Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

Contents

The drafting of the present issue was completed on 5 September 2025.

Editorial

This summer has seen significant progress on the work to simplify European sustainability reporting standards through the Omnibus I package proposals.

In terms of Taxonomy, the European Commission's work culminated in the publication on 4 July 2025 of a new Delegated Regulation that will apply as from the 2025 reporting published in 2026 and which is awaiting publication in the Official Journal of the EU.

On the ESRS side, EFRAG's work to revise these standards led to the 31 July 2025 publication of exposure drafts issued for comment as part of a public consultation open until 29 September 2025. EFRAG's proposals are aimed at significantly reducing the number of data points and the complexity of the standards with a view to a corresponding reduction in the burden of compliance.

Pending the actual implementation of the revised ESRS, on 11 July 2025 the European Commission adopted a ‘quick fix’ Regulation amending Set 1 in order to offer some reliefs to Wave 1 entities from the 2025 reporting.

Finally, turning to IFRS Accounting Standards, the IFRS Foundation published near-final illustrative examples on 24 July 2025 showing how to improve the presentation of climate-related uncertainties in the financial statements.

IFRS Highlights

Amendments to IFRS 19

In late August 2025, the International Accounting Standards Board (IASB) published amendments to IFRS 19 – *Subsidiaries without public reporting obligations*, which include reliefs from the disclosure requirements arising from the texts published between 28 February 2021 and 1 May 2024.

To recap, this standard allows eligible subsidiaries (meaning subsidiaries that do not have public accountability and whose ultimate or intermediate parent produce consolidated financial statements under IFRS Accounting Standards that are available for public use) to apply IFRS Accounting Standards with reduced disclosure requirements.

When first published in May 2024, IFRS 19 allowed for a reduction in the disclosure requirements arising from standards and amendments published up to 28 February 2021. Pending discussions on the appropriateness of further reliefs, the disclosure requirements arising from subsequent texts had been incorporated into IFRS 19 in their entirety.

The additional simplifications mainly concern disclosure requirements relating to the following topics:

- supplier finance arrangements;
- lack of exchangeability;
- Pillar Two international tax reform;
- the classification and measurement of financial instruments and non-current liabilities with covenants; and
- management-defined performance measures with reference to IFRS 18 – *Presentation and Disclosure in Financial Statements*.

These amendments are applicable on annual periods beginning on or after 1 January 2027 (the same effective date as IFRS 19), with earlier application permitted.

Appointment to the IASB

At the end of August 2025, the Trustees of the IFRS Foundation announced the appointment of Yu Chen as a new member of the IASB, effective from 1 January 2026, following the departures of Ann Tarca and Jianqiao Lu.

Dr Chen joins the IASB from the Chinese Ministry of Finance, where she served as the Deputy Director-General of the China Accounting Standards Committee. Previously, she served as director of the

Accounting Regulatory Department of the Chinese Ministry of Finance.

The press release is available here.

Publication of near-final examples of climate-related uncertainties in the financial statements

In late July 2025, the IFRS Foundation published a near-final draft of its illustrative examples showing how to improve the presentation of uncertainties (in particular where climate-related) in the financial statements. These examples should be published in their final version in October 2025, and are unlikely to be changed. As these are illustrative examples and not amendments to the standards, they are subject to no transitional provisions or endorsement process in the EU and will therefore be applicable immediately. This advance publication is intended to enable entities to anticipate changes with sufficient time before the 2025 reporting date.

These examples illustrate the disclosure of climate-related uncertainties, which could equally be disclosed under the standards issued by the International Sustainability Standards Board (ISSB) (which has overseen the compatibility of the project with sustainability standards).

The examples illustrate how a number of IFRS Accounting Standards address uncertainties:

- IAS 1 / IFRS 18 on materiality, the granularity of disclosures and the assumptions that could result in an adjustment of assets and liabilities within the next financial year;
- IAS 36 on uncertainties relating to key assumptions in an impairment test;
- IAS 37 on uncertainties related to long-term liabilities; and
- IFRS 7 on credit risk.

