iGAAP in Focus

European sustainability reporting

EFRAG submits draft European Sustainability Reporting Standards to the European Commission

Contents

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This *iGAAP in Focus* sets out the draft European Sustainability Reporting Standards (ESRSs) that have been submitted as technical advice to the European Commission (EC) by EFRAG on 3 December 2025.

- EFRAG has recommended revisions to the ESRSs that were initially issued in 2023 to the European Commission (EC)
- While EFRAG decided to retain the fundamental architecture of the draft ESRSs, they have been simplified with the intention to improve the readability and conciseness of the resulting sustainability statements
- The recommended simplifications include:
  - emphasis on fair presentation and decision-usefulness of information
  - simplified requirements for the double materiality assessment
  - removal of the preference for direct data in the value chain and introduction of reliefs, proportionality mechanisms and phasing-in provisions
  - more principles-based requirements for narrative disclosure, particularly for policies, actions and targets, and more flexibility on how to present the information, with a greater focus on how sustainability matters are managed
  - 61% nominal reduction of datapoints that are required to be considered, and deletion of all voluntary disclosure requirements
  - interoperability with the standards of the International Sustainability Standards Board (ISSB Standards) further considered, including in relation to fair presentation and anticipated financial effects
- As a next step, the EC will consider EFRAG's technical advice but may adopt revised ESRSs that differ from the technical advice.

Background

In February 2025, the European Commission (EC) proposed several pieces of legislation ('omnibus proposals') that aim to reduce significantly the sustainability and due diligence reporting burden for entities. A Deloitte *iGAAP in Focus* provides more detail on the omnibus proposals.

The omnibus proposals included a commitment to revise the ESRSs that were issued through a delegated act published in the EU Official Journal in December 2023 ('ESRS Set 1'). In March 2025, the EC asked EFRAG to provide technical advice on the simplification of the ESRSs. In July 2025, EFRAG published exposure drafts setting out proposed revisions to the ESRSs ('the July 2025 EDs'). The comment period ended in September 2025.

On 3 December 2025, EFRAG submitted its final technical advice to the EC (referred to here as 'draft ESRSs'), containing the following documents, which are available here on the EFRAG website:

- EFRAG's letter to the EC
- 12 draft simplified ESRSs
- Annex II—Acronyms and Glossary of Terms
- markup versions of the draft simplified ESRSs and Annex II
- factsheets.

EFRAG intends to deliver the basis for conclusions and the cost-benefit analysis, which still need to be finalised and reviewed, before the end of December 2025.

Observation

The draft ESRSs include EFRAG's technical advice to revise and simplify the ESRSs. The draft ESRSs do not include guidance on which entities are required to report under ESRSs and from which reporting period. These matters and other considerations, such as due diligence requirements and disclosures emanating from other EU legislation, are part of the omnibus proposals and are yet to be finalised under the EU legislative process. Until the new requirements are effective, entities that are in 'wave one' (i.e. required to report under the Corporate Sustainability Reporting Directive (CSRD) from periods commencing 1 January 2024) are still required to apply the ESRS Set 1 as adopted by the EC. To provide relief to these entities, the EC adopted a delegated act in July 2025 ('Quick Fix' delegated act) that maintains and in some cases extends transitional reliefs available in 2024 to 2025 and 2026. The delegated act applies for financial years beginning on or after 1 January 2025.

More detail is available here on IAS Plus.

Architecture of the draft ESRSs

The draft ESRSs continue to use two categories of standards that are intended to complement and interact with each other:

- cross-cutting standards, which cover the provisions applying to:
  - general requirements that entities should comply with when preparing and presenting sustainability-related information under the EU Accounting Directive as amended by the CSRD (draft ESRS 1)
  - general disclosures that apply to all entities regardless of their sector of activity (i.e. sector agnostic) and apply across sustainability topics (draft ESRS 2)
- topical standards, which cover a specific sustainability topic from a sector-agnostic perspective.

Sector-specific standards are not included in the architecture, following the EC stating in the omnibus proposals that it would no longer plan to adopt them.

The full set of draft ESRSs is structured as follows:

Cross-cutting	**ESRS 1** General Requirements	**ESRS 2** General Disclosures			
Environment	**ESRS E1** Climate Change	**ESRS E2** Pollution	**ESRS E3** Water	**ESRS E4** Biodiversity and Ecosystems	**ESRS E5** Resource Use and Circular Economy
Social	**ESRS S1** Own Workforce	**ESRS S2** Workers in the Value Chain	**ESRS S3** Affected Communities	**ESRS S4** Consumers and End-users	
Governance	**ESRS G1** Business Conduct				

An overview of acronyms and a glossary of terms has been published alongside the draft ESRSs.

Observation

The CSRD sets out the sustainability information (prepared in accordance with the ESRSs) that entities are required to include in a dedicated section of the management report (the draft ESRSs use the term 'sustainability statement' to refer to this set of information). Entities need to provide qualitative, quantitative, forward-looking and retrospective information, including on their value chain, and covering short-, medium- and long-term time horizons. The information provided is subject to application of the double materiality principle, that requires disclosure of information necessary to understand an entity's impacts on sustainability matters and how sustainability matters affect its development, performance and position.

