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iGAAP in Focus

European sustainability reporting

EFRAG proposes revised European Sustainability Reporting Standards

Contents

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This *iGAAP in Focus* sets out the exposure drafts (EDs) for revised and simplified European Sustainability Reporting Standards (ESRSs) published by EFRAG on 31 July 2025.

- EFRAG has published EDs that set out proposed revisions to the ESRSs that were initially issued in 2023.
- While EFRAG proposes to retain the fundamental architecture of the ESRSs, it proposes significant simplifications to the standards with the intention to improve the readability and conciseness of the resulting sustainability statements.
- Key changes include:
  - more emphasis on materiality of information as an overarching principle
  - simplification of the double materiality assessment
  - explicit inclusion of the fair presentation principle
  - reduction in datapoints and mandatory application guidance, with 'may disclose' content moved to non-mandatory implementation guidance (NMIG)
  - simplification of general disclosure requirements and their relationship with topical disclosure requirements
  - improved flexibility on presentation of the information, with more emphasis on how an entity manages its sustainability impacts, risks and opportunities
  - improvement of the understandability, clarity and accessibility of the standards
  - introduction of further reliefs
  - enhancement of the interoperability with global standards
- The comment period for the EDs ends on 29 September 2025.

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. Please refer to our *iGAAP in Focus* for details on the omnibus proposals.

The proposals included a commitment to revise the European Sustainability Reporting Standards (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.

The EDs set out EFRAG's proposals for the revisions to the ESRSs that will form the technical advice to the EC. The EDs are open for public comment until 29 September 2025. The final technical advice might differ from the EDs in reaction to the public feedback. Once received, the EC will consider EFRAG's technical advice but may adopt revised ESRSs that differ from the technical advice.

The following documents have been published and are available here on the EFRAG website:

- EDs for the 12 revised ESRSs, including log of amendments for each ED
- ED for the Non-Mandatory Implementation Guidance
- Basis for conclusions
- Annex II—Acronyms and Glossary of Terms (including mark-up version)
- One-pager briefing
- FAQ document
- Summary of stakeholder input document

EFRAG identified the following levers that it is using in its revisions to the ESRSs[1] :

- simplification of the double materiality assessment
- better readability, better conciseness of the sustainability statements and better inclusion in corporate reporting as a whole
- critical modification of the relationship between minimum disclosure requirements (MDRs) and topical specifications
- improvement of the understandability, clarity and accessibility of the standards
- addressing other suggested burden-reducing reliefs
- enhanced interoperability.

> **Observation**
> The EDs include EFRAG's proposals to revise and simplify ESRSs. The EDs do not include proposals 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 the first wave (i.e. required to report under the Corporate Sustainability Reporting Directive (CSRD) from periods commencing 1 January 2024) will still be required to apply the current ESRSs as issued by the EC.

Architecture of the ESRSs

The ESRSs 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 disclosures that apply to all entities regardless of their sector of activity (i.e. sector agnostic) and apply across sustainability topics (ESRS 2)
- topical standards, which cover a specific sustainability topic from a sector-agnostic perspective.

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

1. Stated in its progress report on revised and simplified ESRSs published on 20 June 2025

The full set of 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	
Goernance	**ESRS G1** Business conduct				

The annex containing a list of acronyms and a glossary of terms is proposed to be retained.

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 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, requires disclosure of information necessary to understand an entity's impacts on sustainability matters and how sustainability matters affect its development, performance and position.

Proposed revised ESRS 1 sets out phasing-in provisions, including for disclosure requirements or datapoints of disclosure requirements across various 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 **ESRS 1—Transitional provisions**).

Key differences to ESRS Set 1
- 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.
- The optional ("may") disclosures have been either eliminated or moved to separate "Non-Mandatory Illustrative Guidance" (NMIG), except for a few of them which are retained in the main body of the ESRSs. The EC will consider in due course whether the NMIG should be included as part of the legal text or maintained as separate from the delegated acts.
- EFRAG has identified opportunities to enhance interoperability with the standards of the International Sustainability Standards Board (ISSB).
- As sector-based standards are not now being developed, references are made to the ISSB Standards (including the SASB Standards) and the Global Reporting Initiative (GRI) sector standards as sources of guidance for identifying entity-specific information.