IASB project on cash flow statements: new approaches

After drawing up an initial list of topics to explore in September 2024 (see Beyond the GAAP no. 195, 2025), the IASB met in May 2025 to clarify which topics would be included in its project plan. The topics finally selected were:

- the disaggregation of cash flow information in the financial statements;
- the reporting of information about non-cash transactions in the financial statements;
- the transparency of information about cash flow measures not specified in IFRS Accounting Standards;
- the consistent application of requirements for classifying cash flows as operating, investing and financing; and
- the consistent application of the definition of cash equivalents.

Following a consultation phase, the IASB meeting of 22 July 2025 was focused on the third item: the transparency of information about cash flow measures not specified in IFRS Accounting Standards.

Discussions led the IASB to consider extending the scope of Management Performance Measures (MPMs) as defined in IFRS 18 (see Beyond the GAAP no. 198, 2024) to include cash flow measures.

Following these initial deliberations, the IASB tentatively proposed to retain the following features of the definition of an MPM:

- measures used outside financial statements; and
- measures reflecting management's view of an aspect of the financial performance of the entity as a whole.

The IASB also tentatively proposed:

- extending the rebuttable presumption to cash flow measures (i.e., a measure used outside the financial statements does not necessarily reflect management's view of an aspect of the financial performance of the entity as a whole); and
- extending the disclosure objective for MPMs and specific disclosure requirements for MPMs in IFRS 18 to also apply to cash flow measures.

Finally, an entity would not be required to present the income tax effect and the effect on non-controlling interests for each item in the reconciliation between the cash flow measure considered and the nearest IFRS subtotal.

IFRS 18: IFRS IC proposes to update 10 agenda decisions

With the upcoming implementation of IFRS 18, the IFRS Interpretations Committee (IFRS IC) has proposed to replace references to IAS 1 – *Presentation of Financial Statements* in nine agenda decisions with references to IFRS 18, the new standard for the presentation of financial statements.

These references concern general requirements on the presentation, materiality and aggregation of information in financial statements.

A tenth agenda decision will be updated in order to explain how an entity applies the requirements in IFRS 18 to the fact pattern in the Agenda Decision *Supply Chain Financing Arrangements — Reverse Factoring*.

The comment period for the IFRS IC's proposals on the ten agenda decisions (available here) runs until 6 October 2025.

IPTF publishes document for discussion on hyperinflationary economies

During July 2025, the International Practices Task Force (IPTF) at the Center for Audit Quality's SEC Regulations Committee updated its working document listing countries that are considered to have hyperinflationary economies (available here).

The countries with a three-year cumulative inflation rate exceeding 100% are Argentina, Burundi, Egypt, Ethiopia, Ghana, Haiti, Iran, Laos P.D.R, Lebanon, Malawi, Myanmar, Nigeria, Sierra Leone, South Sudan, Sudan, Suriname, Turkey, Venezuela and Zimbabwe.

As with previous editions, the IPTF cautions that this list has been compiled on the basis of available data and recommends that official sources and documents should be consulted when exercising professional judgement to determine whether there is sufficient evidence to conclude that a country should or should no longer be classified as highly inflationary.

Using industry-based guidance when applying ISSB standards

On 10 July 2025, the ISSB has published educational material to assist preparers in applying industry-based guidance (SASB standards and the ISSB's *Industry-based Guidance on Implementing IFRS S2)*.

This publication explains: (i) the requirement that companies "shall refer to and consider the applicability of" the industry-based guidance, (ii) considerations for preparers when applying such guidance, and (iii) the associated disclosure requirements about how the guidance has been used.

Jurisdictional adoption of ISSB standards – consultation

The Accounting Standards Board (ASB) of Nepal has sought feedback on the alignment of *Nepal Sustainability Reporting Standards (NSRS) with IFRS S1 and IFRS S2*. The public consultation closed on 16 August 2025.

European Highlights

Adoption of volume 11 of annual improvements to IFRSs

On 9 July 2025, the European Commission (EC) endorsed *Annual Improvements to IFRS Accounting Standards — Volume 11*, published by the IASB in July 2024[1].

