No. 2023-05
Updated 14 January 2026

Technical Line

How the EU's Corporate Sustainability Reporting Directive affects non-EU-based multinationals

In this issue:

What you need to know

- Many entities headquartered outside the EU, including US multinationals, will still be required to make extensive sustainability disclosures under the EU's CSRD, despite the substantial reduction of the scale and scope of reporting requirements following legislative activities in the EU.
- These entities need to carefully evaluate whether they are in the scope of the CSRD and determine when they need to start applying it.
- Entities will also need to determine whether they are required to fulfill the requirements of the EU Taxonomy Regulation, which are complex.
- Affected entities should consider how they will gather the information required under the CSRD and whether they will need to set up new processes, systems and controls.
- The amendments to the CSRD are expected to be published in the Official Journal of the EU and entered into force in the first half of 2026. They will then be subject to EU Member State transposition.

Overview

The Corporate Sustainability Reporting Directive (CSRD),[1] a European Union (EU) legislative act that was finalized in January 2023, includes a mandate to report sustainability information under a reporting framework provided by the European Sustainability Reporting Standards (ESRS) initially developed by the European Financial Reporting Advisory Group (EFRAG) as technical advisor to the European Commission (EC). Entities in the EU or European Economic Area (EEA) that are subject to the CSRD are also required to comply with the EU Taxonomy Regulation (EU Taxonomy), a complex set of rules providing a classification system for determining whether an entity's economic activities come from, or relate to, sustainable activities.

The scope of the CSRD is far reaching and affects EU-based entities, as well as non-EU-based public and private entities with operations in the EU through subsidiaries or branches in the EU. In addition, the CSRD contains certain reporting requirements that only apply to non-EU entities. Determining whether an entity is in the scope of the CSRD may be complicated, particularly for entities headquartered outside the EU, so all entities need to carefully evaluate whether they are in the scope of the CSRD and, if so, how they will be affected.

The EC proposed an Omnibus Simplification Package (Omnibus or Omnibus Package) comprising several proposals to amend the CSRD and related reporting requirements to reduce the scope and scale of the requirements under the CSRD. The following aspects of the Omnibus Package were issued or decided in 2025.

Postponing sustainability reporting requirements

- A "stop-the-clock" directive was entered into force on 17 April 2025, postponing the effective dates of the sustainability reporting requirements by two years for entities that had not yet begun reporting. EU subsidiaries of many US entities that would have been required to report in 2026 covering 2025 data will now report in 2028 covering 2027 data.

Reducing the scale and scope of sustainability reporting requirements

- The Council of the EU and the European Parliament approved a "content" directive in December 2025 reducing the number of entities in scope of the CSRD and simplifying the existing sustainability reporting requirements for those entities that remain in scope. The final text of this directive is expected to be published in the official Journal of the European Union in the first half of 2026.

Simplifying the reporting requirements

- The EC significantly simplified the reporting requirements under the EU Taxonomy through a delegated act issued on 4 July 2025 by implementing a materiality threshold exempting entities from assessing activities that generate less than 10% of the cumulative value of the entity's revenue, capital expenditures or operating expenses, and reducing the data points to be reported by entities. The delegated act was published on 8 January 2026 and will come into effect on 28 January 2026.
- EFRAG submitted its technical advice of the draft revised ESRS[2] to the EC on 3 December 2025. The technical advice reduces the total number of mandatory data points and includes clearer guidance, with an emphasis on fair presentation, and includes substantial relief and proportionality mechanisms. The EC will review EFRAG's technical advice and further amend the standards before adopting the revised standards through a delegated act by mid-2026. For more information on EFRAG's technical advice, see our related EU Sustainability Developments publication, ***EFRAG publishes technical advice on simplified European Sustainability Reporting Standards (ESRS)***.

This publication refers to these directives and delegated acts collectively as the "amended CSRD" or "the amendments" and has been updated to reflect their effects.

Any EU directive is binding on EU Member States, although they have some authority to choose the form and methods to achieve the required result as they incorporate the directive into their local laws. Individual EU Member States are permitted to broaden the scope and reporting requirements (often referred to as gold plating).

The CSRD also contains options individual EU Member States can apply (e.g., allowing an independent assurance provider other than the entity's statutory auditor to provide assurance). Companies should monitor the local laws of the relevant EU jurisdictions to determine how they will be affected.