ESRS 1 *General requirements*

Objective of sustainability reporting

The revised objective of sustainability reporting prepared in accordance with the ESRSs is to present fairly an entity's material impacts on people and environment, as well as the material sustainability risks and opportunities (collectively referred to as 'impacts, risks and opportunities') in relation to environmental, social and governance topics. Reporting under these two perspectives constitutes the double materiality principle. An ESRS sustainability statement covers governance, strategy, policies, actions, targets and metrics for topics related to material impacts, risks and opportunities.

The revised 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 reporting 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, governments, analysts and academics. Civil society, non-governmental organisations and trade unions as users are proxies for affected stakeholders.

The revised ESRS 1 explains drafting conventions and sets out general requirements for identification of the entity's material impacts, risks and opportunities, as well as for preparing and presenting information about the topics related to them. It also sets out general requirements for the basis of the preparation of a sustainability statement.

Impacts, risks and opportunities

In the revised ESRSs, the term "impacts" refers to the effect an entity has or could have on the environment and people, including effects on their human rights, connected with its own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. The impacts can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible. They can arise over the short-, medium- or long-term.

The term "risks and opportunities" refers to the entity's sustainability-related financial risks and opportunities.

Collectively, these are referred to as "impacts, risks and opportunities".

Stakeholders

Stakeholders are defined as those who can affect or 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—positively or negatively—by the entity's activities and its direct and indirect business relationships across its value chain
- users of the sustainability statement: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance entities), and other users of the sustainability statement, including the entity's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.

Structure of disclosure requirements

Revised ESRS 1 sets out the overall structure of the revised ESRSs.

Revised ESRS 2 sets out disclosure requirements on the information that an entity is required to report on topics related to material impacts, risks and opportunities, addressing:

- the reporting areas of governance, strategy, impact, risk and opportunity management
- policies, actions, targets and metrics.

The revised topical standards address topics and sub-topics and reflect the same reporting areas as revised ESRS 2.

In addition, an entity is required to provide entity-specific disclosures 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 an ESRS. The IFRS Foundation's industry-based content or the GRI sector standards are referenced as non-mandatory sources of guidance in identifying entity-specific information.

Fair presentation and qualitative characteristics of information

As set out in the proposals, 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 revised ESRS 1. Applying the revised 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 revised ESRS 1, i.e.:

- relevance and faithful representation (fundamental characteristics)
- comparability, verifiability and understandability (enhancing characteristics).

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

Observation

The proposals set out that the ESRSs are intended to be a fair presentation framework, a concept which is included in the IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. For more information on the implications of a fair presentation framework, please see our *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; or
- it is necessary for users of general purpose sustainability statements to understand an entity's material impacts, risks and opportunities and how it identifies and manages them.

Key differences to ESRS Set 1

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

The proposals introduce a second aspect of material information to reflect the broader intended users identified in the ESRSs, that extend beyond the primary users of financial information.

Observation

The description of financial materiality above is consistent with IFRS S1, 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."

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 is required to report on a given topic when the topic relates to one or more material impacts, risks and opportunities, as identified through its double materiality assessment. The information is presented either at topical level or at impacts, risks and opportunities level, depending on what provides the most relevant information, such as reflecting their nature or the way they are managed.

Double materiality has two dimensions: impact materiality and financial materiality, which are interrelated. An entity is required to consider these interdependencies in the assessment. An impact may be financially material from inception or become financially material when it could reasonably be expected to affect the entity's financial position, financial performance, cash flows, its access to finance or cost of capital over the short, medium or long term. Impacts are captured by the impact materiality perspective irrespective of whether or not they are financially material.

Impact materiality assessment and financial materiality assessment
The **impact materiality assessment** corresponds to the identification of information that 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 its own operations, products, or services, including through business relationships in its upstream and downstream value chain. Business relationships are not limited to direct contractual relationships.

For actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts, it is based on a combination of the severity and likelihood of the impact. Severity is based on the following factors: the 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 based on the scale and scope of the impact while for potential impacts, it is based on scale, scope and likelihood of the impact.

When assessing the materiality of actual negative impacts—those that occurred during the reporting year or in prior years—the severity of the impact is evaluated considering the outcomes of any mitigation or prevention measures implemented before the impact occurred. Actual impacts in the reporting period include both new impacts and those continuing from previous periods. If the entity has taken actions during the reporting period to address actual negative impacts, these actions are not considered when assessing the materiality of the impact. Where the impact is deemed material based on this assessment, the entity is required to disclose the remediation actions undertaken and their expected or actual outcomes.

