Issue 11 / January 2026

EU Sustainability Developments

EFRAG publishes technical advice on simplified European Sustainability Reporting Standards (ESRS)

What you need to know

- As part of the first Omnibus Simplification Package, the EC asked EFRAG for technical advice on simplifying ESRS Set 1.
- Following the end of the public consultation on the Exposure Drafts on 29 September 2025, EFRAG addressed feedback received and submitted its technical advice to the EC in early December.
- The revised ESRS proposed in the technical advice are significantly streamlined. Mandatory datapoints have been cut by 61%, while voluntary datapoints have been removed.
- The EC is now reviewing the technical advice and is expected to adopt an amended ESRS Delegated Act by mid-2026. The final revised ESRS could differ from the technical advice. They would be applicable from financial year 2027, with the option to apply from financial year 2026.
- Until the amended ESRS Delegated Act takes effect, Wave 1 reporters must continue to report according to ESRS Set 1, taking into account recent relief measures from the "Quick-fix" Delegated Regulation.

On 3 December 2025, EFRAG submitted its technical advice on the revised ESRS to the European Commission (EC) after it addressed feedback from its public consultation on the Exposure Drafts[1], its outreach events and field tests.

EFRAG's technical advice consists of a proposed simplified set (the "revised ESRS") of the ESRS Set 1 comprising the 12 ESRS and the related Glossary adopted by the EC in July 2023. The technical advice includes key simplifications to ESRS Set 1, resulting in a 61% reduction of mandatory datapoints.

The revision of ESRS Set 1 was triggered by the EC's first Omnibus Simplification Package, announced in February 2025, aimed at reducing the reporting burden on European undertakings subject to the Corporate Sustainability Reporting Directive (CSRD)[2] to boost EU competitiveness.

EFRAG identified six levers to guide the revision:

1) Simplify the Double Materiality Assessment (DMA)
2) Better readability and conciseness of the sustainability statements
3) Eliminate overlaps between general disclosures and topical standards
4) Improve understandability, clarity and accessibility of the ESRS
5) Introduce several burden-reduction reliefs
6) Enhance interoperability with global reporting standards

EFRAG published complementary materials on 19 December 2025, including the Basis for Conclusions and a Cost Benefit Analysis. The revised list of datapoints (IG3) and the non-binding guidance are planned to be released in 2026.

The EC is now reviewing the technical advice. The EC expects to adopt the final revised ESRS (which may differ from the technical advice) via a Delegated Act by mid-2026 (binding upon publication in the Official Journal). The final revised ESRS would apply from financial year (FY) 2027, with an option to apply in FY2026.

[1] Refer to our publication EY EU Sustainability Developments Issue 10 on the Exposure Drafts.
[2] Refer to our publications How to navigate the EU Omnibus simplification package, EY EU Sustainability Developments Issue 8 on the new EU Taxonomy Delegated Regulation and EY EU Sustainability Developments Issue 9 on the "Quick-fix" Delegated Regulation.

Executive summary

This publication provides a comprehensive overview of the main changes proposed in the technical advice. It aims to guide readers through the revisions, highlighting both general and specific updates.

The initial section focuses on the overarching improvements made to ESRS Set 1, specifically targeting readability and conciseness. Special attention is then given to the cross-cutting standards on General Principles and General Disclosures (ESRS 1 and ESRS 2) as they contain the most fundamental updates, many of which have a cascading impact on all other ESRS topical standards. The document further details key revisions to the topical standards, covering climate change, other environmental topics, social topics and business conduct.

For ease of reference, significant areas of change are highlighted in bold, with more detailed information available for each point, enabling readers to select the appropriate level of detail to suit their needs.

The *How we see it* boxes throughout this publication highlight practical issues and areas of significance. The content is informed by experience gained from Wave 1's first reports, feedback received by EFRAG and topics that required more attention in the drafting process. It also reflects insights drawn from the Basis for Conclusions which, although non-authoritative, sometimes provides useful clarification or explanations on the revised requirements.

The revised ESRS remain based on a Double Materiality approach (impact materiality and financial materiality) and they still cover the same topics and areas of disclosures, with two cross-cutting standards and 10 topical standards.

In response to stakeholder feedback regarding the complexity and granularity of disclosure requirements (DRs) in ESRS Set 1, the technical advice proposes a significant reduction in the number of datapoints by removing all voluntary datapoints and reducing by 61% mandatory datapoints. The length of ESRS Set 1 has been reduced by approximately half. More detailed reduction statistics for the different standards are presented in this publication.

Key proposed changes include:

- **Shortened and restructured standards**, to enhance understandability and clarity
- **A significant reduction** of disclosure requirements, with more principle-based narrative disclosures
- **Emphasized flexibility to present information in the sustainability statement** (executive summary, appendices, level of aggregation or disaggregation)
- **Concept of fair presentation as an explicit objective**
- **Information materiality more prominent as an overarching filter**
- **Simplified double materiality assessment process**, that is more focused and offers the opportunity to apply a top-down approach
- **New guidance on how remediation, mitigation and prevention actions** affect the assessment of material negative impact
- **Reporting boundaries**, confirming the alignment with the financial statements, and including new provisions and exceptions (e.g., leased assets)
- **New significant reliefs**, e.g., application of the undue cost or effort principle, partial scope metrics due to lack of data, elimination of the hierarchy on value chain data and exclusion of acquisitions and disposals from the reporting year.
- **Additional phase-in provisions** for Wave 1 companies reflecting the "Quick Fix" reliefs as well as new phase-in reliefs until financial year 2029, for quantitative information on anticipated financial effects and substances of concern
- **Quantitative information on anticipated financial effects** with additional reliefs and phase-in provisions
- **Further changes in the topical standards,** such as the removal of the additive approach for the reporting boundary for GHG emissions (ESRS E1)

Interoperability

Enhancing interoperability with IFRS Sustainability Disclosure Standards (the ISSB Standards) was a simplification lever guiding the revision of ESRS Set 1. Considerable efforts have been made to better align the wording of the two frameworks and harmonize certain key principles, such as fair presentation, undue cost or effort and provisions for anticipated financial effects. At the same time, some simplifications and new reliefs may trigger additional points of attention for those undertakings intending to comply with both frameworks. This publication highlights some key items relating to interoperability in each relevant section.

EFRAG's due process based on July 2025 Exposure Drafts

As part of its due process to amend ESRS Set 1, EFRAG conducted a two-month public consultation on Exposure Drafts that were published on 29 July 2025. EFRAG addressed more than 700 responses to this consultation and conducted outreach events and field tests, which informed their due process.

Overall, the simplifications proposed in the ED received positive feedback and have been confirmed in the revised ESRS. Some specific areas (e.g., gross/net guidance, anticipated financial effects, adequate wage) received mixed views and were more substantially adjusted in the revised ESRS (please refer to the relevant sections in this publication).

Navigating the ESRS

Companies need to assess the modifications proposed by EFRAG as soon as possible, while closely monitoring the development of the EC's consultation process. At the same time, ESRS Set 1 remains applicable for 2025 reporting.

To support their navigation through ESRS Set 1 and the revised ESRS, preparers are encouraged to use EFRAG's new ESRS Knowledge Hub, an interactive online platform including all key materials related to ESRS, including broader materials developed by EFRAG.

Impact of the revised ESRS on reporting for the financial year 2025

Reporting for the financial year 2025 is still subject to the requirements of ESRS Set 1. The revised ESRS will only become applicable once the Commission has adopted a final version – the final revised ESRS - in a Delegated Act, which may differ from the technical advice released by EFRAG.

The technical advice, nonetheless, includes some clarifications which are consistent with the current requirements of ESRS Set 1. Such clarifications, including emphasized areas of flexibility, may inform the 2025 reporting cycle, as well as the lessons learnt from the first year of application. The different sections of this publication highlight the areas where such insight may be considered when applying ESRS Set 1.

Maintaining efforts to pursue the sustainability reporting journey

Despite significant reductions in mandatory datapoints, the reduction in the reporting burden is not expected to be proportionate. EFRAG's Cost-Benefit Analysis (CBA) shows that more than 70% of the companies surveyed expect a reduction in internal costs below 30%, noting that areas of greatest effort in implementing ESRS Set 1 were the efforts to understand the standards and what to report, data collection for metrics in the value chain and performing the DMA.

While companies in Wave 1 can leverage the efforts made in the first year of reporting and benefit from the new reliefs proposed by EFRAG in the future, preparers other than Wave 1 should actively pursue their sustainability reporting journey.

Contents

1 General revisions to improve readability and conciseness

One overarching principle applied by EFRAG in the revision of ESRS Set 1 is to significantly streamline the standards and improve the readability of both the standards and the sustainability statements.

1.1. Revised structure and streamlining of the standards

The revised ESRS still include two cross-cutting standards and ten topical standards and cover the same reporting areas. However, the standards have been significantly streamlined. Overall, the length of the standards has been reduced by half, with the most significant reductions applied in the social and environmental standards.

The main revisions to the structure of the standards can be summarized as follows:

Disclosure requirements	All mandatory datapoints ("shall disclose", "shall include", "shall report", "shall describe", "shall explain") are **presented in the main body of the standards.** Overall, mandatory datapoints have been reduced by 61%, mainly relating to narrative disclosures.
Mandatory guidance	The paragraphs on mandatory guidance, still named Application Requirements (AR), are now **placed directly below each Disclosure Requirement (DR).** They relate to "how to disclose guidelines", including available presentation options.
Voluntary datapoints	The non-mandatory datapoints ("may disclose") have been **deleted.** Some deleted voluntary datapoints, guidelines and examples will be considered by EFRAG in future non-mandatory guidance.
Reduction of overlaps and streamlining of general disclosures (ESRS 2 and topical specifications)	The architecture of ESRS 2 and topical standards has been simplified to achieve: ▪ A more principle-based approach to the cross-cutting minimum DR on Policies, Actions, Metrics and Targets (PAMT), renamed 'General Disclosure Requirements' (GDR). These DRs have been significantly streamlined in ESRS 2 and the specifications on Policies, Actions and Targets have been drastically reduced in the topical standards, which now mostly refer to ESRS 2 GDRs (with limited essential specifications). ▪ A similar streamlining of the other general Disclosure Requirements (e.g., SBM-3 and IRO-1).
Topics and sub-topics	To avoid the use of different terms (such as matters, topics, sub-topics and sub-sub-topics) to refer to similar concepts (as currently applied in ESRS Set 1): ▪ The sub-sub-topics have been eliminated as part of the streamlining of the illustrative list of topics (see section 2.3.2.). ▪ The term "matter" has been replaced by "topic" (new defined term in bold), where topic is meant to refer either to topic or sub-topic, depending on the context. ▪ Only impacts, risks and opportunities (IROs) are now considered "material"; topics and sub-topics are "to be reported as a result of the materiality assessment" if related to material IROs.

How we see it
Improved readability of the standards. The revised architecture and reduced volume of ESRS Set 1 are likely to make the standards easier to navigate. The revised standards are more closely inter-connected, avoiding repetition between general and topical standards. **Less granular approach to narrative disclosures.** An essential contribution to the overall reduction of "shall" datapoints derives from a less granular and more principles-based approach to policies, actions and targets. This responds to input from stakeholders indicating that the granular approach in ESRS Set 1 led to unnecessary reporting effort and more generic disclosures. **No new mandatory datapoints as a general principle.** This principle was applied very strictly by EFRAG, with only limited exceptions explained in the Basis for Conclusions. In total, six mandatory datapoints were added (three of which were voluntary in ESRS Set 1). This includes biodiversity and ecosystems transition plans in E4 (for more detail, see the relevant sections). **Glossary of Terms.** This Annex contains essential information on terms used throughout the revised ESRS, denoted in ***bold italics***. Several new defined terms have been added, and some definitions have been modified. It is critical to closely consider these definitions when applying the standards. **ESRS Knowledge Hub.** EFRAG has launched an interactive online platform including all key materials related to ESRS to support navigating the ESRS and broader materials developed by EFRAG. This will further improve the usability of the standards and related guidance.

1.2. Improved readability of the sustainability statement

The revised ESRS propose increased flexibility for presenting information to improve the readability of the sustainability statement:

Executive summary	**Option to include an executive summary** to convey the key messages on material IROs and their management. This executive summary is an integral part of the ESRS sustainability statement and its content and presentation must meet the qualitative characteristics of information. It may be placed outside the sustainability statement if the conditions for incorporation by reference are met.
Appendices	**Option to use appendices** to present: ▪ More detailed information ▪ Article 8 Taxonomy-related content ▪ Supplementary information on non-material matters
Supplementary information	**Inclusion of supplementary disclosures that are not material is permitted under the following conditions:** ▪ They are needed to meet the data demands of a specific user, ▪ They are clearly identified as not resulting from the DMA, ▪ They provide a faithful representation of the aspects they intend to represent, and ▪ Presentation of the information does not obscure material information.
Connected information	**The need for connected information** is further emphasized to discourage fragmentation or duplication of information. ▪ **Connection within the sustainability statement:** particular emphasis is put on the connections between general

	disclosures (governance, strategy and PAMTs) and the disclosures on related topics and IROs. ▪ **Connection with the financial statements:** mandatory cross-referencing is maintained, both for direct connectivity (amounts presented in the financial statements) and indirect connectivity (aggregation or part of such amounts). Any significant differences in assumptions must be explained. ▪ **Information incorporated by reference** (now covered in the section on connected information): clarification that only the information incorporated by reference needs to be subject to the same level of assurance (not the entire document containing the information).
Aggregation, disaggregation	**Greater emphasis is put on the level of aggregation and disaggregation of information.** It must not obscure information that is material and needs to reflect: ▪ Where significant variations of material IROs arise (e.g., **topic**, sector, subsidiary, **geography**, asset) ▪ The level that provides the most relevant information to users, i.e., topic, group of IROs, individual IROs, reflecting factors such as the nature of IROs or the way they are managed. ▪ IROs with shared characteristics **Geographical disaggregation.** The new defined term 'geography' covers country, region, county, water basin, ecosystem or a site, clarifying that individual site disclosure is not necessarily required. With the exception of E4 *Biodiversity and Ecosystems*, no specific disaggregation requirements are kept in relation to relevant geographies in the topical standards. However, the Objective sections in E2-E4 stress the particular relevance of geographies to assess aggregation or disaggregation of information.

