HOT TOPIC

Sustainability in the EU

Global implications of EU sustainability reporting

April 2025

Omnibus proposals could significantly reduce the scope of the CSRD and its applicability beyond the EU.

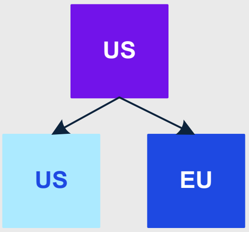
Source and applicability

- The EU's Accounting Directive, as amended by the Corporate Sustainability Reporting Directive (CSRD), applies to certain EU companies, non-EU parents (including US companies) with substantial activity and a physical presence in the EU, and non-EU subsidiaries of companies that meet the scoping.
- The Omnibus package includes proposals that would further amend the Accounting Directive.

Fast facts and impacts

The CSRD is being reviewed to reduce sustainability reporting requirements. In February 2025, the European Commission (EC) proposed an Omnibus package that included significant CSRD amendments, such as limiting the reporting under European Sustainability Reporting Standards (ESRS) to only the largest companies. While not yet adopted, these proposals warrant careful consideration due to their scope.

Notwithstanding that the CSRD is an EU Directive, there are considerable sustainability reporting implications for US and other non-EU based companies (including those with securities listed on an EU-regulated market). The following overview – based on the CSRD as adopted by the EU – highlights the potential impact on a US (or other non-EU) parent of an EU subsidiary or branch.



- The CSRD scoping requirements for non-EU parent companies are based on a combination of physical presence in the EU (e.g. a subsidiary) and net turnover (revenue) generated in the EU.
- There will be separate disclosure requirements for non-EU parent companies in the scope of the CSRD covering the group level – i.e. not just its EU subsidiaries.
- Reporting exemptions reduce – but do not eliminate – the reporting obligations of EU subsidiaries of non-EU parent companies.

This Hot Topic was updated in April 2025 to reflect the EU's agreement to postpone CSRD effective dates for certain companies by two years.

Background

The prior EU requirements to publish nonfinancial statements stemmed from the Non-Financial Reporting Directive (NFRD) – EU Directive (2014/95/EU). The NFRD applied to large 'public interest entities' with more than 500 employees.

The CSRD, as adopted, amended and significantly expanded the prior EU requirements for sustainability reporting – both in terms of the number of companies in scope and the nature of the sustainability reporting. It is estimated that the scope extended from fewer than 12,000 to nearly 50,000 companies just in the EU.

The EC originally proposed the CSRD in April 2021. After various counter-proposals, the European legislative bodies reached agreement on the CSRD, and it was adopted by the European Parliament (EP) and the Council of the EU (Council) in November 2022. The CSRD entered into force on January 5, 2023. After this date, the Member States were provided an 18-month period for the CSRD to be transposed into their respective national law. Some Member States did not meet this deadline (see CSRD transposition).

One of the provisions in the CSRD requires companies in scope to report sustainability information based on ESRS. The first set of ESRS (referred to as 'full ESRS') were drafted by the European Financial Reporting Advisory Group (EFRAG), adopted by the EC in July 2023 and published as an EU Delegated Act in the Official Journal of the EU in December 2023. They are effective for reporting starting January 1, 2024. To learn more about ESRS, read our handbook, ESRS Foundations. There will be separate reporting requirements for reporting when an ultimate non-EU parent company is in the scope of the CSRD.

The CSRD is just one component of a number of sustainability-related legislative acts supporting the European Green Deal that include reporting obligations – e.g. EU Taxonomy disclosures. For additional information, see Resources.

Omnibus proposals

In February 2025, the EC released an Omnibus package of proposals to reduce sustainability reporting and due diligence requirements. This includes proposed amendments to the CSRD aimed at simplifying and streamlining the regulatory framework introduced by the CSRD while still achieving the overall ambition of the European Green Deal.

The Omnibus package includes two separate legislative documents relevant to the CSRD.

- **'Stop the clock' proposal**, now agreed to by the EP and the Council, postpones the CSRD effective dates by two years for companies scheduled to first report for their 2025 or 2026 financial years. This allows companies to avoid having to report for the first time under the CSRD, as adopted, while the more substantial proposals are going through the EU's due process. To become effective, this amendment still needs to be formally adopted, published in the Official Journal of the EU and transposed into the national law of Member States.
- **Substantive proposals** aim to reduce the reporting burden in various ways – most notably by limiting the scope of the CSRD to large companies (or groups) with > 1,000 employees. The EC estimates this would decrease the number of companies in scope by approximately 80%. To become effective, these proposals need to be adopted into EU law, following deliberations by the EP and the Council, and transposed into the national law of Member States.

While this Hot Topic discusses the CSRD as adopted, we highlight the impact of these proposed amendments throughout.

The Omnibus package also includes proposed changes to the Corporate Sustainability Due Diligence Directive (CSDDD), which are discussed in our CSDDD Hot Topic; and the Carbon Border Adjustment Mechanism.

Scoping requirements

The CSRD includes different scoping requirements for EU-based and EU-listed companies (including listed non-EU based companies) versus non-EU parent companies – referred to in this Hot Topic as ‘general’ vs ‘non-EU parent’ scoping, respectively. The general scoping depends on listing status or size, whereas the non-EU parent scoping is based on a combination of physical presence in the EU and net turnover (revenue) generated in the EU. This interplay of requirements, plus related reporting exemptions, can make the scoping analysis complex.

General scoping

The CSRD applies to all large and most listed companies in the EU (and their subsidiaries) – including companies outside the EU with listed securities on an EU-regulated market.

- Large companies or large groups (i.e. a company including all its subsidiaries on a consolidated level) are defined as meeting at least two of the following, for each of the last two consecutive years:

  > 250 employees;
  > €50M net turnover (revenue);
  > €25M total assets.

  The substantive proposals would not change the above definition of large companies, but would change the general scoping so that only large companies (or large groups) with > 1,000 employees on average during the financial year would be in scope of the CSRD.

- Listed companies in the EU that are in the scope of the CSRD include companies with listed securities (including debt and equity) on an EU-regulated market, other than ‘micro-companies’. A micro-company meets at least two of the following (including subsidiaries), for each of the last two consecutive years: ≤ 10 employees; ≤ €900,000 net turnover (revenue); ≤ €450,000 total assets.

