Issue 14 / July 2026

EU Sustainability Developments

European Commission adopts revised ESRS Delegated Act

What you need to know

- The European Commission adopted the Delegated Act on the revised ESRS on 3 July.
- The revised ESRS preserve the key pillars of sustainability reporting – including reporting on material impacts, risks and opportunities, and related actions, policies, metrics and targets across environmental, social and governance topics.
- At the same time, they introduce a more proportionate and flexible framework with significantly fewer mandatory datapoints, new reliefs, exemptions, and transitional provisions, and a stronger focus on information materiality and fair presentation.
- The Delegated Act is now undergoing scrutiny by the European Parliament and Council of the EU. If no objection is raised, it is expected to enter into force on 10 November 2026 and apply mandatorily from FY2027.
- For FY2026, entities may continue applying ESRS Set 1, early apply the revised ESRS, or apply ESRS Set 1, along with a selection of reliefs from the revised standards.

On 3 July 2026, the European Commission (EC) adopted the Delegated Act on the revised ESRS (the revised ESRS). One year after the publication of EFRAG's Exposure Drafts[1] for public consultation, the text builds on EFRAG's Technical Advice to the EC[2] and public and inter-institutional consultations held by the EC.

The revision of the first ESRS (ESRS Set 1) adopted by the EC in July 2023 was triggered by the EC's first Omnibus Simplification Package aimed at reducing reporting burden on entities[3] to enhance EU competitiveness.

In March 2026, Omnibus revisions to the Corporate Sustainability Reporting Directive (revised CSRD)[4] entered into force, reducing the number of entities in scope by more than 80% and allowing targeted exemptions and a more proportionate approach to reporting. These revisions are to be transposed by Member States by 19 March 2027.

The revised ESRS are built around several simplification levers intended to reduce reporting burden while preserving the core objectives of sustainability reporting:

- Simplify the double materiality assessment process
- Improve the readability and conciseness of sustainability statements
- Reduce overlaps between general disclosures and topical standards
- Improve the understandability and accessibility of the standards,
- Introduce new reliefs and proportionality mechanisms, and
- Enhance interoperability with global reporting frameworks, notably the ISSB Standards.

This publication provides an EY perspective on the main changes introduced by the revised ESRS and their practical implications for preparers. An executive summary highlights significant developments, while the remainder of the publication may be used as a practical reference guide on the revised cross-cutting, environmental, social and business conduct standards.

[1] Refer to our publication, EFRAG publishes Exposure Drafts of simplified ESRS.
[2] Refer to our publication, EFRAG publishes technical advice on simplified ESRS.
[3] For ease of reference, this publication uses the term "entity" to refer to reporting undertakings.
[4] Refer to our publication, CSRD simplified: key impacts of the Omnibus Directive.

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Executive summary

The revised ESRS significantly streamline the framework while preserving its core principles. The double materiality assessment (impact materiality and financial materiality) remains the cornerstone of the revised ESRS. They still cover the same topics and areas of disclosures, with two cross-cutting standards, five for environmental topics, four for social topics and one business conduct standard.

In response to stakeholder feedback, mandatory datapoints have been reduced and all voluntary datapoints have been removed. Fair presentation has been introduced as an explicit objective, and the concept of information materiality has been made more prominent as an overarching filter. Significant reliefs, exemptions and transitional provisions are also introduced, as well as targeted adjustments to the most complex disclosures.

How we see it

The revised ESRS represent a shift from compliance to decision-useful reporting. By reinforcing the focus on information materiality and fair presentation, the revised ESRS encourage entities to concentrate on what matters most for their business and stakeholders. Sustainability reporting is intended to be more than a compliance exercise and to be used as a strategic management tool to assess and prioritize material impacts, risks and opportunities, support decision-making and transformation initiatives, strengthen governance, data quality, and monitor progress. The revised ESRS recognize that sustainability reporting is a journey, encouraging entities to progressively enhance reported information over time.

Simplification does not mean a proportionate reduction in effort. While the revised ESRS reduce mandatory datapoints by more than 60%[5], much of this reduction reflects the removal of duplication, granular narrative disclosures and the reorganisation of requirements. The revised ESRS also introduce targeted reliefs and simplifications. However, the core pillars of sustainability reporting remain unchanged, including the double materiality principle, and reporting on related key ESG policies, actions, metrics, and targets, supported by robust supporting evidence. The reporting effort is, therefore, likely to be significantly lower than the reduction in the mandatory datapoints.

The reporting approach for the 2026 financial year (FY) should be decided early. The final delegated act provides entities with three reporting options for FY2026: continue with ESRS Set 1, early adopt the revised ESRS, or apply a hybrid approach combining ESRS Set 1 with selected reliefs and clarifications from the revised ESRS. Determining the most appropriate approach should be a priority, as the revised ESRS may affect methodologies (e.g., GHG (greenhouse gas) emissions boundaries), key judgments, data collection and documentation (see section 1).

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 aspects, such as fair presentation, climate-related disclosure requirements, structure and terminology. At the same time, some simplifications and new reliefs may trigger additional points of attention for those undertakings intending to comply with both frameworks[6]. Examples include ESRS-specific phase-in provisions, broader reliefs based on undue cost or effort, reliefs for acquisitions and disposals, the exemption for certain managed investments subject to a fiduciary duty, and specific ESRS reporting boundary requirements that may lead to differences with ISSB standards. This publication highlights some key items relating to interoperability in each relevant section.

[5] *Commission adopts revised sustainability reporting standards to reduce administrative burdens for EU businesses while maintaining high-quality disclosures*, EC, Press release, 3 July 2026

[6] Refer to our publication Unlocking a single sustainability report for ESRS and ISSB

Key revisions to the general principles

Key changes	Main implications for entities
Fair presentation as an explicit objective and **Information materiality** as an overarching reporting filter - section 2	**Fair presentation assessed based on the sustainability statement taken as a whole** and **more judgment-based reporting** focused on decision-useful disclosures.
Simplified and more focused **double materiality assessment process, with new guidance on** the effect of actions - **DMA snapshot +** section 3	**Less exhaustive process, more focus on outcome:** top-down and focused assessment allowed, conclusions remain evidence-based.
Confirmed **alignment of reporting boundaries with financial statements**, with targeted exceptions - section 4	**Greater clarity** on allocation of impacts, risks and opportunities (IROs) between own operations and the value chain. Updated analysis needed for lease arrangements, joint operations and benefit schemes.
Exemption from materiality assessment and reporting for certain **managed investments subject to a fiduciary duty** - section 9.5	**Careful analysis to identify eligible managed investments** and assess consequences including for interoperability with other frameworks.
New reliefs and expanded circumstances allowing information omission - section 5	**Potential reduction in data collection and reporting efforts**, subject to conditions, transparency and improvement over time. Impact of the value-chain cap to consider.
Additional phase-in and transitional provisions for all entities - section 7	**More time to build capabilities,** develop methodologies, data processes and controls on complex disclosures.
Streamlined architecture and **reorganisation of** requirements, with reduced overlap between ESRS 2 and topical standards - section 6	**Leaner standards through consolidation of requirements,** helping entities to navigate the standards, focus on key disclosures and avoid repetition.
Enhanced flexibility to present information in the sustainability statement - section 8	**Opportunity to improve readability,** usability and connectivity to better reflect strategy, business model and ESG performance on material IROs.
Further changes in the topical standards, including flexibility in GHG emissions reporting. **Key topical changes in the tables below.** **More details in section 9 to 12**	**Updates needed for selected information,** definitions, boundaries and presentation approaches across environmental, social and business conduct standards.

Key revisions to the double materiality assessment (DMA)

Key changes	Main implications for entities
Information materiality as an overarching filter - section 3.1	**Reporting focused on what matters:** focus on decision-useful disclosures, including entity-specific, and avoiding non-material information.
Top-down approach explicitly permitted - section 3.2	**Reduced complexity:** where evident, IROs' materiality conclusions can be made at topic or sub-topic level without systematic detailed IRO-level assessments.
Focused assessment approach - section 3.2	**Reduced assessment scope:** concentration of efforts on areas where material IROs are likely to arise, rather than all operations and value chain relationships.
Undue cost or effort principle - section 3.2, section 5.1	**More proportionate evidence gathering:** qualitative assessment, use of usual internal and external sources. For value chain, average regional or sector data and other generally available sources.
DMA updated only when significant changes occur - section 3.2	**Reduced reassessment burden:** existing materiality conclusions can be maintained unless significant changes arise.
New approach to prevention, mitigation and remediation actions - section 3.3	**Potential methodology review:** reassessment of how actions are taken into account in impact materiality conclusions and documentation of their effectiveness where relevant
Clarified treatment of positive impacts - section 3.4	**Potential reassessment** of positive impacts and stricter distinction from mitigation or remediation of negative impacts.

For a detailed analysis, refer to Section 3

Key revisions to Climate standard – ESRS E1

Key changes	Main implications for entities
Climate-related risks, scenario analysis & resilience (E1-2/E1-3) - section 9.1	
▪ Scenario analysis required only where conducted ▪ Resilience analysis retained	Greater flexibility on scenario analysis, but analysis remains key for resilience assessment and estimation of financial effects.
Transition plan (E1-1) - section 9.2	
▪ Reaffirmed key features ▪ 1.5°C non-compatible targets explicitly allowed with transparency ▪ Financial resources can be disclosed as indicative ranges ▪ New datapoint on assumptions/dependencies	Transition plan remains central, with clearer minimum expectations. More flexibility in target-setting.
Targets (E1-6) - section 9.3	
▪ Streamlined and more flexible (no prescribed horizons, no five-year update) ▪ Yet, key principles reaffirmed (gross, absolute, 1.5°C compatibility, consistency with GHG inventory) ▪ For financial institutions, new exemption from disclosing absolute values associated with intensity targets	Greater flexibility in target setting while credibility and transparency on compatibility with 1.5°C remain key.
GHG emissions & energy (E1-7 and E1-8) - section 9.4	
Choice between the 3 GHG Protocol approaches (financial control, operational control, equity share), replacing the ESRS Set 1 additive approach. ESRS 1 provisions prevail for specific arrangements: ▪ Simplified energy reporting ▪ Intensity metrics removed	Potential re-calculation and re-baselining of GHG emissions and targets. Improved interoperability. Attention required for leases, joint operations and benefit schemes.
Anticipated financial effects (E1-11) - section 9.1	
▪ Streamlined and simplified, e.g., ranges allowed, but several datapoints kept ▪ Expanded ESRS 1 phase-in reliefs excluding key asset-at-risk disclosures	More time to prepare complex disclosures. Start preparing early key asset-at-risk disclosures (not phased-in).

For a detailed analysis, refer to Section 9

Key revisions to other environmental standards - ESRS E2-E5

Key changes	Main implications for entities
E2 – Pollution - section 10.1	
▪ Microplastics reporting limited to primary microplastics ▪ Material emissions assessed through managerial judgment ▪ SOC and SVHC reporting differentiated by actor ▪ Phase-in for SOC and SVHC	Reduced reporting burden for SOC and SVHC, depending on conditions such as sector exposure and position in the value chain (supply or demand side).
E3 – Water - section 10.2	
▪ "Marine resources" removed ▪ "Areas with water stress" replaces the water-risk concept ▪ Total water withdrawal and discharge become mandatory	Limited impact: water-stress information may require reassessment; the new mandatory metrics are already commonly used or reported in practice.
E4 – Biodiversity - section 10.3	
▪ New mandatory disclosure of the biodiversity transition plan if it exists and has already been made public ▪ Metrics mandatory but no prescription to retain specific KPIs	Alignment between entity maturity and reporting expectations for transition plans. Metrics to be selected by entities, monitor practices and comparability.
E5 – Circular economy - section 10.4	
▪ Reporting focused on "key materials" and "key products" – with specification of "critical" and "strategic" raw materials ▪ New datapoint on waste with unknown destination	Management judgment in the identification of "key" items New data to collect on specific raw materials with strategic importance
Sites - section 10.5	
▪ Site-level datapoints removed ▪ "Site" definition broadened ▪ New definition of "geographies" ▪ Principles-based approach to aggregation or disaggregation	Greater flexibility to aggregate or disaggregate information based on shared characteristics and decision-usefulness, reducing mandatory site-level reporting.

For a detailed analysis, refer to **Section 10**.