Flexibility to report on general disclosures (ESRS 2)	ESRS 2 emphasizes several flexibilities to avoid duplication and increase relevance of general disclosures:
	▪ **Interactions of material IROs with strategy and business model (SBM-3) refocused at the strategic level.** Unnecessary granularity is discouraged by relocating the description of material IROs in IRO-2 (with the list of DRs). Linkages may be considered to avoid duplications.
	▪ **A concise and connected description of material IROs and related topics (IRO-2):**
	  ▪ Option to use a tabular format (with a check mark for IROs with no Policies, Actions and Targets)
	  ▪ Option to present alongside PAMT
	▪ **Increased focus on relevance and conciseness of PAMT disclosures:**
	  ▪ **Proportionate level of detail** driven by severity of impacts, magnitude of R&O and importance for strategy and business model.
	  ▪ **Avoidance of boilerplate content** and excessive detail obscuring material information (e.g., common practices known to reasonably knowledgeable users).

	▪ **Option to present following a managerial approach**, in line with its strategy and business model. If the same PAMT apply to several IROs, the information may be disclosed only once, reflecting the level at which they are managed, with a clear scope and cross-references within the report where relevant.

How we see it

Improved readability and usability of sustainability statements. The clarifications are useful to encourage preparers to structure their sustainability statement in a way that reflects their circumstances and avoid duplication of content. Although some preparers may already have used such flexibility in their first year of reporting, preparers have often followed the sequence of disclosures in the standards as an index, ensuring completeness, but sometimes leading to duplication and the perception of sustainability reporting as a compliance exercise.

Connectivity with corporate reporting. Creating an executive summary focused on key sustainability messages may provide better connectivity with other parts of the corporate report and help communication with investors and other users.

Guidance on aggregation and disaggregation. The enhanced guidance supports more meaningful and faithful representation of material IROs, particularly where significant variations exist across geographies, sectors, or business units. The reference to aggregation or disaggregation not obscuring material information and the notion of "shared characteristics" are aligned with the principles in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. The revised requirements reflect a compromise to address opposing views with some stakeholders considering the language to be too imprecise (with a risk of loss of information) and some preparers thinking there is still excessive focus on this aspect, potentially triggering excessive granularity. Monitoring how practice evolves in this area will be critical to assess if the right balance has been reached.

Implications for 2025 reporting. In our view, the greater flexibility introduced in the technical advice to improve the readability of the sustainability statement may generally be applied for 2025 reporting to the extent that it does not contradict a specific level of disaggregation currently prescribed under ESRS Set 1.

2 Modifications to general principles – ESRS 1

2.1. Objective of the sustainability statement

The revised ESRS introduce amendments to clarify the objective of the sustainability statement:

Fair presentation. The objective of the sustainability statement, taken as whole, is to present fairly (see section 2.2.) all the undertaking's sustainability-related material impacts, risks and opportunities (IROs) and how the undertaking manages them.

Users of general-purpose sustainability statements. The reported information must be decision-useful for the users of the 'general-purpose sustainability statements', which are reports addressed to "groups of users" with a "reasonable knowledge of the general subject matters" (see section 2.3.1.). Governments, analysts and academics were deleted from the list of users (considered to be indirect beneficiaries).

Clear list of reporting areas. Information must be disclosed about material IROs organized under topics to which they relate. The information needs to cover the following reporting areas: (i) governance; (ii) strategy (including financial effects); (iii) impacts, risks and opportunities management through policies and actions; and (iv) metrics and targets.

ESRS do not mandate behavior. This clarification does not apply to behavior specifically related to the reporting of sustainability information and other obligations laid down in EU law.

> **How we see it**
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> **List of reporting areas.** The list of reporting areas in the ESRS 1 Objective section clarifies the complete set of information expected when IROs are material and the organization of information under topics to which they relate. It helps to streamline the other standards which can refer to this clear structure without repeating it. This clarification may be helpful for undertakings which sometimes struggle to determine whether information should be organized by topic or IRO.

2.2. Fair presentation

Consistent with the ISSB Standards and other reporting frameworks, ESRS 1 establishes the overarching principle of **fair presentation**.

Fair presentation requires disclosure of **relevant information** about the undertaking's material IROs and their **faithful representation**.

Faithful representation is achieved by disclosing:

- A **complete, neutral and accurate** depiction of the material IROs
- Information that is **comparable, verifiable and understandable**
- **Entity-specific information** when applying ESRS is not sufficient

The **overall picture** of the reported information must be considered. This can result in the addition of entity-specific information, and/or removing a datapoint required by ESRS if the information is not material. **Applying the ESRS**, including the information materiality filter (see section 2.3.1.) and incorporating entity-specific disclosures when necessary, **is presumed to achieve fair presentation**.

Making **use of reliefs**, such as described in section 2.6., does not compromise fair presentation provided that explanations are provided on the implications.

Linked to the fair presentation principle, an **explicit statement of compliance** with ESRS, including entity-specific disclosures, is now required in ESRS 2 (BP-1).

> **How we see it**
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> **Fair presentation as an explicit objective.** This objective aims to reinforce the effectiveness of the materiality principle considering the overall picture of the reported information and avoiding unnecessary granular reporting often linked to compliance exercises. Compared with the faithful representation characteristic already required at a disclosure level, it is considered a more holistic concept that is to be assessed at the level of the sustainability statement as a whole.
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> **Fair presentation implications.** The fair presentation principle introduced in the EDs received mixed feedback, primarily due to the limited maturity of sustainability reporting, which makes it challenging to define the boundaries of the users' perspective relevant to assess "fair presentation". EFRAG clarified that fair presentation involves consideration of "the overall picture of the reported information taken as whole", with a list of users refocused on "groups of users" with a "general knowledge of the general subject matters of the report". This clarifies that the information needs of each and every user do not have to be considered when assessing fair presentation. However, determining the boundaries of the relevant users' groups will remain a key judgment (see also section 2.3.1).

Interoperability with IFRS S1. Similar to IFRS S1, fair presentation means that a datapoint is not required if the information is not material and that additional entity-specific information may be necessary. ESRS 1 clarifies that the concept of "entity-specific disclosures" serves the same purpose as "additional information" used in IFRS S1. This reinforces both the interoperability and the expectation that undertakings need to assess whether the standard disclosures are insufficient to reflect their specific circumstances.

2.3. Double materiality as the basis for sustainability reporting

The double materiality assessment (DMA) is central to the preparation of sustainability statements under ESRS and considerations relating to the 'materiality of information' are linked with those relating to the structure of the sustainability statement (section 1.2.) and fair presentation (section 2.2.).

The chapter on 'Double materiality as the basis of sustainability reporting' has been restructured into 3 sections to increase readability and understandability.

- The first section, **Assessing information to be reported,** covers **Information materiality, Steps in determining the information to be reported** (topics related to material IROs and information to be reported on these topics), **Bases for assessing materiality** and **Periodicity of the double materiality assessment**.
- The second section focuses on **Double materiality assessment: impact materiality and financial materiality.**
- The third section covers **Specific circumstances**, including **Level of aggregation and disaggregation**.

2.3.1. Information materiality

The concept of materiality of information has been clarified and made more prominent as an overarching filter for the inclusion of information, including ESRS 2 *General Disclosures* (although it is noted that these disclosures are likely to result in material information).

The definition of information materiality is based on decision-usefulness, including for 'other users'. Information is material when omitting, misstating or obscuring that information could reasonably be expected to influence:

- **Decisions** that **primary users of general-purpose financial reports** make based on those reports, including financial statements and the sustainability statement, relating to providing resources to the undertaking; or
- **Decisions, including informed assessments**, that **other users of general-purpose sustainability statements** make based on the sustainability statement regarding the undertaking's material IROs and how it manages them (see section 2.1.).

Determining the information to be reported is a two-step process:

- Identification of material topics to be reported based on material IROs identified
- Determination of the information to be reported on each of those topics

Reporting on a given topic is only required if it relates to one or more material IROs. If a material IRO concerns a sub-topic, only the material information for that sub-topic needs to be reported. Appendix 9 to the Basis for Conclusions outlines how sub-topics listed in Appendix A of ESRS 1 relate to DRs in the topical standards (based on ID 177).

Information prescribed by an ESRS is not required if it is not material.

How we see it

Decisions, including informed assessments. The filter of materiality of information for users other than primary users of general-purpose financial reports is now based on decision-usefulness, which includes 'informed assessment'. This new terminology is intended to provide greater clarity on the types of information needs to be considered when assessing materiality. However, unlike the decisions of investors, which typically involve legal acts such as buy or sell transactions, these decisions may encompass a broader perspective, resulting in interpretative difficulties. Beyond the identification of the boundaries of user groups relevant for 'fair presentation' (see section 2.2.), determining their needs to assess the materiality of information will also be a key judgment.

Significant differences between group- and subsidiary-level IROs. EFRAG clarified that undertakings are expected to highlight such differences (e.g., in the aggregation of group-level IROs) rather than disclose all subsidiary-level IROs that differ from those of the group. This helps reduce potential over-reporting and supports a more focused and proportionate application of the materiality principle.

Mapping of topics and DRs in draft amended ESRS. This mapping in Appendix 9 of ESRS 1 (although it remains provisional) serves as a useful reference point for preparers navigating the revised structure of the standards. However, materiality must still be assessed in the context of the undertaking's specific circumstances.

2.3.2. Double materiality assessment

Although the key elements of the DMA have not changed, EFRAG has simplified the section relating to the DMA process to reduce perceived undue complexity (e.g., checklist approach, detailed scoring) and to focus more on the outcome of the DMA.

Top-down approach. A conclusion may be derived, without further assessment, on the (non-)materiality of IROs for a topic or sub-topic, based on an analysis of strategy and business model, considering applicable sector(s), geographies and the features of the value chain. The materiality conclusion can be reached at the topic level. A specific assessment of IROs is required if the materiality conclusion is not evident based on this previous step. A bottom-up assessment conducted only at the level of IROs or a combination of both approaches is also possible.

Undue cost or effort. The assessment needs to be based on "reasonable and supportable information that is available at the reporting date without undue cost or effort" (see section 2.5). This means, for example, that:

- Use of quantitative information or quantitative scoring is not required in all cases. A qualitative analysis may be sufficient to conclude on the materiality of IROs
- An exhaustive search for information to identify IROs is not required
- A separate analysis of each characteristic of severity is not required, unless further assessment is necessary
- Not every time horizon for each IRO needs to be analyzed, unless further assessment is necessary (e.g., when the IRO is expected to evolve over time)
- The following usual internal and external sources may be considered: the undertaking's sustainability due diligence and general risk management process; its engagement with affected stakeholders, peer experience, reports and statistics, scientific data and expert advice.

Focused approach. The undertaking is not required to assess every possible IRO across all areas of its own operations and value chain. It is expected to focus on areas where material IROs are deemed likely to arise based on the strategy, business model, geographies, sectors, business relationships, activities and other factors.

Emphasis on geographies. For geographies identified as likely to give rise to material IROs, the specific context must be considered to assess the materiality of IROs. Consistent with the new definition of "geographies" (see section 1.2.), the geographic context can be analyzed at different levels, e.g., country, region, county, water basin, ecosystem or a site, depending on their relevance for the assessment.

- For **environmental topics**, factors that influence the existence of negative impacts include, among others: local air, water and soil quality, water availability in water-risk areas and presence of threatened species and ecosystems in biodiversity sensitive areas.

- For **social topics**, factors that influence the existence of negative impacts include, among others: conflict-affected, high-risk areas and presence of vulnerable populations such as indigenous people or migrant workers.

Value chain materiality assessment may be conducted without direct input from value chain actors, using instead average regional data, sector data or generally available information about the existence of IROs.

Illustrative list of topics. The list of topics in ESRS 1 Appendix A (current AR16 list) has become non-binding guidance: it is presented as one of the inputs to the DMA rather than a mandatory checklist. Also, it has been streamlined to topics and sub-topics. Sub-sub-topics have either been aggregated within brackets under existing sub-topics, elevated at sub-topic level or removed.

How we see it

Top-down approach. The top-down approach was welcomed by preparers as an effective simplification. The standard does not specify the evidence expected to support the conclusions of a top-down approach, but the Basis for Conclusions highlights the need for the reported information to be verifiable (qualitative characteristic of information). As such, conclusions should be supported by reasonable evidence and appropriately documented, including any judgments involved.

