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NEXT STEPS FOR CSRD

Preparing for the simplified ESRS & ESRS-40a

The latest developments in European and non-European sustainability reporting, and what they mean in practice for in-scope reporters

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European sustainability reporting has settled, and a parallel set of rules for groups based outside the European Union is now taking shape. On 3 July 2026 the European Commission adopted the final, simplified European Sustainability Reporting Standards (ESRS), largely confirming the direction set in its May draft. In parallel, the European Financial Reporting Advisory Group (EFRAG) issued a dedicated standard for non-EU parent groups, the Non-European ESRS (the official EFRAG shorthand is ESRS-40a, standing for the ESRS for Third-Country Groups), for public consultation on 23 July 2026, with a deadline for comments of 31 October 2026. For companies already in scope, the question has shifted from whether to report to how to report well, and through which route.

This memo brings ERM's insights for corporate reporting, finance and legal leaders. It covers what has changed in the adopted ESRS, what the newly published Non-European ESRS means for groups headquartered outside the EU, and the concrete steps that reporters should take now. Throughout, it distinguishes three groups (the former Wave 3, listed small and medium-sized enterprises, has been removed from mandatory scope):

Group	Final reporting threshold	First reporting date
Wave 1	EU public-interest undertakings already reporting under the original CSRD, provided they remain above the revised threshold of more than 1,000 employees and more than €450 million net turnover.	Reporting already started for FY2024; FY2026 transition options apply. If still in scope, the revised ESRS needs to be applied from FY2027 onwards. Option to voluntary use revised ESRS for FY2026.
Wave 2	Large EU undertakings and groups with more than 1,000 employees and more than €450 million net turnover.	First reports expected in 2028, covering FY2027.
Wave 4	Non-EU parent groups with more than €450 million EU net turnover in each of the last two consecutive financial years and an EU subsidiary or branch generating more than €200 million net turnover in Europe. No employee threshold.	First reports expected in 2029, covering FY2028.

Understanding the final proposed CSRD changes

The revised ESRS are now final, and the direction of travel is clear: leaner, more judgment-based reporting, alongside a new standard emerging for groups based outside the EU. The main developments are set out below.

Simplified ESRS architecture

The overall architecture has been streamlined to cut volume and align more closely with the global IFRS baseline, making the standards easier to navigate and apply:

- Stronger alignment with IFRS Sustainability Standards (e.g., reliefs for anticipated financial effects disclosures)
- Simplified DMA through a top-down approach focused on material IROs
- Consolidated ESRS 2, reducing duplication and replacing MDRs with GDRs

Fair presentation & materiality

Materiality now carries more weight, shaping both what is disclosed and how the statement is judged as a whole:

- Materiality acts as a filter across all disclosures
- Fair presentation assessed at sustainability statement level rather than datapoint level
- Greater emphasis on entity-specific, decision-useful information

More flexibility to reduce reporting burden

Preparers gain more room to leave out information that is immaterial, commercially sensitive or genuinely unavailable, provided each omission is explained:

- Report only information material to stakeholder groups
- Permit omissions for commercially sensitive information
- Allow omissions when information is unavailable without undue cost or effort, subject to explanation & remediation plans

Climate reporting simplified (E1)

Climate remains the most detailed topic, but several of its most demanding requirements have been eased or made more flexible:

- Greater flexibility in GHG boundary setting (equity share, operational or financial control)
- Simpler transition plan disclosures (e.g., scenario analysis no longer mandatory)
- Climate targets assessed against 1.5°C compatibility rather than full alignment

Environmental disclosures streamlined (E2–E5)

The remaining environmental topics have been trimmed to focus on the information most useful to readers:

- Reduced reporting scope for pollution, water, biodiversity and circular economy topics
- Simpler biodiversity transition plans
- Greater focus on key materials and decision-useful information

Social & governance disclosures streamlined (S1 & G1)

Workforce and business-conduct reporting has been narrowed to the most decision-useful metrics:

- Fewer workforce and business conduct datapoints
- More targeted disclosures on wages and confirmed human rights/corruption incidents
- Revised reporting thresholds for selected workforce disclosures

Extended phase-ins and reporting reliefs

The most challenging disclosures can be deferred, giving preparers time to build the underlying data and controls:

- Extended phase-ins and temporary disclosure exemptions (e.g., financial effects, value-chain information, acquisitions/disposals, substances of concern and SVHC disclosures)
- More flexible sustainability statement structure

Companies also have greater freedom in how they organize and present the sustainability statement itself:

- Greater flexibility in CSRD statement presentation (moving away from four-part structure (general information, policies, actions and targets/metrics))
- Optional executive summary and alternative statement structures
- Use of appendices for detailed calculations and EU Taxonomy disclosures

A three-way choice for FY2026

Wave 1 reporters face an immediate transition decision for the FY2026 cycle:

- For Wave 1 companies, three routes for FY2026: keep the 2023 standards with Quick-fix relief; move fully to the revised ESRS; or take a middle path of the 2023 standards plus a defined menu of reliefs from the revised set.

The Non-European ESRS (ESRS-40a) emerges:

A parallel standard for non-EU parent groups is now taking shape and warrants early attention:

- A dedicated standard for groups headquartered outside the EU, the Non-European ESRS (ESRS-40a), was issued for public consultation on 23 July 2026 and closes on 31 October 2026.
- It mirrors the architecture of the simplified ESRS, keeping the same twelve standards and reporting areas, but removes the financial-materiality side of the framework, so reporting is based on impact materiality alone.
- It offers three reporting routes: a global approach; an optional "mixed approach" that limits non-climate disclosures to EU-related impacts only, where these can be meaningfully identified; or voluntary application of the full ESRS. Climate change (E1) is always reported on a global basis.

Key steps to take

The framework is stable enough to act on, even while the ESRS-40a is still in consultation. The actions below apply to every in-scope company, followed by guidance for each wave.

Priorities for every in-scope company

Start with the double materiality assessment: refresh it rather than rerun it, re-confirming earlier conclusions against the revised topic structure and the smaller datapoint set instead of repeating the exercise from scratch. Re-map material topics to the revised datapoints before rebuilding any data collection.

Refresh your gap assessment against the revised standards and turn it into a clear reporting roadmap: Rather than starting again, revisit any existing gap analysis and re-test it against the smaller mandatory datapoint set, the tighter materiality rule and the statement-level fair presentation requirement, so that effort is directed only at the gaps that still matter. From that, build a roadmap that sequences the key decisions and deliverables and helps assign clear ownership, so the transition is managed as a planned program.

Map data points that are interoperable with other disclosure requirements such as the IFRS ISSB S1 & S2 Standards: Leading companies are building one sustainability-information architecture, with shared governance, controls, climate data and materiality outputs, and treating each framework as a disclosure output that sits on top of it. Done well, a single core dataset can serve the EU ESRS as well as other global reporting requirements so that content is authored once and routed to each report.

Wave 1 reporters: existing CSRD reporters

Wave 1 reporters are mostly managing continuity. They benefit from extensive phase-in relief, including on biodiversity and the value-chain social topics, and are not required to restate comparatives for metrics that change between the old and revised standards. The immediate decision is the FY2026 route, and whether the new hybrid option, the 2023 standards plus selected reliefs, eases the move to mandatory revised reporting in FY2027.

Wave 2 reporters: large EU entities

Wave 2 reporters, whose first reports are due in 2028 on FY2027, should plan directly for the revised ESRS as their baseline. The practical work is to review the double materiality assessment and data completeness early, using FY2026 to test the reporting process before it becomes mandatory. Phase-in reliefs are essentially the same as Wave 1's, applied over a defined number of reporting cycles.

Wave 4 reporters: non-European groups operating in the EU

The trigger for non-European groups is an EU subsidiary or branch with net turnover above €200 million, within a group generating EU net turnover above €450 million in each of the last two consecutive financial years, with no employee test. First application is expected for the 2028 financial year, with reports in 2029, and EFRAG estimates around 1,200 groups are caught, the largest populations being in the United States and the United Kingdom.

Non-European groups should confirm scope entity by entity, since scoping errors, such as missing branches or testing only a single year's turnover, are common. Second, decide early between the three reporting routes: reporting globally under the ESRS-40a; using the "mixed approach" to limit non-climate disclosures to EU-related impacts only; or applying the full ESRS voluntarily at group level, which can unlock subsidiary exemptions.

Third, engage with the public consultation, which is now open and closes on 31 October 2026 and is the main opportunity to shape the standard.