Draft ESRS 1 sets out phasing-in provisions for 'wave one' entities, including for disclosure requirements or datapoints of disclosure requirements across various draft ESRSs that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement (please see below under **Draft ESRS 1—Disclosure requirements that are phased in**).

Key changes since ESRS Set 1

The following are key differences between the first set of ESRSs that have been adopted in 2023 and are currently applied by 'wave one' entities, and the draft ESRSs that have been revised by EFRAG and submitted to the EC as technical advice:

- There is more emphasis on materiality of information as an overarching principle
- The double materiality assessment requirements have been simplified, clearly permitting entities to adopt a 'top down' approach
- The objective of ESRSs explicitly includes the fair presentation principle
- The mandatory ("shall") requirements have been reconsidered with the intent to simplify them. They are presented in the main body of the standard
- Application requirements have been reduced and simplified and are presented as boxed content alongside the related section or disclosure requirement
- Optional ("may") disclosure requirements have been eliminated from the draft ESRSs. Some of the optional disclosure requirements will be moved to separate "Non-Mandatory Illustrative Guidance" (NMIG), which are not included in the drafts sent to the EC but will be further developed by EFRAG
- The minimum disclosure requirements set out in ESRS Set 1 on policies, actions and targets have been repositioned as general disclosure requirements with the intent to support the focus on materiality of information
- The topical standards have been streamlined. Many of the additional disclosure requirements relating to the reporting areas of governance, strategy, and impact, risk and opportunity management have been removed, or are addressed under general disclosure requirements
- More flexibility on presentation of the information has been introduced, including the option for an executive summary
- Further reliefs have been introduced, such as in relation to 'undue cost or effort'. Transitional reliefs reflect the Quick Fix delegated act
- EFRAG has identified opportunities to enhance interoperability with the ISSB Standards References to the ISSB Standards (including the SASB Standards) and the Global Reporting Initiative (GRI) sector standards are included as sources of guidance for identifying entity-specific information.

Draft ESRS 1 *General Requirements*

Objective

The draft ESRSs specify the sustainability information that entities are required to disclose in accordance with the EU Accounting Directive, as amended by the CSRD. The draft ESRSs require the entity to disclose information about its material impacts on people and the environment and about its material sustainability-related risks and opportunities (collectively 'impacts, risks and/or opportunities'). Reporting under these two perspectives constitutes the double materiality principle.

The objective of a sustainability statement prepared in accordance with the draft ESRSs is to present fairly all the entity's sustainability-related material impacts, risks and opportunities and how the entity manages them. An ESRS sustainability statement covers governance; strategy (including financial effects); impact, risk and opportunities management through policies and actions; and metrics and targets.

The draft ESRSs require an entity to disclose information that is useful to the users of general-purpose sustainability statements, who are:

- primary users of general-purpose financial reports such as existing and potential investors, lenders and other creditors, including asset managers, credit institutions and insurance entities
- other users of general-purpose sustainability statements such as the entity's business partners, trade unions and social partners, civil society and non-governmental organisations.

Draft ESRS 1 explains drafting conventions and sets out general requirements for identifying the entity's material impacts, risks and opportunities, and for preparing and presenting information to be reported. It also sets out general requirements for the basis of preparation of the sustainability statement.

Key changes since the July 2025 EDs

EFRAG has removed governments, analysts and academics from the list of 'other users of general-purpose sustainability statements'.

Impacts, risks and opportunities

In the draft ESRSs, 'impacts' refers to actual and potential, positive and negative impacts on people and the environment. 'Risks' and 'opportunities' refer to the entity's sustainability-related risks and opportunities that affect (or could reasonably be expected to affect) the entity's financial performance, financial position, cash flows, access to finance or cost of capital over the short, medium or long term. Collectively, these are referred to as 'impacts, risks and opportunities'.

Stakeholders

Stakeholders are defined as those who can affect or can be affected by an entity. There are two main groups of stakeholders:

- affected stakeholders: individuals or groups whose interests are affected or could be affected by the entity's activities and its direct and indirect business relationships in its upstream and downstream value chain (civil society, non-governmental organisations and trade unions as users can be proxies for affected stakeholders)
- users of the sustainability statements: primary users of general-purpose financial reports, such as existing and potential investors, lenders and other creditors, including asset managers, credit institutions and insurance entities, and other users of the sustainability statements, including the entity's business partners, trade unions and social partners, civil society and non-governmental organisations.

Structure of disclosure requirements

Draft ESRS 1 sets out the overall structure of the draft ESRSs.

Draft ESRS 2 sets out disclosure requirements on the information that an entity is required to report at a general level across all topics to which its material impacts, risks and opportunities relate, covering the reporting areas of:

- governance
- strategy (including financial effects)
- impacts, risks and opportunities management through policies and actions
- metrics and targets.

The draft topical standards address topics and sub-topics complementing the requirements in draft ESRS 2 and reflect the same reporting areas as draft ESRS 2.

