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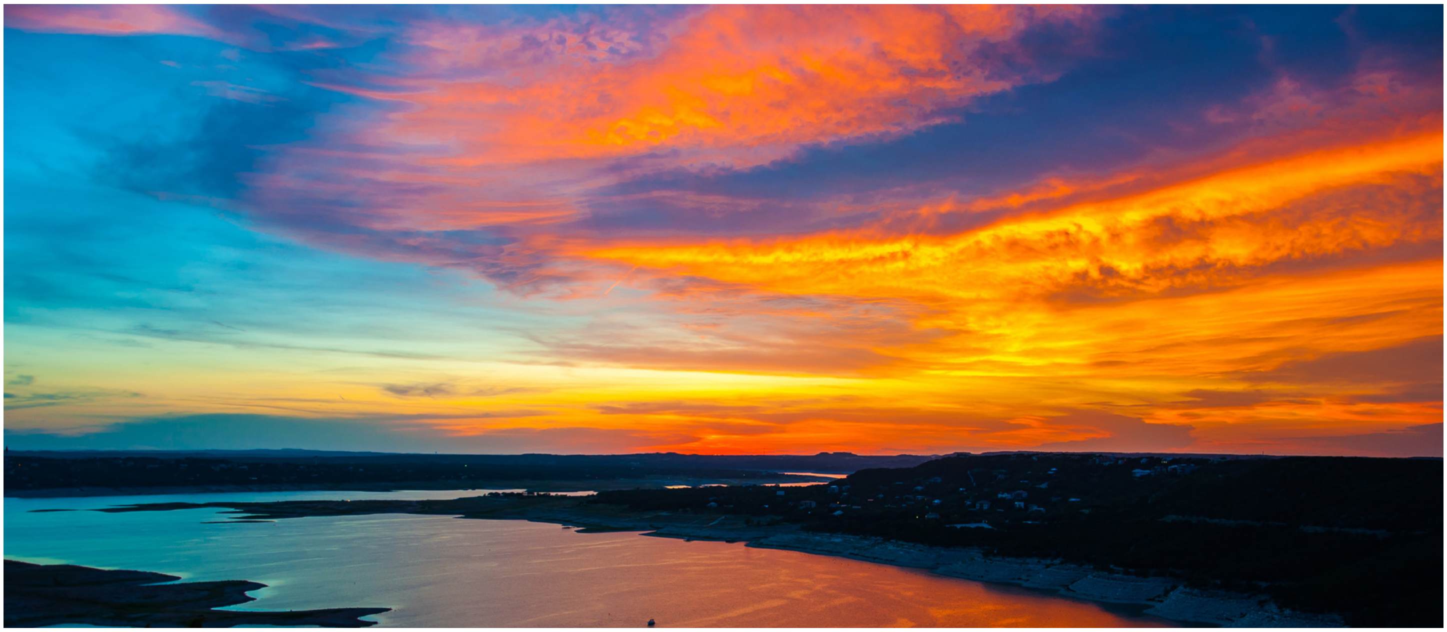


In This Issue

European Sustainability Reporting — Omnibus Update and Proposed Revised European Sustainability Reporting Standards

Overview

This *Heads Up* discusses developments since the February 2025 publication of the European Commission's omnibus proposals, including the publication of exposure drafts for revised and simplified European Sustainability Reporting Standards (ESRS), and the related considerations for U.S. entities.

Background

On February 26, 2025, the European Commission (EC) published its proposed omnibus legislation that aims to significantly reduce the sustainability reporting and due diligence requirements for entities that are currently within the scope of the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy (EUT), and the Corporate Sustainability Due Diligence Directive (CSDDD). Amendments will be effected through various directives and delegated acts. For more details, see Deloitte's March 7, 2025, *Heads Up*.

The provisions of the omnibus proposals and related delegated acts are subject to change as they advance through the European Union's legislative procedures. Since February, the EC, the European Council, and the European Parliament have taken numerous steps to advance the proposed amendments. The proposals include key changes in the following areas, which are further discussed below:

- *Timing* — (1) Postponing the application of some of the reporting requirements of the CSRD, (2) extending the transition provisions for those currently reporting, and (3) postponing the transposition deadline and application of the CSDDD.
- *Scope* — Modifying the scope and certain other provisions of the CSRD, EUT, and CSDDD.
- *Reporting requirements* — Revising reporting requirements in the ESRS and EUT.