Implications for 2025 reporting. In our view, certain simplifications, such as the ability to identify evident IROs based on a top-down approach, are compatible with the principles of DMA in ESRS Set 1 and could already be considered in FY2025.

2.3.3. Periodicity of the DMA

A new paragraph has been introduced to clarify that a full DMA is not required on an annual basis unless significant changes arise. At each reporting date, the undertaking shall consider whether significant changes have occurred that could affect the conclusions of the materiality assessment conducted in previous periods. If such changes are identified, the assessment must be reviewed and updated. Significant changes may relate to changes in an undertaking's individual circumstances, such as activities, structure, business relationships, understanding of IROs or assessment methodologies, or in the external environment.

2.3.4. Impact materiality: prevention, mitigation and remediation actions

A new principles-based approach has been introduced to determine how to take into account remediation, mitigation and prevention policies and actions in the assessment of impact materiality to fairly represent the impacts and how they are managed in accordance to decision needs of users.

This approach generally allows implemented and effective prevention and mitigation policies and actions to be reflected in the assessment of impact materiality. However, it stresses that information about impacts and how they are managed may be decision-useful to users, irrespective of how effectively they are managed or regulated. This perspective should be taken into account, which means that materiality may need to be assessed without taking into consideration the effect of management actions (referred to as a gross approach).

The proposed approach can be summarized, as follows:

Aspect	Explanation
Actual negative impacts	**Assessed as they "actually manifested" during the reporting year:** ▪ Include impacts originated in previous periods that continue to exist in the current reporting year ▪ Severity assessed based on current reporting period, taking into account how the impacts were mitigated in previous periods ▪ Remediation of impacts during the reporting year are not considered
Potential negative impacts	**Assessed taking into account implemented prevention and mitigation policies and actions:** ▪ Provided these policies and actions can reasonably be assumed to effectively reduce the severity or likelihood ▪ Actions and policies not yet implemented are not considered ▪ Policies implying future actions to ensure effectiveness in reducing severity or likelihood are not considered
Impacts inherently decision-useful for users	**Adapt the materiality assessment to meet users' information needs.** ▪ If information about impacts and how the undertaking manages them through policies and actions is decision-useful to users, irrespective of how effectively the impacts are managed or regulated, the materiality assessment must take these needs into account.
Positive impacts	▪ Positive impacts must be assessed on their own, and must not be set off against negative impacts ▪ The results of the undertaking's prevention, mitigation or remediation actions in respect of negative impacts to which the undertaking is connected, or its compliance with law and regulations, are not positive impacts ▪ However, positive impacts may arise from business activities, products or services that mitigate or remediate negative impacts of another party if the undertaking is not connected with those impacts

How we see it

Balancing under and over-reporting. The new requirements introduced for prevention, mitigation and remediation actions aim to avoid divergence of interpretation. Although the detailed examples introduced in the ED were deemed overly complex and removed, the core principles were broadly supported and retained in a more principles-based approach.

In the Basis for Conclusions, EFRAG clarifies its intention to achieve a balanced approach where both the impacts and how they are managed are fairly represented. The objective was to achieve a balanced approach, avoiding the risks of under-reporting associated with a net approach (i.e., post-actions and policies) and over-reporting associated with a gross approach (i.e., pre-actions and policies).

Effectiveness of policies and actions. Documenting the effectiveness of policies and actions that reduce the severity and likelihood of impacts below the materiality thresholds will require an evidence-based assessment. Assessing whether policies and actions "can reasonably be assumed to effectively reduce the severity or likelihood" may also involve judgment. Transparency will, therefore, be critical, as emphasized in ESRS 2 IRO-1 which now explicitly refers to how prevention, mitigation and remediation actions are considered in the DMA.

Inherent impacts. The requirement to take into account the information needs of users means that an undertaking may have to report on material impacts and related policiesand actions for certain topics, even if it assesses that these negative impacts are effectively mitigated.

The field test run by EFRAG revealed that some IROs and associated topics tend to be material for users in a given sector, irrespective of the effectiveness of implemented policies and actions (referred to by EFRAG as 'inherent impacts'). Examples provided in the Basis for Conclusions include climate mitigation (as reducing the impact requires multi-year transaction actions and policies) and health and safety (as corresponding impacts can never be fully eliminated) for high impact sectors. It is added that possible sources of inspiration include peers' practice, items of strategic importance for the administrative, management and supervisory bodies or key stakeholders. This concept is rooted in the general filter of information materiality and, as such, stays at a principles-based level, allowing for flexibility to reflect the undertaking's specific circumstances.

An area of divergence. The amendments seek to address a frequent implementation question which has led to divergence in practice. The principles-based approach may still give rise to interpretative challenges and divergent practices, in particular, regarding the assessment of the effectiveness of policies and actions and those topics for which users' needs require a gross approach (i.e., pre-actions and policies). Transparency in the disclosures and monitoring of how practice evolves in this area will be critical.

2.4. Reporting boundaries

EFRAG proposes some clarifications and key changes regarding reporting boundaries.

Clarified reporting boundaries aligned with the financial statements. ESRS 1 confirms that the sustainability statement must be for the same reporting undertaking as for the financial statements. It also clarifies that "assets and liabilities, revenues and expenses of the parent undertaking and its subsidiaries, located in or outside the EU" are **usually** considered as part of a group's own operations (except for specific circumstances, e.g., leased assets). Financially non-material subsidiaries excluded from the consolidated financial statements may be excluded from the sustainability reporting boundary, unless they trigger material impacts for the group.

Environmental metrics. The same reporting boundaries apply in the environmental standards, with a notable change for the reporting of GHG emissions for which the additive approach currently required under ESRS Set 1 (operational control in addition to the scope of the consolidated financial statements) is replaced by an approach focusing primarily on the consolidated financial statements. It is also clarified that the reporting boundaries defined in ESRS 1 prevail over the other frameworks such as the GHG Protocol (see more details in section 4.5.).

Leased assets. New provisions have been introduced to address the fact that IROs related to a leased asset may result either from the use of the asset or from its ownership.

- A lessee must report the impacts arising from the use of the leased asset as part of its own operations during the lease period (such as pollution, energy, or water in leased factory).
- A lessor needs to report the impacts related to the use of the leased asset as part of its downstream value chain.
- Whether other IROs related to a leased asset accrue to the lessor or lessee depends on the provisions of the lease contract.

Assets held by a long-term employee benefit scheme. It is clarified that IROs arising from assets held by an undertaking's long-term employee benefit schemes are connected with the undertaking through its business relationships in the value chain.

Associates, joint ventures and other investments. ESRS 1 now explicitly states that such shareholding positions are treated as business relationships in the value chain. If associates and joint ventures are also suppliers or customers, both relationships need to be considered.

New reliefs. A relief has been added for acquisitions and disposals, as well as specific reliefs for metrics (see section 2.6.).

Transparency. In accordance with ESRS 2, in case the reporting boundary of the undertaking's own operations differs from that of the consolidated financial statements, undertakings must describe the difference and related reasons (See section 3.2.).

How we see it

Provisions on leased assets and long-term employee benefit schemes and environmental standards. ESRS 1 specifies that these provisions take precedence over topical standards including provisions on GHG emissions in E1 *Climate change*. Undertakings should, therefore, bear these considerations in mind when reporting on their GHG emissions under the revised reporting approach in E1 (see section 4.5.).

Definition of value chain for financial services. The definition of own operation and value chain has been identified by financial institutions (asset management, commercial banking, insurance) as a critical implementation challenge given the relevance that their relationship with customers (i.e., downstream value chain) has in determining their IROs. Although the clarifications introduced on investments and leased assets confirm that some assets give rise to downstream value chain relationships despite being on balance-sheet, the revisions to ESRS 1 do not cover the definition of value chain for financial services. Despite clear requests from the financial services industry, no exemption was provided from reporting specific downstream value chain relationships such as insured emissions or assets managed on behalf of clients (see section 4.6.2.).

Investment entities. Although investment entities were identified as a challenge in relation to ESRS boundaries, the Basis for Conclusions highlights that they will be addressed directly in the revision of the CSRD via a possible exemption for 'financial holding undertakings'*.

** Directive 2013/34/EU Article 2(15) 'financial holding undertakings' means undertakings the sole object of which is to acquire holdings in other under takings and to manage such holdings and turn them to profit, without involving themselves directly or indirectly in the management of those undertakings, without prejudice to their rights as shareholders"*

2.5. "Undue cost or effort"

ESRS 1 introduces, as a general relief, a proportionality mechanism allowing the use of **"reasonable and supportable information available without undue cost or effort"**.

This concept has been introduced for:

- Identifying material IROs
- Determining the scope of the value chain
- Extending information to include value chain information
- Preparing information on metrics
- Reporting on current and anticipated financial effects

Entity-specific assessment. The assessment of what constitutes undue cost or effort at the reporting date depends on the undertaking's specific circumstances (size, resources, technical readiness, availability of tools to access and share information), as well as general conditions in the external environment. It does not require an exhaustive search for information, but a balanced consideration of the costs and efforts for the undertaking with the benefits of the resulting information for users.

Information expected to be considered available without undue cost or effort. This includes information deriving from internal resources (such as risk management processes, information used in preparing its financial statements, operating the business model, setting the strategy, conducting sustainability the due diligence process and managing IROs), as well as external sources (such as sector, peer group experience and scientific research).

Expected improvement. Reasonable and supportable information available without undue cost or effort is subject to reassessment for each reporting period. It is expected to improve over time as a result of the undertakings' actions to improve data and higher information availability of external information.

How we see it

Clarifying reasonable and supportable information available without undue cost or effort. EFRAG considered feedback suggesting the need for guardrails and transparency over the use of this new proportionality mechanism. Extensive guidance has, therefore, been inspired by the concept contained in the ISSB Standards and related educational material. It includes the list of internal and external information expected to be considered available without undue cost or effort. The Basis for Conclusions highlights that own operations information generally should be available without undue cost or effort and the relief is not expected to apply to information generated due to other European Regulations.

No phase-out clause. No time limit has been added, considering that ISSB Standards do not include one and because this proportionality mechanism is considered as contributing substantially to the simplification objective. Instead, strong emphasis is put on the need for reassessment, with a clear expectation that availability of information will improve over time as a result of undertakings' actions to improve data or higher availability of external information.

Undue cost or effort and other partial scope reliefs. The "undue cost or effort" proportionality mechanism will help undertakings adapt the level of efforts put in the data collection and estimate process required to provide a material information required by the ESRS. However, it does not provide a full exemption from the disclosure requirement. Some partial scope exemptions are provided in further reliefs (see section 2.6.).

Reliefs and interoperability. While ESRS 1 now refers to the same concept of "undue cost or effort" as IFRS S1 and IFRS S2 *Climate-related Disclosures*, full alignment is not achieved due to differences in scope where this concept is applied. In particular, ESRS 1 extends the relief more broadly by applying it to all value chain information and the preparation of all metrics. Other reliefs will also impact interoperability (see section 2.6).

2.6. Other reliefs

ESRS 1 proposes several other horizontal reliefs, applied across different requirements, in order to reduce the reporting burden and enhance flexibility.

Flexibility for value chain data collection. In addition to the "undue cost or effort" relief, collecting data from the value chain is made more flexible by placing primary data collection on an equal footing with secondary and indirect forms of data collection to gather estimates, both for the identification of material IROs and when reporting on metrics. It is also explicitly stated that undertakings are not expected to collect from their value chain information that exceeds any limits set by relevant EU Law and regulation.

Partial scope metric due to lack of reliable data. Except for E1-8 GHG emissions, undertakings are allowed to report metrics that cover a partial scope when they are only able to provide reliable data without incurring "undue cost or effort" for this part of the scope.

- This relief applies to both own operations and value chain metrics.
- The excluded scope needs to be an 'objectively defined part' of the undertaking's own operations or value chain.
- This relief applies without prejudice to the applicability of the provisions on the 'undue cost or effort' relief.
- Undertakings need to disclose if this relief is applied (ESRS 2 BP-1). Transparency is also required regarding the actions taken to increase the coverage and quality of future reporting, as well as progress made compared to the previous reporting period.
- For E1-8 GHG emissions (excluded from this relief), ESRS 1 clarifies that, within the boundaries of GHG emissions as set out in ESRS 1, the provisions for the calculation of scope 3 GHG emissions in the GHG Protocol can be considered (AR42).

Exclusion of activities that are not significant drivers of IROs. Activities may be excluded from metric calculations if, due to their nature, they are not significant drivers of the IROs represented by the metric and if their exclusion is not expected to impair the relevance and faithful representation of the reported information. Undertakings need to disclose if this relief is used (ESRS 2 BP-1) and include any relevant information to enable users to understand scope limitations.

Exclusion of joint operations not operationally controlled from environmental metrics (except climate change). Such exclusion is allowed when calculating the metrics for ESRS E2 *Pollution*, E3 *Water*, E4 *Biodiversity and Ecosystems* and E5 *Resource use and circular economy*. Undertakings must disclose if this relief is used (ESRS 2 BP-1) and include any relevant information to enable users to understand scope limitations. Transparency is also required regarding the actions taken to increase coverage and quality of reported information in future periods, as well as the progress made compared to the previous period.