In addition, an entity is required to provide entity-specific disclosures (taking into account the fair presentation provisions, see below) if it concludes that a topic associated with one or more material impacts, risks or opportunities is not covered or not covered with sufficient granularity, by a draft ESRS. The IFRS Foundation's industry-based content or the GRI sector standards are referenced as non-mandatory sources of guidance in developing entity-specific disclosures.

Fair presentation and qualitative characteristics of information

As set out in draft ESRS 1, fair presentation requires disclosure of relevant information about an entity's material impacts, risks and opportunities, and their faithful representation in accordance with the principle of the materiality of information and the requirements set out in draft ESRS 1. Applying the draft ESRSs is presumed to result in a sustainability statement that achieves a fair presentation.

Fair presentation requires an entity to apply the qualitative characteristics of information, as defined in Appendix B to draft ESRS 1, i.e.:

- relevance and faithful representation
- comparability, verifiability and understandability.

To achieve faithful presentation, an entity is required to provide a complete, neutral and accurate depiction of its material impacts, risks and opportunities.

Fair presentation also requires that the entity discloses:

- information that is comparable, verifiable and understandable
- entity-specific information when applying draft ESRSs is not sufficient to enable users to understand the entity's material impacts, risks and opportunities and how the entity manages them.

Observation

The fair presentation framework is a concept which is also included in the IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. The explicit statement that the draft ESRSs are intended to be a fair presentation framework has been retained from the July 2025 EDs, with language now more aligned with that in the IFRS Standards.

More information on the implications of a fair presentation framework is included in a Deloitte *iGAAP in Focus*.

Materiality

Materiality of information

The sustainability statement includes material 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 make based on those reports, including financial statements and the sustainability statement, relating to providing resources to the entity; or
- decisions, including informed assessments, that other users of general-purpose sustainability statements make based on the sustainability statement regarding the entity's material impacts, risks and opportunities and how the entity manages them.

Key changes since the July 2025 EDs

The draft ESRSs place more emphasis on materiality of information as an overarching principle in the draft ESRSs, including in relation to the general disclosures in draft ESRS 2.

The description of financial materiality is more consistent with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, which states that "[i]n the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity." In particular, EFRAG has clarified that decision-usefulness for primary users relates to providing resources to an entity.

Decision usefulness is also now emphasised for impact materiality.

Double materiality assessment

Performing a materiality assessment is necessary for an entity to identify the material impacts, risks and opportunities and the related topics to be reported. The entity determines the material information to be disclosed based on its double materiality assessment.

Double materiality has two dimensions: impact materiality and financial materiality, and the entity is required to consider how they interact. An impact can be financially material from the start or become financially material if it is reasonably expected to affect the entity's financial performance, financial position, cash flows, its access to finance or the cost of capital over the short, medium or long term. Impacts can be material exclusively from an impact perspective irrespective of whether they are financially material.

Impact materiality assessment and financial materiality assessment

The **impact materiality assessment** corresponds to the identification of the entity's material impacts. An entity is required to report information about a given topic from an impact perspective if that topic relates to an entity's material actual or potential, positive or negative impacts on people or the environment over the short, medium or long term. Impacts include those connected with the entity's own operations, and its upstream and downstream value chain, including through its products and services, as well as through its business relationships in its upstream and downstream value chain. Business relationships are not limited to direct contractual relationships.

For actual negative impacts, materiality is assessed based on the severity of the impact, while for potential negative impacts, it is assessed based on a combination of severity and likelihood. Severity is assessed based on the following factors: scale, scope and irremediable character of the impact. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood. For actual positive impacts, materiality is assessed based on the scale and scope of the impact while for potential positive impacts, it is assessed based on the scale, scope and likelihood of the impact.

The severity of actual negative impacts—those that manifest during the reporting year—is assessed as they actually manifested during the reporting year. Actual impacts include those that have originated in the previous reporting periods and continue to exist in the current reporting period. Their severity is assessed based on the current reporting period, i.e. taking into account how they were mitigated in the previous periods. Remediation of impacts realised during the reporting period is not considered.

The information about impacts and how the entity manages them through policies and actions may be decision-useful to users, irrespective of how effectively the entity manages them or irrespective of how effectively the corresponding topics are regulated. In these cases, the materiality assessment needs to take this into account.

The severity and likelihood of potential negative impacts—those that may manifest in the future—are assessed taking into account only implemented prevention and mitigation policies and actions that effectively reduce the severity or likelihood. Actions and policies that have not yet been implemented are not considered.

The **financial materiality assessment** corresponds to the identification of information that is considered material for primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

The entity is required to report information about a given topic from a financial materiality perspective, if that topic triggers, or could reasonably be expected to trigger, material financial effects on the entity. This is the case when the risks or opportunities related to a topic have, or could reasonably be expected to have, a material influence on the entity's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term. Risks and opportunities may arise from past or future events.

Key changes since the July 2025 EDs

The draft ESRSs amend the July 2025 EDs in relation to consideration of impacts pre- or post-mitigation. The severity of actual impacts is assessed based on the current reporting period. This means that prevention and mitigation policies implemented in prior reporting periods are taken into account, while remediation of impacts implemented in the current reporting period and those that have not yet been implemented are not considered.

Appendix C, which provided detailed requirements for assessing actual and potential impacts for materiality, has not been retained.