Key revisions to Social standards – ESRS S1 to S4

Key changes	Main implications for entities
Adequate wages (S1-9) - section 11.1	
▪ Revised benchmark, including greater emphasis on International Labour Organization (ILO) principles for living wage for non-EU countries.	Existing calculations may need to be reassessed, documented and supported by the selected benchmarks.
Health and safety (S1-13) - section 11.2	
▪ Revised key definitions or metrics, e.g., recordable work-related accidents, work-related ill health, fatalities and workers on sites.	Reported metrics and trends may change even where underlying performance remains stable.
Human rights incidents (S1-16 and equivalent DR in S2 to S4) - section 11.3	
▪ Narrowed scope of reportable incidents through cumulative filters, including only substantiated and verified instances with primary focus on severity-based assessment.	Incident identification, documentation and reporting processes may need to be revisited.
Other targeted changes - section 11.4	
▪ Revised country-reporting thresholds, expanded use of local legal definitions, revised methodology and increased presentation flexibility for selected workforce disclosures.	Targeted adjustments may be needed to methodologies, calculations, country-level reporting processes.
S2-S4	
▪ Major reductions in qualitative disclosures with a shift towards a more principles-based approach.	Enhanced focus of entities on issues most relevant to their operations and value chain.

For a detailed analysis, refer to Section 11.

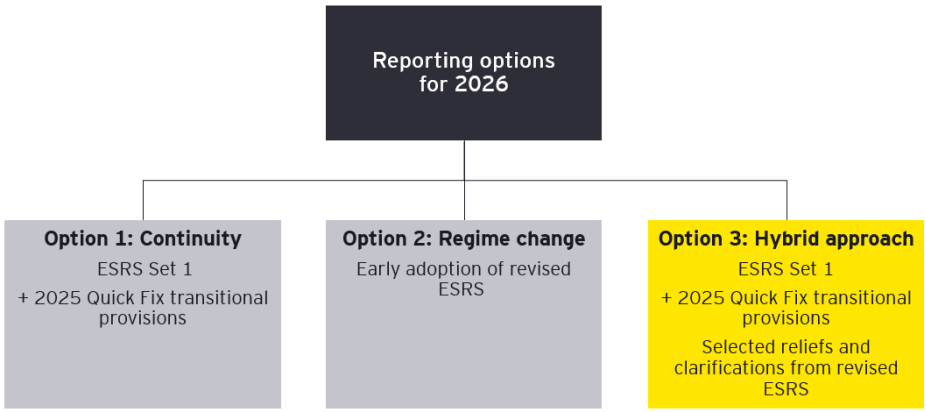
Key revisions to Business Conduct standard – ESRS G1

Key changes	Main implications for entities
Architecture - section 12.3	
▪ New "Policies-Actions-Targets-Metrics" structure	Requirements largely unchanged.
Corruption & bribery metrics (G1-4) - section 12.1	
▪ Mandatory use of ESRS definitions over local ones ▪ Convictions and fines supplemented by sanctions, with scope of each clarified	Legal analysis needed to determine reportable items.
Payment practices (G1-6) - section 12.2	
▪ Removal of "Average time to pay" ▪ Focus on standard terms, % of alignment and late-payment proceedings ▪ Small and Medium Enterprise (SME) late payment: entity-specific disclosure if material	Processes may be needed to identify SMEs and assess the materiality of late-payment practices and reporting.

For a detailed analysis, refer to Section 12.

1. Key considerations for FY2026 reporting

The final version of the Delegated Act introduces new flexibility for 2026 reporting. For FY2026, undertakings may now choose between three options, provided they disclose the choice made:



Revised ESRS Delegated act – article 2

The third option is one of the main changes of the final Delegated Act on the revised ESRS. This option allows reporting entities to keep reporting in accordance with ESRS Set 1 and to use one or more of the following reliefs and clarifications from the revised ESRS:

The double materiality assessment (see section 3.2)

- Use of a "top-down" approach for the DMA;
- Use of information available **without undue cost or effort**, and limitations relating to value chain information, allowing the use of sectoral, regional or other generally available data.

Reporting boundaries (see section 4)

- Deferral of the inclusion of acquisitions to the sustainability statement until the next financial year and exclusion of disposals occurring during the financial year;
- Exclusion, from metric calculations, of activities that are not significant sources of material impacts, risks and opportunities (IROs);
- Reporting based on a partial scope where value chain data is not available without undue cost or effort, except for GHG emissions;
- Exclusion of joint operations that are not operationally controlled from the metrics required under ESRS E2-E5.

Structure of the sustainability statement (see section 8)

- Presentation of Taxonomy disclosures in an appendix;
- Inclusion of an executive summary.

Undertakings will be required to clearly state in their sustainability statement which reporting option they have chosen for FY 2026.

How we see it

Flexible application of reliefs under the hybrid approach. The third option does not constrain undertakings to either apply all selected reliefs, or none. Since the reliefs are optional or dependent on specific circumstances, undertakings may choose, amongst the available reliefs listed above, to apply those that are relevant to them.

Choosing the right reporting strategy. The hybrid approach may be attractive for undertakings already engaged in preparing their FY2026 reporting, as it allows them to benefit quickly from select reliefs while limiting methodological changes that would need to be implemented in the short term. However, the most appropriate reporting

approach for FY 2026 will depend on each undertaking's specific circumstances, including:

- **Additional reliefs under the revised ESRS for entities expected to fall out of scope of revised CSRD.** Under the revised ESRS, these undertakings may omit all the DRs of all topical disclosures for FY2026, subject to limited information in ESRS 2 regarding the outcome of their materiality assessment and high-level information on material topics. Early application of revised ESRS may be attractive for them where they are not yet exempt from reporting by their Member States.
- **Interaction with other reporting requirements.** Undertakings subject to sustainability reporting requirements in other jurisdictions (e.g., IFRS S1 or IFRS S2) may assess whether the application of certain revised ESRS requirements or reliefs could affect the preparation of dual compliant reports.
- **Implementation timing and continuity considerations.** The revised ESRS may require additional methodological work in areas such as GHG emissions reporting. Undertakings need to consider whether there is value in adopting revised methodologies already in FY2026 or whether maintaining continuity with their FY2025 reporting (possibly using the hybrid approach) would provide a more efficient transition to full implementation of the revised ESRS from FY2027.

Monitoring the transposition of revisions to the CSRD[7]**.** Although the revised ESRS will be applicable when the Delegated Act enters into force regardless of whether the revised CSRD has been transposed, entities should stay abreast of the approach and calendar followed by Member States to transpose the revised CSRD. The revised CSRD brings significant exemption measures for undertakings which may impact their reporting strategy:

- "Wave-one" entities that fall below the revised thresholds (>1000 employees and >€450M in net turnover) may be exempt from sustainability reporting by their respective Member State in FY2026 and would no longer be in scope of the revised CSRD thereafter.
- Subsidiaries (including those that are parent undertakings) may benefit from a permanent exemption if they are consolidated within a sustainability statement of a parent undertaking drawn up in compliance with the ESRS or equivalent standards (pending a decision on equivalence from the EC). Under the revised CSRD, this exemption now applies to all public-interest entities that are subsidiaries of a reporting entity.
- Financial holding undertakings are also exempt from reporting under certain conditions.

In addition, revisions to the CSRD broaden options available to undertakings to omit sustainability information (**see section 5.3**), which may be relevant for those still applying ESRS Set 1 for FY2026 (subject to local transposition).

[7] Refer to our publication CSRD simplified: key impacts of the Omnibus Directive

2. Objective of sustainability statement and fair presentation

Objective of sustainability statement. Under the revised ESRS, the objective of the sustainability statement, taken as a whole, is to present "fairly" all material sustainability-related impacts, risks and opportunities, across environmental, social and governance matters, and how these are managed. ESRS 1.3

Consistent with this objective, the revised ESRS retain the same overall architecture, comprising two cross-cutting standards and ten topical standards and cover four reporting areas – as in ESRS Set 1.

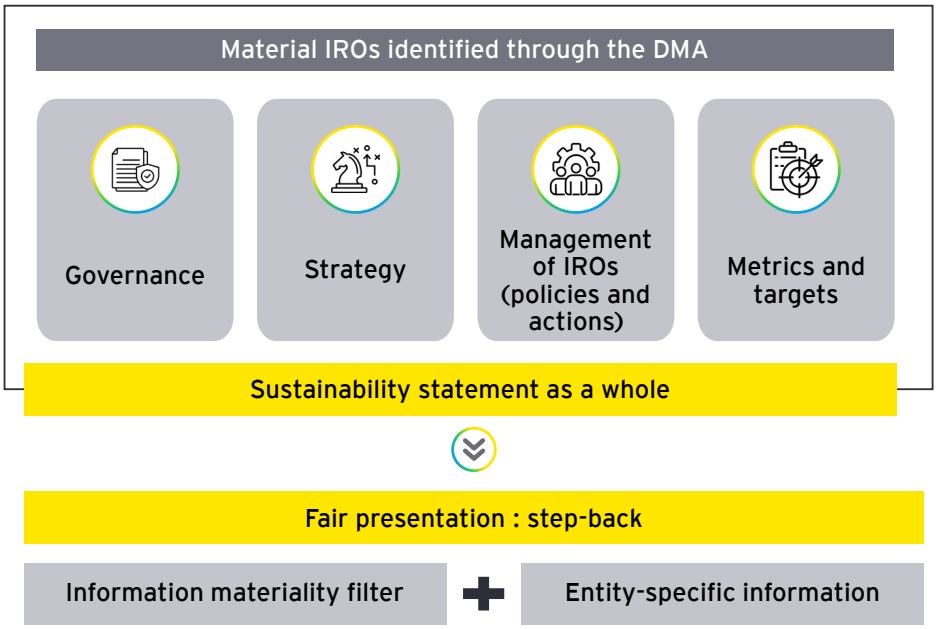
Fair presentation. Consistent with the ISSB Standards and other reporting frameworks, ESRS 1 now establishes the overarching principle of **fair presentation**. Fair presentation, which is assessed based on the whole of the sustainability statement, requires disclosure of **relevant information** about the undertaking's material IROs and their **faithful representation**. ESRS 1.Chapter 2

Faithful representation of material IROs 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 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 (see section 3.1). It is clearly stated that **applying the ESRS**, including the information materiality filter and incorporating entity-specific disclosures when necessary, **results in a sustainability statement that achieves fair presentation.** ESRS 1.21

Making **use of reliefs**, such as described in section 5, does not compromise fair presentation as long as explanations are provided on their implications. ESRS 1.AR 6



Users of general-purpose sustainability statements. Reported information must be decision-useful for users of 'general-purpose sustainability statements'. The latter are addressed to "groups of users" with a "reasonable knowledge of the general subject matters". The report does not aim to meet all the specific information needs of each individual user. ESRS 1.4 and AR 1

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. ESRS 1.6

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). ESRS 2.5

How we see it

- **Fair presentation as an explicit objective.** This objective reinforces the importance of stepping back from a datapoint-by-datapoint compliance exercize to consider whether reported information, taken as a whole, appropriately reflects material IROs and how they are managed.
- **Assessing relevant users' perspective.** While the revised standards clarify that this concept should be assessed by considering the sustainability statement as a whole, and from the perspective of groups of users with a reasonable knowledge of sustainability-related matters, undertakings will still need to exercise judgment in defining the boundaries of relevant users' perspective. Preparers will need to consider how this perspective is reflected in their key reporting choices, including the level of detail, aggregation and use of entity-specific information.
- **Interoperability with IFRS S1.** Similar to IFRS S1, fair presentation means that a datapoint is not required if information is not material and that additional entity-specific information may be necessary. Revised ESRS 1 clarifies that the concept of "entity-specific disclosures" serves the same purpose as "additional information" used in IFRS S1, implying the need to assess whether the standard disclosures are sufficient to reflect their specific circumstances.

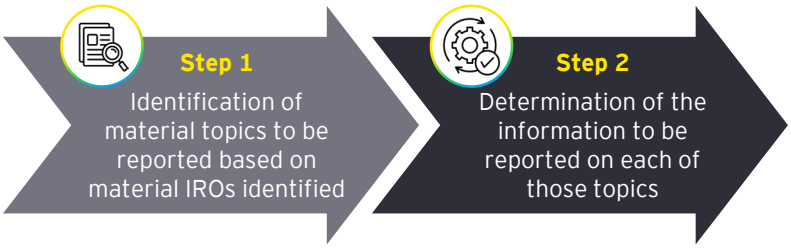
3. Double materiality assessment

For the key revisions to DMA, refer to the executive summary.

3.1. Information materiality

The revised ESRS place stronger emphasis on information materiality as an overarching filter for sustainability reporting.