Reliefs for excluding acquisitions and disposals from the reporting year. The inclusion of subsidiaries and businesses acquired in the reporting period may be deferred until the next reporting period. Similarly, if the undertaking loses control over a subsidiary or business in the reporting period, the materiality assessment and reporting boundary may be adjusted as from the beginning of the current reporting period. When applying this relief, available information must be used to disclose significant events that affected the acquired (or disposed) subsidiaries or businesses between the date of acquisition and the end of the reporting period (or between the start of the reporting period and the date of disposal), if this has an effect on the group's material IROs. Undertakings must disclose if this relief is used (ESRS 2 BP-1).

Relief to omit information in accordance with applicable Union law and regulations. This relief was added to address concerns about confidentiality and commercially sensitive information. If Union law and regulations prohibit the disclosure of certain information or allow its omission, the information is not required by ESRS. Undertakings must disclose if this relief is used (ESRS 2 BP-1), indicating the type of information not disclosed and the source of the restriction.

How we see it

Partial scope reliefs: These additional reliefs go beyond the "undue cost or effort" relief, which allows an entity to adapt the level of efforts but does not provide any exemption. They are intended to make a substantial reduction to the cost or effort burden.

- **Transparency and market discipline.** The possibility of including a time limit for the reliefs was intensively debated and finally discarded. As noted in the Basis for Conclusions, EFRAG expects that there will be market discipline, promoted by the necessary transparency about the use of the reliefs and the actions put in place to reduce reliance on them. Over time, it is expected that the coverage of the metrics will increase, and the reliefs will no longer be required.

- **GHG emissions reporting.** The partial scope relief due to lack of reliable data is not available for GHG emissions. EFRAG wanted to avoid interoperability issues on this important datapoint. The Basis for Conclusions also clarifies that GHG reporting was considered sufficiently mature, with information already generated by undertakings based on the GHG Protocol, which provides flexibility regarding data availability, quality and methods used to develop an estimate when the data is unavailable. Reference to this flexibility is also highlighted in ESRS 1 by an explicit reference to the calculation provisions of Scope 3 in the GHG Protocol (with a specification that the reporting boundaries are defined in ESRS 1).
- **Exclusion of activities that are not significant drivers of IROs.** The Basis for Conclusions indicates that this relief was introduced to avoid the need to unnecessarily justify the exclusion of immaterial activities when calculating a metric. Preparers will need to assess how this relief can effectively alleviate the reporting burden while still providing a faithful representation of the metric.

Value chain cap. The CSRD sets a limit on the information that can be requested from value chain undertakings which are not in scope of the CSRD. The first Omnibus simplification proposal extends the scope of the value chain cap by reducing the number of undertakings in scope and introducing as a new cap a voluntary standard which will be based on EFRAG's VSME standard (adopted following a recommendation by the Commission on 30 July 2025). This revised value chain cap is likely to translate into greater reliance on estimates based on secondary data. The multiple reliefs introduced in ESRS 1 aim to address such limited access to primary data.

Reliefs for acquisitions and disposals. This relief will facilitate reporting processes, but may limit visibility of acquired or disposed subsidiaries and businesses as information may be excluded both from the selling group's report and the acquiring group's report for the current reporting period. Application of this relief will also cause differences in the reporting boundary compared to the financial statements. While disclosures are required of significant events occurring during the current reporting period, undertakings will also need to assess if sufficient transparency is provided on the consequences of the relief on the reported information and the resulting limitations in accordance with ESRS 1 (AR6).

Relief to omit information under applicable Union law and regulations. This generic relief replaces the earlier ESRS Set 1 provisions regarding classified or sensitive information and information on intellectual property, know-how or results of innovation. The first Omnibus simplification proposal identifies four exceptional circumstances where omission is permitted, subject to assurance and transparency requirements: "Commercial Prejudice", "Trade Secrets", "Classified Information" and "Privacy and Security"'.

Reliefs and interoperability. The new reliefs will impact interoperability as they are not available in IFRS S1 and IFRS S2. Undertakings that also intend to comply with the ISSB Standards will need to evaluate the impact of such reliefs on the reported information.

2.7. Transitional provisions

The technical advice proposes amendments and additions to the transitional provisions and clarifies that they apply from the first financial year the undertaking is subject to preparation and publication of a sustainability statement as required by the CSRD (irrespective of delays of local transposition).

The transitional provisions no longer include a phase-in provision for value chain information given the introduction of the new reliefs.

ESRS 1 only includes transitional provisions for "Wave 1" undertakings and leaves to the European Commission the decision on which phase-in treatment is appropriate for undertakings other than "Wave 1".

The technical advice mostly reflects the phase-in provisions included in the "Quick Fix" Delegated Act (DA). However:

- It adds two new phase-in provisions for quantitative information on anticipated financial effects and substances of concern until FY2029.
- It introduces a scope limitation to the phase-in of information on anticipated financial effects in FY2026 by excluding carrying amounts and percentage of assets at material physical and transition risk.

The revised transitional provisions proposed in the technical advice can be summarized, as follows (for implications of the "Quick Fix" DA on FY2025, please refer to our publication EY EU Sustainability Developments Issue 9.)

Information that may be omitted by Wave 1 undertakings (FY2026 onwards)	Timeline
Newly introduced by EFRAG technical advice	
Quantitative information on anticipated financial effects*, except for carrying amounts and percentage of assets at material physical and transition risk (see section 4.8.)	FY2026 to FY2029
Quantitative information related to substances of concern (ESRS E2-5)*	FY2026 to FY2029
"Quick Fix" Delegated Act + EFRAG technical advice	
All information on anticipated financial effects*, except for carrying amounts and percentage of assets at material physical and transition risk (see section 4.8.)	FY2026
ESRS S1 datapoints*	FY2026
Characteristics of non-employees in the undertaking's own workforce	FY2026
Collective bargaining coverage and social dialogue in non-EEA countries	FY2026
Social protection	FY2026
Percentage of employees with disabilities	FY2026
Training and skills development	FY2026
Cases of work-related ill-health and number of days lost to work-related ill-health and work-related accidents	FY2026
Health and safety regarding non-employees	FY2026
Work-life balance metrics	FY2026
Entire standards**	FY2026
ESRS E4 - all DRs	FY2026
ESRS S2 - all DRs	FY2026
ESRS S3 - all DRs	FY2026
ESRS S4 - all DRs	FY2026

** As per the technical advice, when undertakings apply phase-in provisions related to specific DRs listed in ESRS 1.125(b)-(e), they must disclose this fact.*

***When all DRs of a standard are omitted, minimum disclosure requirements are applicable as per ESRS 2.17 for ESRS Set 1, and as per ESRS 2.8-9 for the technical advice.*

2.8. Comparative information

The technical advice also proposes some amendments related to comparative information.

No comparatives required for new material topics or IROs. Undertakings are not required to present comparative information related to them in the current period, if it has not been reported in prior sustainability statements.

Revision of comparatives and useful information. An exception has been introduced to the general requirement to revise comparative amounts (unless it is impracticable) if new information is identified in relation to estimated figures disclosed in the preceding period and when that information provides evidence of circumstances that existed in the preceding period. A new Application Requirement (AR) specifies that such revision is not required if the revised comparatives do not provide useful information, such as when the estimation methodology for the relevant metric relies systematically at the reporting date of an input of the previous period.

Major acquisitions or disposals. Without prejudice to the relief on acquisitions and disposals (see section 2.6), when necessary to understand progress towards meeting a target, the undertaking shall disclose the effects of a major acquisition or disposal.

3 Modifications to general disclosures – ESRS 2

The proposed amendments in the technical advice for ESRS 2 result in a 53% reduction in the number of datapoints and a 30% reduction in the overall word count.

3.1. General Disclosure Requirements for Policies, Actions, Metrics and Targets (GDR PAMT)

Cross-cutting minimum disclosure requirements (MDRs) related to policies, actions, metrics and targets are renamed into General Disclosure Requirements for policies, actions, metrics and targets (GDR PAMT). Beyond the amendments and clarifications introduced to improve the readability of the standards and the sustainability statement (see section 1), the following amendments are also proposed:

GDR	Additional amendments proposed
GDR PAMT	**Clarified disclosure if PAMTs address only specific aspects of a topic.** If the policies, actions, targets or metrics used only cover certain aspects of a topic, this must be reflected in the disclosure, enabling users to understand the specific aspects that are covered.
GDR PAT	**Deletion of disclosure of the reasons why no PATs are in place.**
GDR-P	**Disclosure of changes** during the period to adopted policies.
GDR-A	**Significant financial resources** allocated to implement key actions: ▪ Option to limit the disclosure to: (i) approved and announced key actions; and (ii) planned sources of funding for implementation. ▪ Provide an indicative range for future financial resources.
GDR-M	▪ **Clarification that metrics must be disclosed if they relate to material IROs (required by topical standards or defined on an entity-specific basis).** This may include metrics used by the undertaking to manage material IROs. ▪ **For value chain metrics, disclosure of reliance on data from indirect sources** or proxies and planned actions to improve data quality in future if such actions are planned (if applicable). ▪ **Disclosure of contextual information about metrics.** This may include reasons for choosing a particular measurement approach, inputs and assumptions used and for environmental metrics, the specific conditions and characteristics of the relevant area.

	▪ **Disclosure of significant changes in performance compared to previous periods**, including progress made in achieving targets and how major acquisitions or disposals affect the progress.
GDR-T	**Whether the undertaking's targets are "based on conclusive scientific evidence"' is clarified** as referring to the use of robust, peer-reviewed or otherwise authoritative biophysical information that identifies relevant **ecological thresholds** or that quantifies conditions, trajectories and constraints using empirical data, modelling, or recognized scientific frameworks.

How we see it

Metrics used vs metrics required to be disclosed. The fact that the undertaking effectively uses metrics for certain aspects of a topic only does not permit the omission of reporting metrics required by topical standards in relation to material IROs (as well as those defined on an entity-specific basis). However, disclosing information on the fact that metrics are only used for specific aspects of a topic or are not used at all provides insight into how the undertaking evaluates its performance and tracks the effectiveness of its actions in managing material IROs.

3.2. Other ESRS 2 General Disclosure Requirements

In addition to streamlining the ESRS 2 disclosure requirements described in section 1.1, further amendments have been made.

GDR	Additional amendments proposed
BP-1: Basis for preparation of the sustainability statement	▪ **Compliance statement**: Explicit statement that the sustainability statement has been prepared in accordance with ESRS as applicable at the end of the reporting period (see section 2.2). ▪ **Disclosure on applied reliefs and options** (see section 2.5. and 2.6.) together with the related required information (e.g., deviation from pre-defined time horizons or relief for acquisitions and disposals). ▪ **Reporting boundary:** Description of differences, if any, between the reporting boundaries of own operations and those from the consolidated financial statements, including reasons for this difference (see section 2.4.).
SBM-1: Strategy, business model and value chain	▪ **Sector disclosures**. No specific classification system of business activities is mandated. Undertakings may, for example, use available classification best practices or frameworks such as the ISSB *Industry-based Guidance on Implementing IFRS S2* or the GRI Standards.
IRO-2: Material IROs and disclosure requirements included in the sustainability statement	▪ **Relocation of the description of material IROs** from SBM-3 to IRO-2, while IRO-1 covers the description of the process to identify and assess material IROs and related information to be reported (see section 1.2.). ▪ **Deletion of the requirement to disclose expected time horizons for impacts.** ▪ **Required list of 'supplementary' information.**

3.3. Disclosing financial effects (SBM-3)

The technical advice proposes several amendments and specific reliefs related to the financial effects and resilience disclosures required to explain the interaction of material IROs with the strategy and business model and financial effects (SBM-3).

Financial effects	Description

Financial effects (both current and anticipated)	▪ **Both qualitative and quantitative information** is required.
	▪ Quantitative information may consist of **non-monetary information,** such as volumes, number of products, or employees. **Ranges or single amounts** may be disclosed.
	▪ **Relief from quantitative information** if:
	  ▪ The effects are not separately identifiable; or
	  ▪ The level of uncertainty in estimating is so high that the resulting information would not be useful.
	If so, the undertakings shall:
	  ▪ Explain why quantitative information is not provided;
	  ▪ Provide qualitative information; and
	  ▪ Provide quantitative information about combined financial effects, unless determined not to be useful.
	▪ Disclosure of qualitative information is required on **significant risk of material adjustment** in the next annual reporting period to carrying amounts of assets or liabilities.
	▪ **Mandatory cross-referencing with financial statements** is required for direct or indirect connectivity (see section 1.2.).
	▪ **Significant differences in assumptions** used for preparing sustainability statements and financial statements must be explained (refer to section 1.2.).

Anticipated financial effects	▪ **Additional relief from quantitative information in case of lack of skills, capabilities or resources**, with the same disclosures as required as under the first relief.
	▪ **Additional phase-in provisions to omit:**
	  ▪ All information until FY2026, apart from certain climate-related information (see section 2.7. and 4.8.)
	  ▪ Quantitative information until FY2029, apart from certain climate-related information (see section 2.7. and 4.8.).

Resilience	▪ **Qualitative information** about the resilience of the strategy and business model to manage material risks, including how the analysis was conducted and the time-horizons considered. ▪ **Scope disclosure limited to risks** (excluding impacts and opportunities).