  As indicated above, the substantive proposals would amend the general scoping to exclude companies with ≤ 1,000 employees. This includes the exclusion of *listed* companies with ≤ 1,000 employees.

The general scoping includes large subsidiaries of non-EU parents – i.e. all companies based in the EU or listed on an EU-regulated market are subject to testing under the above criteria regardless of the origins or domicile of their ownership. Based on discussions, it appears that the general scoping also applies to an EU holding company even if it is not required to prepare consolidated financial reports – e.g. because the holding company qualifies for exemptions from consolidated financial reporting.

Non-EU parent scoping

Irrespective of the general scoping described above, global group-level sustainability reporting is required if an ultimate non-EU parent company has:

- substantial activity in the EU – i.e. it generated net turnover greater than €150M in the EU for each of the last two consecutive years; and

  The substantive proposals would increase the ultimate non-EU parent company’s net turnover threshold from €150M to €450M.

- at least:
  - one EU subsidiary that meets the general scoping of the CSRD; or
  - one EU branch (in general, a physical presence) that generated net turnover greater than €40M in the preceding financial year.

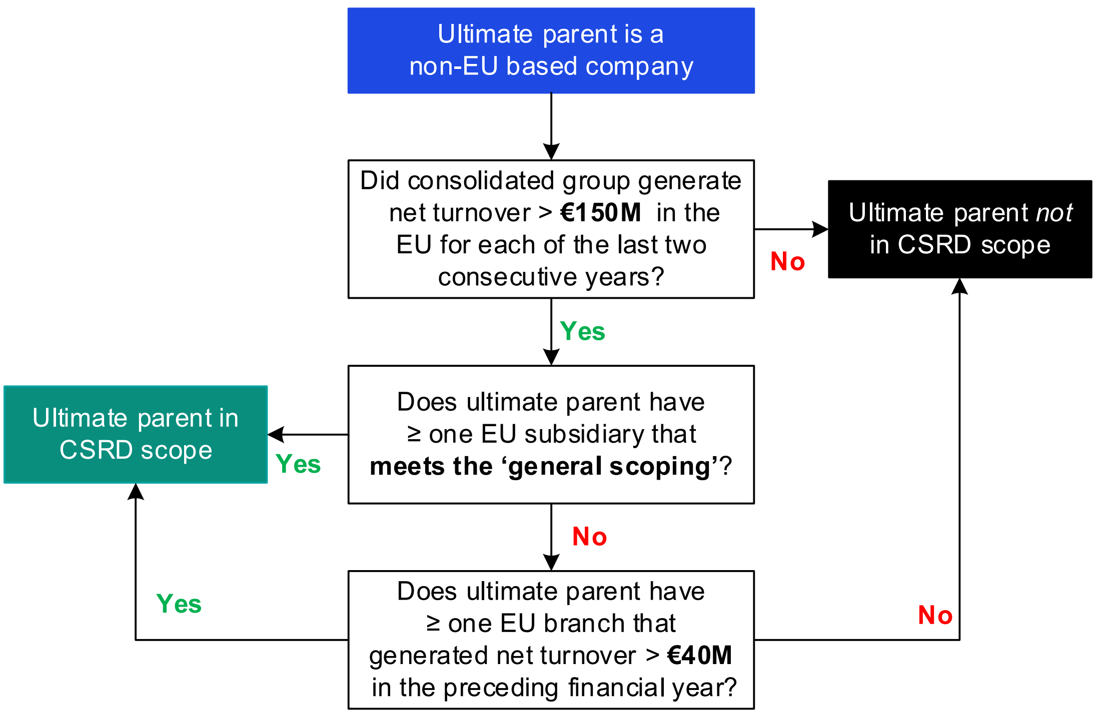
The substantive proposals would modify both the:

- first criterion from ‘one EU subsidiary that meets the general scoping’ to ‘one EU subsidiary that meets the definition of a large company’; and
- second criterion by increasing the threshold for the net turnover generated by an EU branch from €40M to €50M.

Non-EU parent scoping – illustration

The following decision tree summarizes application of the non-EU parent scoping.

The **bold** font in the decision tree indicates the non-EU parent scoping criteria that would be amended by the substantive proposals. Please see the above boxes for additional details on these proposed amendments.