Determining the information to be reported remains a two-step process: ESRS 1.22



Decision-useful information. 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 (investors, lenders, etc.) make relating to providing resources to the undertaking; or decisions that other users of general-purpose sustainability statements (business partners, civil society, NGOs etc.) make regarding the undertaking's material IROs and how they are managed. ESRS 1.23

Report only material information. ESRS datapoints shall not be reported when related information is not material, except in limited circumstances. Conversely, material information needs to be provided where necessary to understand the undertaking's material IROs. This may require entity-specific information where ESRS disclosures requirements are not sufficient. ESRS 1.24 and ESRS 1.20b

The information materiality filter applies also to ESRS 2 disclosures (unlike in ESRS Set 1). However, revised ESRS 1 indicates those disclosures are fundamental in nature, and therefore likely to result in material information for all entities. ESRS 1.AR 12

Supplementary non-material information. Non-material supplementary information may still be included in limited circumstances: i) when required by other legislation; ii) when based on generally accepted reporting frameworks (and with a clear reference to such framework); or iii) when needed to meet a specific user's data demands. It should be clearly identified as not resulting from the materiality assessment, provide faithful representation and not obscure material information. ESRS 1.107-109

How we see it

- **Information materiality as a key area of judgment.** Entities will need to base and document their materiality analysis taking into account their DMA conclusions, the nature of the related material IROs and how they are managed. The analysis will also consider whether the information is necessary to meet the objective of the related DRs and the information needs of relevant user groups. Entities are not required to explicitly disclose that information covered by an ESRS disclosure requirement was assessed as not material.
- **Broader user perspective.** Particular attention will be needed in the assessment of decision-usefulness for "other users". Unlike investors and lenders, whose decisions are generally linked to providing financial resources, other users may take broader decisions – for example, engagement strategies, voting behavior, reputational assessments or policy positioning. The assessment should consider the needs of user groups rather than specific needs of individual users.
- **Controlled exception for non-material supplementary information.** An individual user's request for supplementary information does not automatically question the

entity's materiality conclusions, but recurring or significant requests reflecting broader needs of a group of users may trigger a reassessment of the DMA and of the information materiality filter. Clear governance will be needed to avoid introducing non-material information and obscuring material information.

- **Topic-to-DR mapping as a navigation tool.** EFRAG's Appendix 9 to the Basis for Conclusions of the technical advice (december 2025) may be useful for preparers: it can help preparers to navigate the revised structure of the standards and link material topics to relevant DRs. However, it is not binding and does not replace an information materiality assessment based on the undertaking's specific circumstances.

3.2. Double materiality assessment

The revised ESRS do not change the double materiality principle. They clarify how the double materiality assessment (DMA) may be performed in a more focused and proportionate way – with greater emphasis on the outcome of the DMA rather than on an exhaustive checklist or detailed scoring.

Top-down approach. A conclusion may be derived, without further assessment, on the (non-)materiality of IROs at topic or sub-topic level, based on the strategy, business model, sectors, geographies and value chain features. Where the materiality conclusion is not evident, a specific assessment at the level of IROs (bottom-up) is required. A full bottom-up assessment or a combination of both approaches, is also possible. ESRS 1.27 and AR 9

Focused approach. Entities are not required to assess every possible IRO across all areas of their own operations and value chain. The assessment may focus on areas where material IROs are likely to arise, based on strategy, business model, geographies, sectors, business relationships, activities and other relevant factors. ESRS 1.32b

For geographies likely to give rise to material IROs, the relevant local context must be considered at the appropriate level, such as country, region, water basin, ecosystem or a site. This may be particularly relevant where local contextual factors may influence the existence of negative impacts, for example: ESRS 1.AR 16

- Environmental topics: local conditions such as water stress, air, soil or water quality, biodiversity sensitive areas.
- Social topics: social and geographical contexts such as conflict-affected or high-risk areas, presence of vulnerable populations, indigenous people or migrant workers.

Undue cost or effort - proportionate evidence. The DMA needs to be based on "reasonable and supportable information that is available at the reporting date without undue cost or effort" (see section 5.1). This supports a more proportionate evidence base: ESRS 1.32a and AR 13-15

- Possible sources and approaches include qualitative information and analysis, usual internal and external sources, including due diligence and general risk management process, engagement with affected stakeholders, peer experience, reports and statistics, scientific data and expert advice.

Quantitative scoring, exhaustive information searches, separate analysis of each severity characteristic, or separate analysis of every time horizon for each IRO are not required in all cases such as when it is evident that the IRO is or is not material.

Value chain data. 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. ESRS 1.33

Periodicity of the DMA. A full DMA is not required every year unless significant changes arise. At each reporting date, entities assess whether significant changes in their activities, structure, business relationships, understanding of IROs, methodologies, or in the external environment could affect previous materiality conclusions. If so, the DMA is reviewed and updated. ESRS 1.34

Illustrative list of topics. The list of sustainability topics in revised ESRS 1 Appendix A (AR16 list in ESRS 1 Set 1) has been streamlined and becomes non-binding guidance – serving as one of the inputs to the DMA.

How we see it

- **Proportionate, not less robust.** The shift towards a more outcome-focused and proportionate DMA is a meaningful implementation simplification, but not a relaxation of the double materiality principle, nor an evidence-free approach. A top-down conclusion that a topic is material may often be easier to support than a conclusion that it is not material. Non-materiality conclusions may attract particular scrutiny, especially for topics common in the sector, relevant in certain geographies, linked to sensitive value chain areas or subject to stakeholder attention.
- **Identification of IROs remains a cornerstone.** The top-down approach does not remove the need to identify IROs. The simplification relates to the sequencing and depth of the assessment, not to bypassing IRO identification: entities should still identify the actual and potential impacts, risks and opportunities that underpin their conclusions.
- **Verifiability and audit trail**. As verifiability is a key qualitative characteristic of sustainability information, materiality conclusions need to be supported by reasonable evidence and appropriately documented, including key judgments applied. This will be particularly relevant for IROs assessed as not material.

3.3. Impact materiality: prevention, mitigation and remediation actions

The revised ESRS introduce a principles-based approach to determine how prevention, mitigation and remediation policies and actions are reflected in the assessment of impact materiality. The objective is to fairly represent both the undertaking's impacts and how those impacts are managed, in light of users' needs. ESRS 1.43 and AR 26-28

The approach differs depending on the nature of the impact, as shown in the table below:

Aspect	Explanation
Actual negative impacts	**Assess as they "actually manifest" during the reporting period:** ▪ Include impacts originated in previous reporting periods that continue to exist in the current period ▪ Consider mitigation from previous reporting periods in severity assessment of current period ▪ Do not consider remediation implemented during the current reporting period
Potential negative impacts	**Consider implemented prevention and mitigation policies and actions:** ▪ Only where their effectiveness to reduce the severity or likelihood can reasonably be assumed ▪ Do not consider actions and policies not yet implemented ▪ Do not consider policies and related future actions when such policies imply future actions to ensure that they are effective in reducing the severity or likelihood of an impact.

Aspect	Explanation
Impacts inherently decision-useful for users	**Adapt the materiality assessment to meet users' information needs.** ▪ Even when impacts are effectively managed, information on the impact and its management may remain material if users need it for decision-making

How we see it

- **Balanced representation of impacts and actions.** The revised ESRS seek to avoid both over-reporting with a gross approach (i.e., pre-actions and policies) and under-reporting from a net approach (i.e., post-actions and policies). The key judgment is when prevention, mitigation or remediation actions can affect the materiality conclusion, and when the impact remains material despite those actions.
- **Effectiveness of policies and actions.** Policies and actions should not mechanically reduce impact materiality. Where they are considered, entities will need evidence that they are implemented and "can reasonably be assumed to effectively reduce severity or likelihood". This may include evidence of implementation status, scope, coverage, monitoring results, internal controls or other indicators of effectiveness. This will be particularly sensitive where an impact falls below the materiality threshold because policies or actions have been taken into account.
- **User decision-usefulness as a safeguard.** User decision-usefulness acts as a backstop against an overly net approach. Consistent with EFRAG's observations from its field test and in the basis for conclusions, some impacts and related topics may remain decision-useful irrespective of the effectiveness of mitigation measures, for example 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. Entities therefore need to assess not only whether impacts are effectively mitigated or prevented, but also whether users still need information on the nature of the impact, the related exposure and its management. Peer practice, items of strategic importance for the administrative, management and supervisory bodies or key stakeholders may provide useful reference points.
- **Methodology and transparency.** Entities might need to revisit their DMA methodology in light of the new requirements. Transparency will 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.

3.4. Positive impacts

The revised ESRS introduce a new definition of positive impacts and clarify their boundaries for the purpose of the DMA. ESRS 1.44

Positive impact	Implication for the DMA
How to assess it?	Positive impacts must be assessed on their own, and must not compensate for, or reduce, negative impacts.
What is excluded?	The results of the actions taken by the undertaking to prevent, mitigate, bring to an end, minimise or remediate negative impacts to which it is connected are not positive impacts.
	Compliance with law and regulations.
What could it be?	A positive impact 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.

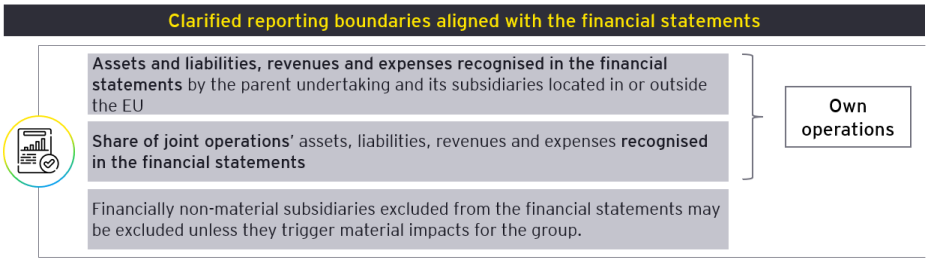
How we see it

- **Potential reassessment of positive impacts.** The new definition may require entities to revisit positive impacts identified in previous years. Entities should more clearly distinguish responsible management of their own negative impacts ("doing less harm") or compliance with law and regulations from the generation of distinct positive effects on people and environment through activities, products or services ("creating genuine positive impacts").
- **Materiality remains key.** The revised ESRS do not require the reporting of all positive impacts. The focus remains on material positive impacts. Entities should, therefore, assess whether a positive impact is identifiable, attributable and significant enough to be considered material, and apply the information materiality filter. This may require greater discipline in material IROs identification and communication, avoiding the inclusion of isolated, generic or anecdotal impacts in the sustainability statement.

4. Reporting boundaries

The revised ESRS propose some clarifications and key changes on 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: ESRS 1.60-61 and AR 36



These reporting boundaries form the starting point for the DMA, which extends to the undertaking's value chain. Reported information must be extended beyond own operations to cover material IROs in the undertaking's value chain, if applicable. ESRS 1.62-63

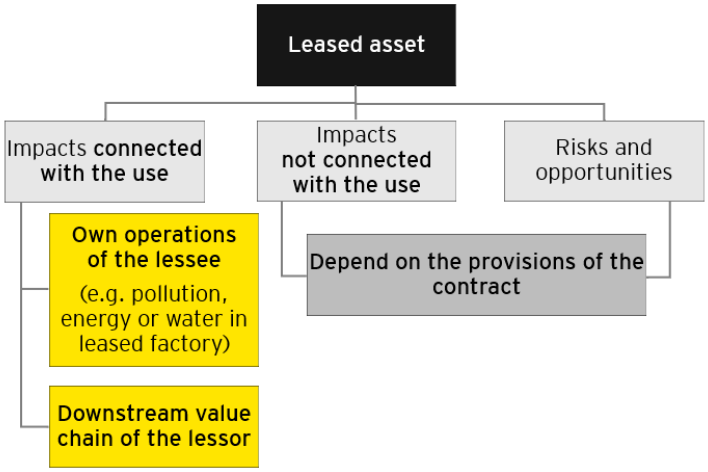
The specific provisions and exceptions described below apply, without prejudice to the application of certain reliefs, including those relating to acquisitions and disposals (see section 5.2).

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. ESRS 1.70

Exemption for certain managed investments. Financial institutions now benefit from an exemption regarding investments subject to a fiduciary duty that they manage on behalf of clients pursuant to a mandate agreed with them, without retaining the risks and rewards of ownership. For these investments, undertakings are neither expected to carry out double materiality assessments nor to report on them. ESRS 1.17 and 37

Specific provisions for GHG emissions. The additive approach required under ESRS Set 1 (operational control in addition to the scope of the consolidated financial statements) is replaced by the option to choose from the financial, operational or equity share approaches from the GHG Protocol, with the addition of ESRS specific requirements regarding leased assets, benefit schemes and joint operations (see section 9). ESRS 1.17 and 37

Leased assets. New provisions highlight that IROs related to a leased asset may result either from the use of the asset or from its ownership. ESRS 1.71



Assets held by a long-term employee benefit scheme. IROs arising from assets held by an undertaking's long-term employee benefit schmes are connected with the undertaking through its business relationships in the value chain. ESRS 1.72

New reliefs. A relief has been added for acquisitions and disposals, as well as specific reliefs for metrics (see section 5.2).