Steps in determining the information to be reported

In conducting its double materiality assessment, an entity uses reasonable and supportable evidence that is available at the reporting date without undue cost or effort.

The entity may derive a conclusion, without further assessment, on the materiality or non-materiality of its impacts, risks or opportunities for a topic or sub-topic, on the basis of an analysis of its strategy and business model, including its sector(s) of operations, its geographies, and the features of its upstream and downstream value chain ('top-down' approach to materiality assessment). In this approach, if the materiality or non-materiality of one or more impacts, risks or opportunities is not evident on the basis of the above analysis, the entity is required to perform a specific assessment of them.

The entity may also use a materiality assessment conducted only at the level of impacts, risks and opportunities ('bottom-up' approach to materiality assessment).

Key changes since the July 2025 EDs

The draft ESRSs reinforce and clarify the top-down and bottom-up approaches to explain the relationship between identification of material impacts, risks and opportunities and the topics and sub-topics to be reported. They emphasise that the entity may combine a top-down approach for some topics, with an analysis at level of impacts, risks and opportunities for others. Geographies or geographic contexts can be analysed at different levels, e.g. country, region, county, water basin, ecosystem or a site, on the basis of the level considered relevant for assessment purposes.

Determining the information to be reported in accordance with draft ESRS 2 and topical standards

With respect to the information to be reported, the entity is required to:

- apply draft ESRS 2
- apply the following approach for a topic or sub-topic related to its material impacts, risks and opportunities:
  - apply draft ESRS 2 GDR-P, GDR-A, GDR-M and GDR-T for policies, actions, metrics and targets
  - disclose information for the disclosure requirements relevant to the specific topic or sub-topic in the topical standards
  - add entity-specific information where necessary.

Due diligence

Due diligence is the process by which an entity identifies, prevents, mitigates, remediates and brings to an end actual and potential negative impacts on people and the environment connected with its business. Due diligence is an ongoing practice that responds to and may trigger changes in the entity's strategy, business model, activities, business relationships, operating, sourcing and selling contexts.

The draft ESRSs do not impose any conduct requirements in relation to due diligence, nor do they extend or modify the role of the administrative, management and supervisory bodies of an entity with regard to the conduct of due diligence.

The outcome of an entity's sustainability due diligence process informs the assessment of its material negative impacts.

Reporting boundaries

Reporting entity and own operations

The sustainability statement is for the same reporting entity as for the financial statements. If the parent entity prepares consolidated financial statements, the sustainability statement is for the parent and its subsidiaries in accordance with the applicable accounting requirements. When reporting at a consolidated level, the entity is required to carry out the assessment of material impacts, risks and opportunities for the consolidated group regardless of the group's legal structure.

Disclosure exemption

The CSRD stipulates that subsidiaries of a non-EU parent do not have to disclose information if the parent reports under ESRSs or standards that are deemed equivalent by the EC and the consolidated sustainability report including the assurance opinion is publicly available. What is deemed 'equivalent' is yet to be determined by the EC.

Value chain

To the extent necessary for an understanding of the entity's material impacts, risks and opportunities and to meet the qualitative characteristics of information, the reported information is extended beyond an entity's own operations to cover material impacts, risks and opportunities connected with the entity through its direct and indirect business relationships in the upstream and downstream value chain (value chain information).

The entity is required to include material upstream and downstream value chain information in accordance with the outcome of its double materiality assessment and any specific requirements related to the upstream and downstream value chain in other draft ESRSs.

In some cases, associates or joint ventures that are accounted for under the equity method are also part of an entity's upstream and downstream value chain beyond the shareholding relationship, such as when they are also suppliers or customers. In these cases, the entity is required to disclose information related to the supply or customer relationship, consistent with the approach adopted for similar business relationships. In these cases, when determining metrics, the data of the associate or joint venture is not limited to the share of equity held but it also reflects the impacts, risks and opportunities that are connected with the entity through the supply or customer relationship with them.

Key changes since the July 2025 EDs

The requirements on reporting the impacts, risks and opportunities in relation to leased assets as part of the entity's own operations have been revised. Draft ESRS 1 now states that the provisions of the lease contract should be used to determine whether impacts, risks and opportunities relating to a leased asset accrue to the lessor or the lessee. This should be reflected in the reported information.

Reporting period, base year and time horizons

The reporting period for an entity's sustainability statement—including for the calculation of metrics —is consistent with that of its financial statements. A base year is the historical reference date or period for which information is available and against which subsequent information can be compared over time.

When preparing its sustainability statement, an entity is required to adopt the following time intervals as of the end of the reporting period:

- short-term time horizon: the length of the period adopted for its financial statements
- medium-term time horizon: from the end of the short-term period to five years
- long-term time horizon: more than five years.

An entity may adopt a different definition for medium- or long-term time horizons if the use of medium- or long-term horizons results in non-relevant information.

Preparation and presentation of sustainability information

Location and structure of the sustainability statement

An entity is required to present all the disclosures required by the draft ESRSs within a dedicated section of the management report identified as the entity's sustainability statement. The entity is required to structure its sustainability statement in four parts in the following order: general information, environmental information, social information and governance information. It may use appendices or separate sub-parts. If an entity prepares disclosures pursuant to Article 8 of the EU Taxonomy Regulation, it is required to include them in its sustainability statement and may do so in a separate appendix within the management report.