EU Member States had until 31 December 2025 to transpose the stop-the-clock directive into national law, which many countries that transposed the CSRD have already done, and have 12 months after the entry into force of the content directive to transpose it. Countries that have not yet transposed the CSRD cannot transpose the stop-the-clock or content directives. However, many of those countries have said they intend to transpose both the stop-the clock and the content directives in their initial transposition of the CSRD.

Public and private non-EU-based entities (e.g., entities based in the US) with significant operations in the EU need to evaluate the scope of the CSRD requirements, and specifically these amendments, in detail to determine how they will be affected.

Scope

Entities in the EU

The amended CSRD applies to non-EU entities listed on EU-regulated markets and entities in the EU (e.g., EU subsidiaries of non-EU entities) that have more than (1) an average of 1,000 employees during the year and (2) EUR450 million in net turnover (i.e., revenue). This threshold applies to worldwide net turnover of the legal entity under evaluation, not just amounts earned in the EU. Financial holding companies are exempt from the scope of the amended CSRD, as further described below.

These criteria need to be applied on both a legal entity basis (i.e., an individual EU subsidiary basis) and a consolidated basis for the EU entity, including any non-EU subsidiaries of the EU entity (i.e., the EU entity needs to evaluate whether it, together with its EU and non-EU subsidiaries, meets the thresholds above on a consolidated basis), regardless of whether the EU entity has financial reporting requirements at that level.

Financial holding company exemption

EU parent entities and non-EU ultimate parent entities that are financial holding companies are exempt from reporting under the amended CSRD. However, this does not exempt subsidiaries from needing to report. An entity is considered a financial holding company for purposes of this reporting exemption if it is not directly or indirectly involved in the management of its subsidiaries without prejudice to their rights as shareholders, and the subsidiaries are diverse and operate independent of one another.

How we see it

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

M&A reporting relief

The amendments include a reporting relief related to mergers, acquisitions and dispositions occurring during a fiscal year. A parent entity subject to consolidated sustainability reporting requirements is not required to include sustainability information in the consolidated sustainability report for a subsidiary that is disposed of during the fiscal year.

Additionally, a parent entity subject to consolidated sustainability reporting requirements can postpone including sustainability information in the consolidated sustainability report for newly merged or acquired entities until the reporting year following the merger or acquisition.

Value chain reporting restrictions

EU subsidiaries of non-EU entities that are not in the scope of the amended CSRD may be asked for information from in-scope entities in their value chain because the amended CSRD requires entities to report information about their upstream and downstream value chain. However, the amendments include a "value chain cap" that limits the information that can be requested by reporting entities of businesses downstream in their value chain that have fewer than 1,000 employees on average during the fiscal year. In that case, the information requested is limited to what will be included in a new set of standards not yet developed that would be based on the voluntary small and medium-size entity (SME) standards (VSME).[3]

Reporting entities are permitted to rely on self-declarations provided by businesses within their value chain to determine if they meet or exceed the value chain cap. A reporting entity cannot depend on that claim if it knows, or can reasonably be expected to know, that a self-declared size is incorrect.

Reporting options

Once a non-EU entity determines that its subsidiary or subsidiaries are in the scope of the amended CSRD, it needs to evaluate which entity or entities will issue the reports and which entities are to be included in such report(s). That is because an EU subsidiary can be exempt from issuing a standalone report if a parent entity includes the subsidiary in its consolidated report that fully complies with the ESRS (the subsidiary exemption).

Standalone reporting for EU subsidiaries

The amended CSRD has several reporting options for in-scope EU subsidiaries. For example, each in-scope EU entity can issue its own report that fully complies with the ESRS.

Consolidated reporting for EU subsidiaries with intermediate EU parents

An intermediate EU parent needs to issue a consolidated report that includes its EU and non-EU subsidiaries. An EU subsidiary of an EU intermediate parent is exempt from issuing its own report if the EU parent entity includes the subsidiary in its consolidated report that fully complies with the ESRS. That is, even though an EU subsidiary meets the scoping criteria on its own, it is not required to issue a standalone report when the subsidiary is included in a consolidated report of an EU parent company that fully complies with the ESRS.