Transparency. In accordance with ESRS 2, in the event that the reporting boundary of the undertaking's own operations differs from that of the consolidated financial statements, undertakings must describe the difference and the related reasons, and disclose an overview of the extent of value chain coverage (upstream and downstream) in the sustainability statement. ESRS 2.4

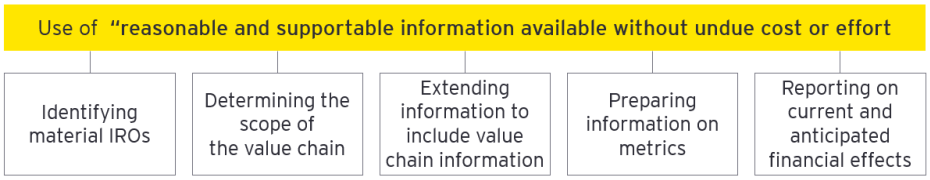
How we see it

- **Reporting boundaries may differ from the accounting perimeter.** Reporting boundaries affect both the scope of reported information and the identification and assessment of material IROs. Although the revised ESRS confirm the alignment of sustainability reporting with the financial statements' boundaries, specific provisions for leased assets, employee benefit schemes, joint operations and certain managed investments, as well as specific requirements applicable to GHG emissions may introduce some differences. Undertakings need to consider the implications consistently across the DMA, the reporting processes and related governance aspects, particularly where legal ownership, operational control involvement and accounting recognition do not fully align.
- **Definition of value chain for financial services.** The definition of own operations and value chain remains a critical implementation challenge for financial institutions given the relevance and significance of their customer relationships (i.e., downstream value chain) in determining their IROs. While the revised ESRS introduced a specific provision on leased assets confirming that some assets give rise to downstream value chain relationships despite being on balance-sheet, and a specific exemption related to managed investments, they do not fully clarify and cover the definition of value chain for financial services. Financial institutions (asset management, commercial banking, insurance) may, therefore, need to exercise judgment when defining their boundaries, assessing material IROs and reporting on them.

5. Reliefs, proportionality mechanisms and omission of information

5.1. Reasonable and supportable information available without "undue cost or effort"

A proportionality mechanism allowing the use of **"reasonable and supportable information available without undue cost or effort"** has been introduced. It can be used for different situations: ESRS 1.93



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. ESRS 1.94 and AR 45

Information expected to be considered available without undue cost or effort. This includes information deriving from: ESRS 1.AR 45

- Internal resources, such as: risk management processes, information used in preparing the financial statements, operating the business model, setting the strategy, conducting the sustainability due diligence process and managing IROs; and
- External sources, such as sector, peer group experience and scientific research.

Reassessment and 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 greater information availability of external information. ESRS 1.95

How we see it

- **A proportionality mechanism rather than a data exemption.** 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 5.2). Because the assessment must be revisited at each reporting date, undertakings relying on this mechanism may consider elaborating a roadmap to improve data availability and reporting capabilities over time.
- **Reliefs and interoperability.** While the revised ESRS 1 now refers to the same concept of "undue cost or effort" as IFRS S1 and IFRS S2, 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 5.2).

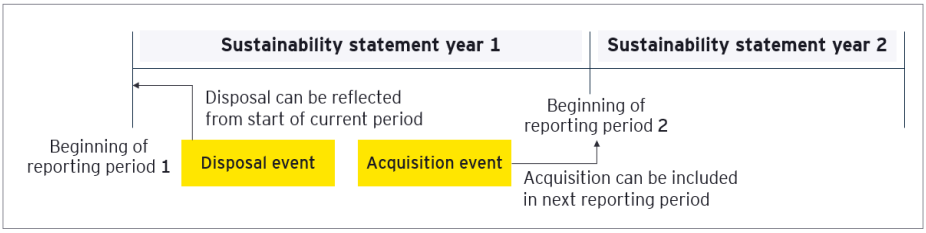
5.2. Reliefs for reporting sustainability information

ESRS 1 proposes several permanent reliefs to reduce the reporting burden and enhance flexibility. While these reliefs differ in their scope and conditions of application, they generally combine flexibility with transparency requirements. Their

key characteristics are summarised in the table below, with further detail provided in the accompanying sections:

Main reliefs from revised ESRS	Metrics on a partial scope	Exclusion of joint operations not operationally controlled	Exclusion of activities that are not significant drivers of IROs	Exclusion of acquisitions and disposals from the reporting year
	ESRS 1.91	ESRS 1.92	ESRS 1.90	ESRS 1.74-75
Scope of use	All metrics except E1-8 GHG emissions	Metrics related to E2 to E5 environmental standards	All metrics	DMA and all reported information (including metrics)
Conditions	Reliable data only available for part of the scope without undue cost or effort Excluded scope is an objectively defined part	No operational control over the joint operation	The exclusion does not impair relevance or faithful representation	Acquisition or disposal during the reporting period
Time limit	No time limit, but expectation to improve over time		No time limit	Reporting period
Required disclosures	Disclose the use of the relief (ESRS 2 BP-1) ESRS 2.AR 2			
	Actions to increase coverage and quality of reported information Progress made compared to previous period		Information necessary to understand the scope limitations	Significant events affecting the subsidiary since the acquisition, if relevant to the group's material IROs

Exclusion of acquisitions and disposals from the reporting year. For acquisitions and disposals in the reporting year, the relief applies, as follows: ESRS 1.74-75



Additional flexibility for value chain data collection. Collecting data from the value chain is made easier by placing primary data collection on an equal footing with estimates based on secondary and indirect forms of data collection depending on practicability and reliability considerations, both for the identification of material IROs and when reporting on metrics. ESRS 1.65

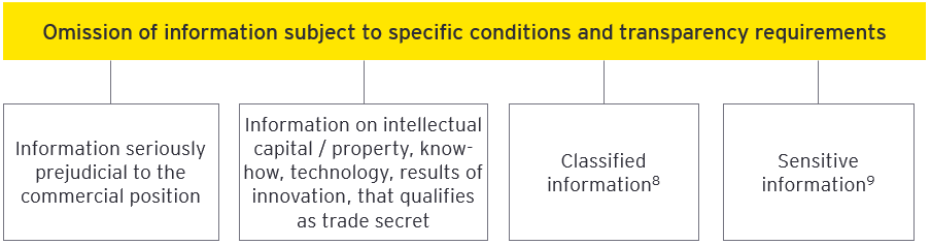
How we see it

- **Using new reliefs with ESRS Set 1 in FY2026.** The Commission now enables wave-one undertakings to make use of a selection of reporting reliefs introduced by the revised ESRS already in FY2026, while still using the ESRS Set 1 (see section 1). This is expected to alleviate the reporting burden of entities, which can use those targeted reliefs depending on their needs, while maintaining, for FY2026, already established reporting processes.

- **Transparency and continuous improvement.** ESRS 1 clarifies that applying reliefs from the revised ESRS is not detrimental to fair presentation, as long as explanations are provided to understand the consequences on reported information and the actions taken to improve the reported information over time. It will be critical for undertakings to take this expectation into account and be consistent with any improvement plans disclosed in prior periods.
- **Reliefs for acquisitions and disposals.** This relief will facilitate reporting processes, but may limit visibility of related businesses as information may be excluded both from the seller's and the acquirer's current-year reporting. It may also cause differences with financial statements perimeter.
- **Collecting data from the value chain.** Both the revised ESRS and revised CSRD state that undertakings are now bound by the value chain cap set out by the voluntary reporting standard when requesting information from protected undertakings (undertakings in the value chain with less than 1000 employees). Undertakings are encouraged to already map which disclosures will be impacted by this value chain cap and closely monitor how this provision is transposed into national law to understand how it applies in their jurisdiction.
- **Reliefs and interoperability.** Using the new reliefs will likely impact interoperability as they are not available in IFRS S1 and IFRS S2. Undertakings subject to other sustainability reporting requirements (including ISSB standards) need to assess whether the application of certain reliefs could affect the preparation of dual compliant reports.

5.3. Omission of information

The revised ESRS mirror the revisions to the CSRD which define four cases where undertakings may omit certain information from their sustainability reporting. ESRS 1.100



In exceptional cases, information whose disclosure would be seriously prejudicial to an undertaking's commercial position may be omitted, provided that: ESRS 1.100a

a) Such omission does not prevent a fair and balanced understanding of their development, performance and position, or of their material risks or impacts

b) The undertaking has determined that it is impossible to disclose the information in a manner that would enable it to meet the objectives of the disclosure requirement without seriously prejudicing their commercial position

The revised ESRS specify that the fact that undertakings not established in the EU are not required to report the same information, may not be used to consider that publishing that information would be prejudicial to the reporting undertaking and justify its omission. ESRS 1.AR 47

Undertakings applying any of these exemptions must disclose that fact for each datapoint omitted, reassess at each reporting date whether the information may still

[8] "Classified information", as defined in Article 2 point (7) of Regulation (EU) 2023/2418: information or material, in any form, the unauthorised disclosure of which could cause varying degrees of prejudice to the interests of the Union, or of one or more of the Member States, and which bears an EU classification marking or a corresponding classification.
[9] Equivalent to "Sensitive information" as defined by Article 2 point (8) Regulation (EU) 2023/2418: other information that is to be protected from unauthorised access or disclosure because of obligations laid down in other Union legal acts or national law, or in order to safeguard the privacy or security of a natural person or the security of a legal person.

be omitted and make every reasonable effort to ensure that the overall relevance of the disclosure is not impaired. ESRS 1.100-101

How we see it

- **Prejudice to the commercial position of undertakings: a relief with a high threshold.** While this option may provide entities with substantial flexibility in specific circumstances, entities will need to substantiate that they meet the required strict conditions in the referred "exceptional cases", based on their facts and circumstances. This is likely to require careful judgment and robust documentation, together with sufficient transparency to enable users to understand the resulting limitations of the reported information.
- **Additional transparency for classified and sensitive information.** ESRS Set 1 did not require the disclosure of the use of the option to omit classified and sensitive information. Nor was it explicitly required to reassess this omission at each reporting date. Undertakings using these omissions should engage in risk assessments to anticipate these provisions.
- **Articulation between ESRS and revised CSRD.** Undertakings also need to monitor national transposition of the revised CSRD, to determine the applicable local requirements related to omissions of information, including if they continue to apply ESRS Set 1 in 2026.

6. ESRS 2 general disclosures

ESRS 2 retains its role as the cross-cutting standard covering the basis for preparation, governance, strategy, IRO management and general disclosures applicable across sustainability matters. Its architecture has been streamlined though the General Disclosure Requirements (GDRs). Duplicative datapoints, voluntary disclosures and granular narrative requirements in the topical standards have been removed or consolidated, with many disclosures centralised in ESRS 2. As a consequence, topical standards now focus on targeted topic-specific requirements, while relying on ESRS 2 for common disclosure principles.

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

The revised ESRS replace the former Minimum Disclosure Requirements (MDRs) with General Disclosure Requirements (GDRs) for Policies, Actions, Metrics and Targets (PAMT). Applicable across topical standards and entity-specific disclosures, these requirements provide a common framework for reporting how undertakings manage their material IROs. The main changes are summarised below: ESRS 2.38-52.

GDR	Main changes
GDR PAMT	**Reflect the specific aspects of a topic covered by PAMT.**
GDR PAT	**Deletion of disclosure of the reasons why no PATs are in place.**
GDR-P	**Disclosure of changes to the policies adopted during the period.**
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 in relation to material IROs** (metrics required by topical standards or defined on an entity-specific basis, which 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 any **planned actions to improve data quality** in future. **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	**Clarification** that whether environmental targets are **"based on conclusive scientific evidence"** refers to relevant **ecological thresholds.**

6.2. Anticipated financial effects

The revised ESRS propose 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 of disclosure requirements ESRS 2.24-33 and AR 15-21
Financial effects (both current and anticipated)	▪ **Both qualitative and quantitative information.** ▪ **Quantitative information**: possibility to use **non-monetary information** (volumes, number of products etc) and **ranges or single amounts.** ▪ **Relief from quantitative information** if: ▪ The effects are not separately identifiable; or

Financial effects	Description of disclosure requirements ESRS 2.24-33 and AR 15-21

	▪ The level of uncertainty in estimating is so high that the resulting information would not be useful.
	▪ If so, entities 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 on **significant risk of material adjustment** to carrying amounts of assets or liabilities in the next annual reporting period.
	▪ **Mandatory cross-referencing to financial statements** for direct or indirect connectivity (see section 8).
	▪ **Explanation of significant differences in assumptions** used for preparing sustainability statements and financial statements (see section 8).