The entity may provide an executive summary in the sustainability statement which includes the key messages about its material environmental, social and governance impacts, risks or opportunities and their management. The content and presentation of this executive summary are an integral part of the sustainability statement and should meet the qualitative characteristics of information.

The entity may include in its sustainability statement supplementary information stemming from other legislation which requires it to disclose sustainability information, or generally accepted reporting standards or frameworks, including non-mandatory guidance and sector-specific guidance published by other standard-setting bodies (such as material issued by the ISSB or GRI), even if that information is not material. This information should be clearly identified with an appropriate reference to the related legislation, standard or framework.

If needed to meet the data demands of a specific user, the entity may include in its sustainability statement supplementary disclosures that are not material. Such information should be clearly identified as not resulting from the materiality assessment.

Information or a specific datapoint prescribed by a disclosure requirement may be incorporated in the sustainability statement by cross-reference when specific requirements are met.

Reliefs for preparing the sustainability statement

The draft ESRSs retain most of the reliefs in the July 2025 EDs for preparing the sustainability statement. These include:

- The entity is required to use all reasonable and supportable information that is available to it at the reporting date without undue cost or effort:
  - to identify material impacts, risks or opportunities
  - to determine the scope of its upstream and downstream value chain, including its breadth and composition, in relation to material impacts, risks or opportunities
  - when extending the information to include upstream and downstream value chain information
  - to prepare information on metrics
  - to report on current and anticipated financial effects.
- When an entity acquires a subsidiary or a business in the reporting period, it may defer the inclusion of the subsidiary or business in the materiality assessment and in the sustainability statement to the subsequent reporting period. Similarly, when the entity loses control over a subsidiary or business in the reporting period, it may adjust the scope of the materiality assessment and the reporting boundary as from the beginning of the current reporting period
- The entity may exclude activities from metric calculations if, due to their nature, they are not a significant driver of the impacts, risks or opportunities that the metric purports to represent. The activities can only be excluded if their exclusion from the calculation is not expected to impair the relevance and faithful representation of the reported information
- Except for GHG emissions, if the entity can provide reliable direct or estimated data only for a defined part of its own operations or its upstream or downstream value chain, it is required to disclose that it has identified material impacts, risks or opportunities but that the corresponding metric can currently only be reported on a partial reporting scope or for a subset of the value chain.

Connected information and linkages with other parts of corporate reporting

An entity is required to provide information that enables users of its sustainability statement to understand the connections within the sustainability statement, and between the sustainability statement and other corporate reporting documents published by the entity, including its financial statements.

If the sustainability statement includes monetary amounts or other quantitative information also presented in the entity's financial statements, the entity is required to cross-reference to its financial statements ('direct connectivity'). If the sustainability statement includes amounts that are an aggregation or part of amounts presented in the entity's financial statements ('indirect connectivity'), the entity is required to explain how these amounts relate to the most relevant ones presented in the financial statements.

Key changes since the July 2025 EDs

Draft ESRS 1 requires an entity to cross-reference to monetary amounts and/or explain how they relate to information in the financial statements. This was optional in the July 2025 EDs.

Classified or sensitive information

The entity is relieved from disclosing qualitative and quantitative information required by a draft ESRS if applicable EU law and regulations prohibits it from disclosing or allows it to omit such disclosure. If the entity omits material information for that reason, it is required to identify the type of information not disclosed and explain the source of the restriction.

The entity is required to make every reasonable effort to ensure that beyond the omission of the classified information or sensitive information, the overall relevance of the disclosure in question is not impaired.

Key changes since the July 2025 EDs

The relief from disclosing classified or sensitive information has been made contingent on whether the omission of classified or sensitive information would be required or permitted by other applicable EU law and regulations.

Disclosure requirements that are phased in

The phased-in disclosure requirements apply to 'wave one' entities, i.e. entities that were scheduled to report on sustainability for the first time for financial year 2024, irrespective of whether the corresponding Member State transposed the CSRD.

'Wave one' entities may omit in their sustainability statement:

- all disclosure requirements in draft ESRS E4 and draft ESRS S2-S4 for their financial years prior to financial year 2027
- all information about anticipated financial effects (except for certain information about anticipated financial effects from material physical and transition risks) for their financial years prior to financial year 2027
- quantitative information about anticipated financial effects (except for certain information about anticipated financial effects from material physical and transition risks) for their financial years prior to financial year 2030
- the quantitative information related to substances of concern prescribed by draft ESRS E2 for their financial years prior to financial year 2030
- certain draft ESRS S1 disclosure requirements for their financial years prior to financial year 2027.

Key changes since the July 2025 EDs

EFRAG has proposed removal of the reliefs for the availability of information regarding the upstream and downstream value chain. EFRAG added a note to the EC in draft ESRS 1 that it is leaving the decision to the EC on the appropriate transitional relief for entities other than 'wave one' entities (including future new reporters) in view of the interaction with the omnibus proposals that are in the process of being agreed. Accordingly, draft ESRS 1 only provides provisions for 'wave one' entities.