When supportable evidence exists that mitigation or prevention actions taken reduce the severity and/or likelihood of potential negative impacts (i.e. those that could occur in the future), the effect of these actions is considered in assessing the materiality of the impacts. However, if the entity needs to maintain significant ongoing mitigation and/or prevention actions to contain the severity and/or likelihood of occurrence of the potential impact below a materiality level, the impact is assessed without considering the mitigation and/or prevention actions. Future remediation actions and policies are not considered in the materiality assessment of potential impacts.

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. In particular, information is considered material for primary users of general purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of its sustainability statement.

A topic is reported from a financial perspective if it 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 its 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 derive from past or future events.

Practical considerations
To identify material impacts, risks and opportunities, an entity uses reasonable and supportable information that is available without undue cost or effort. In conducting its double materiality assessment, an entity is expected to focus the assessment of its own operations and upstream and downstream value chains on areas where material impacts, risks and opportunities are deemed likely to arise based on the business model, the nature of the activities, business relationships, geographies or other factors

An entity may avoid unnecessary complexity by starting with the topics for which it can be concluded whether or not they would lead to material impacts, risks and opportunities on the basis of its business model, upstream and downstream value chain, peer analysis and the strategic and business priorities, and therefore no further investigation or scoring is necessary.

Determining the information to be reported in accordance with revised ESRS 2 and topical standards
The sustainability statement includes material information. An entity is required to:

- disclose information as required by ESRS 2
- apply the provisions in revised ESRS 2 when reporting on material information about policies, actions, metrics and targets
- disclose material information in accordance with the disclosure requirements related to that specific topic or sub-topic in the corresponding revised topical ESRS
- disclose material entity-specific information when necessary.

Key differences to ESRS Set 1

- The proposals set out more fully the relationship between identification of material impacts, risks and opportunities and the topics and sub-topics to be reported. The intent is to avoid unnecessary granularity and encourage more focused reporting. This includes increasing the flexibility for an entity to decide at which level to report, based on the nature of the impacts, risks and opportunities and the way in which they are managed.
- The table of topics and sub-topics included in ESRS 1:AR16 of ESRS Set 1 has been simplified and is now non-mandatory non-binding guidance in Appendix A to ESRS 1.
- A new section has been introduced presenting "practical considerations". The intent is to reduce the overall complexity of the process and the extent of unnecessary scoring. The revised standard sets out that the double materiality assessment is normally to start from the analysis of the business model to identify the most obvious material topics.

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 revised ESRSs do not impose any conduct requirements in relation to due diligence, nor do they extend or modify the role of the administrative, management or 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 negative material 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 a consolidated financial statement, the sustainability statement is for the same consolidated group. When an entity reports at a consolidated level, it is required to perform its assessment of material impacts, risks and opportunities for the entire consolidated group regardless of its 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

The reported information is extended beyond own operations to cover material impacts, risks and opportunities connected with an entity through its direct and indirect business relationships in the upstream and/or downstream value chain ('value chain information'). This is required, based on reasonable and supportable information that is available without undue cost or effort, when it is necessary to allow for an understanding of an entity's material impacts, risks and opportunities and to meet the qualitative characteristics of information.

The entity is required to include material upstream and downstream value chain information:

- following the outcome of its materiality assessment as informed by any due diligence process in place
- in accordance with any specific requirements related to the upstream and downstream value chain in the revised 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 include information related to the supply/customer relationship with them, consistent with the approach adopted for the other similar business relationships in the value chain. 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 that are connected with the entity through the supply relationships and the related risks and opportunities.

Key differences to ESRS Set 1
- The revised standard now describes 'own operations'.
- EFRAG included an explanation that impacts, risks and opportunities arising from the use of a leased asset do not depend on whether the asset is legally owned or leased.
- EFRAG introduced a new relief that 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 boundaries from the beginning of the current reporting period.

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- and/or long-term time horizons when the use of the 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 revised 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 under the EU Taxonomy Regulation, it is required to include them in its sustainability statement and it may include them in a separate appendix.

Under the proposals, an 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 entity may include in its sustainability statement additional disclosures stemming from other legislation which requires the entity to disclose sustainability information, or generally accepted sustainability reporting standards and frameworks, including non-mandatory guidance and sector-specific guidance published by other standard-setting bodies (such as material issued by the ISSB or GRI). These additional disclosures should be clearly identified with an appropriate reference to the related legislation, standard or framework and meet the requirements for qualitative characteristics of information.