Regulation (EU) 2025/1331, published in the Official Journal of the European Union (OJEU) on 10 July 2025, can be consulted here in all the official languages of the EU.

ESMA public statement on supervision of the first ESRS sustainability statements in the Omnibus environment

On 20 June 2025, the European Securities and Markets Authority (ESMA) issued a public statement on the supervision of the first sustainability statements under European Sustainability Reporting Standards (ESRS) published by large public-interest entities with more than 500 employees for the 2024 reporting period.

This statement comes in response to uncertainties caused by the simultaneous occurrence of (i) the first

[1] For more details of these limited-scope amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7, see Beyond the GAAP no. 190, 2024

application of ESRS standards, (ii) uneven transposition of the Corporate Sustainability Reporting Directive (CSRD)[2] and (iii) the publication of the Omnibus legislative proposals (see Beyond the GAAP no. 198, 2025 for the latest news on this topic).

The statement therefore primarily aims to:

- confirm national competent authorities' and ESMA's continued commitment to promoting transparent sustainability reporting;
- draw attention to the fact that ESMA's Guidelines on Enforcement of Sustainability Information (GLESI), applicable since January 2025, provide a common principles-based framework to conduct supervision of sustainability reporting in accordance with the European transparency directive, while at the same time offering national competent authorities (NCAs) scope for flexibility enabling them to (i) adapt their supervisory approach to the current context and (ii) ensure that the measures applicable to issuers are proportionate, and reflect a learning curve in the application of ESRS standards in the early years; and
- confirm that this supervision will be based on the regulatory provisions in force, thereby enabling the competent national authorities based in EU countries that have not transposed the CSRD and would not be able to fully comply with these guidelines in 2025 to continue to deliver on their supervisory mandate.

EC publishes new Delegated Regulation on European Taxonomy

On 4 July 2025, the EC published the final draft of the new Delegated Regulation on the European Taxonomy. The text has now been forwarded to the Parliament and the Council for a four-month scrutiny period, which may be prolonged by a further two months. Only after this scrutiny period will the definitive Delegated Regulation be published in the OJEU.

A draft version of this new Delegated Regulation was published and submitted for public consultation on 26 February 2025 (see Beyond the GAAP no. 196, 2025). More than 300 stakeholders responded to this consultation.

The new Delegated Regulation aims to introduce a series of prioritised simplification measures by amending the Delegated Regulation Article 8 (2021/2178) and the Climate (2021/2139) and Environment (2023/2486) Delegated Regulations.

These measures include:

- the introduction of materiality thresholds amounting to 10% of the denominator of each of the KPIs published by non-financial undertakings;
- the introduction of a similar materiality principle for financial undertakings;
- amendments to certain reporting obligations for financial undertakings and a change to the method of calculating their KPIs;
- the simplification of reporting templates for both financial and non-financial undertakings;
- the deletion of reporting templates relating to fossil gas and nuclear energy activities; and
- the simplification of the generic DNSH ('Do No Significant Harm') to Pollution.

If the new Delegated Regulation is definitively endorsed before the end of the year, it will apply to disclosures made on or after 1 January 2026 and hence to the 2025 financial period. However, undertakings may continue to apply the previous requirements (i.e. before taking account of the amendments introduced by the new Delegated Regulation) for the 2025 financial period if this is more practical. In 2026, two sets of Taxonomy information could therefore coexist within the European Union.

Adoption by the EC of a 'quick fix' draft delegated act amending ESRS Set 1

On 11 July 2025, the EC adopted a draft delegated act aimed at making targeted amendments to ESRS Set 1 of the ESRS, specifically regarding the

[2] Eight EU Member States have not yet transposed this Directive into national law: Austria, Cyprus, Germany, Luxembourg, Malta, the Netherlands, Portugal and Spain.

transitional provisions set out in ESRS 1 – General Requirements.

These amendments, described as a 'quick fix', come in the context of ongoing discussions around the Omnibus I package (see Beyond the GAAP no. 196, February 2025), which aims to revise the CSRD and ESRS more broadly.