To advance the process to revise ESRS reporting requirements, the EC directed EFRAG to draft revised and simplified ESRS. On July 31, 2025, EFRAG published exposure drafts (EDs)[1] for 12 revised ESRS. Significant proposed changes include:

- Placing more emphasis on the materiality of information as an overarching principle.
- Simplifying the double materiality assessment.
- Explicitly including the fair presentation principle.
- Reducing the number of data points and the amount of mandatory application guidance while moving some "may disclose" content to nonmandatory illustrative guidance.
- Simplifying general disclosure requirements (GDRs)[2] and their relationship with topical disclosure requirements.
- Improving the flexibility of the presentation of information, with more emphasis on how an entity manages its sustainability impacts, risks, and opportunities (IROs).
- Improving the understandability, clarity, and accessibility of the standards.
- Introducing other reliefs.
- Enhancing interoperability with global sustainability reporting frameworks.

Entities should continue to monitor additional changes that may occur during the legislative process.

Timing

"Stop-the-Clock" Directive

On April 3, 2025, the European Parliament voted to approve Omnibus I — COM(2025) 80[3] (the "Stop-the-Clock" proposal), which was adopted by the Council of the European Union as Directive (EU) 2025/794 (the "Stop-the-Clock" directive). The directive was published in the *Official Journal of the European Union* on April 16, 2025, and entered into force on April 17, 2025. Member states are required to transpose the legal text by December 31, 2025, to be effective for the 2025 reporting period.

[1] In addition to the EDs for the 12 revised ESRS, EFRAG published a log of amendments for each ED and additional publications for further reading and related documents, including *Non-Mandatory Illustrative Guidance, Basis for Conclusions, Annex II: Aggregated Acronyms and Glossary of Terms* (including a separate mark-up version), a one-pager briefing, a FAQ document, and the *Summary of Stakeholder Inputs.* Each document is available on EFRAG's Web site, www.efrag.org/en/amended.

[2] The proposed revisions to ESRS in the EDs include renaming "minimum disclosure requirements" to "general disclosure requirements."

[3] "Proposal for a Directive of the European Parliament and of the Council amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements."

The Stop-the-Clock directive postpones by two years the application of the existing reporting requirements for certain entities under the current CSRD, including EUT disclosures required by the CSRD, and delays the effective date to comply with the first phase of requirements of the CSDDD by one year. For entities subject to the reporting requirements under the CSRD, including EUT disclosures, the effective date for Wave 2[4] entities (large entities that are not in Wave 1[5]) is changed from 2025 to 2027, and the effective date for Wave 3[6] entities (listed small and medium-sized undertakings [SMEs], certain small and noncomplex credit institutions, and certain captive insurance and reinsurance entities) is changed from 2026 to 2028. The 2028 effective date for Wave 4[7] entities (enterprise-level reporting) was not changed. The directive also changes the effective date to comply with the first phase of requirements of the CSDDD by one year to July 26, 2028.

"Quick Fix" Amendments

Because Wave 1 entities are not captured by the Stop-the-Clock directive, the EC adopted by delegated act on July 11, 2025, "quick fix" amendments to the CSRD that allow these entities to maintain the level of reporting that was applied in 2024 for 2025 and 2026 reporting by (1) extending certain transitional provisions applicable to the first and second year of reporting and (2) in certain cases, providing additional reporting relief. The delegated act will enter into force three days after it has been published in the *Official Journal of the European Union* and will have an effective date of January 1, 2025.

Scope

Content Proposal

Omnibus I — COM(2025) 81[8] (the "Content Proposal") would modify the scope and certain other provisions of the CSRD, EUT, and CSDDD. The Content Proposal would reduce the number of entities subject to the CSRD by limiting the scope to large E.U. undertakings with more than 1,000 employees on average on their balance sheet dates, as discussed below, and increasing the turnover threshold for enterprise-level reporting by U.S. and other non-E.U. groups.[9] It would also limit mandatory EUT reporting to those E.U. entities that are required to comply with the CSRD and have a net turnover exceeding €450 million. There were no proposed quantitative threshold changes to the CSDDD; however, the Content Proposal would reduce the scope of required due diligence activities as discussed below. For additional detail about the proposed scope revisions, see Deloitte's March 7, 2025, ***Heads Up***.