The entity may also include in its sustainability statement information about non-material topics (e.g. when the information is needed by a specific user). In these circumstances, the additional disclosures should be clearly identified, presented in a way that they do not obscure material information and meet the requirements for qualitative characteristics of information.

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.

Key differences to ESRS Set 1
- The option to have an 'executive summary' at the beginning of the sustainability statement has been introduced.
- The option to have appendices to the sustainability statement has been made more explicit, including for the EU Taxonomy disclosures.
- Mandatory appendices to ESRS 1 setting out the required structure of the sustainability statement have been removed to support greater flexibility in presentation.

Linkages with other parts of corporate reporting and connected information
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 related financial statements.

An entity may cross-refer its financial statements when reporting on monetary amounts or other quantitative information presented in the financial statements ('direct connectivity'). If the sustainability statement includes monetary amounts or other quantitative datapoints that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the entity's financial statements ('indirect connectivity'), the entity may explain how these amounts or datapoints relate to the most relevant amounts presented in the financial statements.

Key differences to ESRS Set 1
EFRAG clarified the concept of connected information, discouraging fragmentation of the disclosures and/or repetition of information about the same topics, in particular on policies, actions and targets.

Classified or sensitive information
An entity is not required to disclose classified information or sensitive information, even if such information is considered material. Sensitive information is defined as information and data, including classified information, that is to be protected from unauthorised access or disclosure because of obligations laid down in EU or national law, or in order to safeguard the privacy or security of a natural or legal person.

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.

Observation
The EC will further consider the topic of classified or sensitive information in the context of finalising the omnibus proposals.

Transitional provisions

Value chain
For the first three years of preparation of the sustainability statement under the revised ESRSs, in the event that not all the necessary information regarding its upstream and downstream value chain is available and, hence, is not disclosed, an entity is required to explain the efforts made to obtain the necessary information, the reasons why not all of the necessary information could be obtained and its plans to obtain the necessary information in the future.

In addition, for the first three years of preparation of the sustainability statement under revised ESRSs, to take account of the difficulties that an entity may face in gathering information from actors throughout its upstream and downstream value chain and to limit the burden for small- and medium-sized entities (SMEs) in the value chain, the following applies:

- when disclosing information on policies, actions and targets in accordance with revised ESRS 2 and other ESRSs, the entity may limit upstream and downstream value chain information to information available in-house, such as data already available and publicly available information
- when disclosing metrics, the entity is not required to include upstream and downstream value chain information except for datapoints derived from other EU legislation.

Disclosure requirements that are phased in
Appendix D of revised ESRS 1 sets out phase-in provisions for disclosure requirements or datapoints of disclosure requirements in the revised ESRSs that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement under revised ESRSs.

Observation
The phased-in disclosure requirements are potentially subject to change during the finalisation of the omnibus proposals and other proposed simplifications to EU legislation.

The ED does not incorporate the "quick fix" delegated act adopted in July 2025 that allows entities that are already reporting under ESRSs ('Wave 1') to apply the disclosure exemptions that were available in 2024 also in 2025 and 2026. In addition, all Wave 1 entities, regardless of their size, would be able to apply some of the disclosure exemptions that were previously only available to entities with fewer than 750 employees, once the delegated act enters into force.

ESRS 2 *General disclosures*

Objective

Revised ESRS 2 sets out the general disclosure requirements that apply across sustainability topics in relation to disclosure on material impacts, risks and opportunities and the topics related to them. In accordance with revised ESRS 1, an entity should aggregate or disaggregate impacts, risks and opportunities at a level that provides the most relevant information, i.e. at the level of individual impacts, risks and opportunities level or at a higher level, depending on their nature and how the entity manages them.

Key differences to ESRS Set 1

More emphasis is placed on the ability for an entity to disclose information about impacts, risks and opportunities grouped at a higher level (for example, in response to the way they are managed by the entity) if that results in providing the most relevant information.

Basis for preparation

The objective of this disclosure requirement is to provide an understanding of the basis for preparation of the sustainability statement, including the disclosures required by revised ESRS 1 in specific circumstances and information about the use of phasing-in options and reliefs.

