

## EU Sustainability Developments

# Embracing change: preparing for the future of digital sustainability reporting in the EU

### What you need to know

- ▶ EFRAG published the ESRS Set 1 XBRL Taxonomy and a separate XBRL Taxonomy for Article 8 disclosure requirements on the 30 August 2024.
- ▶ The taxonomies are now in the process of adoption by ESMA, the European Commission, the European Council and the Parliament.
- ▶ It is not expected that companies will need to report sustainability information according to the ESRS Set 1 XBRL Taxonomy and the Article 8 Taxonomy before 2026.

### Highlights

In January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force, and companies that fall within its scope must report sustainability information according to European Sustainability Reporting Standards (ESRS). For some companies, the first reports are expected to be produced in 2025, based on 2024 data. In order to enable electronic reporting of sustainability information by companies listed on EU regulated markets in line with the European Single Electronic Format (ESEF), in July 2023 the European Union requested that the European Financial Reporting Advisory Group (EFRAG) develop a digital taxonomy for ESRS Set 1.

On 30 August 2024, the ESRS Set 1 XBRL Taxonomy and a separate XBRL Taxonomy for Article 8 disclosure requirements<sup>1</sup> (the Article 8 Taxonomy) were published by EFRAG<sup>2</sup>. The ESRS Set 1 XBRL Taxonomy provides a structured framework for digitally tagging sustainability information, with the aim of providing data that is easily accessible, comparable, and transparent, enabling stakeholders to efficiently analyze and utilize environmental, social and governance (ESG) information for decision-making.

<sup>1</sup> Article 8 is the regulation obligating large companies and financial market participants in the EU to disclose information on how, and to what extent, their activities are associated with environmentally sustainable economic activities, as defined by the EU Taxonomy.

<sup>2</sup> “EFRAG publishes the ESRS Set 1 XBRL Taxonomy,” [https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/2024-08-30\\_EFRAG\\_publishes\\_the\\_ESRS\\_Set\\_1\\_XBRL\\_Taxonomy\\_.pdf](https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/2024-08-30_EFRAG_publishes_the_ESRS_Set_1_XBRL_Taxonomy_.pdf), 30 August 2024, ©2024 EFRAG.

## Next steps

The European Securities and Market Authority (ESMA) will use the ESRS Set 1 XBRL Taxonomy and the Article 8 XBRL Taxonomy to draft the required update to the Regulatory Technical Standards (RTS), along with the corresponding technical formatting and validation rules for electronic sustainability reporting. After public consultation and cost-benefit analysis, the RTS will then be submitted to the European Commission (EC), for official adoption through a Delegated Act. Digital tagging of ESRS will become mandatory for companies when the EC adopts the ESRS Set 1 XBRL Taxonomy and the Article 8 XBRL Taxonomy as part of the ESEF RTS. Voluntary digital tagging will be allowed once the taxonomy is approved through the relevant EU legal process, as described below.

Following adoption by the EC, the RTS is subject to a three-month objection period from the European Parliament and the Council. If no objection is raised during those three months, the RTS will be adopted by the European Parliament and the Council, published in the Official Journal, and will enter into force. Once adopted, the ESRS Set 1 XBRL Taxonomy and the Article 8 XBRL Taxonomy will be integrated into the existing ESEF Taxonomy (that is used for reporting financial information and disclosures), resulting in a single Taxonomy package.

Given the adoption process described above and the need for companies to adjust their internal processes, it is not expected that sustainability information reporting according to the ESRS Set 1 XBRL Taxonomy and the Article 8 XBRL Taxonomy will be required before 2026. This applies to reporting using both the ESRS Set 1 XBRL Taxonomy and the Article 8 XBRL Taxonomy.

### How we see it

The publication of the ESRS Set 1 XBRL Taxonomy and the Article 8 XBRL Taxonomy is a step forward towards electronic sustainability reporting in the EU, which enables stakeholders to efficiently analyze and utilize ESG information for decision-making.

To mitigate future compliance challenges, companies should continue to monitor developments in this area, and should begin preparing for the two new taxonomy requirements as soon as possible. Early preparation will facilitate easier tagging when it becomes mandatory. For example, companies should start formatting required disclosures in tabular form where the taxonomy specifies. Alternatively, they may choose to separate disclosures that require tagging from those that don't.

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A global set of accounting and sustainability disclosure standards provides the global economy with one measure to assess and compare the financial position and performance of entities, and the sustainability-related factors affecting them. For entities applying or transitioning to International Financial Reporting Standards (IFRS) – which includes IFRS Accounting Standards and IFRS Sustainability Disclosure Standards (collectively, IFRS Standards) – authoritative and timely guidance is essential to navigating IFRS Standards that continue to develop and evolve. The EY Global Corporate Reporting Services Group has helped develop international resources – people and knowledge – to support the application and interpretation of IFRS accounting and sustainability disclosure standards. In doing so, the EY Global Corporate Reporting Services Group provides deep subject matter knowledge and broad sector experience to the market, including the latest insights from the global EY network.

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