Draft ESRS 2 *General Disclosures*

Objective

Draft ESRS 2 sets out the disclosure requirements that apply across sustainability topics in relation to disclosure on material impacts, risks and opportunities and the topics related to them.

Observation

The July 2025 EDs referenced the ability for an entity to disclose information about impacts, risks and opportunities grouped at a higher level (for example, in response to their nature and how they are managed by the entity) if that results in providing the most relevant information.

While much of this wording is not retained in draft ESRS 2, draft ESRS 1 requires an entity to determine the appropriate level of aggregation or disaggregation that supports faithful representation of its impacts, risks or opportunities, reflecting factors such as the nature of the impacts, risks and opportunities or the way in which they are managed.

Basis for preparation

The objective of this disclosure requirement is to enable an understanding of the basis for preparation of the sustainability statement, including the disclosures required by draft ESRS 1 in specific circumstances.

An entity is required to disclose:

- whether the sustainability statement has been prepared on a consolidated or individual basis and, if the reporting boundary of the entity's own operations differs from the one adopted in the consolidated financial statements, a description of and the reasons for this difference
- an overview of the extent to which the sustainability statement covers the entity's upstream and downstream value chain.

An entity is required to state that its sustainability statement has been prepared in accordance with ESRSs as applicable at the end of the reporting period. The entity is required to disclose any relief, option or other specific provision prescribed in draft ESRS 1 that it applies, together with the related required information.

Governance

The entity is required to provide disclosures that enable an understanding of:

- the roles and responsibilities of the administrative, management and supervisory bodies, as well as the associated processes, controls and procedures in monitoring, managing and overseeing material impacts, risks and opportunities
- the key features of any incentive schemes that are linked to sustainability topics that are in place for members of the administrative, management and supervisory bodies

- where, within the sustainability statement, the main steps of the due diligence process applied with regard to sustainability topics are disclosed
- the entity's risk management and internal control processes and systems in relation to sustainability reporting.

Strategy

The entity is required to provide disclosures that enable an understanding:

- of the key elements of the entity's general strategy, business model, and upstream and downstream value chain that relate to or affect material impacts, risks and opportunities, in order to enable an understanding of its exposure to such material impacts, risks and opportunities and where they originate
- of the entity's stakeholder engagement and how key stakeholders' interests and views are brought to the attention of its administrative, management and supervisory bodies and inform its strategy and business model
- of the interactions between the entity's material impacts, risks and opportunities and its strategy and business model, as well as of the related financial effects.

Key changes since the July 2025 EDs

In the consultation on the July 2025 EDs, EFRAG asked stakeholders whether disclosure of the entity's anticipated financial effects should continue to be quantitative or whether disclosure should be changed to qualitative information. Based on the feedback received, EFRAG decided to continue requiring quantitative disclosure but to extend the reliefs that are available to 'wave one' entities (see **draft ESRS 1—Disclosure requirements that are phased in**).

This supports interoperability with the ISSB Standards, which require quantitative disclosures about an entity's anticipated financial effects (subject to relief if the entity is unable to identify meaningful quantitative information).

Impact, risk and opportunity management

The entity is required to provide disclosures that enable an understanding of:

- the process through which the entity identifies impacts, risks, opportunities, and the related topics and assesses their materiality, as the basis for determining the disclosures to be made in its sustainability statement
- the outcome of the materiality assessment, in terms of material impacts, risks and opportunities and material information reported in accordance with draft ESRSs
- the entity's actual and potential, positive and negative material impacts, including how they affect or are likely to affect people or the environment, and its material risks and opportunities, specifying the related topics and how and where impacts, risks and opportunities are connected to its own operations, and its upstream and downstream value chain.

Detailed disclosure requirements related to the materiality assessment process

An entity is required to disclose:

- a concise description of the process and decision-making steps the entity follows to identify impacts, risks and opportunities and the related topics and to assess their materiality, including the approach to cover its own operations and its upstream and downstream value chain covered, the key methodologies, inputs and assumptions adopted, as well as the qualitative considerations or quantitative thresholds
- how it assessed and prioritised impacts based on their severity and likelihood, how prevention, mitigation and remediation actions are considered, and how the entity considered areas of heightened risks of negative impacts related to specific activities, business relationships, or geographies
- whether the assessment is informed by the entity's sustainability due diligence process, and, if it consults with affected stakeholders and external experts to understand the impacts, how it leverages it in the process
- significant changes to the process compared to the prior reporting period
- the basis for concluding that climate change is not material, if the entity has reached that conclusion and therefore omits all disclosure requirements in draft ESRS E1
- changes related to its material impacts, risks and opportunities compared to the previous reporting period
- a list of the disclosure requirements complied with in preparing the sustainability statement, allowing users to identify where the related disclosures are located in the sustainability statement and giving a separate indication of those that are incorporated by reference
- its exposure to the heightened risk of incidents related to forced or compulsory labour and child labour by type of operations (such as manufacturing plants), or by countries or geographies, if the entity is connected through its own operations or its upstream and downstream value chain to material negative impacts related to forced or compulsory labour, or child labour
- a table of all the datapoints that derive from other EU legislation as listed in Appendix A of draft ESRS 2, indicating where they can be found in the sustainability statement or, for those that the entity has assessed as not material, that they are "not material".