The targeted amendments are intended to ensure that wave 1 undertakings will not be required to provide any additional information for the 2025 and 2026 financial years beyond what was expected for the 2024 financial year. In practice, the draft delegated act therefore authorises the application of the transitional provisions listed in ESRS 1 Annex C for the first three financial years of preparation of the sustainability statement.

The draft delegated act also allows wave 1 companies with more than 750 employees to omit, for the same period, all the disclosures required by ESRS E4 Biodiversity and Ecosystems, ESRS S2 Workers in the Value Chain, ESRS S3 Affected Communities, and ESRS S4 Consumers and End Users[3]. In this instance, however, certain minimum disclosures will be required under paragraph 17 of ESRS 2 – General Disclosures if one or more topics covered by these standards are considered material by the entity.

It should be noted that these amendments will only come into force once the final text has been published in the OJEU – which is expected before the end of the year - after the Council of the EU and the EU Parliament have completed their scrutiny (and provided neither institution raises any objections). They will apply to financial periods beginning on or after 1 January 2025.

Voluntary sustainability reporting by SMEs: EC recommendation to apply EFRAG's VSME standard

On 30 July 2025, the EC published a recommendation inviting non-listed SMEs and micro-enterprises wishing to voluntarily disclose sustainability information to adopt the VSME standard developed by EFRAG (see Beyond the GAAP no 194, 2024).

The proposals developed by EFRAG have therefore been directly incorporated by the EC into the annexes to the recommendation:

- Annex I comprises the standard itself, which consists of two separate modules (a basic module and a comprehensive optional module); and
- Annex II sets out practical guidelines for implementation.

It is worth noting that French and German translations of the recommendation and its annexes are also available. The recommendation was welcomed by EFRAG (see the press release accessible here), which also linked it to the tools available elsewhere to support the implementation of the VSME standard.

This recommendation aims in particular to enable SMEs to respond more readily to specific requests for sustainability information from financial institutions and large undertakings that fall within the scope of the CSRD and which include these SMEs in their value chain.

The EC also encourages large undertakings and financial institutions that request information from SMEs under these circumstances to base their requests, as far as possible, on this voluntary standard, while recognising that additional information may be requested from SMEs by financial institutions for the purposes of lending or investment.

Significantly, this publication comes in the context of the simplification proposals of the Omnibus I package (see Beyond the GAAP no. 196, 2025) which aims, among other things, to reduce the number of companies subject to mandatory sustainability reporting under the CSRD (note that discussions on the 'Content' Directive are still ongoing at the European level).Therefore, while the voluntary standard was initially intended for non-listed SMEs and micro-enterprises outside the scope of the CSRD, it should in future serve as the basis for the development of a voluntary reporting standard

[3] The measures in question are transitional arrangements already provided for under ESRS 1 but which are only applicable by undertakings (or groups) with less than 750 employees.

applicable to larger undertakings falling outside the scope of the revised CSRD.

The EC states in its press release that this recommendation constitutes an interim solution in response to market demands, pending the formal adoption of the delegated act on a voluntary standard, applicable by all undertakings not subject to the revised CSRD. This adoption is expected to occur within four months following the entry into force of the 'Content' Directive.

EFRAG publishes initial state of play on first sustainability statements under ESRS

On 23 July 2025, EFRAG published a State of Play 2025 report, offering a snapshot of the initial implementation of ESRS standards This report, covering the first year of mandatory CSRD implementation, is based on an analysis of 656 sustainability statements prepared under ESRS and published between 1 January and 20 April 2025.

The report is accompanied by a portal that brings together two interactive tools:

- a report repository; and
- a statistics dashboard allowing users to explore and filter the data analysed using a range of criteria (country, financial or non-financial undertakings, business sector, size based on turnover for non-financial undertakings or total assets for financial undertakings).

The purpose of this analysis is to inform stakeholders about observed trends, challenges encountered, and areas for improvement, while feeding into discussions on the development of ESRS standards in light of the forthcoming revision and simplification of Set 1 (see this issue's study on EFRAG's publication of exposure drafts relating to the revised draft standards).