How we see it

Challenges of providing quantitative information. Preparers expressed strong concerns about quantitative information on anticipated financial effects due to data quality, sensitivity of information and lack of standardised methodologies. While still mandating quantitative information given its importance to users of the sustainability statements, EFRAG introduced new reliefs which are expected to reduce both the effort needed to prepare the information and the circumstances in which it is required. However, the reliefs are clearly entity-specific and preparers should be mindful of stakeholders' expectations. The greater the entity's exposure to risks, the more skills, capabilities and resources would be expected to be available to carry out the analysis and the more challenging it would be to use the reliefs. Related ISSB Educational material notes that a company cannot avoid providing quantitative information if it does not have the skills or capabilities but has the resources available to obtain or develop them.

Quantitative information may consist of non-monetary information. This clarifies that undertakings may comply with the requirement to disclose quantitative information without disclosing financial projections that are developed solely for ESRS reporting purposes, for time horizons that go beyond those adopted for financial and business planning reasons.

Interoperability. The proposed amendments impact interoperability both positively and negatively. The decision to retain quantitative information on anticipated financial effects is aligned with the ISSB standards. The related undue cost or effort relief and option to omit quantitative information due to lack of skills, capabilities or resources are also aligned. However, the additional ESRS phase-in reliefs will create temporary differences. Also, the relief to only disclose qualitative information on resilience negatively impacts interoperability with ISSB Standards as these also require quantitative information if applicable.

Phase-in for anticipated financial effects. While phase-ins for quantitative information on anticipated financial effects have been extended to FY2029 (apart from certain climate-related information on assets at material physical and transition risks) (see sections 2.7. and 4.8.), undertakings are encouraged to start preparing for such disclosures, notably by ensuring that sustainability and financial functions are connected and by assessing the methodology and internal process required. EFRAG is aware of the remaining challenges and is expected to develop non-mandatory guidance and educational material to support readiness in time for the end of the phase-in period.

4 Modifications to Climate-change standard – ESRS E1

The amendments proposed in ESRS E1 include a significant reduction and simplification of disclosure requirements and related application requirements, as well as overall removal of examples. This results in a 57% reduction in the number of datapoints and a reduction of 60% in overall word count.

4.1. Restructured and simplified disclosure requirements

Revised structure. Climate-related specifications on ESRS 2 disclosures have been reorganised, resulting in a revised structure and new DR titles:

- The DR related to incentive schemes has been removed (as already covered by ESRS 2 GOV-2 *Integration of sustainability-related performance in incentive schemes*).
- The DR related to ESRS 2 IRO-1 Processes to identify and assess IROs is streamlined and refocused under E1-2 Identification of climate-related risks and scenario analysis.
- The DR related to SBM-3 Material IROs and their interaction with strategy and business model has been revised and restructured under E1-3 Resilience in relation to climate change.

This new structure leads to a renumbering of other DR (e.g., E1-6 on GHG emissions reporting becomes E1-8).

Streamlining. Beyond these structural updates, specific DR have been significantly simplified:

- Specific requirements on **policies** have been removed. E1-4 on policies merely refers to ESRS 2.
- Specific disclosures on **key actions** are streamlined. While key requirements for the presentation of actions by decarbonization lever and expected GHG emission reductions are maintained, other disclosures are now covered by a reference to

ESRS 2 GDR-A. This includes financial resources for which the link to the financial statements and EU Taxonomy reporting have been removed, as well as the explanation of dependency.

- Reporting on **internal carbon pricing** is significantly simplified, requiring an explanation on whether and how carbon pricing is used in decision-making, the consistency with the price used in impairment tests and the price per metric tonne applied for each internal pricing scheme.

Link between adaptation and mitigation. In response to questions raised about the distinction between a transition plan and an action plan, as well as the need for greater visibility on climate change adaptation, some disclosures acknowledge the increasing link between adaptation and mitigation. In relation to transition plan disclosures, companies that have transition plans that address both climate change adaptation and mitigation should reflect that fact. The related actions may be considered when conducting the resilience analysis to climate-related risks.

4.2. Climate-related risks, scenario analysis and resilience

The content of new E1-2 *Identification of climate-related risks and scenario analysis* remains close to ESRS Set 1 and companies are still required to explain how they have identified climate-related risks.

However, it is now stated that disclosures on scenario analysis are only required when such analysis has been conducted, as scenario analysis is not a mandatory step in the identification of material climate-related IROs. Companies must then indicate whether at least one high-emission scenario was used for physical risks and at least one scenario in line with 1.5 °C was used for transition risks. A requirement to specify the associated global average temperature projection of the scenarios and why they are considered relevant was added. The results of the resilience analysis (E1-3) have to be disclosed, presenting how it builds upon the risk analysis (if it does), and how current and planned mitigation and adaptation actions contribute to the resilience to climate-related risks. Areas of uncertainty about the assessment must be presented as well as the capacity for the company to adjust its strategy and business model to climate change over different time horizons. More detailed requirements have been added to align with IFRS S2.

How we see it

Scenario analysis. Even though the revised standards do not require the use of scenario analysis, it is still a valuable tool to identify climate-related physical and transition risks, with a substantial benefit for strategic decision making and resilience assessment. Companies that have already conducted scenario analyses are encouraged to build upon the existing work to refine their risk identification and resilience planning. For those looking to start, available best practices, tools and methodologies can be considered to determine an approach adapted to the company's size and activities. Scenario analysis is also key to estimating anticipated financial effects, supporting both internal decision making and communication with external stakeholders, including investors. Physical risk scenario analysis also remains mandatory for the alignment of economic activities in the context of the EU Taxonomy.

Interoperability. Companies should be mindful that scenario analysis are required for the resilience analysis under ISSB Standards.

4.3. Transition plan for climate change mitigation: still a cornerstone of ESRS E1

ESRS E1 adopts more of an overview approach of the key features of a transition plan, with a reduction of datapoints (e.g., link to EU Taxonomy).

The key features of what constitutes a transition plan are affirmed: GHG emissions reduction targets, decarbonization levers, key actions, investments and funding needed to support the implementation of the plan, the approval of the plan by the governance bodies and how the plan is embedded in the overall business strategy.

Additional focus is put on the current or future compatibility of the strategy and business model with limiting global warming to 1.5°C pursuant to the implementation of the transition plan.

Significant future financial resources expected to be allocated to the plan can be disclosed as indicative ranges. Also, the disclosure of the amount of significant financial resources can be limited to the approved and announced key actions and the planned funding resources for implementing those actions.

Disclosures on key assumptions and dependencies on which the transition plan relies are introduced to align with the wording in IFRS S2 (new datapoint).

Qualitative disclosures on potential locked-in emissions are still required to explain how they could jeopardize the achievement of the plan. The guidance on locked-in emissions has, however, been deleted, as well as the reference to Scope 1, 2 and 3 GHG emissions as sources potentially covered under locked-in emissions.

Companies that have a single transition plan that addresses both climate change adaptation and mitigation should state that fact and cross-refer the information provided on resilience (E1-3) and actions and resources (E1-5).

4.4. Climate-related targets: reaffirmation of key principles

While the requirements have been significantly streamlined, with more flexibility introduced (e.g., removal of prescribed time horizons for targets and the requirement to update the target every five years), the revised DR reaffirms the key principles related to targets in the ESRS:

- **Gross targets.** GHG emission reduction targets need to be gross targets, before removal, carbon credits or avoided emissions.
- **Absolute emissions.** Targets must be disclosed as absolute GHG emission reductions for Scope 1, 2 and 3, with the scopes and share of scope covered by the targets. Companies that have only set intensity targets must disclose the associated absolute values (with a new exception for financial institutions - see section 4.6.).
- **Link with GHG inventory.** When the targets diverge from the scope of the GHG inventory (Scope 1, Scope 2 and Scope 3 as reported in DR E1-8), companies are required to disclose the share of each scope covered by the targets. Undertakings can still use an operational control boundary for Scope 1 and Scope 2 GHG emission reduction targets if they report under E1-8 *Gross scope 1, 2, 3 GHG emissions* using this boundary as well.
- **Compatibility with 1.5°C.** Companies are still expected to demonstrate the compatibility of their targets with limiting global warming to 1.5°C, through a comparison exercise with reference targets values and a description of the methodology. Validation through an independent third party can be used as a valuable input in the explanation of compatibility. Clarification on what "compatible with 1.5°C" means has not been added as this is being considered for amendments in level 1 regulation.
- **Net-zero targets.** Disclosures of Net-Zero targets have been maintained and relocated in E1-6 with a reference to ESRS 2 GDR-T. They must be disclosed separately from any other GHG emission reduction targets, with an explanation of how the company intends to permanently neutralize its residual GHG emissions.

How we see it

Reaffirmation of key principles. While the requirements have been streamlined, the same reporting principles on key topics have been reaffirmed and clarified:

- **Transition plans**: the focus on key features clarify the minimum expectations. The lack of a key feature or insufficient coverage of the business model and strategy (i.e., Scope 1, 2 and 3) suggests that such a plan has not been set.
- **Intensity targets**: EFRAG confirms the requirement to disclose the associated absolute values. The new exception for financial institutions further emphasizes this is a clear requirement.

Net-zero targets: While tentatively removed from the ED, Net-Zero targets have been reinstated (including the definition in the Glossary), which is a clear indication of their specific nature. Net-Zero targets mean achieving a reduction of value chain emissions of 90 to 95%, meaning a level of reduction in Scope 1, 2 and 3 emissions of the undertaking, before neutralization of any residual emissions by permanent removal of an equivalent volume of CO_2. This concept is, therefore, different from different types of GHG neutrality claims.

4.5. GHG emissions and energy reporting: simplified metrics and revised reporting boundary

The DRs related to energy reporting and GHG emissions reporting have been streamlined, leading to some simplifications:

- **Energy intensity metrics** were deleted together with the disaggregation by type of renewable energy sources; the reference to high climate impact sectors, proposed to be deleted in the ED, was kept (the removal was perceived as broadening the scope of the requirement).
- **GHG intensity** per net revenue is removed as well as **total GHG emissions**; disclosure of biogenic CO_2 emissions is limited to Scope 1.
- **Reporting boundaries of each significant Scope 3 category** are no longer included as a specific disclosure requirement (as it is considered to be captured by ESRS 2 GDR-M).
- **Percentage of Scope 1 GHG emissions from emission trading systems** was narrowed down to EU ETS only.
- **Reporting tables** have also been either deleted (for energy reporting) or made optional (for GHG emissions).

ESRS 1 reporting boundaries for GHG emissions (E1-8). The most notable change for GHG emission metrics relates to the organizational boundary to be applied. In contrast with Set 1 ESRS E1, which covers emissions under operational control in addition to the scope of the consolidated financial statements ("additive approach"), ESRS E1 now focuses on what is referred to as a financial control approach:

- AR 19 refers to the **reporting boundary defined in ESRS 1** (see section 2.4.), adding that the starting point corresponds to financial control as per the GHG Protocol's financial control supplemented by ESRS 1 specific provisions on joint-operations, leased assets and benefit schemes. The Basis for Conclusions clarifies that where the application of 'financial control' under the GHG Protocol would lead to a different perimeter than that of the consolidated financial statements, the ESRS 1 consolidated scope prevails (including specific provisions on joint operations, leased assets and benefit schemes).
- When due to facts and circumstances applying such a financial control approach is insufficient to portray the emissions resulting from operated assets outside of the reporting boundary, undertakings are required to report Scope 1 and Scope 2 GHG emissions under operational control. The Basis for Conclusions clarifies that this is in addition to the GHG emissions reported under the ESRS 1 consolidated scope.
- The references to the GHG protocol and PCAF A are maintained, but are now supplemented by an explicit statement (AR 20) that, in all cases, the requirements of ESRS take precedence over the GHG accounting standards, explicitly referring to reporting boundaries. The Basis for Conclusions clarifies that the GHG protocol is used for methodological aspects related to data availability, data quality and estimation where data is unavailable (see section 2.6.).

Scope of own operations for energy consumption and mix metrics (E1-7). The scope of these metrics is now limited to own operations based on the reporting boundaries defined in ESRS 1 (scope of the consolidated financial statements) and the requirement to align with the perimeter of reporting of Scope 1 and 2 GHG emissions has been removed.

How we see it

Change in GHG emissions reporting boundaries. The shift to an approach focused on the consolidated group (with specific provisions on joint operations, leased assets and benefit schemes), referred to as a financial control approach, is a significant change compared with the additive approach required in ESRS Set 1.

The additional reporting of Scope 1 and 2 GHG emissions based on operational control, which may also be required based on facts and circumstances, will also require specific attention as it may be difficult to interpret when it is needed. The Basis for Conclusions notes that this applies when relevant to the understanding of the undertaking's emissions profile.

These changes could have significant operational repercussions for companies, while introducing complexities for comparability over time and reporting progress over the achievement of targets. Currently, most companies report under an operational control approach, unless required otherwise (such as under ESRS Set 1 additive approach). Targets set on operational control boundaries are likely to indicate that additional reporting based on operational control is needed under the revised ESRS E1. Although reporting of targets based on operational control is still allowed if this boundary is used for GHG reporting, reporting multiple figures for Scope 1 and 2 GHG emissions may entail operational and reporting complexities (including articulation with targets). Undertakings may wish to carefully consider the balancing act between reporting burden and potential revision of targets to align with these new boundaries.