Consolidated reporting for EU subsidiaries with non-EU parents

Similarly, an EU-based subsidiary in the scope of the CSRD that does not have an EU parent is not required to issue its own report if it is included in the non-EU parent's sustainability report that fully complies with either the ESRS or standards the EC deems equivalent to those of the EU. While the EC has not yet determined the equivalence criteria and what standards are equivalent, the amended CSRD requires that any equivalent standards cover environmental, social and governance (ESG) topics (i.e., not just climate topics) and require the use of the double materiality concepts discussed below.

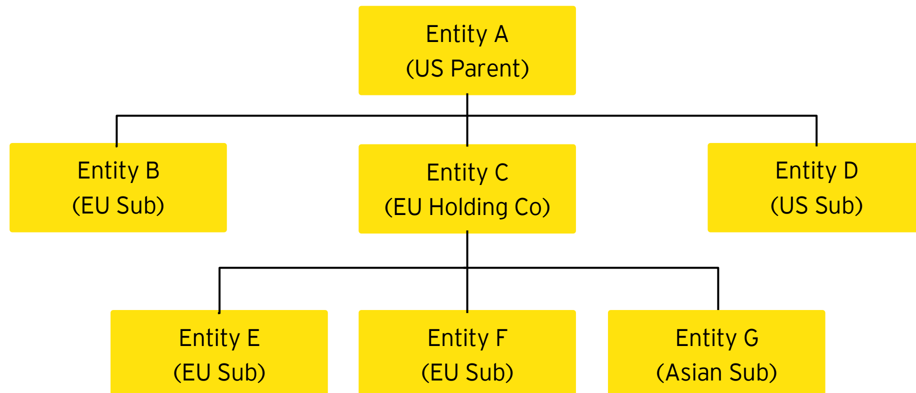
Artificial consolidation for EU subsidiaries with non-EU parents

As a transitional provision until 2030, a non-EU parent can select for purposes of its CSRD report an EU subsidiary to consolidate all of the non-EU parent's EU subsidiaries in the scope of the amended CSRD (including those subsidiaries' EU and non-EU subsidiaries). The selected entity would include EU subsidiaries that are not consolidated for financial reporting purposes. That is, the entities consolidated by the selected EU subsidiary for the CSRD report would not be the same as those consolidated by it for financial reporting purposes. However, the EU subsidiary selected must be one of the EU subsidiaries that generated the greatest turnover in the EU during at least one of the preceding five financial years, on a consolidated basis where applicable.

The following example illustrates how these different reporting options may apply to a simplified entity structure.

Illustration 1 – Reporting options for a simplified entity structure

Facts: Entity A is a parent company headquartered in the US that has the following structure:



- Entity B is in scope of the CSRD (i.e., has more than an average of 1,000 employees and more than EUR450 million in net turnover).
- Entity C is not a financial holding company and does not have 1,000 employees at the holding company level but is in scope of the amended CSRD on a consolidated basis.
- Entity E and Entity F are in scope of the amended CSRD.
- No additional subsidiaries exist besides those presented.
- Entity C is one of the EU subsidiaries that generated the greatest turnover in the EU in at least one of the preceding five financial years.

Analysis: The EU-based entities in the consolidated group that are in the scope of the CSRD can fulfill their reporting obligations in several different ways. Each of the following scenarios indicate how the group could comply with its reporting obligations.

- **Standalone reporting:** Under this reporting option, Entity B, Entity E, Entity F and Entity C (including all of Entity C's subsidiaries) could submit separate sustainability reports to meet the requirements.
- **Consolidated reporting within the EU:** Under this reporting option, Entity B and Entity C (on a consolidated basis, which for Entity C would include Entity E, Entity F and Entity G) would need to submit separate sustainability reports. Entity E and Entity F do not have to report separately because they are included in the consolidated sustainability report of their parent, Entity C.
- **Consolidated reporting at the non-EU parent level:** Entity A (inclusive of its subsidiaries) can submit a sustainability report that fully complies with the ESRS. Under this reporting option, Entity B, Entity C (on a consolidated basis), Entity E and Entity F do not have to report separately because they are included in the consolidated sustainability report of Entity A. However, US-based subsidiary Entity D, which would not otherwise have to report, needs to be included in the consolidated sustainability report of Entity A.