Non-financial undertakings, mainly from the manufacturing sector, are strongly represented in the sample analysed by EFRAG (83%). Financial institutions, which account for 17% of the sample, are mainly banks. The most represented countries are France (16%), Germany (13%) and Finland (12%), with a notable presence of entities located outside the European Union (3%), particularly in Switzerland and the United Kingdom. This geographical diversity illustrates the widespread adoption of ESRS standards, including by companies based in countries that are not subject to the CSRD or that have not yet transposed the directive into national law, reflecting the growing importance of transparency in sustainability reporting.

The key findings highlighted in EFRAG's press release are as follows:

- Materiality coverage: only 10% of companies identified all 10 topical ESRS standards as material. Climate Change (E1), Own Workforce (S1), and Business Conduct (G1) were the most commonly disclosed;
- Stakeholder engagement gaps: 97% of undertakings involved internal stakeholders in their materiality assessment, while engagement with broader societal stakeholders remains rare;
- Transition plans: 55% of companies disclosed a climate transition plan, though approaches and formats vary;
- Reporting length: sustainability statements vary widely in length (depending on countries, from 70 to more than 200 pages on average) with financial institutions producing longer reports on average; and
- Underreported topics: disclosures on biodiversity and internal carbon pricing remain limited. Human rights incidents are rarely reported.

Simplification of ESRS Set 1: EFRAG publishes exposure drafts of revised standards

The public consultation on the revised ESRS opened on 31 July 2025, following EFRAG's publication of the exposure drafts. The comment period runs until 29 September 2025.

This is an important step in the European Commission's Omnibus I proposals, under which it tasked EFRAG with achieving a substantial simplification of the first set of ESRS, adopted in July 2023.

EFRAG must submit its technical advice to the Commission by 30 November 2025, once it has considered the feedback from stakeholders.

In this special feature, we look at EFRAG's approach and the key simplification measures proposed, as well as the next steps.

EFRAG's approach

Gathering evidence from stakeholders

Over the second quarter of 2025, EFRAG gathered more than 800 survey responses to help it structure its simplification works. It also held numerous outreach events and carried out interviews with a range of companies, investors and other stakeholders.

EFRAG's goal was to learn lessons from both the experience of implementing ESRS, and the use of ESRS disclosures as a basis for decision-making.

This feedback could then be used to guide EFRAG's decisions on how to reduce datapoints, as well as reduce the efforts required for compliance with the CSRD and ESRS.

Relying on six key levers of simplification

EFRAG identified six 'top-down' levers of simplification to address sources of complexity in implementing ESRS.

These were set out in the progress report submitted to the European Commission on 20 June 2025 (see Beyond the GAAP no. 200, 2025):

1. Simplification of the Double Materiality Assessment (DMA);

2. Better readability and conciseness of the sustainability statements;

3. Elimination of the overlaps between general disclosures and topical standards;

4. Improved understandability, clarity and accessibility of the standards;

5. Introduction of several burden-reduction reliefs; and

6. Enhanced interoperability with global reporting standards (in particular, the ISSB's IFRS standards).

Critical review of datapoints' relevance to reduce their number

At the same time, EFRAG carried out a critical 'bottom-up' review of all datapoints (DP) in order to prioritise their direct relevance and usefulness for decision-making, with a focus on core data.

This resulted in a 57% reduction in the number of mandatory datapoints ("shall disclose"), excluding the minimum disclosure requirements in ESRS 2. In addition, all voluntary datapoints ("may disclose") have been eliminated. EFRAG stated that this had achieved an overall 68% reduction in total datapoints and a more than 55% reduction in the length of the standards.

EFRAG also stated that it had achieved this reduction while retaining the datapoints that investors need to meet the sustainability reporting obligations imposed on the financial services sector by the SFDR (Sustainable Finance Disclosure Regulation).

Documents published by EFRAG as part of the public consultation

In addition to the exposure drafts of the 12 amended standards (available via this page), EFRAG has also published a number of documents to accompany the public consultation, including:

- a one-pager briefing presenting the background and key aspects of the simplification efforts;
- the Basis for Conclusions, which explains EFRAG's rationale and methodological approach;
- a 'log of amendments' made to each of the standards adopted in July 2023, and a glossary of terms used in the ESRS (available via this page);
- a Non-Mandatory Illustrative Guidance (NMIG), which provides non-binding illustrations of the requirements;
- an FAQ on the process and the content of the exposure drafts; and
- a summary of feedback received from the interviews and outreach events held before publication of the exposure drafts (as presented above).