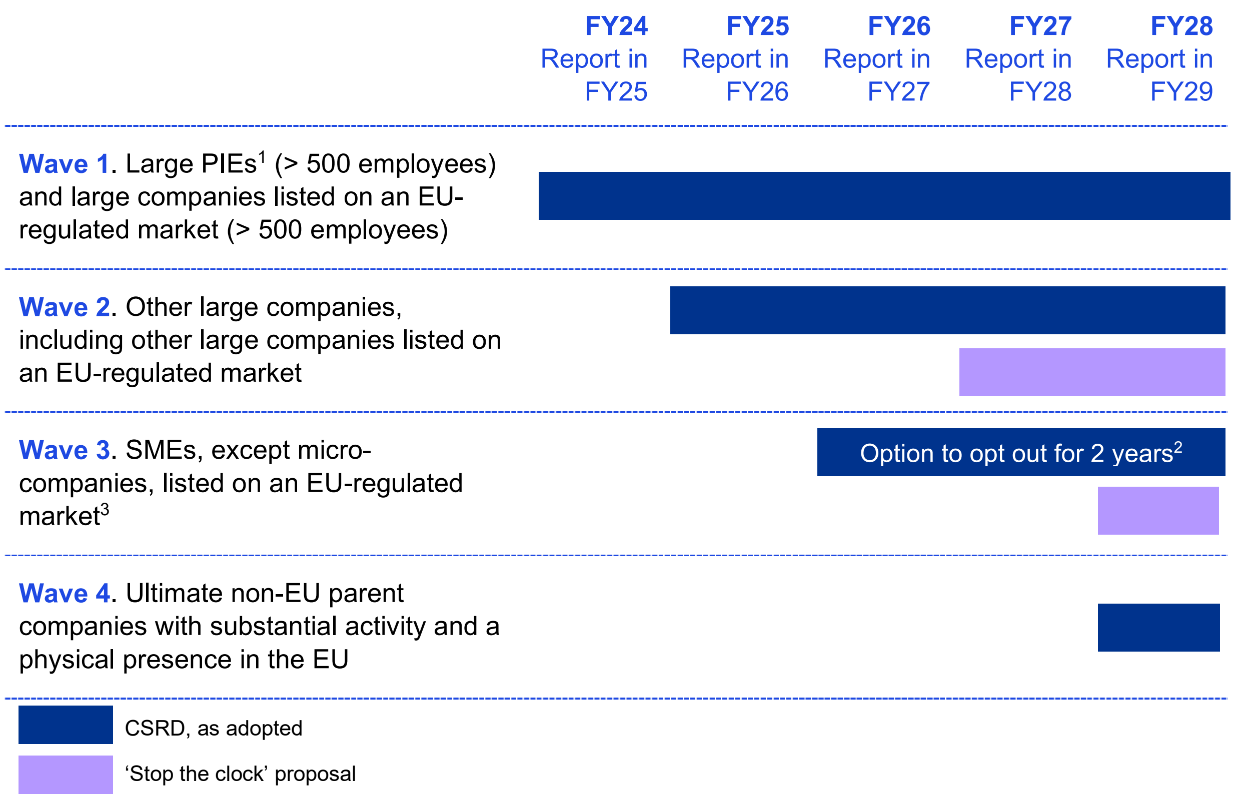
Effective dates

Large public interest entities with more than 500 employees that are also large under the general scoping need to apply full ESRS for financial years starting on or after January 1, 2024 (reporting in 2025). This also applies to non-EU companies with securities listed on an EU-regulated market that have more than 500 employees and that are large under the general scoping.

Other companies, including SMEs with listed securities on an EU-regulated market, will follow in a phased application. An ultimate non-EU parent company under the non-EU parent scoping will need to apply the applicable ESRS for financial years starting on or after January 1, 2028 (reporting in 2029).

This phased introduction of the CSRD is illustrated in the following table.

The table includes proposed changes, now agreed to by the EP and the Council, to the effective dates of the CSRD as a result of the 'stop the clock' proposal.



Notes:

1. See Application to public interest entities for PIE definition.
2. When applying this option, the SME needs to briefly state in its management report why the sustainability reporting was not provided.
3. Small and non-complex institutions and captive insurers have the same effective date as listed SMEs – although the option to opt out until 2028 does not apply unless they also meet the definition of a SME.

The 'stop the clock' proposal, now agreed to by the EP and the Council, delays by two years the effective dates for Waves 2 and 3 – e.g. it delays application of full ESRS until financial years starting on or after 1 January 2027 (reporting in 2028) for Wave 2. There is no proposed change to the effective dates for Waves 1 and 4.

If the substantive proposals are adopted without amendments, certain companies would fall out of the revised general scoping – e.g. Wave 1 and 2 companies with ≤ 1,000 employees, and all Wave 3 companies.

Reporting requirements

Reporting

The following table summarizes the reporting requirements for companies subject to the CSRD; see separate discussion on exemptions. When assessing the reporting requirements, it is important to involve legal counsel where appropriate.

Company type	Report level	Report framework	Report location	Report filer
Large companies and groups (including PIEs and companies listed on an EU-regulated market)[7]	Legal entity (or consolidated[1] for parents of 'large' groups)	Full ESRS (published)[8]	Management report[2]	Company subject to the CSRD
SMEs, except micro-companies, listed on an EU-regulated market[7]	Legal entity[3]	Full ESRS (published)[8] or reduced SME standards (forthcoming)[4]	Management report[2]	Company subject to the CSRD
Ultimate non-EU parent companies with substantial activity and a physical presence in the EU	Global group level	NESRS (forthcoming)[5] or full ESRS (published)[8]	Report as provided for by each Member State – e.g. in an Impact Report	In-scope subsidiary or branch[6]

Notes:

1. Consolidated sustainability reporting includes the reporting company and all of its subsidiaries, regardless of size and location.
2. The Accounting Directive introduced the requirement for certain EU companies to prepare a management report. This report is intended to provide a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces. This is sometimes analogized to the MD&A section of annual reports filed with the SEC.
3. SMEs are only required to report at the stand-alone level – i.e. reporting is only required for the company that has listed securities on an EU-regulated market. Parents that are SMEs (i.e. they are not parents of a large group) are not required to prepare consolidated sustainability reporting. However, if a SME has subsidiaries, it needs to consider whether the group is in fact still a SME or whether, on a consolidated level, the group is considered 'large' and therefore subject to consolidated reporting requirements.
4. Listed SMEs that are subject to the CSRD may limit their sustainability reporting (e.g. they are not required to report on sustainability-related targets) and prepare this reporting in accordance with the forthcoming reduced disclosure standards for listed SMEs.
5. The focus of the NESRS is expected to be information about sustainability-related impact reporting. The standards are not expected to include disclosure requirements to describe risks, opportunities and resilience of the business model and strategy in relation to risk-related sustainability matters.

6. Any subsidiary of a non-EU parent company that meets the general scoping is nonetheless in the scope of the related disclosures that apply to EU-based companies.
7. If the substantive proposals are approved, certain companies would fall out of the scope of CSRD – i.e. companies with ≤ 1,000 employees.
8. Alongside the Omnibus proposals, the EC has mandated EFRAG to provide advice regarding simplification of full ESRS.

EU Taxonomy

Companies that meet the general scoping criteria are required to disclose additional information referred to in Article 8 of Regulation (EU) 2020/852 (EU Taxonomy).

The 'stop the clock' proposal, now agreed to by the EP and the Council, delays by two years mandatory reporting under the EU Taxonomy for Wave 2 and 3 companies.

The substantive proposals would make the EU Taxonomy mandatory only for large companies with > 1,000 employees and > €450M net turnover. Other companies wanting to voluntarily claim that their activities are taxonomy-aligned would, as a minimum, disclose KPIs on net turnover and capital expenditure. In addition, companies that have made progress toward sustainability targets, but only meet certain EU Taxonomy requirements, may choose to voluntarily report on their partial Taxonomy-alignment.