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.
	▪ **Clarification** that the possible need to **revise an estimate** related to anticipated financial effects **does not imply that there has been a reporting error**
	▪ **Clarification** that the **provisions on the omission of certain information apply to anticipated financial effects.**
	Additional phase-in provisions to omit:
	  ▪ All information (except certain climate-related information) until FY2027 included for wave-one undertakings and for the first two financial years for other undertakings (see sections 7 and 9.1)
	  ▪ Quantitative information (except certain climate-related information) until FY2029 for wave-one undertakings and for the first four financial years for other undertakings (see sections 7 and 9.1).

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 are generally concerned about data quality, sensitivity of information and lack of standardised methodologies. The revised ESRS introduce new reliefs to reduce the effort needed to prepare the information. The revised ESRS also clarify that the omission of information, including information seriously prejudicial to the commercial position of undertakings, also applies when reporting on anticipated financial effects, subject to relevant conditions (see section 5.3). However, the reliefs are 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. ISSB Educational material notes that an entity cannot use the relief 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 without disclosing financial projections for time horizons that go beyond those adopted for financial and business planning reasons.
- **Interoperability**. The revised provisions impact interoperability both positively and negatively. The decision to retain quantitative information, as well as the related reliefs on undue cost or effort relief and option to omit it due to lack of skills, capabilities or resources are aligned with the ISSB standards. However, the additional ESRS phase-in reliefs will create temporary differences, as well as the possibility under ESRS to only disclose qualitative information on resilience.
- **Phase-in for anticipated financial effects**. The phase-ins for quantitative information on anticipated financial effects (except for certain climate-related information) have been extended to FY2029 included for wave-one undertakings, or to the fourth reporting year included for other undertakings (see sections 7 and 9.1). Nevertheless, entities are encouraged to start preparing for these disclosures, ensuring that sustainability and financial functions are appropriately connected and assessing the methodology and internal process that will be required. EFRAG is expected to develop further guidance to support readiness in time for the end of the phase-in period.

7. Transitional provisions

Transitional provisions have been adjusted and extended to adapt to the new scope of the revised CSRD and provide all entities with more time to prepare the most challenging disclosures. Transitional provisions differ between those applicable to:

- "Wave-one" undertakings: defined in the revised ESRS as those required to report on sustainability for FY2024-FY2026, irrespective of the timing and status of national transposition of the CSRD and its revisions. This involves large undertakings[10] which are public-interest entities and large issuers (including parent undertakings), with more than 500 employees. ESRS 1.122
- "Other undertakings": defined as those required to report on sustainability for financial years starting in 2027, irrespective of the timing and status of national transposition of the CSRD and its revisions. This involves undertakings and parent undertakings of a group of more than €450M net turnover and more than 1,000 employees (new thresholds). ESRS 1.122

Phase-in provisions from revised ESRS, according to the type of undertakings ESRS 1.125-127

	"Wave-one" undertakings	"Other undertakings"
	Financial years during which omission is permitted	
DRs of standards ESRS E4, S2, S3, S4*	FY2026 included	First two financial years
Information on anticipated financial effects *except for carrying amounts and % of assets at material physical and transition risk*	Until FY2027 included: no information required	First two financial years: no information required
	Until FY2029 included: no quantitative information required	First four financial years: no quantitative information required
Substances of concern (SoC)	Until FY2029 included: no quantitative information required	First three financial years: no quantitative information required
Substances of very high concern (SVHC)	Until FY2027 included for users of articles that contain such substances	First financial year for users of articles that contain such substances
Selection of datapoints related to own workforce (ESRS S1)**	FY2026 included	First financial year

** Subject to minimal transparency required by ESRS 2.8-9*

*** ESRS S1-6, S1-7 for own employees in non-EEA countries, S1-10, S1-11, S1-12, S1-13 datapoints in paragraph 37(d), (e) and non-employees datapoints, and S1-14*

For those wave-one undertakings which will fall out of scope based on the new thresholds of the revised CSRD, an exemption allowing to phase-in all DRs of all topical standards has been added for FY2026. This is subject to minimal transparency requirements. ESRS 1.126 and ESRS 2.8-9

Transparency requirements. When any of the phase-in relief is used to omit required ESRS disclosures, the undertaking must disclose this fact. When entities omit disclosures of topical standards (ESRS E4, S2, S3, S4 or all DRs of all topical standards for wave-one undertakings which will fall out of scope under the revised CSRD), minimal disclosures on the result of the materiality assessment and

[10] "Large undertaking" is defined in the Accounting Directive 2013/34/EU as >250 employees AND >EUR50 million turnover OR >EUR25 million total assets.

information on strategy and business model, targets, policies, actions and metrics related to material IROs are still required. ESRS 2.8-9

Additional value chain transitional provision. For their first three years of sustainability reporting in accordance with the CSRD (starting from FY2024 for wave-one undertakings), entities may report part of the necessary value chain information, or none, if it is not available. In this case, entities have to explain the efforts made to obtain the necessary information, the reasons why not all of it could be obtained, and their plans to obtain it in the future. ESRS 1.123

Comparative information. Entities can still benefit from the relief enabling them not to disclose comparative information for their first year of reporting sustainability information. For their first year of reporting based on the revised ESRS, wave-one undertakings, which have been subject to the CSRD since FY2024, are not required to disclose comparative information for quantitative metrics and amounts that differ from those required by the ESRS Set 1. ESRS 1.124

How we see it

- **Leveraging additional time to prepare the most complex disclosures.** The revised ESRS provide, for all entities, new phase-in provisions on SoC and SVHC and extend phase-ins for quantitative information on anticipated financial effects (apart from certain climate-related information). Entities are encouraged to capitalize on these extensions and flexibilities to prepare the necessary reporting processes or contractual arrangements to be put in place to ensure readiness once these disclosures become mandatory.
- **Wave-one undertakings and CSRD transposition**. Considering the scope of wave-one undertakings described above in the revised ESRS, the timing of the phase-in provisions does not depend on whether the transposition of the CSRD was completed or delayed in their Member State. This will be particularly relevant in jurisdictions where wave-one entities have not been legally required to issue a sustainability statement so far due to the lack of transposition (such as in Germany, Spain or the Netherlands).

8. Structure and presentation of sustainability information

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

Sustainability statement structure	**Mandatory 4-pillar structure** maintained (General, Environmental, Social and Governance sections), but new **option to use an alternative structure provided a reasoned explanation is presented.** ESRS 1.105 **Option to include an executive summary** to convey key messages on material IROs and their management. ESRS 1.110 **Option to use appendices** to present more detailed information, article 8 Taxonomy-related content and supplementary information on non-material matters. ESRS 1.111
Supplementary information	**Possible inclusion of supplementary disclosures that are not material, only if:** ▪ They are needed to meet data demands of a specific user; or ▪ They respond to other legislation or generally accepted reporting standards or frameworks. These disclosures must be clearly identified as not resulting from the DMA, provide a faithful representation of the aspects they intend to represent, and not obscure material information. ESRS 1.107-109
Connected information	**Further emphasis** on the need for **connected information,** both within the sustainability statement and with other corporate reporting documents, including the financial statements. ESRS 1.112-113 and AR 49 **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. ESRS 1.114-116
Aggregating and disaggregating information	**Greater flexibilities on aggregation and disaggregation of information**, which 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 the nature of IROs or the way they are managed. ▪ IROs with shared characteristics. ESRS 1.52-55 and AR 33-34 **Geographies.** The new defined term 'geography' covers country, region, county, water basin, ecosystem or a site, clarifying that individual site disclosure is not necessarily required. ESRS 1.AR11 With the exception of E4 *Biodiversity and Ecosystems*, no specific disaggregation requirements are kept in relation to relevant geographies in the topical standards.

How we see it

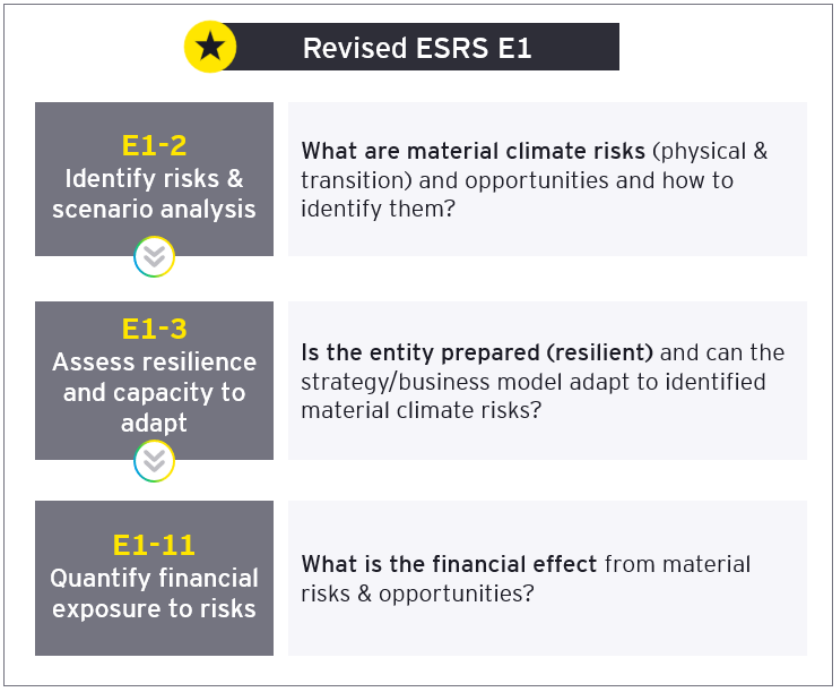
- **Improved readability and usability of sustainability statements.** The flexibilities are an opportunity for undertakings to structure their sustainability statement in a way that reflects their business, material topics and stakeholder needs. Although some preparers may already have used these in their first two years of reporting, most 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. As it forms an integral part of the sustainability statement, undertakings may need to consider how it contributes to the overall understandability of the sustainability statement while faithfully representing the underlying IROs.
- **Guidance on aggregation and disaggregation.** The enhanced guidance provides greater flexibility but also places increased emphasis on management judgment. Undertakings may need to reflect on whether significant differences in IROs across geographies, sectors, or business units are meaningfully reflected in their disclosures. 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*.

9. Climate change - ESRS E1

For the key revisions on the revised ESRS E1, refer to the executive summary.

9.1. Climate-related risks, scenario analysis, resilience and anticipated financial effects (E1-2 / E1-3/ E1-11)

The processes to identify and assess IROs (ESRS 2 IRO-1) and their interaction with strategy resilience (ESRS 2 SBM-3) have been reorganized within E1-2 and E1-3, as illustrated below.



Risks and scenario analysis (E1-2). While the content of E1-2 remains consistent with ESRS Set 1 on the identification of climate-related risks and opportunities, scenario analysis disclosures are now only required if such analysis has been conducted. Where performed, entities indicate whether at least one high-emission scenario was used for physical risks and at least one 1.5°C-aligned scenario for transition risks. A requirement to specify the associated global average temperature projection of the scenarios and why selected scenarios are considered relevant was added. ESRS E1.16-17

Resilience (E1-3). The results of the resilience analysis must still be disclosed including how it builds on the risk analysis, how current and planned mitigation and adaptation actions contribute to resilience, significant areas of uncertainty, and the capacity to adjust strategy and business model over different time horizons. ESRS E1.19

How we see it

- **Scenario analysis remains a valuable tool.** Although no longer mandatory, scenario analysis is still a valuable tool to identify climate-related physical and transition risks, with a substantial benefit for strategic decision making, resilience assessment and estimation of anticipated financial effects. Entities 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 entity's size and activities.
- **EU taxonomy and IFRS interoperability.** Physical risk scenario analysis remains mandatory for alignment of activities under the EU Taxonomy.

Climate-scenario analysis is also required for the resilience assessment under IFRS S2. Entities seeking to achieve compliance with both ISSB and ESRS frameworks are, therefore, likely to continue using scenarios analysis in practice.

Anticipated financial effects (E1-11). This is also streamlined – with fewer datapoints and more flexibility – but key disclosures are retained, as summarized below:

	Physical risks ESRS E1.39	Transition risks ESRS E1.40
Financial exposure	Carrying amount of assets at risk before adaptation actions (2) % addressed by adaptation actions Amount of net revenue at risk (1)(2)	Carrying amount of assets at risk and stranded assets (1) (2) % addressed by mitigation actions Amount of net revenue at risk (1)(2)
Additional information		Breakdown of real estate collateral by energy-efficiency class Potential liabilities not recognized in financial statements
Methodology disclosure requirements	Quantification approach, scope, assumptions, limitations and use of scenario analysis if applicable Location of assets at material physical risk included where relevant	

(1) These amounts may be presented before or after considering mitigation actions, but the approach taken must be disclosed.

(2) Single amount or range may be disclosed for assets and revenues at risk, including stranded assets. Assets include all types of own physical assets.