As of the date of this publication, the Content Proposal has been submitted to the European Parliament and the European Council for negotiation under the co-legislative process. In June 2025, the European Council agreed to its negotiating position. The European Parliament has yet to adopt its negotiating position. The European Parliament's omnibus rapporteur published a draft report dated May 26, 2025, and several draft amendments were presented during the European Parliament JURI Committee meeting on July 15, 2025, highlighting a wide

4 Wave 2 includes (1) all U.S. companies that are large and listed on an E.U.-regulated market and (2) large E.U.-based subsidiaries of U.S. companies regardless of whether they are listed on an E.U.-regulated market.

5 Large public interest entities (PIEs) and issuers on an E.U.-regulated market with more than 500 employees; such entities are generally already within the scope of the Non-Financial Reporting Directive (NFRD). Wave 1 includes (1) large U.S. companies that are listed on an E.U.-regulated market and have more than 500 employees and (2) large E.U.-based subsidiaries that are PIEs or are listed on a regulated market and have more than 500 employees.

6 SMEs listed on E.U.-regulated markets, certain small and noncomplex credit institutions, and certain captive insurance and reinsurance entities. Wave 3 includes listed U.S. companies and E.U.-based subsidiaries that meet these criteria.

7 Non-E.U. entities that have business in the European Union above certain thresholds. This reporting is published by the E.U. subsidiary or branch at the consolidated non-E.U. ultimate parent, or enterprise, level; Wave 4 includes all U.S. companies that have business in the European Union that meet the thresholds.

8 "Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements."

9 The Content Proposal would increase the net turnover threshold for requiring a subsidiary or branch of a non-E.U. ultimate parent entity to disclose a sustainability report on the group's impacts from €150 million generated in the European Union at the group level to €450 million. The threshold for the E.U. branch would be raised from €40 million to €50 million, which is aligned to the net turnover criteria for large undertakings as defined in Article 3(4) of the EU Accounting Directive ("Directive 2013/34/EU of the European Parliament and of the Council").

range of views held by various parties that may influence the final negotiating position. The European Parliament is expected to vote on the adoption of its final position in October 2025.

After the European Parliament adopts its final position, trilogue negotiations will begin. The length of the negotiations is unknown and can be affected by various factors. Once finalized and adopted, the legislation would enter into force after publication in the *Official Journal of the European Union* and would need to be transposed into E.U. member state laws. The Content Proposal must be transposed 12 months after publication in the *Official Journal of the European Union*.

With regard to the CSRD, key proposed amendments to the Content Proposal resulting from the co-legislative process include provisions related to scope, timing, obligations to adopt transition plans, extension of certain subsidiary exemption provisions, limitations on information that can be requested from the value chain, modifications to the timing of adoption of limited assurance standards, and certain reporting and assurance transition provisions.

The proposed amendments would affect the scope of the CSRD by increasing the thresholds for E.U. level reporting (all reporting except for Wave 4 enterprise-level reporting) relative to the Content Proposal.[10] The European Council negotiating position would maintain the proposed 1,000 employee threshold and establish a turnover threshold of greater than €450 million. Proposals put forth in the European Parliament range from maintaining the existing CSRD[11] scope threshold to increasing the threshold to greater than €450 million in turnover and more than 3,000 employees. The proposals remain subject to change until the European Parliament finalizes its negotiating position.

The Content Proposal also includes provisions to simplify and reduce the requirements of the CSDDD. The European Council negotiating position and draft proposals put forth in the European Parliament include additional changes related to the entities within the scope of the guidance, the timing of adoption and transposition, and the obligation to adopt transition plans.

Proposed ESRS Reporting Revisions

While the Content Proposal addresses the criteria for which entities are required to comply with the CSRD, it also includes a commitment to revise and simplify the ESRS that establish the sustainability reporting required for companies complying with the CSRD. The commitment in the omnibus proposals is aimed at substantially reducing the number of data points that entities are required to report, revising unclear provisions, improving consistency with other pieces of legislation, and clarifying the instructions for applying the double materiality principle.

In a letter dated March 27, 2025, the EC formally asked EFRAG to provide technical advice on the simplification of the existing ESRS. On July 31, 2025, EFRAG published EDs that set out proposals for the revisions to the ESRS that will form the technical advice to the EC. The EDs are open for public comment until September 29, 2025. The final technical advice might differ from the EDs as a result of the public feedback. Once received, the EC will consider EFRAG's technical advice but may adopt revised ESRS that differ from the technical advice.