The EU Taxonomy reporting requirements are not detailed in this Hot Topic, but there are proposals to simplify them, including a proposed materiality threshold, proposed revisions to the 'Do No Significant Harm' criteria on pollution, and proposed revisions to reporting templates. The EC is currently reviewing feedback on these simplifications, with any changes applying initially for FY25 reporting in 2026.

Equivalency

The EC has the power to designate equivalency status to jurisdictions requiring sustainability reporting. Equivalency is not granted to a voluntary sustainability reporting framework – e.g. Global Reporting Initiative standards.

Although the EC has not yet determined what would be considered an equivalent sustainability reporting framework, it will use the following criteria:

- whether the other framework requires companies to disclose information on environmental, social and governance matters; and
- whether the other framework requires companies to disclose information necessary to understand the company's impacts on sustainability matters, and how sustainability matters affect the company's development, performance and position (so-called double materiality).

Electronic reporting format

Companies that publish their sustainability reporting in a management report are required to:

- prepare the management report in accordance with the electronic reporting format specified by the European Single Electronic Format (ESEF) Regulation (i.e. XHTML); and
- mark up their sustainability reporting, including EU Taxonomy disclosures, in accordance with a specific digital taxonomy to be adopted by the EC (by amending the ESEF Regulation); read more about ESEF here.

There are no specific format requirements for group-level reporting prepared in accordance with NESRS by an ultimate non-EU parent company that meets the non-EU parent scoping criteria.

However, this reporting needs to be published in a data extractable format with the relevant accompanying metadata – e.g. name of submitting company, year and month of submission.

Assurance

Limited assurance over the entire sustainability report – under both the general and non-EU parent scoping – is required initially, with the intent of moving to reasonable assurance in time. The scope of the assurance conclusion is required to address the following aspects of the sustainability statement:

- presentation in accordance with the CSRD and ESRS;
- the company's process to identify the information reported in accordance with the ESRS – i.e. the double materiality assessment process;
- the requirement to mark up the sustainability reporting in accordance with the electronic reporting format; and
- whether it meets the EU Taxonomy reporting requirements.

While the substantive proposals do not remove the requirement to obtain limited assurance, they would remove the requirement to consider moving to reasonable assurance over time.

In November 2024, the International Auditing and Assurance Standards Board (IAASB) formally approved and issued International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*.

ISSA 5000 addresses both limited and reasonable assurance. Although it is based on principles from existing IAASB standards and guidance, it expands on these to facilitate consistency and quality by more explicitly addressing the expectations in performing sustainability assurance engagements.

The CSRD does not currently mandate which assurance standards should be used by an assurance practitioner to perform the engagement. It requires the EC to adopt limited assurance standards by October 2026. The EC may endorse ISSA 5000 as the assurance standard to be applied or may release its own assurance standard, which may be based on ISSA 5000.

Pending the EC's adoption of an assurance standard, Member States may adopt national assurance standards or pronouncements. As the national assurance standard, some Member States may choose to adopt ISSA 5000, and effective dates may vary based on Member State requirements.

The substantive proposals would remove the time limit for the EC to adopt standards for sustainability assurance. Instead, the EC would issue targeted assurance guidelines by 2026, focused on addressing emerging issues related to assuring CSRD reports that may be generating unnecessary burden on companies. In the absence of a limited assurance standard adopted by the EC, assurance practitioners would continue to apply Member State national assurance standards or pronouncements, if any have been adopted.

US accountants performing assurance engagements are required to comply with the attestation standards of the American Institute of Certified Public Accountants (AICPA), although they may additionally follow other standards, such as ISSA 5000. The AICPA is currently updating its standards in consideration of ISSA 5000.

Reporting exemptions

There are two exemptions available under the CSRD. For each exemption option, the following table provides a roadmap to the reporting requirements for the subsidiary (that meets the general scoping criteria) and the ultimate non-EU parent (that meets the non-EU parent scoping). These exemptions are discussed in further detail following the table.

		In-scope subsidiary reporting requirement	In-scope ultimate non-EU parent reporting requirement
Option 1	Group exemption	None, subject to conditions	Voluntary consolidated reporting in accordance with full ESRS; or group-level reporting in accordance with NESRS if group exemption is applied at a lower parent level – e.g. EU holding company level
Option 2	Ultimate non-EU parent exemption	Artificially consolidated reporting, subject to conditions, until 2030, then **Option 1** or standalone reporting	Group-level reporting in accordance with NESRS

If neither of the above exemptions are applied, an in-scope ultimate non-EU parent will be required to prepare group-level reporting in accordance with the NESRS and each in-scope subsidiary will be required to prepare standalone and/or consolidated reporting in accordance with the full ESRS.

Option 1. Group exemption

If an EU parent makes available sustainability reporting (in accordance with full ESRS) that includes the entire group, all in-scope subsidiaries are exempt from preparing their own sustainability reporting. However, this exemption does not apply to subsidiaries under the general scoping that are large PIEs with securities listed on EU-regulated markets. Based on the EC's CSRD FAQs, it appears that this exemption also does not apply to large non-EU companies with securities listed on EU-regulated markets. Therefore, these subsidiaries are still required to prepare their own sustainability reporting.

Based on the EC's CSRD FAQs, it appears that for non-EU parent reporting to exempt EU subsidiaries via the group exemption, the non-EU parent will need to make available group-level sustainability reporting prepared under full ESRS. It appears that such reporting may be published in a separate document – i.e. outside of a management report.

Group exemption criteria

To qualify for the group exemption, an exempted EU subsidiary must include the following information in its management report:

- that it is exempt from sustainability reporting requirements;
- the name and registered office of its parent that reports the exempting consolidated sustainability reporting; and
- a link to the website with the exempting consolidated management report (or consolidated sustainability report) and related assurance opinion.

Additionally, if a subsidiary's sustainability impacts, risks and opportunities are significantly different from those of the parent, the consolidated sustainability reporting must contain sufficient detail to provide an adequate understanding of both the group and the subsidiary.

EU Taxonomy disclosures, covering the activities carried out by the exempted subsidiary, are included in the management report of the exempted subsidiary or in the consolidated sustainability reporting of the non-EU parent.