- **Artificial consolidation:** Through January 2030, Entity C (including all of its subsidiaries) can submit a sustainability report that includes Entity B. Entity B is included, even though it is not consolidated by Entity C for financial reporting purposes. After 2030, another reporting option will need to be selected.

How we see it

Determining the level of reporting for a non-EU entity that has entities in the scope of the CSRD can be complex. A non-EU entity may want to consider:

- The extent of its existing data gathering systems, processes and controls (both within the EU and globally)
- The amount of information it wants to provide or is comfortable providing publicly to comply with and, therefore, be subject to EU regulations (e.g., in some circumstances an entity may wish to limit reported information to only EU subsidiaries)
- The requirement to disclose some information at the consolidated entity level (i.e., if an entity reports at the consolidated non-EU entity level to fulfill the reporting requirement of EU subsidiaries, it will not have to separately report at the consolidated level, as discussed below)
- Whether the artificial consolidation approach would provide sufficient relief, since entities would report using artificial consolidation in 2028, only to be required to potentially report some information at the consolidated level in 2029 and select another reporting option after 2030
- The reporting option selected for CSRD compliance is not required to be aligned with the reporting option selected for EU Taxonomy compliance (e.g., a company may report under the CSRD on a consolidated basis while still fulfilling its EU Taxonomy obligations at the level of the relevant in-scope subsidiary)

Additional non-EU entity consolidated reporting

Separately, a non-EU company that generates EUR450 million in net turnover generated in the EU in each of the last two consecutive fiscal years and has either an EU subsidiary or an EU branch that generated more than EUR200 million in net turnover in the preceding fiscal year is required to report starting in 2029 on 2028 data at the consolidated level of the ultimate parent.

A non-EU entity in the scope of the CSRD can report at the consolidated level by applying any of the following standards:

- Separate EU sustainability reporting standards for non-EU entities that the EC will adopt
- The adopted revised ESRS
- Standards that are deemed equivalent to those of the EU, which have not yet been determined by the EC

While separate EU sustainability reporting standards for non-EU companies haven't yet been developed, they are not expected to be as comprehensive as the revised ESRS.

How we see it

The CSRD does not specify how an entity should calculate whether it has EUR450 million in net turnover generated in the EU. Some entities have questioned whether the amount should include revenue generated by non-EU entities from customers in the EU. Other entities have questioned whether the amount should include revenue generated by EU subsidiaries from customers outside the EU.

Based on our current understanding, we believe an entity should calculate revenue in the EU based on whether the customer is in the EU, regardless of the location of the entity that generated that revenue.

Effective dates

The amended CSRD is effective for the following periods, with reporting in the following year, based on an entity's size:

- Fiscal year 2024 for entities that were subject to the Non-Financial Reporting Directive (NFRD) (i.e., large entities that are public-interest companies with more than an average of 500 employees during the year) and other listed entities, such as non-EU entities, that have equity or certain debt securities listed on an EU-regulated market that meet the NFRD thresholds (EU Member States can exempt listed companies for fiscal year 2025 and 2026 if they do not meet the new 1,000 employees or EUR450 million in net turnover thresholds) (Wave 1)
- Fiscal year 2027 for EU entities that are not subject to reporting in fiscal year 2024 and exceed the threshold of 1,000 employees and EUR450 million in net turnover (Wave 2)
- Fiscal year 2028 for non-EU entities that are subject to the CSRD (i.e., a non-EU parent with an EU subsidiary or branch that generated more than EUR200 million in net turnover in the preceding fiscal year and generated more than EUR450 million in net turnover in the EU in each of the preceding two fiscal years)

Disclosures are required for comparative periods, but an entity can defer the presentation of comparative information by one year (i.e., not provide the comparative information in the year of adoption). To ease transition to reporting under the CSRD, the ESRS include several reliefs, including proportionality mechanisms, to support application of the standards.

Required disclosure location

The CSRD and ESRS require presentation of the required sustainability information in the management report for an EU entity. However, if an EU subsidiary in the scope of the CSRD fulfills its reporting requirement by being included in a sustainability report of a non-EU parent, the EU subsidiary may include the required disclosures in a consolidated sustainability report (rather than a consolidated management report) of the non-EU parent (e.g., an entity registered with the Securities and Exchange Commission would not be required to include that information in Form 10-K), with a link to that report in the management report of the EU subsidiary.