[10] The Content Proposal includes the addition of a 1,000 employee threshold to the existing CSRD scope.

[11] The existing CSRD scope, from the perspective of a U.S.-based company, is large U.S. companies listed on an E.U.-regulated market and all large E.U. subsidiaries of U.S. companies. Large undertaking/large group is defined by the CSRD as an E.U. entity or an E.U. parent entity (on a consolidated basis) that meets two or more of the following three criteria in two consecutive financial years on its balance sheet date: >250 employees on average, >€25 million on the balance sheet, >€50 million in turnover.

EFRAG identified the following levers that it used in developing its proposed revisions to the ESRS to achieve the simplification objectives identified in the proposal:

- *Lever 1* — Simplifying the Double Materiality Assessment (DMA).
- *Lever 2* — Improving the Readability and Conciseness of Sustainability Statements and Their Inclusion in Corporate Reporting as a Whole.
- *Lever 3* — Making Critical Modifications to the Relationship Between GDRs and Topical Specifications.
- *Lever 4* — Enhancing the Standards' Understandability, Clarity, and Accessibility.
- *Lever 5* — Suggesting Additional Reliefs to Reduce Entities' Burdens.
- *Lever 6* — Enhancing the Interoperability of the Standards With Other Global Sustainability Reporting Frameworks.

Each of these levers is further discussed below.

Summary of Key Changes

Overarching Revisions and Structure

The ESRS 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 (ESRS 1, *General Requirements*).
    - General disclosures that apply (1) to all entities regardless of their sector (i.e., sector agnostic) and (2) across all sustainability topics (ESRS 2, *General Disclosures*).
- Topical standards, which cover a specific sustainability topic from a sector-agnostic perspective.

Sector-specific standards are no longer included in the architecture since the EC stated in the omnibus proposals that it would no longer plan to adopt them.

The proposals included in EFRAG's EDs simplify the overall structure of the ESRS. The proposed changes include:

- Reconsidering the mandatory ("shall") requirements with the intent to simplify them. They would be presented in the main body of the standards.
- Reducing and simplifying application requirements (ARs), including removing "sub-sub-topics" and presenting them as boxed content alongside the related section or disclosure requirement.
- Renaming "minimum disclosure requirements" to "general disclosure requirements." The relationship between GDRs and the topical standards would also be streamlined.
- Eliminating the optional ("may") disclosure requirements or moving them to a separate Non-mandatory Illustrative Guidance (NMIG) document, except for a few that are retained in the main body of the ESRS.
- Adding reference to the industry content in IFRS® Sustainability Disclosure Standards as issued by the International Sustainability Standards Board (ISSB), the Sustainability Accounting Standards Board (SASB) standards, and the Global Reporting Initiative (GRI) sector standards as sources of guidance for identifying entity-specific information. Sector-based standards are no longer being developed.

Lever 1 — Simplifying the Double Materiality Assessment

Proposed revisions to ESRS 1 to clarify and simplify the identification of material IROs and material information to be reported in sustainability statements include:

- *Materiality as an overall filter of information* — Places more emphasis on the materiality of information as an overarching principle in the ESRS and clarifies that this materiality filter is to be applied to all information included in the general-purpose sustainability statements, including the general disclosures requirements in ESRS 2 as well as topical standard disclosure requirements and entity-specific disclosures (all data points are subject to materiality).

- *Practical considerations* — Introduces a new section for practical considerations in the execution of the DMA with the intent to reduce the overall complexity of the process and the extent of unnecessary scoring. The revised standards would clarify that either a top-down or bottom-up approach may be used for the DMA process. For example, an entity using a top-down approach may be able perform a qualitative assessment to determine whether a topic would lead to material IROs on the basis of the entity's business model, value chain, and strategy, among other factors. The level of evidence needed to support the conclusions is expected to be reasonable and proportionate to the circumstances.