As part of the transposition process, Member States may set additional criteria for subsidiaries within that jurisdiction that are applying the group exemption.

Application to public interest entities

Both the NFRD and the CSRD refer to 'public interest entities' as part of their respective scopes, but the application is not the same. The following table summarizes the differences in the context of the above discussion.

<table>
<tr><th>PIEs in NFRD scope?</th><th>PIEs include:</th><th>PIEs in CSRD scope?</th></tr>
<tr><td rowspan="3">Yes, if > 500 employees</td><td>A company whose transferrable securities are admitted to trading on regulated markets governed by the law of a Member State of the EU (companies with listed securities in the EU)</td><td>Yes; but the group exemption does not apply to large PIEs</td></tr>
<tr><td>A bank or insurance company[1]</td><td rowspan="2">Yes, if large; the group exemption is available</td></tr>
<tr><td>Any other company designated as such by a Member State of the EU</td></tr>
<tr><td colspan="3">Note 1. A bank or insurance company that is also listed on an EU-regulated market follows the requirements for listed companies.</td></tr>
</table>

Option 2. Ultimate non-EU parent exemption

To qualify for the ultimate non-EU parent exemption, a non-EU parent must have multiple subsidiaries in the EU that meet the general scoping.

This exemption allows for the preparation of consolidated sustainability reporting (commonly referred to as 'artificial consolidation') that includes only those subsidiaries (including holding companies) that fall under the general scoping.

This report needs to:

- follow the reporting requirements specific to the general scoping;
- include all subsidiaries (both EU- and non-EU based) of the subsidiaries that fall under the general scoping; and
- be prepared by one of the EU subsidiaries that generated the greatest revenue (consolidated where applicable) in the EU in at least one of the preceding five financial years.

Based on the EC's CSRD FAQs, it appears that this exemption is available for financial years ending on or before January 6, 2030.

Provided the group exemption criteria are met, subsidiaries included in such reporting are exempted from their own sustainability reporting requirements.

Non-EU company impact

Non-EU companies could be impacted by the CSRD in various ways, which are illustrated in a series of examples later in this Hot Topic. In this section, we include situations in which a US based company could be subject to the CSRD.

As a company

A non-EU company with securities listed on an EU-regulated market is subject to the same sustainability reporting obligations as listed EU companies. We recommend checking for debt and equity securities listed on an EU-regulated market. If only debt securities have been issued, also consider the denomination. For example, the CSRD does not apply to issuers of debt securities traded on a regulated market where the denomination per unit is at least €100,000 (or €50,000 for debt issued before December 31, 2010).

While the substantive proposals would not modify the requirements that subject listed entities to reporting considerations, it would change the scoping criteria for them such that non-EU companies that are listed on an EU-regulated market would only be in scope if they are a large company with > 1,000 employees.

As a subsidiary

A non-EU subsidiary might be required to deliver sustainability information to its parent (either EU- or non-EU based) for CSRD reporting. We recommend coordinating closely with your parent company so it is clear whether you need to provide sustainability data and, if so, when that data is needed.

As an ultimate parent

An ultimate non-EU-parent might have EU-based subsidiaries that are subject to the CSRD. Additionally, an ultimate non-EU parent might be in the scope of the CSRD under the forthcoming NESRS if it is a parent with substantial activity and a physical presence in the EU.

- Your EU subsidiaries need to know if, and when, they will be subject to the CSRD. Keep in mind which exemptions apply, and at which level, to help subsidiaries reduce the reporting burden. If your EU subsidiaries are subject to the CSRD, consider the best way of providing adequate resources and proper governance structures for the subsidiaries to report.
- You may consider voluntarily filing CSRD reporting for the entire group to exempt EU subsidiaries subject to the CSRD. This would exempt your EU subsidiaries from filing a report (if the exemption criteria are met) but would require your non-EU subsidiaries to provide sustainability data. These trade-offs require careful consideration.

Recent developments

The following are recent developments related to the items discussed in this Hot Topic.

Omnibus proposals

The Omnibus proposals, as discussed throughout this Hot Topic, are not yet binding.

As of April 2025, the EP and Council agreed to the 'stop the clock' proposal, which is being fast-tracked through the EU legislative due process. The proposal is pending final adoption into EU law via publication in the Official Journal of the EU, after which it will be transposed into national law. The deadline for transposition is December 31, 2025.

Given their complexity, the substantive proposals will take longer to go through the EU legislative due process. The proposals are currently with the EP and Council as part of their scrutiny process, during which they can each suggest changes; these will need to be reconciled during the trilogue process where the EC, EP and Council seek to reach agreement on a single text. The scrutiny process will likely continue through at least October, making adoption by year-end challenging.

Once adopted into EU law, Member States must transpose the proposals into national law and further revisions may be made at the Member State level. Member States will have twelve months to transpose any adopted substantive proposals, likely pushing transposition to the end of 2026 at the earliest.

Given the uncertain timing for adoption of the substantive proposals, US and other non-EU companies with EU subsidiaries that do not meet the proposed revisions to the general scoping requirements face a dilemma. They must weigh the risks of pausing or slowing their implementation against the possibility that the proposals may not be enacted into national law before their first CSRD reporting year.

CSRD transposition

The CSRD entered into force on January 5, 2023. Member States (which are bound by the CSRD) had a deadline of July 6, 2024 to transpose it into national law. During transposition, Member States have the ability to make revisions that go above and beyond the CSRD as drawn up (e.g. expanding the scope).

As of early March 2025, some Member States have not yet transposed and some may not transpose until the proposals introduced by the Omnibus package have been approved. For companies in scope of the CSRD for financial years starting on or after January 1, 2024, these delayed transpositions are causing significant legal uncertainties – relating to, for example, continued application of the sustainability reporting regime under the NFRD. In this case, companies could still consider applying ESRS, but on a voluntarily basis. Companies that have subsidiaries in Member States where the CSRD is not yet transposed should monitor forthcoming developments closely.

ESRS under the general scoping

The full ESRS were adopted on July 31, 2023 and published in December 2023. To learn more about ESRS, read our handbook, ESRS Foundations.