The CSRD also requires an entity to mark up its sustainability report using an electronic reporting format (European Single Electronic Format — ESEF) at a future date to allow interested parties to access the reports in the European Single Access Point, which is currently under development. However, the amendments to the CSRD clarify that entities are not required to mark up their reports in this manner until a subsequent delegated act is adopted.

ESRS disclosure requirements

The ESRS establish the disclosure requirements under the CSRD, which need to be issued through a delegated act by the EC. The first set of ESRS[4] were issued through a delegated act on 31 July 2023. As part of the Omnibus Package, the EC asked EFRAG for technical advice on the simplification of the ESRS, which EFRAG submitted to the EC on 3 December 2025. The EC will review the proposed revised ESRS and develop a delegated act, which the EC said it intends to adopt by mid-2026. Amendments to the ESRS would be effective in 2027, with an option to early adopt in 2026 (for those entities that are already applying the ESRS). The technical advice issued by EFRAG to the EC includes the following amendments:

- Reduction of the total mandatory data points, elimination of all voluntary data points and prioritization of quantitative data points over narrative text
- Simplification of the Double Materiality Assessment (DMA), including clearer guidance
- Emphasis on fair presentation and materiality of information
- Enhanced interoperability with International Sustainability Standards Board (ISSB) standards
- Substantial reliefs and proportionality mechanisms
- Simplification of the structure and presentation of the standards

How we see it

Despite significant reductions in mandatory data points, the reduction in the reporting burden is not expected to be proportionate because many of the removed data points were qualitative.

Both the first set of ESRS and the revised ESRS include 12 standards that cover a broad spectrum of ESG topics. These standards include both cross-cutting and topical standards, which are both required.

Cross-cutting standards		
ESRS 1 General requirements		
ESRS 2 General disclosures		
Topical sector-agnostic standards		
Environment	**Social**	**Governance**
ESRS E1 Climate change	ESRS S1 Own workers	ESRS G1 Business conduct
ESRS E2 Pollution	ESRS S2 Workers in the value chain	
ESRS E3 Water	ESRS S3 Affected communities	
ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end-users	
ESRS E5 Resource use and circular economy		

ESRS 1 includes the mandatory concepts and principles that need to be applied when preparing sustainability reports under the CSRD. An entity should disclose all material information about its sustainability-related impacts, risks and opportunities in accordance with the applicable standards. ESRS 1 also includes the concept of double materiality discussed below.

ESRS 2 includes the disclosure requirements of sustainability reporting that are cross-cutting, including general characteristics of the entity, an overview of the entity's business and disclosures on estimates, estimation uncertainty, changes in preparation and presentation, and prior period errors. Additionally, ESRS 2 also requires disclosures about strategy, governance and the materiality assessment of sustainability impacts, risks and opportunities.

The topical standards include sector-agnostic disclosure requirements for ESG matters aimed at helping users of an entity's sustainability report understand the entity's impact on these matters, the entity's material risks and opportunities related to these matters, and the impact of these matters on the entity's ability to create value. The topical standards include disclosure requirements that cover policies, targets, action plans and resources, as well as performance measurement in relation to the ESG matters.

Materiality

The ESRS use the concept of "double materiality," which means a disclosure is material if it is material from what is called an "impact" perspective, a financial perspective or a combination of both. Sustainability-related information is material from an impact perspective if it pertains to the entity's material actual or potential, positive or negative impacts on people or the environment. Sustainability-related information is material from a financial perspective if it triggers or may trigger material financial effects on the entity, including its cash flows, development, performance, position and cost of capital or access to financing.

This definition considers both affected stakeholders (e.g., employees, customers, vendors, the community) and other users of the sustainability reporting information (e.g., investors, creditors). However, certain data points in the ESRS are required by other EU laws.

The double materiality assessment is made at the reporting level.

How we see it

The concept of double materiality in the ESRS is broader than the definition of materiality used by the ISSB and will require management to apply additional judgment to determine which topics should be disclosed from an impact perspective.

Taxonomy requirements

While the EC significantly simplified the reporting requirements under the EU Taxonomy, the rules are still complex. Entities that are subject to the CSRD (i.e., entities that have more than EUR450 million in net turnover and more than an average of 1,000 employees, excluding non-EU entities that are required to report at the consolidated level in fiscal year 2028) are also required to comply with the EU Taxonomy.