  Connecting the Dots

  While the revised standards would offer flexibility in the approach and allow for qualitative assessments in determining material IROs, entities nonetheless would still be expected to produce a well-documented DMA process. Preparers should confirm that their assessments are thorough and well-supported and reflect a fair and unbiased evaluation of material IROs, in a manner consistent with the entity's business model, value chain, and strategy. This approach not only supports the credibility of the sustainability disclosures but also enables management to demonstrate sufficient evidence of its process to assurance providers. Ultimately, a well-documented and methodologically sound DMA process is important to evidencing that material topics and IROs have been appropriately identified and addressed, even when qualitative methods are employed.

- *Flexibility in reporting level* — Clarifies the relationship between the identification of material IROs and the topics and subtopics to be reported, with the intent to avoid unnecessary granularity and encourage more focused reporting. This would include increasing the flexibility for an entity to decide at which level to report on the basis of the nature of the IROs and the way in which they are managed. For example, a material IRO could be reported at either the individual IRO level or the topic level. The proposals would also clarify that when a material IRO is only related to a subtopic, information reported should be limited to that subtopic and should not trigger reporting of all data points within the topic.

- *List of topics* — Simplifies the table of topics and subtopics included in AR 16 in Appendix A of ESRS 1 in the original ESRS, and includes it as nonbinding guidance in proposed ESRS 1, Appendix A. The sub-sub-topic level would be eliminated.

- *"Gross versus net"* — Provides new guidance on how to incorporate remediation, mitigation, and prevention policies and actions when assessing impact materiality in response to public comment and divergence seen in practice.[12]

[12] In line with the consultation on the revised ESRS EDs, EFRAG launched a "gross vs. net" field test to solicit preparer feedback on the proposed guidance. The application deadline for preparers to join the field test was August 18, 2025.

- *Fair presentation framework* — Specifies that the ESRS are intended to be a fair presentation framework. Such a framework requires the faithful representation of an entity's material IROs in accordance with the requirements of ESRS. In achieving fair presentation, the entity applies the qualitative characteristics of information (relevance, comparability, verifiability, and understandability) to its disclosures as defined in Appendix B of ESRS 1. A fair presentation framework is aligned with IFRS Sustainability Disclosure Standards, among others, consistent with the intent to achieve further interoperability across standards (see Lever 6 for further discussion of interoperability).

Connecting the Dots

The fair presentation framework is consistent with the framework used in financial reporting and focuses on the main characteristics of "relevance" and "faithful representation." Preparers should do a "stand-back" assessment to evaluate whether (1) disclosed material sustainability information is not obscured by irrelevant details, (2) judgment has been applied in a fair and unbiased way, and (3) the general-purpose sustainability statements provide a coherent and consistent narrative with that of other parts of management's report and the related financial statements. Likewise, assurance providers should form a conclusion by gathering sufficient evidence for management's assertion of fair presentation.

Lever 2 — Improving the Readability and Conciseness of Sustainability Statements and Their Inclusion in Corporate Reporting as a Whole

Proposed revisions to ESRS 1 to improve the readability and conciseness of the sustainability statements and their inclusion in corporate reporting as a whole include:

- *Executive summary* — Introduces the option to have an "executive summary" at the beginning of the sustainability statement.
- *Report structure flexibility* — Supports greater flexibility in presentation by removing mandatory appendixes to ESRS 1 that outlined the required structure of the sustainability statement; however, the sustainability statement must still be structured in the following four parts in the following order: general information, environmental information, social information, and governance information.
- *Use of appendixes* — More explicitly permits certain information to be included in appendixes to the sustainability statement, including granular information such as detailed metrics, EUT-related information, and additional information on nonmaterial matters (see below).
- *Clarification of connected information and removal of repetitive information* — Clarifies the concept of connected information, discouraging fragmentation of the disclosures and repetition of information about the same topics, in particular on policies, actions, and targets (PATs). By allowing for grouping of PATs on the basis of how they are managed, the proposals are intended to promote concise, nonrepetitive reporting and to clarify that content related to the same PATs should not be repeated in different parts of the sustainability report. The proposals also clarify that cross-referencing of connected information between the sustainability statement and other corporate reporting documents should be done where necessary to avoid repetitive reporting.
- *Nonmaterial information* — Permits inclusion of nonmaterial topics in a sustainability statement when an entity determines that the information is needed by a specific user or when disclosed sustainability information stems from other legislation or other generally accepted sustainability reporting standards and frameworks. When disclosed, nonmaterial information should be clearly identified and presented in a way that does not obscure material information. Nonmaterial information can be disclosed in an appendix to or in a sub-part of the sustainability statement.