Phase-in reliefs. E1-11 is subject to the ESRS 1 phase-in reliefs, with **notable exceptions not subject to phase-in**:

i. The carrying amount of assets at material physical risk and the share covered by adaptation actions

ii. The carrying amount of assets at material transition risk, the share covered by mitigation actions, and the range of potential stranded assets (mid and long term)

For phased-in elements, wave-one undertakings may omit qualitative information until FY2027 included and quantitative until FY2029 included; other undertakings may omit qualitative information until the second year of reporting included and quantitative until the fourth year of reporting included. ESRS 1.125b-c, 126 b-c, 127b-c See section 6.2

How we see it

- **Use the phase-ins to get prepared.** The revised phase-in provisions and reliefs reflect the practical challenges undertakings may face in developping robust methodology and internal processes for anticipated financial effects. The additional time should be used to build the necessary capabilities. Beyond compliance, anticipated financial effects can become a valuable tool to support decision making and capital allocation.
- **Datapoints not phased-in, an urgent area of focus.** A notable point of attention is that neither the carrying amount of assets at material risk nor the share of assets at risk adressed by mitigation or adaptation actions benefit from phase-in. Entities intending to early-adopt the revised ESRS in FY2026, therefore, need to prepare without delay to map assets at risk and those covered by adaptation or mitigation actions. Determining whether and when

actions address them requires judgment and a consistent methodology. Given the potential sensitivity of the information, early engagement with governance bodies may be needed to frame the appropriate contextual narrative.

- **Interoperability with ISSB Standards and stakeholders' expectations.** Entities should be mindful that such phase-in does not apply under IFRS S2. Entities may refer to available reports prepared in accordance with ISSB standards for real life illustrations, while remaining mindful of stakeholders' medium-term expectations as more information becomes available.

9.2. Transition plan (E1-1) for climate change mitigation

ESRS E1 retains an overview approach that confirms the key features of a transition plan (illustrated below), while reducing some datapoints (e.g., the EU Taxonomy link). If there is no climate transition plan incorporating those key features in place, entities are still required to disclose this and indicate whether and when they expect to adopt one. ESRS E1.12-13

The main changes relating to transition plans are the following:

- **Compatibility of transition plans with limiting global warming to 1.5°C. Targets** not compatible with 1.5°C are now explicitly acknowledged, but entities are required to be transparent about it, including an explanation of how these targets compare with 1.5°C-aligned values and how future developments have been considered. At the same time, additional focus is placed on how the **strategy and business model** (beyond targets) are or will be compatible with limiting global warming to 1.5°C. ESRS E1.AR 1 and AR 2
- **Significant future financial resources.** They can now be disclosed as indicative ranges and they can be limited to approved and announced key actions and their planned funding. ESRS E1.AR 2c
- **Key assumptions and dependencies:** new disclosures are introduced to align with IFRS S2. ESRS E1.12c and AR 3
- **Qualitative disclosures on potential locked-in emissions** are retained, but the related guidance and reference to Scope 1, 2 and 3 sources have been deleted. ESRS E1.12d and AR 4
- **CapEx related to fossil activities.** While the explicit link with the EU Taxonomy transition plan requirements has been removed, entities are still required, where applicable, to disclose CapEx amounts related to coal, oil and gas activities. E1.12b
- **Single transition plan to address both climate change adaptation and mitigation.** This possibility is now explicit, with a requirement to state that fact and cross-refer the information provided on resilience (E1-3), actions and resources (E1-5). ESRS E1.AR 1

- **Monitoring progress against the transition plan.** A new application requirement clarifies that entities should explain progress using both quantitative and qualitative information, including resources deployed, actions taken and GHG emission reductions achieved or expected, and sector-specific metrics where applicable. ESRS E1.AR 5

How we see it

- **Key features of a transition plan.** The focus on key features sets the minimum expectations: a missing feature – or insufficient coverage of the business model and strategy, including Scope 1, 2 and 3 emissions – suggests that no genuine transition plan has been set.
- **Compatibility of a transition plan with 1.5°C.** The revised ESRS now require a specific disclosure on how the undertaking's strategy and business model are or will be compatible with limiting global warming to 1.5°C. The flexibility to disclose non-1.5°C-aligned targets (e.g., Scope 3 near-term targets aligned with well-below 2°C) should, therefore, be considered in light of this overall ambition. The required explanation is expected to go beyond target compatibility and consider broader elements of the transition plan, including strategic actions, investments plans, resource allocation and business model adjustements. As the revised ESRS do not define what constitutes a strategy or business model that is compatible with a 1.5°C pathway, entities will need to apply judgment when substantiating and communicating this assessment.

9.3. Climate-related targets (E1-6)

Target requirements are significantly streamlined and made more flexible (e.g., removal of prescribed time horizons and requirement to update every five years), but the revised DR reaffirms the key principles: ESRS E1.24

- **Gross targets.** GHG reduction targets must be gross, before removals, carbon credits or avoided emissions. ESRS E1.AR 12
- **Absolute emissions.** Targets must be disclosed as absolute GHG emissions reductions for Scope 1, 2 and 3. If intensity targets are used, it is still required to disclose the associated absolute values, with a new exception introduced for financial institutions. (see section 9.5) ESRS E1.AR 13
- **Link to GHG inventory.** It is clarified that the reporting boundary for target setting must be consistent with that used for GHG emissions reporting (E1-8). If the scope of the targets differs from the scope of the GHG inventory (e.g., Scope 3 emissions are not fully covered), entities must disclose the share of Scopes 1, 2 and 3 covered by the targets and which GHGs are covered. ESRS E1.24b and AR 16
- **Compatibility of targets with 1.5°C.** Entities are still expected to explain whether and how their targets are compatible with limiting global warming to 1.5°C through a comparison exercise with reference target values and a description of the methodology. Validation via an independent third party can be a valuable input. This requirement applies regardless of whether a transition plan has been adopted. Further clarification on the meaning of "compatible with 1.5°C" has not been added. ESRS E1.24c and AR 17
- **Net-zero target.** If such a target is disclosed separately from any GHG reduction targets, an explanation of how the entity intends to permanently neutralize its residual GHG emissions is required. ESRS E1.AR 11

How we see it

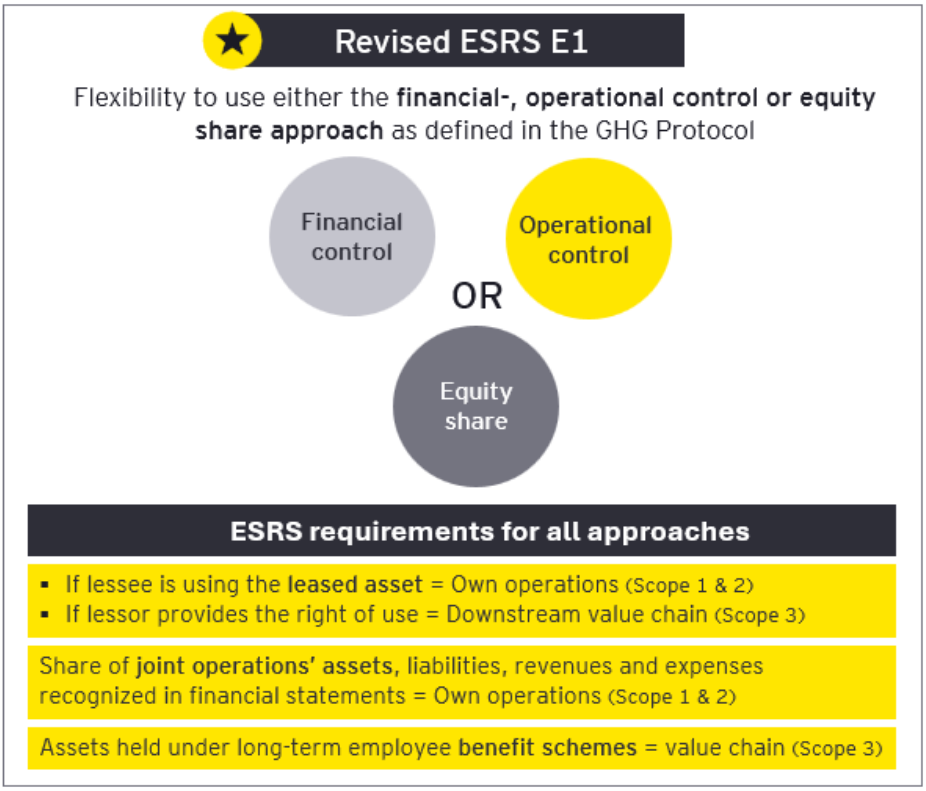
- **Compatibility of targets with 1.5°C.** The comparison of target values with a reference target value continues to be a key factor in determining whether a target is compatible with limiting global warming to 1.5°C. Reference to third-party validation has been added as one valuable input that can be considered

in the demonstration. This should be clearly articulated with the disclosures provided on transition plans.

- **Intensity targets.** The revised ESRS confirm that intensity targets must be accompanied by the associated absolute values. The specific exemption added for financial institutions from disclosing this associated absolute value for scope 3 category 15 further emphasises that this remains a clear requirement.

9.4. GHG emissions (E1-8) and energy reporting (E1-7)

The most notable change in E1 relates to the **GHG emissions reporting boundaries (E1-8)**. Instead of the ESRS Set 1 "additive approach" (emissions under operational control are added to the scope covered by the consolidated financial statements), entities may now choose between the three GHG Protocol approaches, as illustrated below.



Reporting boundaries. While an alternative to the scope of the consolidated financial statements is now proposed, ESRS 1 provisions on leased assets, benefit schemes and joint operations still prevail over the GHG Protocol approach selected (see section 4). Also, while maintaining reference to the GHG Protocol Standard for the measurement of emissions, the revised standard clarifies that the requirements of ESRS take precedence over GHG accounting standards – explicitely referring to reporting boundaries (e.g., the reporting of Scope 3 GHG emissions is not optional under ESRS). Disaggregation of Scope 1 and Scope 2 GHG emissions between the consolidated financial-statements scope and other emissions is required, according to the reporting approach selected. ESRS E1.30c, AR 19 and AR 20a

For **energy consumption and mix (E1-7)**, the scope is now limited to own operations based on the ESRS 1 reporting boundaries (consolidated financial statements), and the requirement to align with the Scope 1 and 2 perimeter is removed. ESRS E1.26

Other targeted changes :

- **Energy intensity metrics** and disaggregation by renewable source are deleted;
- **GHG intensity** per net revenue and total GHG emissions are removed; biogenic CO_2 is limited to Scope 1; ESRS E1.31

- Percentage of Scope 1 emissions from emission trading systems is narrowed to EU ETS only; ESRS E1.30ai
- **Reporting tables** are deleted (energy) or made optional (GHG). ESRS E1.AR 26

How we see it

- **Relationship between the GHG Protocol and ESRS.** The revised standard clarifies that the ESRS 1 provisions on leased assets, joint operations, and employee benefit schemes prevail over the GHG Protocol. Accordingly, where the frameworks lead to different outcomes, entities should apply the ESRS requirements. For example, on joint operations, emissions relating to the undertaking's share of JO recognized in the financial statements remain within own operations irrespective of the GHG Protocol approach selected, while the latter would determine the treatment of any remaining emissions.
- **Effect on baselines and comparative information.** For wave-one undertakings, the change in boundary may require re-calculating previously reported figures and, where the selected approach materially changes emissions, re-baselining or re-setting targets. Although a first-year exemption from presenting comparative figures is available for metrics that have changed compared to those reported under ESRS Set 1, users may nevertheless expect some explanation of the effects of the change, particularly where it materially affects reported emissions, baselines or targets.
- **Change in reporting boundaries and interoperability.** Moving from the Set 1 additive approach to a choice among the three GHG Protocol approaches will foster interoperability with IFRS S2 and allow entities to report under their most suitable method, likely easing implementation. However, ESRS additional specific requirements (e.g., for leases or joint operations) may still result in differences and constrain interoperability for concerned undertakings.

9.5. Financial institutions

9.5.1. Financed GHG emissions calculation methodology

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). ESRS E1.AR 24f

However, 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 4). ESRS E1.AR 20a

9.5.2. 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, however, exempts financial institutions from providing this disclosure for their Scope 3 category 15 GHG emissions. ESRS E1.AR 13

Absolute financed emissions covering the same scope of 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 three to five years. ESRS E1.AR13

9.5.3. Specific exemption for managed investments subject to fiduciary duty

The revised ESRS introduce a specific exemption for financial institutions that manage investments subject to a fiduciary duty on behalf of their clients and under a

mandate without retaining the related risks and rewards of ownership (see section 4). As a result, the concerned managed investments are excluded from the scope of the double materiality assessment and reporting boundary, including the financed GHG emissions reporting under ESRS. ESRS 1.AR 17 and AR 37

How we see it

- **Managed investments exemption**. The new exemption has a limited scope and qualifying managed investments need to be identified carefully. Examples of client mandates covered by other EU regulations regarding sustainability matters[11] to be analysed include: Undertakings for Collective Investment in Transferable Securities (UCITS), Alternative Investment Fund (AIF) and Markets in Financial Instruments Directive (MiFID II) portfolio management. This exemption does not prohibit financial institutions from voluntarily reporting such emissions, when they are considered material information. Such exemption is not available in IFRS S2 and its application may, therefore, affect compliance with ISSB standards.
- **Financed GHG emissions calculation methodology:** 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, particularly where material emissions arise from business activities not explicitly addressed or required by the GHG Protocol and PCAF (i.e. certain insurance and facilitation activities).