Alongside communicating its first Omnibus package, the EC has mandated EFRAG advise on how to revise full ESRS to substantially reduce the volume of disclosures – e.g. by prioritizing quantitative datapoints over narrative text and clearly distinguishing between mandatory and voluntary datapoints. The concept of double materiality would remain, but the EC intends to provide clearer instructions on applying the materiality principle.

EFRAG is required to present its advice, which will include draft amendments, to the EC by October 31, 2025. The EC intends to adopt any amendments to the full ESRS through delegated acts within six months of the adoption of the substantive proposals, likely resulting in their adoption by the EC in June 2026 at the earliest. The current set of ESRS will continue to apply in the meantime. Read more about ESRS simplification here.

The EC was also expected to adopt sector-specific standards and a standard for listed SMEs. However, the substantive proposals would remove these requirements.

The substantive proposals introduce a 'value chain cap' to reduce trickle-down effects on smaller companies that are not in scope of the CSRD. To protect smaller companies (≤ 1,000 employees) from excessive information requests, the substantive proposals would prevent in-scope companies from requesting information from out-of-scope companies in their value chain that exceeds what would be reported under a voluntary reporting standard for SMEs (VSME); an exception would be additional sustainability information that is commonly shared between companies within the relevant sectors.

NESRS under the non-EU parent scoping

An exposure draft relevant to the non-EU parent scoping was expected for public consultation in early 2025. The exposure draft, when released, may ask for comments on a scope limitation to allow non-EU groups to restrict disclosures to cover only those activities (and their value chains) that relate to products sold into the EU. This limitation would likely be proposed to apply to all topical standards except ESRS E1 (climate change).

The EC has delayed the adoption deadline for the NESRS by two years to June 30, 2026. This delay has no impact on the FY28 effective date for non-EU parent reporting.

It remains to be seen what impact any proposals to amend ESRS will have on the development of NESRS by EFRAG.

EFRAG's ESRS Q&A process

EFRAG launched its ESRS implementation Q&A process, which comprises a centralized Q&A platform where stakeholders may post questions. EFRAG has begun producing a series of clarifications and rejected questions and will continue doing so in 2025.

EFRAG's implementation guidance

Nonauthoritative guidance on double materiality, value chain and ESRS datapoints was finalized in May 2024. Additional nonauthoritative guidance on other topics is expected at later dates. For example, implementation guidance on the transition plan is expected for public consultation in early 2025.

It is unlikely that a consultation on the transition plan implementation guidance will occur before further progress on the proposals introduced by the Omnibus package.

European Securities Market Authority (ESMA)

In July 2024, ESMA made a public statement emphasizing the importance for issuers to carefully consider EC and EFRAG guidance (e.g. the EC's CSRD FAQs) when implementing the CSRD.

In October 2024, ESMA announced that its 2024 enforcement priorities would include a focus on sustainability reporting – specifically on the materiality assessment, the structure and scope of the sustainability statement, and the disclosures related to the EU Taxonomy Regulation.

Next steps for companies

Most US and non-EU companies operating in the EU have assessed their CSRD compliance scope and decided on their desired level of reporting. Most of those have already begun implementation, with some already reporting. The Omnibus proposals introduce further uncertainty, compounding issues like the lack of transposition in some Member States.

The following are some steps a US or other non-EU company can take to help it prepare for the CSRD in light of the proposed amendments.

Wave 1 companies

Under the substantive proposals, only first-wave companies with > 1,000 employees would be required to continue reporting. If the substantive proposals are adopted without further amendments, this would result in some first-wave companies no longer being in scope of the CSRD. Given the EU legislative process, the timeline for these changes remains uncertain. Therefore, all first-wave companies, regardless of size, must continue reporting under current national law, applying ESRS and the EU Taxonomy where the CSRD has been transposed.

First-wave companies should closely monitor developments relating to the Omnibus proposals, focusing on the substantive proposals, forthcoming ESRS advice from EFRAG and any changes to EU Taxonomy reporting requirements as a result of the public consultation. These companies that are incorporated in or have subsidiaries in Member States where the CSRD is not yet transposed should also monitor forthcoming transposition developments closely.

Wave 2 and 3 companies

Most US companies have EU subsidiaries that fall into the second wave of reporting. Under the substantive proposals, many of the second- and third- wave companies – i.e. those with ≤ 1,000 employees – would no longer be required to report under CSRD.

If your company, or any of your subsidiaries, fall into the second or third wave, now is a good time to consider how these proposals would impact your existing CSRD reporting strategy and how CSRD reporting is incorporated into your broader sustainability strategy. Consider the following no-regrets moves and leverage our observations about how companies are reacting to the Omnibus package and can leverage early-stage findings from the first wave of ESRS reporting.

1. **Reevaluate scoping.** Understand how the proposed thresholds might influence your current reporting strategy. For example, if you were planning to prepare a voluntary global consolidated sustainability report, you may consider this reporting strategy in light of the Omnibus proposals.

2. **Prioritize efforts.** Consider how CSRD reporting changes introduced by these proposals would impact your future sustainability strategy. Prioritize ongoing CSRD implementation efforts that serve broader purposes. For instance, you might consider whether and how to move forward with efforts to collect new data that was needed for CSRD compliance, but also supports cost-savings strategies and/or external stakeholder requests. Also, some aspects of your CSRD implementation may help you comply with other regulations, such as California's GHG emissions reporting law (SB-253). In this case, focus on preparing your scopes 1, 2, and 3 greenhouse gas emissions inventory and identifying and mitigating climate risks. Read more about the California climate laws in our Hot Topic, Focus on 2026 reporting for California climate laws.

3. **Check your value chain.** Your organization may fall out of scope of the CSRD based on the substantive proposals. However, assess if any data points you planned to prepare for CSRD reporting, like greenhouse gas emissions or labor practice information, will still be required by your value chain partners for other purposes. Engage with your value chain to understand their needs. Additionally, check if you're part of the value chain for companies still in scope and stay updated on the forthcoming VSME reporting standard to decide on voluntary compliance.