Lever 3 — Making Critical Modifications to the Relationship Between GDRs and Topical Specifications

Proposed revisions to ESRS 2 and the topical standards to clarify the relationship between disclosure requirements include:

- *Modification of GDRs* — Renames "minimum disclosure requirements" to "general disclosure requirements" throughout the proposed revised standards and reduces the number of data points.
- *PAT disclosure reduction*:
  - Reduces the number of mandatory PAT data points within the topical standards, since the majority of PAT-related disclosures would be GDRs within ESRS 2.
  - Clarifies that (1) PATs only need to be reported to the extent that an entity has them and (2) if the entity does not have PATs in relation to a material IRO, the only required disclosure is this fact (there would be no required disclosure regarding the reason for not having them).
- *Modification of topical disclosure requirements* — Replicates the same approach as GDR for the other topical specifications of ESRS 2. Appendix C of ESRS 2 in the original ESRS, which set out additional disclosure requirements in topical standards on governance, strategy, and IRO management, has been removed.

Lever 4 — Enhancing the Standards' Understandability, Clarity, and Accessibility

Proposed revisions across the standards would modify the structure of the disclosure requirements and more clearly distinguish between mandatory and nonmandatory content as follows:

- *Mandatory requirements* — Simplifies and reduces the mandatory ("shall") disclosures and presents all requirements in the main body of the standards.
- *Application requirements* — Reduces and simplifies ARs and presents them as boxed content alongside the related section or disclosure requirement. No data points are included in the ARs.
- *Voluntary disclosures* — Eliminates optional ("may") disclosures or moves them to a separate NMIG document, except for a few that are retained in the main body of the ESRS.

Appendix 3, *Statistics About the Number of Datapoints*, of the Basis for Conclusions of the ED provides a summary of the proposed changes in data points by standard.

Lever 5 — Suggesting Additional Reliefs to Reduce Entities' Burdens

Proposed revisions to the standards to provide additional relief include those related to:

- *Undue cost and effort* — Permits the use of "reasonable and supportable information that is available without undue cost and effort" for materiality assessments, reported value chain information, and for all metrics, including metrics in own operations.
- *Nonmaterial activities* — Permits exclusion from metrics calculations activities that are not expected to be a significant driver of IROs.
- *Partial scope* — Permits disclosure of metrics that cover only a partial scope of the relevant reporting boundary when reliable data cannot be obtained without undue cost or effort. This relief applies to both own operations and value chain metrics, except greenhouse gas (GHG) emissions, and would require additional disclosures.

- *Joint operations* — Permits the exclusion of joint operations over which an entity does not have operational control from the calculation of environmental metrics (except ESRS E1, *Climate Change*).
- *Value-chain metric hierarchy* — No longer specifies a preference for value-chain metrics to be derived from direct data. Instead, the proposals would permit the use of primary data or data estimates, depending on the practicability and reliability of the data.
- *Leased assets* — Provides guidance on the treatment of leases in the reporting boundary by clarifying that IROs arising from the use of a leased asset do not depend on whether the asset is legally owned or leased.
- *Acquisitions and dispositions* — Allows an entity that acquires a subsidiary or a business during the reporting period to defer the inclusion of the subsidiary or business in the materiality assessment and in the sustainability statement to the subsequent reporting period. Similarly, if an entity loses control over a subsidiary or business in the reporting period, it would be allowed to adjust the scope of the materiality assessment and the reporting boundaries from the beginning of the current reporting period.
- *Anticipated financial effects* — Includes considerations for relief for anticipated financial effects as well as a request for stakeholder feedback on the two options provided for disclosure of quantitative information, qualitative information, or both.

Lever 6 — Enhancing the Interoperability of the Standards With Other Global Sustainability Reporting Frameworks

Proposed revisions to the standards intended to enhance interoperability with global sustainability standards, specifically the IFRS Sustainability Disclosure Standards, include:

- *Language alignment* — Adopts the same language used in IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2, *Climate-related Disclosures*, in cases in which EFRAG determined that it was possible.
- *Sector guidance* — Includes reference to the industry content in IFRS Sustainability Disclosure Standards, the SASB standards, and the GRI sector standards as sources of guidance for identifying entity-specific information.
- *Burden relief* — Includes certain burden reliefs that align with the proportionality mechanisms in the IFRS Sustainability Disclosure Standards (discussed in Lever 5).
- *Fair presentation* — Specifies that the ESRS are intended to be a fair presentation framework, which is the framework adopted in the IFRS Sustainability Disclosure Standards (discussed in Lever 1).
- *GHG emission boundary* — Amends the GHG emissions boundaries to more closely align to the GHG Protocol.[13] The proposed standards would require the use of the financial control approach, with additional disclosure of Scopes 1 and 2 in accordance with an operational control approach in specified circumstances in which the financial control approach does not provide a fair presentation of the entity's overall emissions. By contrast, the GHG Protocol and IFRS Sustainability Disclosure Standards allow the use of either a financial control or an operational control approach (as well as the equity share approach); therefore, by requiring the use of a financial control approach, the ESRS revisions do not resolve the possibility of not achieving full interoperability with GHG emissions disclosures in accordance with the GHG Protocol and IFRS Sustainability Disclosure Standards.

[13] The GHG Protocol is a set of standards and related guidance on accounting for and reporting GHG emissions.

Additional Considerations at the European Commission Level

There are several topics that were not included in the proposed amendments in the EDs because they are being considered by the EC for potential change in the CSRD (referred to as Level 1 regulation):

- Definition of value chain for financial institutions.
- Exemption from consolidating subsidiaries by undertakings that are financial holdings.
- Relief for omission of confidential or sensitive information.
- Meaning of "compatibility with 1.5 degrees," which is used in ESRS E1 in relation to transition plan disclosures.
- Whether nonmandatory illustrative guidance should be included as part of the legal text or maintained separately from the delegated act.

In addition, the proposed CSRD revisions would establish a value chain cap that limits the information that companies within the scope of the CSRD can request from companies in their value chain that are not within the scope. The EC is expected to adopt by delegated act a voluntary reporting standard specifying the information that may be requested, which will be based on a voluntary SME (VSME) standard. On July 30, 2025, the EC adopted a recommendation for the VSME standard. The content of the future voluntary reporting standard that will be used for the purpose of the value chain cap may differ from this VSME recommendation.

Timeline

EFRAG is seeking feedback on the EDs through its public consultation survey. The comment period ends on September 29, 2025. EFRAG will be required to analyze and consider the feedback received on the EDs before finalizing and submitting its technical advice to the EC by November 30, 2025. The EC will consider EFRAG's technical advice when adopting the proposed delegated act that amends the ESRS. The EC may adopt revised ESRS that differ from the technical advice.

The EC aims to adopt the necessary delegated act as soon as possible, and at the latest six months after finalization[14] of the Content Proposal. This timeline has been set to allow for the ESRS to be adopted as a delegated act in time for entities to apply the revised standards for financial year 2027, which is the first year of reporting for Wave 2 entities after finalization of the omnibus proposals, with early adoption possible for financial year 2026.

Proposed EUT Reporting Revisions

On July 4, 2025, the EC adopted a delegated act to finalize the proposals on the simplification of the EUT. The delegated act includes the following simplifications:

- All entities are exempt from assessing taxonomy eligibility and alignment for economic activities that are not financially material for their business. For a nonfinancial entity, activities are considered nonmaterial if they account for less than 10 percent of the entity's total revenue, capital expenditure (CapEx), or operating expenses (OpEx).
- Nonfinancial entities are exempt from assessing taxonomy alignment for their entire OpEx when such expenses are considered nonmaterial for their business model.
- Financial entities only need to report simplified key performance indicators (KPIs) like the green asset ratio (GAR) for banks and have an option not to report detailed taxonomy KPIs for two years.