Interoperability. The change to a single approach focused on financial control enhances interoperability with other frameworks as it no longer requires an additive approach. It is, however, not fully aligned with IFRS S2 or the GHG Protocol, as it does not allow the choice of the organizational boundary (as permitted by the GHG protocol and IFRS S2). EFRAG considered that such optionality would undermine comparability, and it prioritized connectivity with the financial statements.

Stakeholders may also need to assess how the financial control approach of the GHG Protocol compares with the ESRS reporting boundaries. There may be some differences due to ESRS specific provisions on joint-operations, leased assets and benefit schemes or the GHG Protocol specific approach to joint ventures (where its financial control approach requires accounting of Scope 1 and 2 GHG emissions based on the equity share when there is joint financial control).

4.6. Financial institutions

4.6.1. Financed emissions methodology for calculation

When preparing the information on Scope 3 GHG emissions, financial institutions need to consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF), Part A Financed Emissions (Version December 2022).

However, as mentioned above, an explicit statement in ESRS E1 has been included to clarify that the requirements of ESRS on reporting boundaries take precedence over the GHG Protocol which is used for methodological aspects related to data availability, data quality and estimation where data is unavailable (see section 2.6.).

4.6.2. Intensity vs absolute emissions reduction targets: exemption for financial institutions

If an undertaking has only set GHG emissions intensity targets, ESRS E1 requires associated absolute values to be disclosed. ESRS E1 now exempts financial institutions from providing this disclosure for their Scope 3 category 15 GHG emissions.

However, absolute financed emissions covering the same emissions as the intensity targets are still required to be disclosed, as well as additional contextual information, including the key factors influencing expected changes in absolute financed emissions over time and how they relate to observed trends in the past 3 to 5 years.

How we see it
Financed GHG emissions calculation methodology: The proposed amendments clarify that the reference to the GHG Protocol and PCAF Part A relates to the calculation of Scope 3 GHG emissions, while ESRS prevail for the determination of the reporting boundaries. As a result, the minimum boundaries of Scope 3 categories as mentioned in table 5.4 of the GHG Protocol Scope 3 Standard may need to be extended for ESRS reporting if the information is deemed material. Financial institutions will need to consider if this clarification affects their current approach to Scope 3 GHG emissions reporting, in particular, when material emissions arise from business activities not explicitly addressed or required by the referenced frameworks (i.e., asset management activities, insurance activities and facilitation activities). The Basis for Conclusions notes that reference to PCAF B and C were not incorporated for calculation purposes given their early development stage, lack of endorsement by the GHG Protocol and mixed feedback received. It is worth noting that a new version of PCAF Part A was published in December 2025. Financial institutions that intend to leverage the additional methodologies from this new version are encouraged to provide transparent disclosures on the method of calculation and referenced framework. **Financial institutions and absolute emissions reduction targets:** The exemption for financial institutions on reporting associated absolute emissions values for set intensity targets addresses the practical challenges faced by financial institutions to convert intensity targets. Financial institutions applying this exemption are still required to provide additional disclosures related to their targets, including disclosing absolute financed emissions for those targets, based on historical data, to allow users to assess whether the intensity targets are associated with stable, increasing, or decreasing absolute emission trajectories.

4.7. Carbon credits

While requirements on net zero targets are moved into E1-6 – *Targets related to climate change*, DR E1-9 *GHG removals and GHG mitigation projects financed through carbon credits* is refocused on three distinct elements:

- **GHG removal and storage projects** developed in own operations or contributed to the value chain, with added focus on how the risk of non-permanence is managed and any reversals that may have occurred.
- **Use of carbon credits**, including the share of removal projects.
- **GHG neutrality claims involving the use of carbon credits**, how they may impact the achievement of reduction targets and information on the quality of the carbon credits.

4.8. Anticipated financial effects

Although granular datapoints on prospective information are kept, **the DR on anticipated financial effects has been significantly streamlined**, with simplified narrative disclosures, removal of several datapoints and more flexibility.

- **Reconciliations to the financial statements.** These datapoints have been removed (as they are considered to be covered in the general ESRS 1 requirement for connectivity). References to EU Taxonomy have also been deleted.
- **Gross vs net approach.** Amounts of revenue at material physical or transition risk and percentage of assets at material transition risk (including potential stranded assets) can be presented either before or after considering mitigation actions, and the undertaking must indicate the approach taken.

- **Location of assets at material physical risks.** The requirement to disclose the location of assets at risk is now part of an AR requiring inclusion where relevant as part of the description of the methodology.
- **Amounts at risk (assets and revenues).** It has been clarified that the amounts at risk are reported as of the reporting date and flexibility is now given to disclose a range or a single amount.

Phase-in. E1-11 is part of the disclosure on anticipated financial effects and is subject to the ESRS 2 reliefs (see also section 2.7.). The disclosures remain, therefore, largely phased-in, with some notable exceptions.

- The following elements are not subject to phase-in under the revised E1:
  1. Disclosure of the carrying amount of assets at material physical risk and percentage of these assets covered by adaptation actions.
  2. Disclosure of the carrying amount of assets at material transition risk, percentage of these assets covered by mitigation actions and range of potential stranded assets in the mid and long term.
- For the phased-in elements, Wave 1 companies can postpone the disclosure of qualitative information until FY2027, whereas quantitative disclosures are not required until FY2030. Transitional provisions applicable to other companies will be specified by the EC (see also section 2.7.).

How we see it

Anticipated financial effects. While the number of datapoints has been reduced, several complex datapoints were considered necessary for investors and lenders and have, therefore, been kept. The assessment of the methodology and internal processes required to provide this information should be made, taking into consideration ESRS 1 reliefs and phase-in provisions. As no such phase-in applies under IFRS S2, companies reporting under ESRS may refer to the disclosures developed by entities reporting under IFRS S2 in the meantime. They should also be mindful of stakeholders' expectations in the medium term, especially as more information on anticipated financial effects becomes available.

Share of assets at risk covered by actions. Similar to the datapoints on the carrying amount of assets at risk, this datapoint is not phased in. As such, companies need to prepare without delay the required information system to be able to effectively map the carrying amount of assets at risk, and those covered by adaptation or mitigation actions. Determining whether and when assets at risk are addressed by such actions may require judgment and a consistent methodology will need to be developed. This may constitute sensitive information, requiring discussion with governance to prepare appropriate contextual narrative disclosures.

5 Modifications to other Environmental standards - ESRS E2 to E5

5.1. Overview

Other Environmental standards include Pollution (ESRS E2), Water (ESRS E3), Biodiversity and Ecosystems (ESRS E4) and Circular Economy (ESRS E5).

These standards have been significantly streamlined, as reflected in the reduction in the number of datapoints and overall word count:

ESRS E2-E5	% Reduction number of datapoints	% Reduction overall word count
ESRS E2 Pollution	64%	64%
ESRS E3 Water	70%	76%
ESRS E4 Biodiversity and Ecosystems	78%	76%
ESRS E5 Circular Economy	64%	69%

5.1.1. Removal of topical specifications on ESRS 2 general disclosures

The DRs related to ESRS 2 (e.g., IRO-1 on the materiality assessment process; SBM-3 on material IROs and their interaction with strategy and business model) have been removed from the topical ESRS E2, ESRS E3, ESRS E4 and ESRS E5.

Some elements of these requirements have been integrated in a generic way in ESRS 1 and ESRS 2 (such as consideration of the Locate Evaluate Assess Prepare (LEAP) approach in the DMA).

5.1.2. Simplified Disclosure on Policies, Actions and Targets (PATs)

The updated requirements on PATs across the four environmental standards have been significantly streamlined, with a considerable number of datapoints removed, relying mainly on the general disclosure requirement (GDR PAT) in ESRS 2.

Some limited narrative, topic-specific datapoints have been retained for key topics:

- **Water.** Regarding areas with water stress, whether some sites located in such areas are not covered by policies, key actions and resources related to such areas and, where relevant, how targets refer to such areas.
- **Biodiversity.** Policies on traceability of products, components and raw materials, sites in its own operations that are in or near a biodiversity sensitive area, as well as any use of biodiversity offsets in action plans and in setting targets (including more detailed information such as the standards they comply with).
- **Circular economy**. Information on integration of circular economy principles or eco-design requirements in key products and circular economy services.

5.1.3. By-site disclosures

Site-level disclosures are no longer explicitly covered by specific datapoints in the environmental standards. While nature-related impacts are generally local, the information can be aggregated at a higher level as appropriate (e.g., location, area, region, with shared characteristics) in accordance with ESRS 1 principles on aggregation and disaggregation (see section 1.2) and the new definition of 'Geographies' in the Glossary, which highlights that geographies or geographic context can be analyzed at different levels, e.g., country, region, water basin, ecosystem or a site, on the basis of the level considered relevant for assessment purposes, clarifying that individual site disclosure is not necessarily required.

The Objective section of each environmental standard still stresses the particular relevance of aggregation and disaggregation along geographies, as appropriate. For example, E3 *Water* highlights that context-specific considerations are particularly important in relation to water and if material IROs are connected to specific geographies, it is important to consider appropriate aggregation or disaggregation of reported information, e.g., by site, basin, area with water stress or any other level in accordance with ESRS 1.

In the biodiversity standard (E4) where location-specific considerations are particularly important, site-specific provisions were consolidated under the revised DR on Metrics (E4-5), using the term "location" instead of "site" to align with the disaggregation approach outlined in ESRS 1, and new guidance on sites that are "near biodiversity sensitive areas" has been added. AR 18 clarifies that the undertaking is not necessarily expected to disclose this information for each of its individual sites and can aggregate information to relevant groups of sites related to its material IROs, for example based on the same biodiversity-sensitive area or cluster of areas in a region affected by multiple sites, in accordance with ESRS 1.

5.1.4. New terms and definitions

New terms and definitions have been introduced across the different standards, some of which are defined in the Glossary. ESRS E2 and ESRS E5 introduced the highest number of new definitions among all environmental standards, such as*:*

- E2: "Article", "Importer", "Manufacturer of substances", "Manufacturer of articles", "Formulator", "Placed on the market", "User of articles", "User of substances".
- E5: "Circularity", "Circular economy principles", "Circular economy services", "Technical material", "Biological materials", "Product", "Designed recyclability rate", "Eco-design requirement", "Repairable", "Resource use", "Secondary resources".

Some of these definitions align with existing frameworks or regulations.

5.1.5. Removal of all disclosures related to the anticipated financial effects

Specific disclosures on anticipated financial effects have been removed across ESRS E2 to ESRS E5. The general requirement in ESRS 2 is still valid if the information is material (see section 3.3.).

5.2. Focus on specific changes in the different standards

5.2.1. Pollution (E2)

- Datapoints on pollutants now generally refer to "material emissions of pollutants". Reference to the European Pollutant Release and Transfer Register (E-PRTR), and Industrial Emissions Portal regulation (IEPR) were moved into AR as a methodological indication rather than a mandatory reference.
- Microplastics reporting is now split into primary and secondary microplastics (e.g., plastic waste, such as packaging or fishing nets). Information on secondary microplastics can be qualitative.
- Reporting on substances now depends on the type of actor: manufacturers, formulators and importers in the chemical sector (based on NACE codes) must report on both substances of concern (SOC) and of very high concern (SVHC). Users of substances must disclose SVHC only if they do not operate in the chemical sector. SVHC must be grouped by hazard classes based on CLP Regulation 1272/2008/EC.
- Wave 1 undertakings may omit E2 quantitative information on SOC until FY2029 (see section 2.7).

5.2.2. Water (E3)

- "Marine resources" has been removed from the standard. These are now covered in the various environmental standards depending on the perspective (e.g., pollution of the marine environment in E2). Use of seawater is still in scope of E3.

The concept of "areas at water risk, including areas of high-water stress" is replaced by "areas with water stress". An AR clarifies that "Water stress encompasses quantity and availability (water scarcity) together with water quality and accessibility considerations and provides a broader measure of basin pressure". Related methodological guidance refers to a set of Global indicators (baseline water stress, water depletion, baseline water depletion and WEI+), which are no longer part of the definition in the Glossary.

- When reporting on total water consumption, total water withdrawal and total water discharge have become mandatory datapoints. Total water consumption in areas at water stress, water recycled and reused and water stored remain mandatory datapoints.

5.2.3. Biodiversity and Ecosystems (E4)

- A new mandatory datapoint has been introduced on the key features of a biodiversity transition plan if such plan is in place and its key features have been made public.
- A definition of 'Biodiversity and ecosystems transition plan' has been added in the Glossary. Such a plan covers targets, key actions, financial planning and governance, as well as how the strategy and business model will evolve. It can be a part of a broader transition plan, e.g., addressing climate mitigation.
- Disclosures on resilience have been deleted to avoid redundancy with ESRS 2 SBM-3.
- Reporting on metrics related to material impacts on biodiversity and ecosystems is still mandatory. However, no specific metric, standard or methodology is defined, leaving flexibility to preparers to determine what is adequate.