4. **Continue with voluntary reporting.** Consider whether investors and other stakeholders will continue to expect voluntary reporting. If so, consider identifying whether differences exist between current methodologies used to derive your voluntary disclosures and methodologies required to be applied by ESRS and other relevant regulatory frameworks you will have to comply with. For disclosures currently made, consider enhancements to processes and controls to improve data quality.

5. **Monitor for updates.** At this time, it is unclear whether additional scoping requirements will be announced in further proposals or whether these Omnibus proposals will be amended. Any substantive changes to these proposals or release of other relevant proposals could result in another significant change in scoping conclusions for US and other non-EU companies.

Examples

The following examples illustrate the CSRD reporting considerations for non-EU companies. Example 1 starts with an illustration of the reporting implications for EU-based companies. Examples 2 through 5 build on this foundation and incorporate concepts relevant to non-EU companies.

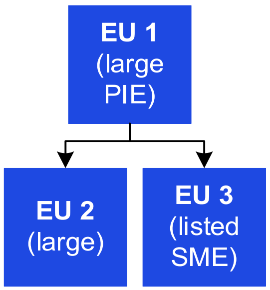
When assessing the legal entity structure, it is important to involve legal counsel where appropriate.

The following examples have been developed based on the CSRD as adopted. They do not reflect the proposed amendments introduced by the Omnibus package.

Example 1

This example illustrates the CSRD reporting implications for an EU-based group.

GROUP STRUCTURE



- **EU 1**, **EU 2** and **EU 3** meet the general scoping.
- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees. It is also the parent of a large group.
- **EU 2** is a large EU-based company with no securities listed on an EU-regulated market.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.

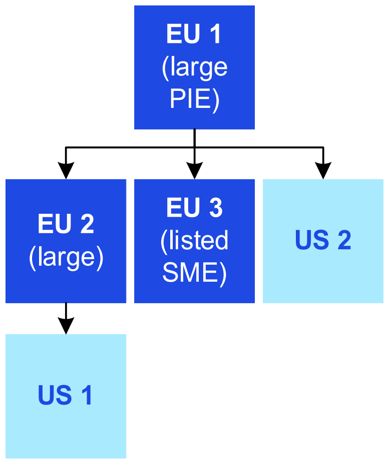
ANALYSIS

- **Beginning FY24.** **EU 1** is subject to the CSRD. As a large, listed PIE that is the parent of a large group, **EU 1** will prepare consolidated sustainability reporting under full ESRS. This reporting will include **EU 2** and **EU 3**. No exemptions are available.
- **Beginning FY25.** **EU 2** is subject to the CSRD. As a large EU-based company, **EU 2** will prepare stand-alone sustainability reporting under full ESRS.
  - Group exemption. If the criteria are met, EU 2 is exempt from the stand-alone sustainability reporting requirement because it is included in the EU 1 consolidated sustainability reporting.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards.
  - ***Group exemption.*** If the criteria are met, **EU 3** is exempt from the stand-alone sustainability reporting requirement because it is included in the **EU 1** consolidated sustainability reporting.

Example 2

This example illustrates how a US subsidiary may be required to provide sustainability data to support the CSRD reporting of an EU parent.

GROUP STRUCTURE



- **EU 1**, **EU 2** and **EU 3** meet the general scoping.
- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees. It is also the parent of a large group.
- **EU 2** is a large EU-based company with no securities listed on an EU-regulated market. It is also the parent of a large group.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.
- **US 1** and **US 2** are non-EU based, and are not listed on any EU-regulated markets.

ANALYSIS

- **Beginning FY24. EU 1** is subject to the CSRD. As a large, listed PIE that is the parent of a large group, **EU 1** will prepare consolidated sustainability reporting under full ESRS. No exemptions are available.

  The consolidated sustainability reporting will include **US 1** and **US 2** (in addition to **EU 2** and **EU 3**). Both of these non-EU subsidiaries will need to provide sustainability data to **EU 1** for its consolidated sustainability reporting.

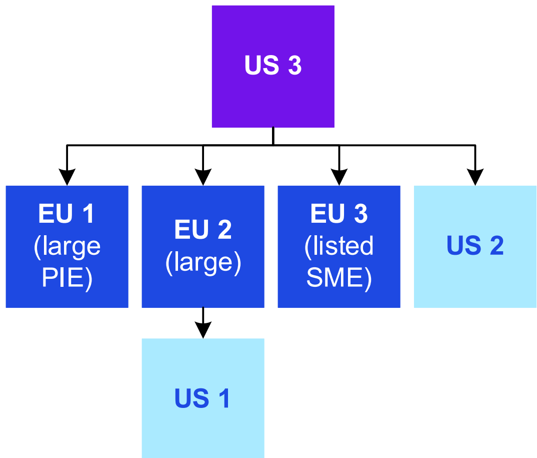
- **Beginning FY25. EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRS. **US 1** will need to provide sustainability data to **EU 2** for its consolidated sustainability reporting.
  - ***Group exemption.*** If the criteria are met, **EU 2** is exempt from the consolidated sustainability reporting requirement because it is included in the **EU 1** consolidated sustainability reporting. Regardless of whether the group exemption is used, **US 1** (through **EU 2**) and **US 2** will need to provide sustainability data to **EU 1** for its consolidated sustainability reporting.

- **Beginning FY26. EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards. The group exemption is available (see Example 1).

Example 3

This example illustrates how a US parent may voluntarily report under the CSRD.

Group structure



- **EU 1**, **EU 2** and **EU 3** meet the general scoping.
- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees.
- **EU 2** is a large EU-based company with no securities listed on an EU-regulated market. It is also the parent of a large group.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.
- **US 1** and **US 2** are non-EU based and are not listed on any EU-regulated markets.
- **US 3** is not listed on any EU-regulated markets and does not meet the non-EU parent scoping – i.e. it generated net turnover less than €150M in the EU for the past year.