The EU Taxonomy establishes a common language and clearly defines what constitutes "sustainable" economic activities that potentially contribute to one of six environmental objectives: climate change mitigation, climate change adaptation, use and protection of water and marine resources, transition to a circular economy, pollution prevention, and control, protection and restoration of biodiversity. The EU Taxonomy is a way of categorizing the economic activities of an entity as sustainable or not sustainable by asking two questions in sequence:

- Are the types of products and services an entity provides capable of contributing to specific sustainability objectives?

- Does the company provide those products and services in a way that is actually sustainable?

An entity must determine which economic activities (e.g., electricity generation from wind power) meet the EU Taxonomy's criteria for the entity's industry and then analyze those activities for alignment with a set of screening criteria used to assess harms and safeguards.

The EC significantly simplified the reporting requirements under the EU Taxonomy through a delegated act issued on 4 July 2025 by implementing a 10% materiality threshold and reducing the data points to be reported. However, the EU Taxonomy rules are still complex. The rules are intended to result in key performance indicators regarding the percentage of an entity's revenue, operating expenses and capital expenditures that comes from, or is related to, sustainable activities judged against the EU's largely science-based criteria that can be compared with those of its peers.

Refer to our related publication, ***Omnibus and EU Taxonomy, Key implications of the new Delegated Regulation for reporting undertakings***, for more information on the EU Taxonomy and the simplifications introduced by the delegated act.

Assurance requirements

The CSRD requires the financial statement auditor or, if an EU Member State chooses when incorporating the CSRD into its local law, another professional services firm or independent assurance service provider accredited by the EU Member State, to provide limited assurance over the following in the initial year of reporting:

- Compliance with the CSRD, including the ESRS
- The process carried out by the company to identify the information reported in accordance with the ESRS
- Compliance with the reporting requirements of Article 8 of the EU Taxonomy Regulation discussed above

Entities will be required to obtain limited assurance over their compliance with the requirement to mark up the sustainability report using an electronic reporting format. This reporting and assurance requirement is not effective until the EC adopts a delegated act that establishes the rules for marking up the report.

Auditors and other assurance service providers, if applicable, will be required to apply assurance standards for sustainability reporting that will be issued by the EC through a delegated act before 1 July 2027.

Next steps

- Non-EU entities should consider what entities in their consolidated group, if any, are subject to the requirements of the CSRD. Entities should then consider what level they will report at (e.g., the highest consolidated level in the EU, a global consolidated level).
- Entities should monitor relevant EU jurisdictions to determine how they incorporate the CSRD into local law, which could impact several aspects of compliance, including the scoping analysis and who may perform third-party assurance.
- Entities should consider the changes made in the revised ESRS, including the reliefs and proportionality mechanisms introduced, and evaluate how these changes could impact how the ESRS are applied. Entities should also monitor any changes made by the EC when it issues the delegated act that includes the revised ESRS.

- Entities should evaluate their existing resource levels to determine whether they currently have the appropriate level and amount of expertise and experience necessary to evaluate the scoping and reporting requirements of the CSRD and ESRS.
- Entities should also consider their existing systems, processes and controls over gathering the information required under the CSRD and ESRS and determine whether they will need to implement new or enhanced processes, systems and controls.

Endnote:

[1] Refer to **Corporate sustainability reporting — Finance — European Commission** for additional information on the EU's corporate sustainability reporting policy making and **Directive — 2022/2464 — EN — CSRD Directive — EUR-Lex** for a complete text of the CSRD.

[2] EFRAG's technical advice on the amended ESRS is available online at **Amended ESRS | EFRAG**.

[3] EFRAG was tasked by the EC to develop a voluntary sustainability reporting standard for non-listed micro, small and medium enterprises that are not in scope of the CSRD. The EC adopted a recommendation on the VSME standard on 30 July 2025 but it has yet to be implemented through a delegated act. Refer to **Voluntary reporting standard for SMEs (VSME), Concluded | EFRAG** for more information.

[4] Refer to the first set of ESRS available online at **European sustainability reporting standards — first set (europa.eu)**.

SCORE No. 21047-231US
(Updated 14 January 2026)

ey.com/en_us/technical/accountinglink