5.2.4. Circular Economy (E5)

- On resource inflows, reporting now focuses on "key materials" defined as essential to the undertaking's operations based on volume, cost, criticality, or strategic relevance. Within key materials used, "critical raw materials" and "strategic raw materials", as identified in Annex I and Annex II of the Critical Raw Materials Act, must be specified.
- On resource outflows and products, disclosures now target "key products", with more flexibility to report on durability and reparability (qualitative or quantitative). A new AR sets out the equations for the 'designed recyclability rate' of products and packaging.
- On resource outflows and waste, a new datapoint has been introduced on the proportion of waste for which the final destination is unknown (to be expressed as the percentage of the total waste generated).

How we see it

While qualitative information requirements have been significantly reduced in ESRS E2, overall quantitative metrics have been maintained, allowing undertakings to capitalize on prior efforts and ensure continuity in their current environmental performance reporting.

Terminology, definitions and methodologies. While progress has been made in defining certain terms, stakeholders may still assess that further guidance would be useful to support effective and consistent implementation. Some key terms may still raise interpretation issues (e.g., "key material" and "key product") and some disclosures may raise methodology-related questions (e.g., calculations of waste and packaging data in E5) and presentation challenges (such as the breakdown of substances of very high concern in E2).

By-site vs by-location disclosures. The shift to a more principles-based approach allows undertakings to aggregate the nature-related data of their sites (installations), for example, at the area level when those sites share similar nature-related dependencies and IROs, avoiding unnecessary granularity. This flexibility supports interoperability with the TNFD framework (or potential future ISSB Standards). ESRS reporters must ensure that the aggregation level does not obscure material impacts, in line with ESRS 1 principles.

ESRS versus local definitions. Some of the new terms and terminologies might already exist in local laws and regulations (e.g., in Extended Producer Responsibility in some jurisdictions). Stakeholders may wish to reflect on resulting implementation challenges and consider how to articulate ESRS definitions with local definitions and methodologies (e.g., recyclability) and how this articulation can be transparently disclosed for comparability purposes (e.g., clear explanation provided in the methodology notes).

Biodiversity resilience, metrics framing, and transition plan:

- The decision to remove the reference to biodiversity resilience analysis in E4 to avoid redundancy with ESRS 2 SMB-3 may reduce the visibility of the information on how the strategy and business model would withstand biodiversity-related physical, transition, and systemic risks. Preparers will need to carefully assess how to properly reflect material information on resilience to biodiversity risks and dependencies. Further guidance could help to maintain this strategic insight.
- The requirement to report metrics related to material impacts on biodiversity and ecosystems leaves flexibility to select relevant indicators. Stakeholders may wish to consider whether some clarifications or examples drawing from existing frameworks and practices may be needed to support consistent reporting across undertakings, enhancing comparability of the disclosed information.
- Similarly, as biodiversity transition plan practices are still emerging, stakeholders may find further guidance useful, to clarify the new disclosure requirement.

'Key materials' in E5. Undertakings are now required to report exclusively on *key materials*, identified through a structured managerial assessment. More flexibility is also introduced to break down the total weight focusing on "each key material" (rather than the total weight of products and technical and biological materials used). This allows undertakings to focus on physical materials that are strategically important to them, reducing the need to report on non-relevant data and resulting in more focused and meaningful information.

6 Modifications to social standards

6.1. Overview

The following overview shows the percentage reduction in number of datapoints and overall word count for the social standards as proposed in the technical advice.

ESRS S1-S4	% Reduction number of datapoints	% Reduction overall word count
ESRS S1 Own Workforce	56,7%	66%
ESRS S2 Workers in the Value Chain	68,1%	72%
ESRS S3 Affected Communities	71,1%	75%
ESRS S4 Consumers and End-users	72,7%	77%

6.1.1. Topics, sub-topics, and sub-sub-topics

The simplification of social standards is accompanied by a streamlined approach to topics, sub-topics and sub-sub-topics. The list of topics in ESRS 1 Appendix A (former AR 16 list) is now illustrative (see section 2.3.2.) and only includes topics and sub-topics. Former sub-sub-topics have either been elevated as sub-topics (e.g., "training skills & development"' and "health and safety"), merged with other sub-topics (e.g., "diversity" merged with "equal treatment" as a sub-topic) or aggregated within brackets under existing sub-topics (e.g., adequate wages, work-life balance, working time, secure employment and social protection under "working conditions"). Further limited adjustments have been made (e.g., social protection added within "working conditions" and non-discrimination within 'diversity and equal treatment').

The sub-topics of ESRS S1 (*Own Workforce*) and S2 (*Workers in the Value Chain*) are now aligned except for water and sanitation, which only applies to S2. By contrast, the sub-topics in ESRS S3 (*Affected Communities*) and ESRS S4 (*Consumers and End-users*) remain unchanged (including former sub-sub-topics now aggregated under existing sub-topics).

6.1.2. Interactions between social standards and other topical ESRS

New paragraphs in the four social standards highlight the interactions between social and environmental topics. For example, references to ESRS E1 to E5 stress how pollution (E2) can affect workforce health and safety (S1), how biodiversity transition plan (E4) can affect lands and resources of indigenous people (S3), and how resource use or waste (E5) affect consumer or end-users' information (S4). These interactions need to be considered in the DMA process, as well as in the organization of connected information in the sustainability statement (see section 1.2.).

6.1.3. Reduction of narrative disclosures

Removal of ESRS 2 social specifications. Social standards no longer include ESRS 2-related disclosures, such as SBM-2 *Interests and views of stakeholders* and SBM-3 *Material IROs and their interaction with strategy and business model*. These specifications have been mainly deleted, with a small number of them moved into ESRS 2 (e.g., forced or compulsory labour and child labour in IRO-2), reflecting the new articulation between ESRS 2 and all topical standards.

Streamlined disclosures on processes. The two ESRS Set 1 disclosure requirements related to: (1) processes for engaging with stakeholders about impacts; and (2) processes to remediate negative impacts and channels to raise concerns have been merged into one single simplified disclosure requirement in all social standards. This restructuring impacts the numbering of other DRs (e.g., S1-14 on health and safety metrics in Set 1 becomes S1-13 in the technical advice). The definition of 'channel to raise concerns or needs' (moved to the Glossary) now explicitly clarifies that such channels may include, where applicable, formalized approaches to provide or cooperate in remediation for actual impacts. The requirement for negative statements indicating the absence of such processes has been deleted.

6.1.4. Human rights

Human rights policies. Disclosures on the existence and description of policies committing to implement the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises remain mandatory but have been consolidated under a single "human rights policy" disclosure in ESRS 2 (GDR-P).

Human rights incidents. Some clarifications have been added on the scope of incidents to be reported.

- The ESRS Set 1 reference to "severe human rights incidents" has been changed to "human rights incidents" to avoid confusion with "severe human rights impacts".
- A new definition of "human rights incidents" has been added in the Glossary. This definition focuses on incidents that relate to not respecting internationally recognized human rights as defined in CSRD Article 29b (2) (b) (iii) and that are "substantiated" instances identified through initiated judicial and non-judicial proceedings and/or through internal processes or registration within the undertaking. In the log of amendments, EFRAG comments that "substantiated" refers to the "need for incidents to be based on evidence that is verifiable and objective".
- A new AR has been added in all social standards to stress that the filter of information materiality for human rights incidents is primarily based on the severity of the impacts on affected stakeholders. Reported incidents relate to sub-topics identified as material.
- A reference to 'relevant privacy regulations' has also been added as a possible limitation to the disclosure requirement.

How we see it

Streamlined ESRS 2-related requirements. Stakeholders will need to consider whether the proposed amendments strike an appropriate balance between the prescriptiveness of the requirements and the need for relevant and comparable information. As highlighted in the Basis for Conclusions, the deletion of specifications about the level of granularity of the materiality assessment can lead to information loss if disclosures about material IROs become more generic and contain less information about specific stakeholder groups.

Human rights incidents. Undertakings will need to assess the impact of the new definition (including "substantiated" status), as well as the focus on the severity of the impacts on affected stakeholders to assess the materiality of information.

Increased alignement for own worforce and workers in the value chain. The rationalization of sub-topics in ESRS S1 and S2 aligns better with companies' management processes and is consistent with the principles-based and more flexible approach to the double materiality assessment and reporting of related IROs. The aligned topical structure between ESRS S1 and ESRS S2 may also help undertakings leverage on their existing own workforce processes and methodologies for value chain workers' disclosures, although the differences in the nature of the topics may require some adjustments in the approach, especially where composition, dynamics or employment arrangements in the value chain differ significantly from those of the undertaking's own workforce.

Unchanged structure for affected communities and consumers and end-users. The organization of ESRS S3 and ESRS S4 sub-topics may evolve in the future as these topics mature and as reporting practices and stakeholder expectations become more refined.

Strengthened interaction between social and environmental ESRS. Emphasizing the interactions between topics will drive more consistent and decision-useful reporting for users of sustainability statements, guiding undertakings to report on interconnected impacts, risks and opportunities across all stakeholder groups and environmental dimensions such as climate change and pollution.

6.2. Modifications to Own Workforce standard - ESRS S1

6.2.1. Simplification of Metrics

More than a third of the ESRS Set 1 S1 quantitative datapoints have been removed, including all voluntary and some mandatory datapoints across all sub-topics.

The following datapoints are examples of deletions:

- Engagement with own workforce or workers' representatives for target-setting (S1-4), moved into an AR which highlights that such engagement can inform the tracking of actions and development of metrics and target-setting
- Gender breakdown of the percentage of employees that participated in formalized performance and career development reviews and of the average number of training hours per employee (S1-12)
- Age distribution of employees in diversity metrics (S1-8)
- Type of employees not covered by social protection (S1-10)
- Retirement removed from the list of major life events covered by social protection (S1-10)
- Parental leave replaced by maternity leave in social protection metrics (S1-10)
- Fatalities from recordable work-related ill health among non-employees and other workers working on the undertaking's sites removed from health and safety metrics (S1-13)
- Days lost due to fatalities withdrawn from days lost to recordable work-related accidents and ill health (S1-13) (as confirmed in the Basis for Conclusions)
- Family-leave occurrences deleted from work-life balance metrics (S1-14)
- Two years of comparative information for gender pay gap (S1-15)

The reconciliation with financial statements of fines and penalties related to human rights incidents, which had been tentatively removed in the Exposure Draft, has been re-introduced in the technical advice.

6.2.2. Revised thresholds and clarifications on materiality and methodology

Country thresholds. The threshold to disclose a country breakdown of the number of employees (S1-5) and the percentage of employees covered by collective bargaining agreements or workers' representatives within EEA (S1-7) is now set at countries with 50 or more employees by headcount that are the 10 largest countries in terms of employee numbers. It replaces the previous threshold based on countries with 50 or more employees representing at least 10% of the total number of employees.

Non-employees. A new AR clarifies that the DR on characteristics of non-employees (S1-6) is applicable if non-employees are connected to material impacts, risks, or opportunities, typically when they are critical to the business model (e.g., used to provide flexible labour, used in core processes or make up a substantial proportion of own workforce).

Methodology. Many of the previous AR providing methodologies to compute the metrics have been deleted, with some identified as to be considered for future non mandatory guidance. Only those deemed to be core methodological aspects and presentation options remain in AR, with some clarifications added. For example:

- The average employee headcount must be used as denominator for the calculation of the employee turnover (S1-5), employee headcount for collective bargaining coverage (S1-7), and headcount figures reported under S1-5 for training metrics (S1-12).

- Reference to national legislation has been added for the definition of non-employees (S1-7) and for non-guaranteed hours contracts (S1-5 AR 10).
- For disability-related disclosures (S1-11), undertakings may either apply the same definition of disabilities across countries or rely on national legal definitions. Voluntary employee surveys are also mentioned as a possible source for input. Similarly, for work-related accidents (S1-13 AR 25) undertakings may choose to apply the ESRS definition or a national one.
- Flexibility is highlighted to define regions when disclosing the percentage of an undertaking's employees covered by collective bargaining agreements by region outside the EEA (S1-7 23c)).
- Undertakings can report on work-life balance metrics even if they do not offer all four types of family-related leave to their employees (S1-14), as clarified in the Basis for Conclusions.

Presentation in narrative format or templates. The previously mandatory tables – such as those covering employee characteristics, collective bargaining and social dialogue - are now optional as narrative format is allowed. Recommended tables are detailed in AR for reference and guidance.

6.2.3. Focus on key metrics

Adequate wage. In assessing whether employees are adequately paid, DR S1-9 *Adequate wages* requires comparing the lowest wage to a defined benchmark of what constitutes an "adequate wage". For non-EEA countries, the current Set 1 multi-source hierarchy is: decent wage set by law or collective agreement, followed by national minimum wage, and then any benchmark that meets specific criteria. This is replaced for non-EU countries (EU boundaries being different than EEA ones), by the following two adequate wage benchmark alternatives:

1 — Adequate minimum wage established by legislation or collective bargaining which provides a decent standard of living as confirmed by a calculation in line with the ILO principles on estimating a living wage

OR

2 — Any living wage estimate, including estimates produced by an institution mandated by the public authorities of the country where the workers are based, which takes into account the ILO principles on estimating a living wage

Undertakings are now explicitly required to explain which benchmark reference has been used when preparing the metric (even when all employees are paid an adequate wage). This is consistent with ESRS 2 GDR-M, but still considered as a new datapoint.