Questions and answers

Did much change between EFRAG's initial draft and the final adopted standards?

Only modestly. The final text keeps EFRAG's main simplifications, fewer data points, consolidated standards and stronger reliance on materiality judgment, giving preparers more certainty for FY2026 and FY2027 planning.

How have materiality requirements changed in the new ESRS?

Materiality is now a stronger filter: companies are not only allowed to omit immaterial information but expected not to disclose it, supporting shorter reports while requiring a defensible assessment. A top-down approach is also allowed, starting from ESRS topics and testing underlying impacts, risks and opportunities only where needed, though bottom-up evidence is often still required.

How has the greenhouse gas boundary question been settled?

The final text allows financial-control or operational-control boundaries, aligning with Greenhouse Gas Protocol practice. The choice is practical: which boundary best reflects how the group manages, controls and explains its emissions.

Did the hoped-for single filing with the ISSB standards materialize?

No. The Commission has prioritized interoperability over full convergence. ESRS and ISSB reporting can share much of the same climate, governance and data infrastructure, but framework-specific disclosures and reconciliation will still be needed.

How does the Non-European ESRS differ to the simplified ESRS?

It keeps the familiar ESRS structure but removes financial materiality, focusing on impacts on people and the environment. Its key feature is the optional "mixed approach", letting non-EU groups limit non-climate disclosures to EU-related impacts where these can be meaningfully identified. Climate change is always reported globally.

Could applying full ESRS voluntarily be better than the Non-European ESRS?

Potentially. The choice is between ESRS-40a globally, the ESRS-40a mixed approach, or voluntary full ESRS at group level. Full ESRS may unlock subsidiary exemptions and avoid parallel systems, but the right route depends on group structure, assurance strategy and objectives.

When can the "mixed approach" actually be used, and what are its limitations?

Only where EU-related impacts can be meaningfully identified and faithfully represented, based on how operations, products and value chains are organized. It can be applied topic by topic, but EFRAG flagged real limitations: a weaker level playing field with EU peers, reduced comparability and understandability, harder assurance, and the risk of overlooking global human rights and environmental impacts.

Can we avoid double reporting if we already report under IFRS S1 and S2?

Largely, yes. The standards are highly interoperable, and EFRAG estimates up to around half of climate disclosures may be common. Groups can incorporate qualifying information by reference or prepare a single report satisfying both frameworks. Some differences remain, so a clear content index and careful structuring keep the report auditable.

How ERM Can Help

ERM's Sustainability, Strategy & Reporting practice is advising reporters across Europe and North America on the transition to the revised ESRS and on readiness for the Non-European ESRS. Contact your regional lead below.

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References

[1] European Commission, Commission Delegated Regulation (EU) adopted 3 July 2026 amending Delegated Regulation (EU) 2023/2772 as regards the simplification of certain sustainability reporting standards, C (2026) 5010 final (adopted act, Explanatory Memorandum and Annex I).

[2] European Commission (DG FISMA), Commission adopts revised sustainability reporting standards to reduce administrative burdens for EU businesses, 3 July 2026.

[3] European Commission, Have-Your-Say portal, Initiative 16775: Sustainability reporting, revision of the ESRS (consultation 6 May to 3 June 2026, 453 responses).

[4] EFRAG, European Sustainability Reporting Standards for Certain Non-EU Undertakings in accordance with Article 40a of the Accounting Directive (Non-European ESRS / ESRS-40a), Exposure Draft (version ED_V1.6), approved by the EFRAG SR TEG on 23 June 2026 and by the EFRAG SRB on 1 July 2026, and issued for public consultation on 23 July 2026 (deadline 31 October 2026).

[5] EFRAG, ESRS for Non-EU Groups, SRB public session materials, 3 June 2026, and SRB approval of the Exposure Draft, 1 July 2026.

[6] Directive (EU) 2026/470 (Omnibus I), Official Journal of the European Union, 26 February 2026 (revised CSRD scope thresholds).

[7] ERM client memos: Navigating the Draft Simplified ESRS (January 2026); ESRS EU Commission Exposure Draft (May 2026); Final Adopted ESRS (July 2026); Non-European ESRS Exposure Draft (June 2026); and the ERM Policy Alert, The EU sustainability reporting reset (July 2026).

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