An entity is required to disclose:

- whether the sustainability statement has been prepared on a consolidated or individual basis and, if the reporting boundary is different from the one adopted in the consolidated financial statements, a description of and the reasons for these circumstances
- 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 the general requirements in ESRS 1 have been applied for the preparation of its sustainability statement and to provide information on provisions or reliefs that have been applied.

Governance

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

- the roles and responsibilities of the administrative, management and supervisory bodies, as well as the processes, controls and procedures to monitor, manage and oversee material impacts, risks and opportunities, either individually or at a higher level
- whether incentive schemes that are linked to sustainability topics are offered to members of the administrative, management and supervisory bodies
- the main aspects and steps of the due diligence process that the entity has applied with regard to sustainability topics reported in its sustainability statement
- 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:

- describe the key elements of the entity's general strategy, as well as the key elements of its business model and value chain, that relate to or affect material impacts, risks and opportunities, in order to provide an understanding of its exposure to material impacts, risks and opportunities and where they originate
- provide an understanding of the entity's stakeholder engagement and whether and how stakeholders' interests and views are brought to the attention of its administrative, management and supervisory bodies and inform its strategy and business model
- provide an understanding of the interactions between the entity's material impacts, risks and opportunities and its strategy and business model, at the appropriate level of aggregation, i.e. individually, aggregated or at topic level, including financial effects.

Observation

The EDs include two options regarding anticipated financial effects, on which stakeholders are asked to provide feedback. Option 1 would continue to require a quantitative disclosure of the entity's anticipated financial effects, while Option 2 would permit only qualitative disclosures on anticipated financial effects.

The ISSB standards 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 provide an understanding of:

- the process through which the entity identifies impacts, risks, opportunities, and the related topic 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 disclosure requirements in the revised 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, as well as of its material risks and opportunities, specifying the related topics and how and where impacts, risks and opportunities are connected to its business model, 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:

- an overview of the process used for the materiality assessment, the key methodologies applied, the input parameters used and key data sources
- how the entity determines qualitative or quantitative thresholds
- the scope of operations and value chain covered, with an indication of whether the entity focuses on specific activities, business relationships, geographies or other factors that give rise to heightened risk of adverse impacts
- whether and how the entity prioritises negative impacts based on their relative severity and likelihood, and whether this is informed by its due diligence process
- whether and how the process includes consultations with affected stakeholders and external experts to understand the impacts
- the approach used to consider impacts and dependencies in identifying and assessing the entity's risks and opportunities
- whether and how the entity prioritises sustainability risks relative to other types of business risks, including its use of risk-assessment tools
- a description of the decision-making procedures
- whether and how the materiality assessment process has changed compared to the prior reporting period
- the basis for the conclusion if the entity concludes that climate change is not material and therefore omits all disclosure requirements in revised 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 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 child labour and forced or compulsory labour by type of operations (such as manufacturing plant), or by countries or geographies with operations, if the entity is connected through its own operations or upstream and downstream value chain to material impacts, risks and opportunities 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 revised 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".

Key differences to ESRS Set 1

- The disclosure requirements for the areas of content have been revised and streamlined.
- Appendix C of ESRS 2 in Set 1, which set out additional disclosure requirements in topical standards on governance, strategy and impact, risk and opportunity management has been removed.

General disclosure requirements for policies, actions, metrics and targets

Overall disclosure requirements

Information about policies, actions and targets enable an understanding of the level at which the entity is addressing its material impacts, risks and opportunities, i.e. at topic or sub-topic level. In instances where the entity has adopted policies or put in place actions or set targets for certain aspects only, this should be reflected in the way the disclosure is prepared and presented, enabling an understanding of how these aspects relate to the corresponding material impacts, risks and opportunities. 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.

If the entity categorises its material impacts, risks and opportunities in accordance with a set of management priorities, reflecting their relevance to the entity's strategy and business model, the way disclosures are structured and presented may reflect this approach.

An entity is required to apply the general disclosure requirements for policies, actions, metrics and targets, when it discloses either in accordance with a topical standard or on an entity-specific basis on policies, actions, targets and metrics related to material impacts, risks and opportunities, either individually or at a higher level, covering:

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

Observation

The ability to group material impacts, risks and opportunities on a higher than individual level (e.g. grouping to reflect the way those matters are managed strategically by an entity) is an important emphasis that is intended to support more concise and relevant disclosures about those impacts, risks and opportunities.