  The Basis for Conclusions of the EFRAG Technical Advice notes that references 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 intensity targets:** This new exemption addresses the practical challenges faced by financial institutions to convert scope 3 category 15 intensity targets into absolute emissions values. However, financial institutions will still need to prepare for the additional disclosures to allow users to assess whether the intensity targets are associated with stable, increasing, or decreasing absolute emission trajectories.

[11] Regulation (EU) 2019/2088 (SFDR) and Delegated Regulations 2017/565 and (EU) 2017/593 (MIFID II)

10. Other environmental standards - ESRS E2 to E5

For the key revisions on the revised ESRS E2 to E5, refer to the executive summary.

10.1. Pollution (E2)

ESRS E2 concentrates the most substantive changes. Three items stand out:

Material emissions of pollutants (E2-4). Datapoints now refer to material emissions of pollutants from own operations, including due to environmental accidents. This contrasts with the addition of financial and operational control boundaries in ESRS Set 1. Material emissions are identified through "a managerial assessment that considers the entity's activities and sector of operation". References to the E-PRTR[12] and IEPR[13] are included as methodological guidance rather than mandatory references. ESRS E2.15 and AR 2

Microplastics (E2-4). Reporting is now limited to primary microplastics; secondary microplastics are no longer required. ESRS E2.16

Substances of concern (SoC) and of very high concern (SVHC) (E2-5). Reporting now depends on the type of actor:

Type of actor	Substances to report
Manufacturers, formulators and importers of substances operating in the chemical sector (*) ESRS E2.18 and AR 4	SOC, and separately, SVHC: total weights procured, manufactured, placed on the market, released into the environment
Users of substances outside the chemical sector ESRS E2.19 and AR 4	SVHC: total weight used, total weight released into environment
Manufacturers, importers or users of articles that contain SVHC ESRS E2.20	SVHC: names of substances above certain threshold in components or articles that are procured or placed on the market

(*) by reference to NACE code (e.g. NACE C20, C21, C20.3-C20.5 or G46.85). Not applicable if the entity's main activity is the manufacture of non-chemical products.

SVHC must be grouped by hazard class (CLP Regulation 1272/2008[14]). ESRS E2.AR 5

Phase-in. Quantitative information on SOC can be omitted during financial years 2027, 2028 and 2029 for wave-one undertakings (and the first three reporting periods for other undertakings). Users of substances can omit all SVHC datapoints in financial year 2027 for wave-one undertakings (and for their first reporting year for other undertakings). See section 7. ESRS 1.125d-e, 126 d-e, 127d-e

How we see it

- **Managerial assessment.** The "managerial assessment" for material emissions will involve judgment based on qualitative and quantitative factors. To facilitate such assessment and ensure consistency with other regulatory requirements, regulatory thresholds (where applicable) could still be retained as a primary reference point, while not mandated. This would also support comparability.
- **Greater reliance on sector scoping.** An undertaking whose main activity is outside the chemical sector is not subject to the broader SOC and SVHC reporting applicable only to chemical-sector actors. For diversified groups, determining the "main activity" may become a key scoping judgment, particularly where chemical and non-chemical activities coexist. In practice, entities may need to consider how this assessment aligns with the significant sectors disclosed under ESRS 2 or elsewhere in its sustainability or financial report.

[12] Regulation (EC) No 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register (E-PRTR).
[13] Industrial Emissions Portal Regulation (IEPR), Regulation (EU) 2024/1244 on reporting of environmental data from industrial installations.
[14] Regulation (EC) No 1272/2008 on classification, labelling and packaging of substances and mixtures

10.2. Water (E3)

E3 is significantly simplified with three targeted main changes:

Marine resources. "Marine resources" is removed from E3; the topic is now covered across the environmental standards depending on the perspective (e.g., pollution of the marine environment under E2, marine resources included among resource inflows under E5). Use of seawater is still in scope of E3. ESRS E3.7

Water stress. "Areas at water risk" and "area at high-water stress" are replaced by a single reference to "areas with water stress". This provides a broader measure of basin pressure that encompasses water quantity and availability as well as quality and accessibility. ESRS E3.AR 1

Mandatory metrics. Total water withdrawal and total water discharge become mandatory datapoints. ESRS E3.16c-d

How we see it

- **Water stress is not equivalent to the former ESRS Set 1 concept of water risk.** While water stress is a more commonly used reporting concept and provides a broader measure of basin presure, the former notion of "areas of water risk" explicitly captured wider regulatory and reputational issues relevant to the area. Entities may, therefore, need to consider whether water stress indicators cover all their material water-related risks.
- **Limited implementation impact related to the new metrics.** Total water withdrawal and total water discharge were already commonly collected as key inputs for the calculation of water consumption, limiting the expected additional data collection effort.

10.3. Biodiversity (E4)

Two structural changes affect E4:

Biodiversity transition plan. A new mandatory datapoint requires disclosure of a biodiversity transition plan if such a plan is in place and its key features have been made public. Biodiversity transition plans contain targets, key actions, financial planning, governance, and explanation of how strategy and business model will evolve. It may form part of a broader transition plan, e.g., on climate mitigation. ESRS E4.11 and AR 1, AR 2

No prescribed metrics. While reporting metrics on material impacts remain mandatory, no specific metric, standard or methodology is defined, giving preparers the ability to select relevant metrics, while complying with ESRS 2.GDR-M. Regarding biodiversity-sensitive area, entities must still disclose locations, related biodiversity-sensitive areas and impact-associated activities, but no longer the number of sites and areas (hectares) located in or near such areas. Biodiversity resilience disclosures have been deleted to avoid redundancy with ESRS 2 SBM-3. ESRS E4.19-20

Site-level considerations. See section 10.5

How we see it

- **Alignment between entity maturity and reporting.** The conditions to disclose biodiversity transition plans result in greater alignment between reporting expectations and the maturity of biodiversity strategies within entities. In practice, the disclosure is likely to be most relevant for those that have already developed a structured biodiversity transition plan. For others, the revised ESRS avoid creating implicit pressure to disclose plans that are still at an early stage of development or lack sufficient governance and operational underpinning.
- **Public availability of the key features of biodiversity transition plan.** The notion of "has made public" is defined broadly in the revised standard and includes information available before or at the time of the release of the

sustainability statement, through accessible public channels such as corporate websites or reports. Entities should, therefore, determine whether, and where the key features of the plan are disclosed and ensure consistency across channels. This may require greater coordination between sustainability, investor relations and corporate communications teams.

- **Greater flexibility, but with greater responsibility in metric selection.** The revised ESRS no longer prescribe specific biodiversity impact metrics, but entities are still required to report metrics for material impacts. In practice, ecosystem use metrics (e.g., land use and land-use change) and nature condition metrics (e.g., ecosystem extent, condition or species indicators) are relatively immature, with methodological challenges, and are inconsistently applied. Entities may prioritize metrics that are both decision-useful and operationally feasible, while strengthening their disclosures. They can usefully rely on frameworks such as TNFD (Taskforce on Nature-related Financial Disclosures) framework, or NPI (Nature Positive Initiative) for metrics related to ecosystems and species.

10.4. Circular economy (E5)

E5 refocuses reporting on strategically important items:

Resource inflows (E5-4) now focus on "key materials" – defined as those essential to operations considering internal and external factors. "*Critical raw materials*" and "*strategic raw materials*" contained in key materials must be specified separately, as well as technical and biological materials, if relevant. ESRS E5.13, AR 1 and AR 2

Overall, the datapoints are streamlined as follows:

1. Describe *key materials*	2. Specify *critical raw materials* and *strategic raw materials*	3. Distinguish *technical and biological materials*, where relevant	4. Measure resources inflows and related circularity
Managerial assessment considering:	Defined in the EU Critical Raw Materials Act	**Biological material:** derived from living organisms	Total weight of all key materials
Internal factors: volume, cost, criticality or strategic relevance,	**"Critical" raw materials:** high economic importance and subject to supply risk	**Technical material:** cannot be processed by biological cycle, accumulate as waste	Breakdown of each key material (weight or % of total)
External factors: environmental or social impacts e.g. stakeholder expectations, regulatory demands or reputational relevance	**"Strategic" raw materials:** subset of "critical", essential for green and digital technologies, defence, and space applications		Secondary resources used (weight or % of total)

Definitions and examples of resource inflows and outflows, key materials, critical and strategic raw materials and biological materials are provided. Key materials include silicon (materials), electrolytes (substances), micro-capacitors (components) and smartphones (products). Lithium is an example of a critical and strategic raw material contained in a battery which is a key material. ESRS E5 and Glossary

Resource outflows (E5-5) now target "key products" - those central to value creation or strategic objective, identified through managerial judgment based on internal criteria (e.g., contribution to revenue, profitability, innovation or operational continuity) and external considerations. Entities now need to report qualitative or quantitative information on durability, repairability of key products, and "designed recyclability rate" of key products and their packaging. ESRS E5.15

Waste. A new datapoint captures the proportion of waste for which the final destination is unknown (as a percentage of total waste generated). Incineration with energy recovery is considered an "other recovery operation" only when meeting specific conditions in the Waste Framework Directive. ESRS E5.16e and AR6

How we see it

- **"Key materials" and "key products" become the new reporting perimeter.** The simplification achieved by the revised ESRS largely depends on how undertakings identify these items. The "managerial assessment" is likely to involve judgment, particularly regarding the relative weighting of internal factors (e.g., volume, cost, strategic relevance, contribution to value creation) and external factors (e.g., environmental impacts, stakeholder expectations or regulatory attention). Entities will need to monitor consistency with the material circular economy IROs identified through the DMA.

10.5. By-site disclosures

Site-level disclosures are no longer covered by specific datapoints. Nature-related information – though often local – can be aggregated at a higher relevant level (location, area, basin, ecosystem, geography with shared characteristics) under the ESRS 1 aggregation principles and the new "geographies" definition, which confirms that individual site disclosure is not necessarily required. ESRS E1.52-55, AR 11, AR 33-34

For example, in E4, site-specific provisions are streamlined and consolidated under the revised metrics DR (E4-5), replacing "site" with "location" and adding guidance on locations "near biodiversity-sensitive areas". The "site" definition itself is broadened to include new examples (fishing grounds; subsurface infrastructure such as mining tunnels, cables and pipelines; value-chain nodes). ESRS E4.19, AR 8 and Glossary

Disaggregation would be needed when the severity of impacts depends on specific geographic characteristics, when significant differences exist across geographies or activities, or when aggregation would obscure material information and important interconnections between impacts, risks and their drivers. Conversely, aggregation may be appropriate where IROs share similar characteristics and can be presented together without reducing the decision-usefulness of the information for users. ESRS 1.AR 33-34

For biodiversity-related matters, information may be aggregated for groups of sites or areas affected by similar biodiversity-related IROs provided that material information is not obscured. ESRS E4.AR 8

How we see it

- The principles-based approach aims to avoid unnecessary granularity and supports interoperability with the TNFD framework (and potential future ISSB standards). The key challenge lies in determining when the local context, significant variations across activities or geographies or other relevant considerations support further diqaggregation, or, conversely, whether aggregation would better reflect shared characteristics without obscuring material information.

11. Social standards – ESRS S1 to S4

For the key revisions on revised ESRS S1 to S4, refer to the executive summary.