Analysis

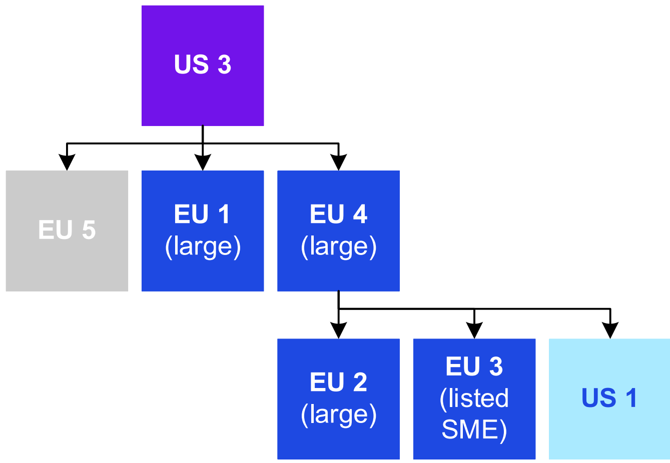
- **Beginning FY24.** **EU 1** is subject to the CSRD. As a large, listed PIE, **EU 1** will prepare stand-alone sustainability reporting under full ESRS. No exemptions are available.
- **Beginning FY25.** **EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRS.
  - Even though it is not subject to the CSRD, **US 3** can voluntarily prepare consolidated sustainability reporting (including all EU subsidiaries – **EU 1**, **EU 2** and **EU 3**; and non-EU subsidiaries – **US 1** and **US 2**) under full ESRS.
  - ***Group exemption.*** If the criteria are met, **EU 2** is exempt from sustainability reporting requirements because it is included in the **US 3** consolidated sustainability reporting. However, as a large, listed PIE, **EU 1** is not exempt from its stand-alone reporting requirements. This is why, in this example, **US 3** begins voluntary reporting in FY25 – i.e. because voluntary reporting in FY24 would not exempt **EU 1**.

    Based on the EC's CSRD FAQs, it appears that this exemption would not be available if the **US 3** consolidated sustainability reporting is prepared under the NESRS.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards.
  - ***Group exemption.*** **EU 3** is exempt if it is included in the **US 3** voluntary consolidated sustainability reporting.

Example 4

This example illustrates how a US parent may need to prepare its EU subsidiaries for sustainability reporting under the CSRD.

Group structure



- **EU 1** and **EU 2** are large EU-based companies that meet the general scoping but have no securities listed on any EU-regulated markets.
- **EU 3** is an EU-based SME that meets the general scoping and has securities listed on an EU-regulated market.
- **EU 4** is a parent of a large group (meets the general scoping) and the largest subsidiary of **US 3**. It is also a holding company that does not issue consolidated financial statements at this level.
- **US 1** is non-EU based, and not listed on any EU-regulated markets.
- **EU 5** does not meet the general scoping.
- **US 3** meets the non-EU parent scoping.

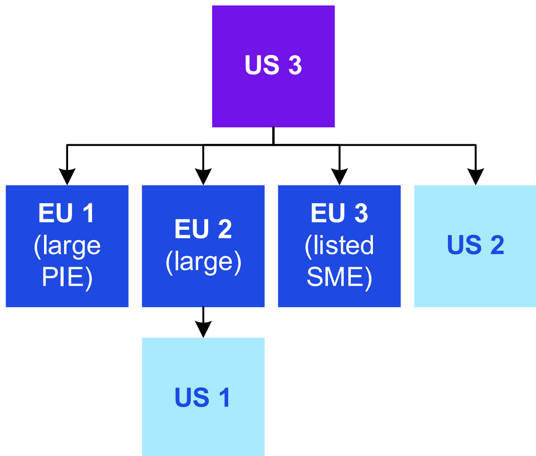
Analysis

- **Beginning FY24.** No companies meet the general scoping requirements that require reporting for FY24.
- **Beginning FY25.** **EU 1**, **EU 2** and **EU 4** are subject to the CSRD. As an EU-based parent of a large group, **EU 4** will prepare consolidated sustainability reporting (including **US 1**) under full ESRS.
  - ***Ultimate non-EU parent exemption.*** Until 2030, **EU 4** may prepare artificially consolidated sustainability reporting covering all in-scope EU subsidiaries (i.e. including **EU 1**).
  - ***Group exemption.*** **EU 2** is exempt via inclusion in the **EU 4** artificially consolidated sustainability reporting or the **EU 4** standard consolidated reporting.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards.
  - ***Group exemption.*** **EU 3** is exempt from stand-alone sustainability reporting via inclusion in either the **EU 4** artificially consolidated sustainability reporting or the **EU 4** standard consolidated reporting.
- **Beginning FY28.** **US 3** is in the scope of the CSRD as an ultimate non-EU parent company. The in-scope EU subsidiary will publish group-level sustainability reporting under the NESRS (or alternatively under full ESRS).
  - ***Group exemption.*** If the **US 3** group-level reporting is prepared under the NESRS, **EU 1** and **EU 4** will still have to comply with full ESRS – i.e. the group exemption will not be available.

Example 5

This example illustrates how an EU subsidiary would meet its obligation to publish group-level sustainability reporting (at the US parent level).

Group structure



- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees.
- **EU 2** is a large EU-based company with no securities listed on any EU-regulated markets. It is also the parent of a large group.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.
- **US 1** and **US 2** are non-EU based, and not listed on any EU-regulated markets.
- **US 3** meets the non-EU parent scoping.

Analysis

- **Beginning FY24.** **EU 1** is subject to the CSRD. As a large EU-based PIE with securities listed on an EU-regulated market, it will prepare stand-alone sustainability reporting under full ESRS. No exemptions are available.
- **Beginning FY25.** **EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRS.
  - ***Group exemption*****.** If the criteria are met, **EU 2** is exempt from the consolidated sustainability reporting requirement if **US 3** voluntarily prepares consolidated sustainability reporting under full ESRS.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards. The group exemption is also available (see above).
- **Beginning FY28.** **US 3** is in the scope of the CSRD as an ultimate non-EU parent company. The in-scope EU subsidiary will publish group level sustainability reporting under the NESRS (or **US 3** may voluntarily report under full ESRS). If the **US 3** group-level reporting is prepared under the NESRS, the group exemption is not available.

KPMG resources

For further guidance on the CSRD and related developments, we recommend the following KPMG resources as a starting point.

- Handbook, ESRS Foundations
- Hot Topic, Global implications of due diligence acts
- Web article, EU releases Omnibus proposals

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