Gender pay gap. Both the mandatory consolidated gender pay gap metric (S1-15) ("unadjusted") and the option to present the gender pay gap disaggregated by employee category or country (i.e., "adjusted") are maintained.

Health and Safety. Some definitions in the Glossary have been added or updated, possibly leading to some adjustments to related health and safety metrics:

- A definition of "occupational safety and health management system" has been added.
- The definition of "Recordable work-related accident" has been updated to specify that "days away from work" means "more than 3 days of absence from work".
- The updated definition of "Site" now refers to physical locations where an undertaking operates and where dependencies and impacts are likely to occur. This clarifies the perimeter of sites to consider when disclosing the number of fatalities from recordable work-related accidents among workers who work on the undertaking's sites, but are not part of its own workforce (S1-13 36bi);

Incidents of discrimination and other human rights incidents. Clarification is provided regarding the reporting of the total amounts of fines, penalties, and compensation for damages. These amounts should reflect what has been recognized in the financial statements during the reporting period, no matter when the incident occurred.

How we see it

Clarity of methodologies and concepts. Considering the significant streamlining of ESRS S1, stakeholders will need to assess how the removal of some methodological principles available in ESRS Set 1 may affect the determination of disclosures and comparison with peers in the same sector or geography. EFRAG has indicated several areas which may be subject to non-mandatory guidance in the future.

- **Turnover metric.** The methodology has not been amended notwithstanding stakeholder request for clarification on which type of contracts to include. EFRAG acknowledges in the Basis for Conclusions that diversity in practice was observed in the 2024 ESRS reports and notes that this could be an area for further research in the future.
- **Pay and remuneration components.** A new AR has been introduced to clarify the calculation of the gender pay gap (AR32) in addition to the AR listing the components of remuneration to be included in the remuneration ratio (AR35). EFRAG notes in the Basis for Conclusions that the definition of "pay" is based on EU law and is aligned with the "Pay Transparency Directive", whereas the remuneration components set out in the remuneration ratio in AR35 need to be included if they are part of the undertaking's remuneration policies. The list of remuneration components is also listed in the definition of 'Annual total remuneration in the Glossary. This is an area where diversity in practice was observed in 2024 reports and transparency on the methodology applied will be critical. Preparers are encouraged to assess how these revisions and the articulation with the Pay transparency directive (when transposed) may influence the determination of these metrics.
- **Lack of social protection.** Undertakings will also need to reflect on the introduction of new concepts which could raise some interpretation issues. For example, although the "lack of social protection" in S1-10 refers to major life events "not covered by existing social protection programmes", undertakings may wonder if a partial loss of income could still represent a lack of social protection, considering the objective of the DR which refers to "social protection against loss of income".

Adequate wage. Companies will need to consider the implications of the revised methodology, particularly for non-EU countries when no adequate reference is available in the local legislation. Companies might need access to key data or guidance in estimating an existing living wage complying with ILO principles on estimating a living wage. In response to preparers' requests for a publicly available database, EFRAG notes in the Basis for Conclusions that such databases are currently made available by certain data providers and that the 'undue cost and effort' proportionality mechanism as well as the relief on partial scope metrics due to lack of necessary data quality are available for this disclosure.

Adjusted gender pay gap. Following feedback received on the proposed deletion of the voluntary datapoint on adjusted gender pay gap, EFRAG decided to maintain it. While the unadjusted gender pay gap provides a consolidated view of pay disparities and enables comparisons across companies and sectors using a standardized metric, the adjusted metric by employee category or country may provide additional contextual information.

6.3. Modifications to other social standards – ESRS S2 to S4

Other social standards include Workers in the Value Chain (ESRS S2), Affected Communities (ESRS S3), and Consumers and End-users (ESRS S4).

Structural simplifications. The number of qualitative datapoints has been significantly reduced by around 70%, alongside linguistic simplification and principle-based streamlined requirements.

The previous five DRs in each standard are now grouped into four concise DRs focusing on Policies, Engagement with Stakeholders (including remedy and channels), Actions and Targets.

Human rights incidents. The datapoints on human rights incidents have been aligned with ESRS S1, including new clarifications (see section 6.1.). In addition, a new AR provides further flexibility on the level of aggregation of reported incidents (by relevant types of incidents or affected stakeholders).

How we see it

The shift towards a principles-based approach supports a more consistent structure across all social ESRS (including qualitative DRs in ESRS S1) and allows companies to focus on issues most relevant to their operations. Stakeholders will need to assess how the removal of specific detail in ESRS S2 to ESRS S4 standards may affect the transparency and comparability of reporting on these topics.

The reliefs for value chain data collection proposed in ESRS 1 (see section 2.6.) are expected to reduce complexity when reporting under ESRS S2, S3 and S4.

7 Modifications to Business Conduct standard – ESRS G1

The revised ESRS G1 Business Conduct standard results in a 57% reduction in the number of datapoints and a reduction of 52% in overall word count compared with ESRS Set 1.

7.1. Structural overhaul

The structure of ESRS G1 is now harmonized with other topical standards, through a clear Policies-Actions-Targets-Metrics architecture. The revised standard has been mostly streamlined around SFDR datapoints.

ESRS 2-related disclosures on governance and DMA process for business conduct have been removed: ESRS G1 now merely points to the ESRS 2 general requirements (GDR PAT).

Sub-topics in the illustrative list of topics in ESRS 1 Appendix A (current Set 1 AR16) have been consolidated into:

- Corporate culture (including anti-corruption and anti-bribery, protection of whistleblowers and animal welfare);
- Political influence, including lobbying activities; and
- Management of relationships with suppliers including payment practices, especially late payment to small and medium-sized undertakings (SMEs).

7.2. Refocused narrative disclosures and metrics

Policies	**Policies** (G1-1) points to ESRS 2 GDR-P and mostly retains the SFDR datapoints, focusing on policies on anti-corruption and anti-bribery (with indication of the functions or roles that are most at risk), and policies on protection of whistleblowers.
Actions	**Actions** (G1-2) points to ESRS 2 GDR-A and redefines the content on key areas: ▪ On supplier relationship management, focus is on ESG factors in selecting suppliers, training of procurement teams and engagement with suppliers for the improvement of their ESG performance. Undertakings can cross-refer to the ESRS S2 information about the existence of a Supplier Code of Conduct. ▪ On corruption and bribery, focus is on training and actions taken to address breaches in procedures and standards.
Targets	**Targets** (G1-3) merely points to ESRS 2 GDR-T.
Metrics	**Metrics on corruption or bribery (G1-4)** maintain the SFDR requirements to disclose the number of convictions and the total amount of fines for violation of anti-corruption and anti-bribery laws during the reporting period and add sanctions to the scope of the required disclosure. It also clarifies the scope of the reportable convictions (criminal courts' final decisions entered into the criminal records of the convicting jurisdictions), sanctions (final decisions of administrative or regulatory authorities) and fines (imposed by a court, an administrative or regulatory authority). Datapoints related to "confirmed incidents" have been deleted. **Metrics for political influence, including lobbying activities** (G1-5), have been streamlined while retaining key datapoints: monetary value of political contributions, topics covered and positions taken in lobbying activities, and appointment of members of administrative, management and supervisory bodies with comparable positions in public administration in the two preceding years. **Metrics for payment practices** (G1-6) were simplified to address concerns about data collection and comparability. The datapoint on "Average time to pay invoice" was removed. The DR now focuses on standard payment terms (specifying SMEs only if they differ), the percentage of payments aligned with these terms and legal proceedings for late payments. Special attention is given to late payment to SMEs, which needs to be addressed by entity-specific disclosures, if it is assessed as a material topic.

ESRS definition of corruption and bribery. A new AR (AR 1) clarifies that the undertaking apply the ESRS definition of corruption and bribery, which is generic, to overcome the differing definitions found in local laws or in laws applicable in the jurisdiction of the parent company and to ensure comparability across reporting undertakings.

How we see it

Incidents of corruption or bribery. In the Exposure Drafts, two optional datapoints in Set 1 on the number and nature of confirmed incidents of corruption or bribery were proposed to become mandatory. These datapoints were removed from the technical advice in response to concerns expressed regarding legal and self-incrimination risk. However, undertakings still need to report metrics on convictions, sanctions and fines (with clarified boundaries for each) and these incidents continue to play a key role when reporting on procedures to prevent, detect, investigate and respond to such issues under G1-2 – Actions related to business conduct. The scope of convictions and fines was expanded to include sanctions to compensate for the deletion of confirmed incidents and address the fact that most cases of corruption or bribery are resolved through non-trial outcomes.

Navigating legal definitions. While helpful clarifications have been introduced on the scope of convictions, sanctions and fines to be reported, the mandatory use of the ESRS definitions of corruption and bribery over national laws and the assessment of the status of convictions, sanctions and fines may still require the involvement of legal experts to determine the scope of reportable items. This includes defining legal decisions where the status is jurisdiction-specific (including identifying whether court decisions have been entered into the criminal register or record of the convicting jurisdictions).

Payment practices for SMEs. SME protection is highlighted as a key topic in the CSRD. EFRAG debated introducing a standardized metric for late payments to SMEs, but this was considered as undermining the simplification objectives in the view of many stakeholders. An entity-specific metric is still required if late payment to SMEs is identified as a material topic. Materiality assessment is, therefore, key both to determine if the topic is material and to assess related material information to be disclosed.

8 Next steps

The technical advice is now undergoing institutional review by the EC. Modifications to the revised ESRS therefore remain possible. This review includes the request for opinions from the three European Supervisory Authorities (ESMA, EBA, EIOPA) and consultations with five other EU bodies, including the European Central Bank. The EC will also publish the proposed final revised ESRS for a one month period of public comment and expects to adopt the Delegated Act by mid-2026.

Once adopted, the Delegated Act will be subject to a non-objection period of two months by the European Parliament and the Council of the EU, renewable for another two months. If there are no objections to the text, it will be published in the Official Journal of the EU and enter into force.

The objective set by the EC is to adopt the corresponding Delegated Act in time for companies to apply the final revised ESRS for reporting in FY2027, potentially with an option to apply the revised standards for reporting in FY2026, if companies wish to do so.

How we see it

In December 2025, EU Member States and the European Parliament approved the Omnibus Package, and the Council of the EU is now expected to formally adopt the final text in January 2026. These proposals significantly affect the scope of CSRD by adjusting the thresholds to groups and issuers with >1,000 employees on average and a turnover of >EUR 450 million. Listed SMEs are removed from scope.

For undertakings still in scope of the CSRD, it is crucial to stay informed of regulatory developments, particularly the finalization of the revised ESRS by the EC, with a view to possibly early apply the simplified standards for reporting in

FY2026. Undertakings starting to report for FY2027 should use the extra time to strengthen data, controls, and governance for sustainability information.

Companies to be phased out of the CSRD scope may still build on efforts made:

- **To pursue** the analysis of material impacts, risks, and opportunities to steer corporate strategy towards sustainability
- **To strengthen and leverage** existing processes, internal control systems and governance of ESG reporting to guide future actions
- **Voluntary reporting** remains a relevant approach to assess and report on ESG performance, based on EFRAG's VSME standard, supplemented with additional information specific to the company's sector and activity

Glossary

Acronym	Full form
AR	Application requirement
BC	Basis for conclusions
BP	Basis of preparation
CapEx	Capital expenditure
CSRD	Corporate Sustainability Reporting Directive
CSDDD	Corporate Sustainability Due Diligence Directive
DMA	Double materiality assessment
DP	Datapoint
DR	Disclosure requirement
E1	Environmental Standard - Climate Change
E2	Environmental Standard - Pollution
E3	Environmental Standard - Water
E4	Environmental Standard - Biodiversity and Ecosystems
E5	Environmental Standard - Circular Economy
EBA	European Banking Authority
EC	European Commission
ED	Exposure draft
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
EU	European Union
FAQ	Frequently asked questions
FTE	Full-time equivalent
G1	Governance Standard - Business Conduct

Acronym	Full form
GDR	General disclosure requirements
GDR-A	General Disclosure Requirements - Actions
GDR-M	General Disclosure Requirements - Metrics
GDR-P	General Disclosure Requirements - Policies
GDR-T	General Disclosure Requirements - Targets
GHG	Greenhouse gas
GOV	Governance
IFRS	International Financial Reporting Standards
IFRS S1	International Financial Reporting Standards - General Requirements for Disclosure of Sustainability-related Financial Information
IFRS S2	International Financial Reporting Standards - Climate-related Disclosures
ILO	International Labour Organization
IRO	Impact, risk and opportunity
ISSB	International Sustainability Standards Board
KPI	Key performance indicator
LEAP	Locate, evaluate, assess and prepare (TNFD Framework)
NMIG	Non-mandatory illustrative guidance
OECD	Organisation for Economic Co-operation and Development
OpEx	Operating expenditure
PAI	Principal adverse indicators
PAT	Policies, actions and targets
PCAF	Partnership for Carbon Accounting Financials
S1	Social Standard - Own Workforce
S2	Social Standard - Workers in the Value Chain
S3	Social Standard - Affected Communities
S4	Social Standard - Consumers and End-users
SBM	Strategy and business model
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and medium-sized enterprise
SOC	Substances of concern
SVHC	Substances of very high concern
TNFD	Taskforce on Nature-related Financial Disclosures
UNGP	United Nations Guiding Principles on Business and Human Rights

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