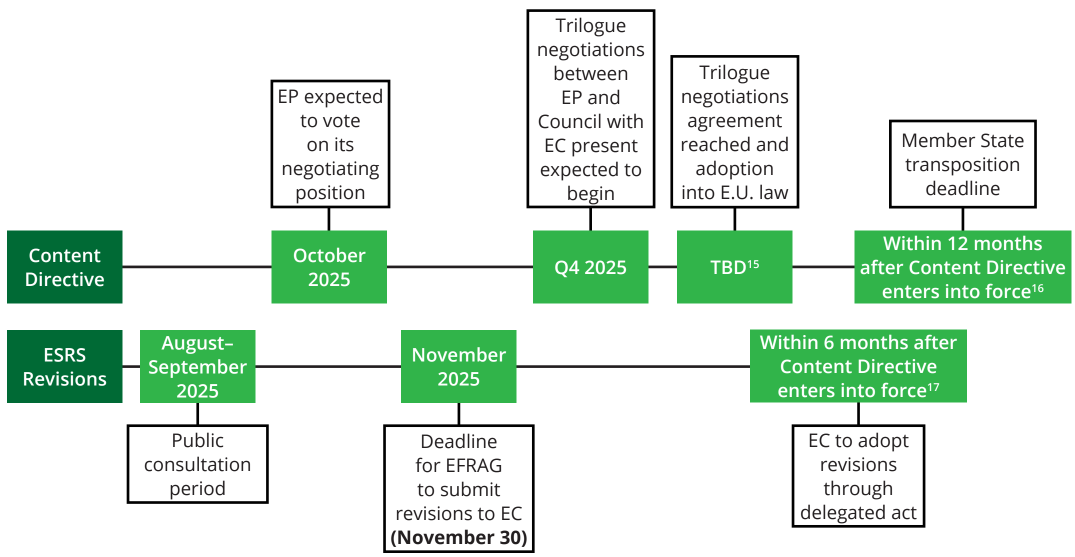
[14] Finalization takes place when the directive in the proposal enters into force after its publication in the *Official Journal of the European Union*.

- Taxonomy reporting templates are streamlined by reducing the number of reported data points by 64 percent for nonfinancial entities and by 89 percent for financial entities.
- The "Do No Significant Harm" criteria for "pollution prevention and control" related to the use and presence of chemicals are simplified.

The delegated act will be scrutinized by the European Parliament and the Council of the EU. The changes will apply once (1) the four-month scrutiny period, which can be prolonged by another two months, is over and (2) the delegated act has been published in the *Official Journal of the European Union*. The delegated act has an effective date of January 1, 2026, and will cover reporting for the 2025 financial year. However, entities have the option to apply the measures starting with the 2026 financial year.

Next Steps

The status of each component of the proposed omnibus legislation, including the Content Proposal and ESRS revisions, is summarized below.



Entities should continue to monitor the progression of the proposals and may consider responding to the ESRS EDs through the public consultation survey.

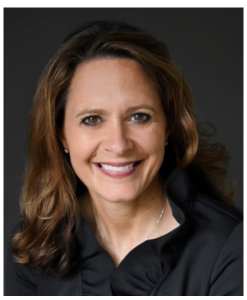
In addition, with regard to the proposed ESRS revisions, entities may consider the following:

- Determine how the updated DMA guidance may affect DMA assessments, whether for voluntary or regulatory disclosures, and how the 10 percent materiality threshold affects EUT reporting.
- Assess how the EDs may affect past, current, and planned future readiness efforts. Once the final standards are published, plan for a more detailed assessment to help ensure alignment to final standards.

[15] The length of the negotiations is unknown and can be affected by various factors.
[16] EC Content Proposal calls for Member State transposition within 12 months of entry into force of the Content Directive.
[17] EC Content Proposal indicates intent to adopt the delegated act within 6 months of entry into force of the Content Directive.

- Evaluate how ESRS reporting efforts may align with other jurisdictional or voluntary frameworks, such as California state senate bills, IFRS Sustainability Disclosure Standards, and GRI standards. This approach can promote consistency, comparability, and efficiency across sustainability disclosures. In doing so, entities should:
  - Consider the areas of intended interoperability introduced in the revised standards, such as updated terminology and GHG emissions boundaries.
  - Take into account any remaining areas of divergence.
- Assess the potential effects of the emphasis on the fair presentation framework, materiality as an overall filter of information, and the disclosure of material IROs at the level in which they are managed.
- Increase the internal awareness of how the proposed changes in the EDs and the EUT could affect planned initiatives and the responsibilities of internal stakeholders, as well as the level of awareness that executives and the board of directors may need.
- For entities not within the scope of the CSRD, consider the use of the VSME standard as a means of providing information to customers (particularly large companies reporting under the CSRD) seeking sustainability information.

Contacts



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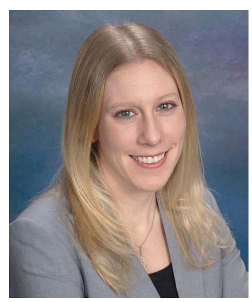

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