Disclosure requirements for policies

The objective of this disclosure requirement is to provide an understanding of the policies that the entity has in place to address the prevention, mitigation and remediation of actual and potential material impacts, manage material risks and pursue material opportunities, either individually or at a higher level, including an understanding of significant changes to the policies adopted during the reporting period.

Disclosure requirements for actions and resources

The objective of this disclosure requirement is to provide an understanding of the entity's key actions taken and/or planned to manage its material impacts, risks and opportunities, either individually or at a higher level, so as to prevent, mitigate and remediate its material actual and potential impacts and to address its material risks and opportunities, and where applicable achieve the objectives of related policies.

Disclosure requirements for metrics

The objective of this disclosure requirement is to provide an understanding of the metrics the entity discloses, which include those used to evaluate its performance and to track the effectiveness of its actions to manage its material impacts, risks and opportunities, either individually or at a higher level.

Disclosure requirements for targets

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

Key differences to ESRS Set 1

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.

Topical ESRSs

An entity is required to disclose information required in the revised topical ESRSs when it identifies material impacts, risks and opportunities that relate to that topic. The disclosure on the material impacts, risks and opportunities is expected to cover policies, actions and targets (if in place), dependencies when relevant, metrics and financial effects. The objective of the revised topical standards is to specify disclosure requirements in relation to items of information that are not covered in ESRS 2.

Key differences to ESRS Set 1
The topical standards have been streamlined. Many of the additional disclosure requirements relating to the reporting areas of government, strategy and impact, risk and opportunity management have been removed, or are addressed under general disclosure requirements.

There is a reduction in mandatory application requirements including in relation to metrics and granularity of disclosures.

ESRS E1 *Climate change*
Revised ESRS E1 sets out disclosure requirements related to climate change and, in particular, with respect to the following sub-topics:

- climate change mitigation
- climate change adaptation
- energy.

Climate change mitigation relates to the entity's endeavours to the general process of limiting 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. Revised ESRS E1 covers disclosure requirements related but not limited to the seven greenhouse gases (GHG). 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 climate change. Revised ESRS E1 covers disclosure requirements regarding climate-related hazards that can lead to physical climate risks for the entity and its adaptation solutions to reduce these risks. It also covers transition risks arising from the needed adaptation to climate-related hazards.

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

A detailed list of disclosure requirements is set out in the appendix to this publication.

Key differences to ESRS Set 1
The requirements for disclosure of transition plans have been streamlined. The core disclosure elements are retained but more emphasis is placed on achieving a high-level description of the key features of a transition plan.

The boundaries used for measurement of GHG emissions in ESRS E1 have been amended with the intent to align more closely to the GHG Protocol. The default boundary is the consolidated financial statements, requiring use of the financial control approach. However, the proposals would require additional disclosure of Scope 1 and Scope 2 GHG emissions following the operational control approach when needed to achieve fair presentation. The disclosure of total GHG emissions is no longer required.

Observation
The EC will further consider the meaning of 'compatibility with 1.5°C', which is used in ESRS E1 in relation to transition plan disclosures, in the context of finalising the omnibus proposals.

ESRS E2 *Pollution*
Revised ESRS E2 sets out the disclosure requirements related to pollution and, in particular, 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, respectively, into air, water and soil, as well as to the prevention, control and reduction of such emissions. Emissions to water includes both freshwater as well as marine water (the ocean).

Disclosure requirements on substances of concern, including substances of very high concern aim at providing users with an understanding of the related actual or potential impacts, also considering possible restrictions on their production, use, distribution and/or commercialisation.

A detailed list of disclosure requirements is set out in the appendix to this publication.

ESRS E3 *Water*

Revised ESRS E3 sets out disclosure requirements related to water and, in particular, with respect to the following sub-topics:

- water withdrawals
- water consumption
- water discharges
- water storage.

The term 'water' refers to surface water, groundwater and marine waters.

A detailed list of disclosure requirements is set out in the appendix to this publication.

ESRS E4 *Biodiversity and ecosystems*

Revised ESRS E4 sets out disclosure requirements related to biodiversity and ecosystems and, in particular, with respect to the following sub-topics:

- drivers of biodiversity and ecosystem change (terrestrial and marine habitat change, invasive species)
- the state of species
- the extent and condition of terrestrial 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.

A detailed list of disclosure requirements is set out in the appendix to this publication.

ESRS E5 *Resource use and circular economy*

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

- resource inflows (including mineral and biotic marine sources)
- resource outflows: products and services
- resource outflows: waste.

