By combining global reporting for climate-related matters with a more targeted focus on EU-related impacts for other sustainability topics, the proposal seeks to provide meaningful information while enhancing the operability of the reporting requirements. EFRAG has indicated that the mixed approach is intended to strike an appropriate balance between transparency and the reporting burden. However, applying the approach will require significant judgment, including in determining whether EU-related impacts can be meaningfully identified and faithfully represented and in assessing which disclosures remain relevant to users.

While this approach, if applicable, may reduce the burden of conducting a global impact assessment and reporting global metrics for all sustainability matters, it may also increase the complexity of implementation because reporting boundaries would vary by topic. Non-EU parent groups would need to develop processes and controls to support both global and EU-focused reporting perspectives within a single sustainability reporting framework and determine if they can meaningfully identify EU-related impacts and faithfully represent those impacts. In addition, the use of different reporting boundaries for different sustainability matters could make the resulting disclosures more difficult for users to compare, particularly where climate disclosures reflect global impacts while other disclosures are limited to EU-related impacts.

Stakeholders are asked to consider whether:

- The proposed mixed approach can achieve fair presentation while maintaining sufficiently comparable, understandable and decision-useful information for users.
- The mixed approach appropriately balances transparency and operability. It also asks whether the use of different reporting boundaries across sustainability matters could affect the faithful representation, comparability and the level playing field between non-EU parent groups reporting under ESRS-40a and EU entities reporting under the 2026 ESRS.
- Disclosures about human rights impacts should always be provided on a global basis rather than being subject to the proposed mixed approach.

2.3. Interoperability

The proposed ESRS-40a would allow entities to satisfy certain disclosure requirements by incorporating information by reference to other reports that are made available to users of the financial reports on the same date as the ESRS-40a sustainability report, whether before or at the same time.

The proposed ESRS-40a explicitly states that an entity would be able to incorporate by reference a substantial part of the information reported under the standards. As a result, entities that already prepare sustainability reports under other reporting frameworks may be able to leverage those reports extensively to meet ESRS-40a reporting requirements. Where a substantial portion of the ESRS-40a disclosures are incorporated by reference, the entity would be required to provide a table of contents identifying the location of the incorporated information.

How we see it

Enhanced interoperability provisions may provide significant relief for non-EU parent groups that already prepare sustainability disclosures in accordance with IFRS S1 and IFRS S2. By permitting certain information to be incorporated by reference, the proposed ESRS-40a could reduce duplicative reporting and allow companies to leverage existing sustainability reporting processes and disclosures. However, entities would still need to assess and disclose information that is incrementally required by the proposed ESRS-40a.

The proposed interoperability provisions represent an important step toward reducing duplicative reporting for non-EU parent groups. Although the concept of equivalence is part of a broader debate and is not covered in the proposed ESRS-40a, the interoperability provisions could be an intermediary step toward an equivalence mechanism which would allow sustainability reports prepared in accordance with ISSB Standards to be deemed equivalent to the ESRS-40a, with specific supplementary disclosures. This would allow entities to significantly reduce the need for parallel reporting processes while still providing decision-useful information to stakeholders in the EU.

EFRAG is specifically seeking stakeholder feedback on interoperability with the International Sustainability Standards Board (ISSB) standards. In particular, the consultation asks whether the proposed presentation, incorporation-by-reference, and interoperability provisions would allow entities to avoid duplicative reporting and efficiently comply with both ESRS-40a and IFRS S1 and IFRS S2 (or jurisdictional requirements based on those standards). The consultation also explores whether entities expect to comply through a single report that meets both ESRS 40a and IFRS-based requirements, or whether separate reporting would remain necessary. In addition, stakeholders are asked to consider whether further measures may be needed to address practical implementation challenges for complex multinational groups while maintaining comparability, transparency and decision-usefulness.

We believe this emphasis demonstrates EFRAG's continued focus on practical interoperability and its willingness to consider whether additional measures may be needed to further reduce the reporting burden for entities subject to both frameworks.

2.4. References to EU laws and regulations and their feasibility

The proposed ESRS-40a generally retains references to terms and concepts derived from EU laws and regulations that are already embedded in the ESRS. EFRAG's approach reflects an expectation that non-EU parent groups with significant EU activities should be able to apply these concepts at the group level and that maintaining such references supports a level playing field between ESRS-40a reporters and EU undertakings reporting under the ESRS. The proposal clarifies that these references are used for reporting purposes only and do not extend the application of EU laws and regulations to activities outside the EU.

In situations where EU-derived concepts are not directly applicable in jurisdictions outside the EU, entities may need to use approximations, assumptions, or estimates when preparing disclosures. In those circumstances, ESRS-40a would require entities to explain the methodologies used, the limitations of the resulting information, and the portions of the reporting boundary affected by those limitations.

How we see it

EFRAG is seeking stakeholder feedback on whether the proposed ESRS-40a would strike an appropriate balance between maintaining consistency with the ESRS and ensuring that the requirements are practicable for non-EU parent groups. In particular, EFRAG is asking whether the use of EU-law concepts as the default reporting framework is feasible for third-country undertakings and whether the proposed disclosure requirements regarding estimates, approximations, methodologies, and limitations provide sufficient transparency when those concepts are applied outside the EU. Feedback in this area may influence the extent to which additional relief, clarification, or implementation guidance is provided in the final standard.

3. Next steps

Entities that are subject to the proposed ESRS-40a should begin evaluating the proposed reporting requirements and consider whether to participate in EFRAG's public consultation process, which ends October 31, 2026. Entities should also continue to monitor developments from EFRAG as the proposal evolves. EFRAG is expected to deliver its technical advice on ESRS-40a to the EC in January 2027. The EC is expected to finalise a delegated act mid-2027 to adopt ESRS-40a. ESRS-40a is expected to be effective for financial year 2028.

How we see it

As part of their readiness efforts, entities should consider:

- Monitoring developments related to ESRS-40a, including EFRAG's consultation activities and field testing, the EC's consideration of stakeholder feedback and the issuance of the final delegated act and related implementation guidance.
- Evaluating the reporting options available under the CSRD and determining which approach best aligns with the group's reporting objectives, organizational structure and compliance strategy.
- Assessing whether EU-related impacts can be meaningfully identified and faithfully represented and considering the operational implications of applying the mixed approach, including the need to support both global and EU-focused reporting boundaries.
- Evaluating the extent to which existing sustainability reporting prepared under IFRS Sustainability Disclosure Standards, GRI Standards or other reporting frameworks could be leveraged to satisfy ESRS-40a reporting requirements, including through the proposed incorporation-by-reference provisions.

[i] On 3 July 2026, the EC finalised the Delegated Act that sets out the 2026 ESRS. Refer to https://ec.europa.eu/finance/docs/level-2-measures/csrd-delegated-act-2026-5010-annex_en.pdf.

EYG no. 113607-26-GBL

ED None

UKC-044789 (UK) 07/26.

Artwork by Creative UK.