General disclosure requirements for policies, actions, metrics and targets

Overall disclosure requirements

Information about policies, actions, metrics and targets should enable an understanding of the level at which the entity manages its material impacts, risks and opportunities. If the entity has adopted policies, put in place actions, set targets or uses metrics only for certain aspects of a topic, this should be reflected in the way the disclosure is prepared and presented, enabling users to understand the specific aspects that are covered. If the entity has not adopted policies, actions and targets with reference to a topic related to material impacts, risks and opportunities, it is required to disclose this fact.

An entity is required to apply the general disclosure requirements for policies, actions, metrics and targets, when disclosing either in accordance with a topical standard or on an entity-specific basis on:

- its policies and actions to manage the prevention, mitigation and remediation of actual and potential material negative impacts, and to manage material risks or pursue actual and potential material positive impacts and material opportunities
- the metrics and the targets to assess progress over time in relation to its material impacts, risks and opportunities.

Disclosure requirements for policies

The objective of this disclosure requirement is to enable an understanding of the policies that the entity has in place to manage the prevention, mitigation or remediation of actual and potential negative impacts, and material risks and pursue material opportunities or positive impacts.

Disclosure requirements for actions and resources

The objective of this disclosure requirement is to enable an understanding of the entity's key actions, taken or planned, to manage its material impacts, risks and opportunities, and, where applicable, to achieve the objectives of related policies.

Disclosure requirements for metrics

The objective of this disclosure requirement is to support the preparation of the disclosures on metrics by the entity.

Disclosure requirements for targets

The objective of this disclosure requirement is to enable an understanding of how the entity sets targets, as defined in terms of expected results for people, the environment or the entity itself, and of how the entity tracks the effectiveness of its policies and actions in relation to its material impacts, risks and opportunities, as well as the overall progress and effectiveness towards the adopted targets over time. This includes (where applicable) whether the progress is aligned with a related action plan or whether any significant facts and circumstances related to the action plan affect the achievement of the target.

Draft topical ESRSs

The sustainability statement should include information required in the draft topical ESRSs if a topic relates to material impacts, risks and opportunities to cover all the reporting areas listed in draft ESRS 1. The objective of the draft topical standards is to set out disclosure requirements providing information in relation to the reporting areas that implement and complement the cross-cutting provisions of draft ESRS 1 and draft ESRS 2.

Draft ESRS E1 *Climate Change*

Draft ESRS E1 sets out disclosure requirements related to climate change, particularly with respect to the following sub-topics:

- climate change mitigation
- climate change adaptation
- energy.

Climate change mitigation relates to the entity's efforts to limit the increase in the global average temperature to 1.5°C above pre-industrial levels in line with the Paris Agreement and the objectives of the European Climate Law. Draft ESRS E1 covers disclosure requirements related to how the entity addresses its GHG emissions. It also covers disclosure requirements on how the entity addresses its GHG emissions as well as the associated transition risks.

Climate change adaptation relates to the entity's process of adjustment to actual and expected consequences of climate change. Draft ESRS E1 covers disclosure requirements related to climate-related hazards that may lead to physical climate risks for the entity and its adaptation solutions for reducing these risks. It also covers transition risks arising from the need to adapt to climate-related hazards.

The disclosure requirements related to energy cover all types of energy production and consumption.

Observation

The entity's transition plan for climate change mitigation can be either stand-alone or included in a broader transition plan covering both mitigation and adaptation aspects. If the entity's transition plan also covers adaptation, the disclosure should specify this fact and cross-reference the information provided.

Draft ESRS E1 confirms that an entity is not required to undertake scenario analysis. However, if scenario analysis is used for the purpose of assessing climate resilience, the entity must disclose information about the analysis conducted and how the outcome informs the entity's potential response to climate-related risks.

As in the July 2025 EDs, while the boundaries used for measurement of GHG emissions in draft ESRS E1 are aligned with the GHG Protocol, the default boundary is the consolidated financial statements, requiring use of the financial control approach. However, draft ESRS E1 requires additional disclosure of Scope 1 and Scope 2 GHG emissions following the operational control approach when, due to specific facts and circumstances, the information reported is insufficient to portray the emissions resulting from operated assets that are outside the reporting boundary.

Draft ESRS E2 *Pollution*

Draft ESRS E2 sets out the disclosure requirements related to pollution with respect to the following sub-topics:

- pollution of air, pollution of water and pollution of soil
- microplastics
- substances of concern, including substances of very high concern.

Pollution of air, pollution of water and pollution of soil refer to the entity's emissions to air, water and soil, as well as to the prevention, control and reduction of such emissions. Emissions to water include emissions to freshwater and to seawater.

Disclosure requirements on substances of concern, including substances of very high concern set disclosure requirements to provide users with an understanding of the related actual impacts or potential impacts, also considering possible restrictions on their production, use, distribution and commercialisation.