Circular economy represents a key pillar in the European Green Deal, which sets out the ambition for the EU to become a global leader in circular economy practices by 2030.

A detailed list of disclosure requirements is set out in the appendix to this publication.

ESRS S1 *Own workforce*

Revised ESRS S1 sets out disclosure requirements related to own workforce and, in particular, with respect to the following sub-topics:

- working conditions (adequate wages, work-life balance, working time, secure employment, including 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 (gender equality, equal pay for equal work, employment and inclusion of people with disabilities, non-discrimination, anti-harassment)
- other labour-related human rights (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 entity to supply labour ('self-employed people') or people provided by entities primarily engaged in 'employment activities'.

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

A detailed list of disclosure requirements is set out in the appendix to this publication.

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

Revised ESRS S2 covers all workers in the entity's upstream and downstream value chain who are or can be materially impacted by the entity, including impacts that are connected with the entity's own operations and upstream and downstream value chain, including through its products or services, as well as through its business relationships. This includes all workers who are not included in the scope of ESRS S1.

A detailed list of disclosure requirements is set out in the appendix to this publication.

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

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

A detailed list of disclosure requirements is set out in the appendix to this publication.

ESRS S4 *Consumers and end-users*
Revised ESRS S4 sets out disclosure requirements related to consumers and end-users and, in particular, with respect to the following sub-topics:

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

A detailed list of disclosure requirements is set out in the appendix to this publication.

ESRS G1 *Business conduct*
Revised ESRS G1 sets out disclosure requirements related to business conduct and, in particular, 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 (unfair) payment practices
- political influence and lobbying activities.

A detailed list of disclosure requirements is set out in the appendix to this publication.

Next steps
The comment period for the EDs ends on 29 September 2025. EFRAG will be required to analyse and consider the feedback received on the EDs, before finalising and submitting its technical advice to the EC by 30 November 2025. The EC will consider EFRAG's technical advice when adopting the proposed 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 as soon as possible, and at the latest six months after the entry into force of the omnibus proposals. This timeline has been set 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 proposed revisions to ESRSs, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

Appendix—topical disclosure requirements

The following tables set out the disclosure requirements contained in the revised topical ESRSs.

	Standards that cover environmental topics				
	ESRS E1 *Climate change*	**ESRS E2 *Pollution***	**ESRS E3 *Water***	**ESRS E4 *Biodiversity and ecosystems***	**ESRS E5 *Resource use and circular economy***
Strategy	The entity's past, current and future mitigation efforts to ensure that its strategy and business model are compatible with the transition to a sustainable economy and with limiting global warming to 1.5°C in line with the Paris Agreement and the objectives of the European Climate Law, including achieving climate neutrality by 2050	—	—	The entity's response and contribution to the transition implied by the Global Biodiversity Framework, when it has in place a biodiversity and ecosystems transition plan	—
	How the entity identifies and assesses climate-related impacts, risks and opportunities for materiality				
	The extent to which the entity's strategy and business model are prepared for, and can adapt to, climate-related risks				
Impact, risk and opportunity management	The entity's climate change policies	The entity's pollution-related policies	The entity's water-related policies	The entity's biodiversity and ecosystems policies	The entity's resource use and circular economy policies
	The entity's key climate change actions and resources allocated to their implementation	The entity's key pollution-related actions and significant resources allocated to the implementation of these actions	The entity's key water-related actions and significant resources allocated to their implementation	The entity's key biodiversity and ecosystems-related actions and significant resources allocated to their implementation	The entity's resource use and circular economy actions
Metrics and targets	The entity's climate change targets	The entity's pollution-related targets	The entity's water-related targets	The entity's biodiversity and ecosystems-related targets	The entity's resource use and circular economy targets
	The entity's energy consumption and mix				