11.1. Adequate wage (S1-9)

To assess whether employees are paid an adequate wage, S1-9 (previously S1-10 under ESRS Set 1) requires undertakings to compare the lowest paid wage with a defined benchmark. ESRS S1.AR 20

Methodology changes. The current ESRS Set 1 multi-source hierarchy is removed. For EU countries, reference must comply with the EU Directive on adequate minimum wages. For non-EU countries, there are two adequate wage benchmark alternatives:

1. **Adequate minimum wage,** established by legislation or collective bargaining, which provides a decent standard of living taking into account the ILO principles on estimating a living wage as a minimum level (without prejudice to higher standards of adequacy of wage
2. **Any living wage estimate,** including estimates produced by ILO or 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

Transparency requirements. Mandatory disclosure of: (i) the benchmark(s) used and the countries for which a given benchmark is used; and (ii) if employees are not paid an adequate wage, the countries and the percentage of employees concerned. ESRS S1.29

How we see it

Living wage principle-based disclosure. The revised ESRS further reinforce the focus on living wage concepts rather than statutory minimum wages. Entities may, therefore, need to revisit the methodology, particularly where no adequate wage benchmark exists under local legislation. In such cases, undertakings may need to rely on external data sources aligned with ILO principles on estimating living wage – including benchmarks made available by specialised data providers. Implementation efforts are, therefore, likely to focus on benchmark selection, consistency across jurisdictions and documentation of the methodology applied.

11.2. Health and Safety (S1-13)

Methodology changes. The revised ESRS introduce changes to several key definitions modifying health and safety reporting, including recordable work-related accidents, recordable work-related ill health, fatalities and sites:

Definition	Key change
Recordable work-related accident	Recordable if it results in death or more than three days of absence from work. National definition may be used instead.
Recordable work-related ill health	Recordable if it results in death or absence from work.
Fatalities	Ill-health-related fatalities now reported for employees only. Fatalities are also excluded from the calculation of number of days lost.
Workers on sites	Reported fatalities from recordable work-related accidents still include workers working on the undertaking's sites but who are not part of its own workforce. Sites are now defined as physical locations where the undertaking or value chain actors operate and where dependencies and impacts are likely to occur (updated definition).

ESRS S1.37, AR 24-28 and Glossary

How we see it

- **Changes in reported metrics not reflective of changes in performance.** The revised definitions may affect the captured population and the calculation of metrics. Entities may, therefore, observe changes in reported metrics even where underlying health and safety performance remains unchanged. Particular attention should be paid to trends or year-on-year analysis. Additional explanations may be relevant for users to facilitate comparability during the transition to the revised requirements.
- **Work-related accident local definition.** The option to rely on national definitions may enable undertakings to leverage existing processes and data reported to national authorities. Clear disclosure of the definitions applied will be important to support users' understanding and comparability of the reported information.

11.3. Human rights incidents (S1-16 and equivalent DR in S2 to S4)

Revised reporting scope. The revised ESRS narrow the scope of reportable discrimination and other human rights related incidents through additional filters and a stronger link to severity-based materiality assessments in all four social standards.

A new definition of "human rights incidents" has been added focusing on incidents that relate to not respecting internationally recognized human rights as defined in CSRD Article 29b (2) (b) (iii). Subject to relevant privacy regulations, the number of incidents are to be reported when the following cumulative criteria are met:

Criterion	Requirement
1. Material topic	The incident relates to a material sub-topic.
2. Identified (timing)	The incident was identified during the reporting period.
3. Registered (scope)	Instances registered by the underking of: ▪ judicial and non-judicial proceedings, and ▪ other incidents, including those identified through internal processes.
4. Substantiated	The instance is evidenced by objective, factual and verifiable information.
5. Verified	A Court, the OECD or an administrative authority has made a formal finding that the instance occurred.
6. Severity filter	The materiality of information about incidents is primarily assessed based on the severity of the impacts on affected stakeholders.

ESRS S1.43, AR 36-38; ESRS S2.19, AR 6-7; ESRS S3.17, AR 7, AR 9; ESRS S4.16, AR 5-6; Glossary

Related fines and penalties. Clarification that reported fines, penalties, and compensation for damages are based on amounts recognized in the financial statements during the reporting period, no matter when the incident occurred. ESRS S1.AR 41

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 revised ESRS 2 (GDR-P). ESRS 2.43

How we see it

- **Cumulative layers of filters.** The more targeted approach to human rights incidents is expected to reduce the number of reportable incidents. Similar to health and safety metrics, some explanations may be helpful for users to

facilitate comparability and year-on-year analysis on transition to the revised ESRS.

- **Incidents related process.** Entities may need to reassess their processes (identification, registration, investigation and reporting) to support consistent application of the revised reporting criteria and appropriate documentation.

11.4. Other targeted changes

In addition to the more significant changes mentioned above, the revised ESRS introduce several targeted amendments affecting the scope, methodology and presentation of selected workforce disclosures:

Area	Changes
Country-reporting threshold	Country-level disclosures under S1-5 and S1-7 are now required for the 10 largest countries in terms of employee numbers, with at least 50 employees, replacing the previous 10% employees threshold. ESRS S1.20, 24-25
Consideration of local legislation	Expanded use of national legal definitions including for the identification of non-employees, and optionally, recordable work-related accidents and disability status. ESRS S1.8, AR 21, AR 25
Prescribed calculation of some metrics	Turnover (S1- 5) now limited to permanent employees. ESRS S1.20 Collective bargaining coverage (S1-7) and Training (S1-12) metrics based on employee headcount. ESRS S1.AR 14, AR 22-23
Flexibility in presentation format	Previously mandatory tables – such as those covering employee characteristics, collective bargaining and social dialogue - now optional. Narrative format allowed. ESRS S1.AR 9-10, AR 15
Deletions of specific datapoints	Examples include removal of disclosures notably within: ▪ Gender diversity in top management (S1-8): age distribution of employees ▪ Social protection (S1-10): type of employees not covered and change in major life events covered (retirement removed, parental leave replaced by maternity leave) ▪ Training and skills development metrics (S1-12): gender breakdown metrics ▪ Work-life balance metrics (S1-14): family-leave occurrences
S2, S3 and S4 standards	Significant reduction in qualitative disclosures with a shift towards a principles-based approach, which does not change the substance of the requirements.

How we see it

- **Preserved ESRS S1 key pillars.** While these amendments may require targeted adjustments to reporting methodologies and templates, several key workforce metrics remain largely unchanged, including the gender pay gap, and the annual total remuneration ratio. The voluntary disclosure of the adjusted gender pay gap by employee category or country has also been maintained.

12. Business conduct – ESRS G1

For the key revisions on revised ESRS G1, refer to the executive summary.

The structure of revised ESRS G1 is now harmonized with other topical standards, through a clear Policies-Actions-Targets-Metrics architecture.

12.1. Corruption and bribery (G1-4)

Revised ESRS definition. The revised ESRS G1 makes the generic ESRS definition of corruption and bribery mandatory, overriding differing national definitions to ensure comparability across undertakings. ESRS G1.AR 1

Extended scope of metrics on corruption and bribery. The requirement to disclose the number of convictions and the total amount of fines for violation of anti-corruption and anti-bribery laws is extended to cover **sanctions.** ESRS G1.12

The scope of each reportable item is also clarified: ESRS G1.AR 5-6

Item	Reportable scope
Convictions	Final criminal court decisions entered into the criminal records of the convicting jurisdictions
Sanctions	Final decisions of administrative or regulatory authorities
Fines	Mandatory monetary penalties imposed by a court, administrative or regulatory authority, paid to a public treasury and recognized in the financial statements during the reporting period

How we see it

- **Navigating legal definitions.** The addition of sanctions to the metric on convictions and fines reflects that most corruption and bribery cases are resolved through non-trial outcomes. While helpful clarifications have been introduced about 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 require the involvement of legal experts to determine the scope of reportable items.

12.2. Payment practices (G1-6)

Payment-practice metrics were simplified to address data-collection and comparability concerns.

- The average time to pay invoices datapoint was removed.
- The disclosure now focuses on **standard payment terms** (specifying SMEs only where they differ), the percentage of payments aligned with those terms, and legal proceedings currently outstanding for late payment. Standard payment terms are now defined and refer to prestablished conditions for several transactions involving different suppliers and not individually negotiated. ESRS G1.18
- Late payments to SMEs must be addressed through **entity-specific disclosures** where assessed as material. ESRS G1.AR 10

How we see it

- **SME protection, a key topic in the CSRD.** The revised ESRS do not define SMEs. The Accounting Directive (Directive 2013/34/EU) distinguishes between small- and medium-sized undertakings with the latter not exceeding at least two of the following: balance sheet total of EUR 25 M, net turnover of EUR 50 M or 250 employees. In practice, undertakings may need to establish

processes to identify SMEs within their supplier base. On materiality of late payments to SMEs, relevant considerations could include the volume and value of invoices and their significance for the affected SMEs. Transparency about the approach retained would be needed.

12.3. Other targeted changes

The remaining requirements are largely maintained but restructured around revised ESRS 2 general disclosures requirements (GDR), which now serve as the central reference point for business conduct policies, actions and targets (see section 6.1), with limited additional topic-specific requirements:

Area	Change
Policies (G1-1)	▪ Anti-corruption and anti-bribery policies (including functions or roles most at risk) ▪ Whistleblower protection policies
Actions (G1-2)	▪ **Relationship with suppliers:** consideration of suppliers' sustainability performance in selection process and subsequent engagement, training of procurement-team ESRS G1.2a ▪ **Anti-corruption and anti-bribery:** training to functions most at risk and actions taken to address breaches in related procedures. ESRS G1.2b
Targets (G1-3)	New DR pointing to ESRS 2 GDR-T with no specification.
Metrics (G1-4, G1-5, G1-6)	▪ Streamlined G1-5 (key datapoints retained) ▪ G1-4, G1-6: see above

13. Next steps

The adoption of the revised ESRS Delegated Act opens a scrutiny period of two months, which is renewable for a further two months during which EU co-legislators – the European Parliament and the Council of the EU – may object to the text. However, they cannot amend it.

In the absence of any objection, the text will be published in the Official Journal of the European Union (OJEU) and is expected to enter into force on 10 November 2026. As a Delegated Act, it will be directly applicable in the EU and will not require transposition by Member States to enter into force. The revised ESRS are mandatory for financial years starting on or after 1 January 2027, with transitional application arrangements for 2026 reporting (see section 1).

Separately, Member States must transpose the revised CSRD into their national legislation by 19 March 2027. This transposition does not affect the entry into force of the revised ESRS, however, it may affect the availability of certain CSRD simplification measures and exemptions at national level, including for FY2026 reporting[15].

While the revised ESRS are a key milestone, entities should continue to monitor further related regulatory developments, including the following main expected milestones:

Milestone	Deadline
Delegated Act on standards for voluntary use	Delegated Act adopted by the EC on 3 July 2026, scrutiny period of up to 4 months Available to any entity not subject to mandatory reporting
Delegated Act on digital tagging	Expected in the coming months
Delegated Act on limited assurance standard	Adoption expected by 1 July 2027
Exposure Drafts on ESRS for third-country undertakings (ESRS-40a)	EFRAG Consultation on ESRS-TC Exposure Drafts is expected by 23 July 2026 Adoption of the Delegated Act by the EC is expected by Summer 2027

How we see it

- **Navigating the ESRS.** Preparers are encouraged to use EFRAG's Knowledge Hub, an interactive online platform including all key materials related to ESRS and broader materials developed by EFRAG. The platform is expected to be updated with the revised ESRS once the delegated act is published in the OJEU.
- **Guidance on ESRS.** EFRAG is expected to launch an agenda consultation to determine priorities, including future implementation support activities (potential implementation guidance, Q&A mechanisms and other practical tools). This should provide entities with an opportunity to point out the areas where additional guidance would be most useful. The non-mandatory implementation guidance included in EFRAG's technical advice was not incorporated into the European Commission's Delegated Act, but it may still serve as useful reference material. Regarding sector-specific standards, the revised CSRD removes the Commission's empowerment to adopt such standards. Depending on demand from reporting undertakings, the Commission may still, however, provide sector-specific guidance.

[15] Refer to our publication CSRD simplified: key impacts of the Omnibus Directive

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- **Member State transposition of revised CSRD.** Entities are advised to monitor developments in relation to the transposition in jurisdictions relevant to their operations and reporting requirements and assess the potential impacts on FY2026 reporting and beyond. Local implementation timelines and choices, including the use of optional transitional exemptions for phased-out wave-one companies, may affect when and how obligations apply in each jurisdiction (see section 1).
- **Preparing for FY2026 reporting and beyond.** Entities are encouraged to define their FY2026 reporting strategy early, based on the most appropriate option for their circumstances and to assess how the revised ESRS affect existing reporting processes, including methodologies, key judgments, documentation, data collection, systems and governance. This may include assessing whether the use of reliefs and flexibilities - while accommodating their specific difficulties and circumstances - preserves the readability and credibility of reported information.
- **Entities that are no longer required to report following revisions to the CSRD** may still consider applying the revised ESRS on a voluntary basis. The revised standards provide a structured and robust framework for sustainability management, including the double materiality assessment, monitoring of ESG performance, and sound governance and processes. Applied voluntarily, the revised ESRS may also facilitate comparability with CSRD-reporting peers, and help entities meet information requests, for example, for due diligence or business purposes, or stakeholder demands.