Draft ESRS E3 *Water*

Draft ESRS E3 sets out disclosure requirements related to water and, particularly with respect to the following sub-topics:

- water use, which includes:
  - water withdrawal
  - water consumption
  - water discharge
  - water stored.

The term 'water' refers to freshwater and other types of water from different sources, such as surface water, groundwater, seawater, produced water and third-party water.

Draft ESRS E4 *Biodiversity and Ecosystems*

Draft ESRS E4 sets out disclosure requirements related to biodiversity and ecosystems, particularly with respect to the following closely interlinked sub-topics:

- drivers of biodiversity and ecosystem change
- the state of species
- the condition and extent of terrestrial, freshwater and marine ecosystems
- ecosystem services.

The terms 'biodiversity' and 'biological diversity' refer to the variability among living organisms from all sources including, inter alia, terrestrial, freshwater, marine and other aquatic ecosystems and the ecological complexes of which they are part.

Observation

Draft ESRS E4 states that if the entity has in place a biodiversity and ecosystems transition plan to transform its business model and strategy so that it contributes to the global goal of halting and reversing biodiversity loss, as stated in the Kunming-Montreal Global Biodiversity Framework, and it has made public the key features of such plan (e.g. through accessible public channels such as its website or reports), it is required disclose those features.

Biodiversity can also be part of an entity's broader transition plan that, for instance, addresses climate change.

Draft ESRS E5 *Resource Use and Circular Economy*

Draft ESRS E5 sets out disclosure requirements related to resource use and circular economy with respect to the following sub-topics:

- resource inflows
- resource outflows related to products and services
- resource outflows related to waste.

Draft ESRS S1 *Own Workforce*

Draft ESRS S1 sets out disclosure requirements related to the entity's own workforce, in particular with respect to the following sub-topics:

- working conditions (including adequate wages, work-life balance, working time, secure employment, social protection)
- social dialogue, freedom of association, works councils, participation rights of workers and collective bargaining
- health and safety
- training and skills development
- diversity and equal treatment (including gender equality, equal pay for work of equal value, employment and inclusion of people with disabilities, non-discrimination, anti-harassment)
- other labour-related human rights (including child labour, forced labour, privacy and adequate housing).

An entity's own workforce includes people who are in an employment relationship with the entity ('employees') and non-employees in the entity's own work force. Non-employees comprise people with contracts with the reporting entity to supply labour ('self-employed people') or people provided by entities primarily engaged in 'employment activities'.

Information about non-employees in accordance with draft ESRS S1 does not affect their status under applicable labour law. Draft ESRS S1 does not cover workers in the entity's upstream or downstream value chain. These workers are covered in draft ESRS S2.

Draft ESRS S2 *Workers in the Value Chain*

Draft ESRS S2 sets out disclosure requirements related to workers in the value chain, in particular with respect to the same sub-topics as under draft ESRS S1.

Draft ESRS S2 covers all workers in the entity's upstream and downstream value chain who are or can be materially impacted by the entity. Such impacts may be connected with the entity's own operations or its upstream and downstream value chain. They include impacts connected to the entity's products or services, as well as through its business relationships. Draft ESRS S2 covers workers who are not included in the scope of 'own workforce' as set out in draft ESRS S1.

Draft ESRS S3 *Affected Communities*

Draft ESRS S3 sets out disclosure requirements related to affected communities, in particular with respect to the following sub-topics:

- communities' economic, social and cultural rights (including land-related impacts, security-related impacts, adequate housing and food, water and sanitation)
- communities' civil and political rights (including freedom of expression, freedom of assembly, impacts on human rights defenders)
- rights of Indigenous Peoples (including free, prior and informed consent; self-determination; cultural rights).

Draft ESRS S4 *Consumers and End-users*

Draft ESRS S4 sets out disclosure requirements related to consumers and/or end-users, in particular with respect to the following sub-topics:

- information-related impacts for consumers and/or end-users (including privacy, access to information, freedom of expression)
- personal safety of consumers and/or end-users (including health and safety, protection of children, security of a person)
- social inclusion of consumers and/or end-users (including access to products and services, responsible marketing practices, non-discrimination).

Draft ESRS G1 *Business Conduct*

Draft ESRS G1 sets out disclosure requirements related to business conduct, particularly with respect to the following sub-topics:

- corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers and animal welfare
- the management of relationships with suppliers, including payment practices, especially late payment to SMEs
- political influence, including lobbying activities.

Next steps

The EC will consider EFRAG's technical advice when adopting the delegated act that amends the ESRSs. The EC may adopt revised ESRSs that differ from the technical advice.

The EC aims to adopt the necessary delegated act at the latest six months after the entry into force of the omnibus proposals. This timeline has been set with the intent to allow for the ESRSs to be adopted as a delegated act in time for entities to apply the revised standards for financial year 2027, potentially with an option for voluntary application for financial year 2026.

Further information

If you have any questions about the draft ESRSs, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of financial and sustainability reporting literature. iGAAP on DART allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- illustrative financial statements for entities reporting under IFRS Accounting Standards.

In addition, our sustainability reporting volumes of iGAAP provide guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to iGAAP on DART, click here to start the application process and select the iGAAP package.

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