	The entity's direct and indirect impacts on climate change as a result of activities in its own operations and from within its upstream and downstream value chain, expressed in its absolute gross GHG emissions generated during the reporting period, expressed as metric tonnes of CO2eq classified as Scope 1, 2 and 3	The pollutant emissions of the entity to air, water and soil, and of the manufacturing, use and release into the environment of microplastics	The entity's water management practices and progress over time	The performance of the entity against biodiversity- and ecosystems change-related impacts, risks and opportunities	The resource inflows of the entity, including information on the types and quantities of resources entering the organisation, with a focus on their circularity
	The entity's actions to reduce and permanently remove GHGs from the atmosphere and the extent and quality of carbon credits it has purchased or intends to purchase from the voluntary market				How the entity implements circular economy by designing, manufacturing and providing goods and services in accordance with circular economy principles, and by effectively managing waste
	The entity's use of internal carbon pricing schemes, namely: an explanation of whether and how the entity is applying a carbon price in decision-making (for example investment decisions, transfer pricing and scenario analysis), the consistency of the prices used with the prices used in the financial statement for impairment tests and the price per metric tonne of GHG emissions	The entity's material impacts on health and the environment, and connected risks and opportunities stemming from the manufacturing, trading or use of substances of concern and substances of very high concern including risks arising from changes in regulations			
	How the identified material impacts, risks and opportunities are expected to affect the entity's financial position and future performance*				

*Whether this requires quantitative or qualitative information depends on which option the EC finds appropriate for disclosing anticipated financial effects—see box above under **ESRS 2—Strategy.**

	Standards that cover social topics				Standards that cover governance topics
	ESRS S1 *Own workforce*	**ESRS S2 *Workers in the value chain***	**ESRS S3 *Affected communities***	**ESRS S4 *Consumers and end-users***	**ESRS G1 *Business conduct***
Impact, risk and opportunity management	The entity's policies for managing the material impacts, risks and opportunities related to its own workforce, including whether these policies cover specific groups within its own workforce (for example, employees working in a particular factory or geography, or self-employed persons) or all of its own workforce	The entity's policies for managing the material impacts, risks and opportunities related to value chain workers, including whether these policies cover specific groups of value chain workers (for example, particular age groups, or workers in a particular factory or country) or all value chain workers	The entity's policies for managing the material impacts, risks and opportunities related to affected communities, including whether these policies cover specific affected communities (for example, a community of indigenous people or a community living around the entity's site) or all affected communities	The entity's policies for managing the material impacts, risks and opportunities related to consumers and/or end-users, including whether these policies cover specific groups (for example, particular age groups) or all consumers and/or end-users	The entity's business conduct policies
	The entity's general approach to engagement with its own workforce, the availability of channels, including grievance mechanisms, and remedy	The entity's general approach to engagement with value chain workers, the use of channels to raise concerns or grievance mechanisms and remedy	The entity's general approach to engagement with affected communities, the availability of channels, including grievance mechanisms, and remedy	The entity's general approach to engagement with consumers and/or end-users, the availability of channels, including grievance mechanisms, and remedy	The entity's business conduct actions
	The key actions and resources used to manage the entity's material impacts, risks and opportunities related to its own workforce	The key actions and resources used to manage the entity's material impacts, risks and opportunities related to value chain workers	The key actions and resources used to manage the entity's material impacts, risks and opportunities related to affected communities	The key actions and resources to manage the entity's material impacts, risks and opportunities related to consumers and/or end-users	
Metrics and targets	The qualitative and/or quantitative targets related to its own workforce	The qualitative and/or quantitative targets related to value chain workers	The qualitative and/or quantitative targets related to affected communities	The qualitative and/or quantitative targets related to consumers and/or end-users	The entity's business conduct targets
	Insight into the entity's approach to employment practices, including security of employment for its own workforce				Transparency on the incidents relating to corruption or bribery during the reporting period and the related outcomes
	How much the entity relies on non-employees as part of its own workforce				

	The coverage of collective bargaining agreements and social dialogue for the entity's employees		The entity's activities and commitments related to exerting its political influence with political contributions, including the types and purpose of lobbying activities
	The gender diversity at top management level		
	Whether or not the entity's employees are paid an adequate wage		
	Whether the entity's employees are covered by social protection against loss of income due to major life events, and, if not, the countries where this is not the case		
	The extent to which persons with disabilities are included among the entity's employees		Contractual payment terms and the entity's performance with regard to payment, especially with regard to late payments to SMEs
	The training and skills development-related activities that have been offered to employees, within the context of continuous professional growth, to upgrade employees' skills and facilitate continued employability		
	The coverage, quality and performance of the health and safety management system established to prevent work-related accidents, ill-health and fatalities		
	The entitlement of the entity's employees to take family-related leave		
	The global gap in the pay between women and men amongst the entity's employees and the level of remuneration inequality within the entity to enable an understanding of whether pay disparities exist		
	The extent to which incidents of discrimination and other human rights incidents affect the entity's own workforce		

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