EFRAG's key measures of simplification of Set 1

EFRAG's main simplification measures classified into the six key levers of simplification are as follows:

1. Simplification of the DMA:

- introducing an explicit principle of fair presentation based on the key qualitative characteristics of relevance and faithful representation of the information[4];
- adding a new section on practical considerations, aiming to reduce the overall complexity of the DMA process and ensure an efficient approach, which will only require further analysis when a higher-level assessment does not result in clear conclusions. For example, the ESRS 1 exposure draft specifies that the DMA should generally start with an analysis of the business model to identify the most obvious topics to be reported (a 'top-down' approach) before moving on to identify material impacts, risks and opportunities (IROs). However, it notes that a 'bottom-up' approach may also work (i.e. starting by identifying material IROs, and then the material topics to be reported). It also states that the expected level of evidence to support the conclusions must be reasonable and proportionate;
- strengthening the principle of materiality of information and extending this to all datapoints, including those in ESRS 2;
- clarifying the criteria for assessing materiality of information, in line with users' needs;
- streamlining the list of sustainability topics presented in AR 16 of ESRS 1, reducing it to two levels of granularity (i.e. sub-sub-topics no longer exist) and changing its status from mandatory ("shall consider") to non-mandatory guidance;
- adding new guidance on how mitigation, prevention and remediation actions planned or implemented by the company should be taken into account when assessing the materiality of actual or potential impacts;
- clarifying the relationship between the identification of (i) material IROs and (ii) the topics (and sub-topics) to be covered in the sustainability statement. An undertaking now has some flexibility in deciding at which level to report (i.e. at the level of topics/sub-topics or at the level of IROs), depending the nature of the IROs and how it manages its material IROs; and
- clarifying the criteria for aggregating or disaggregating information in order to communicate at the right level. In particular, an explanation has been added of how an undertaking should take account of its sites when carrying out the DMA process and deciding what information should be reported.

[4] There is a specific question on this in the public consultation survey, as it caused a lot of debate among the members of EFRAG's Sustainability Reporting Board (SRB), and some Board members expressed reservations on it when approving the ESRS 1 exposure draft.

2. Better readability and conciseness of the sustainability statements:

- introducing the option of including an executive summary at the beginning of the sustainability statement;
- introducing the option of disclosing the most detailed information in appendices, such as information required by the EU Taxonomy Regulation or additional information on non-material matters (provided certain criteria are met); and
- clarifying the concept of connected information, with a view to avoiding fragmentation or repetition of information on the same topics, particularly as regards information on policies, actions and targets (PATs) and their connection with material IROs and related topics, as well as with the undertaking's strategy and business model.

3. Elimination of the overlaps between general disclosures and topical standards:

- maintaining minimum disclosure requirements (now renamed 'general disclosure requirements' or GDRs) for ESRS 2, but revising and reducing the number of associated DPs, retaining only the information judged to be strictly essential (similar to the approach used for the topical standards, with the reduction of DPs relating to PATs);
- withdrawing the requirement to provide reasons for not having PATs related to an identified material IRO;
- introducing the option of presenting material IROs and the related PATs in a tabular format; and
- introducing the option of presenting information relating to PATs using the categorisation used internally, based on the undertaking's strategy and business model as well as how it manages material IROs. For example, if the undertaking applies the same PATs to multiple material IROs (or topics), it can present the related information in just one place, in aggregate, reflecting the level at which they are managed.

4. Improved understandability, clarity and accessibility of the standards:

- significantly reducing the number of mandatory DPs and eliminating all voluntary DPs (see details above);
- amending the general structure of the standards, with the application requirements now presented directly under the disclosure requirements to which they relate, and largely restricted to mandatory methodological issues; and
- presenting the following in a separate document entitled 'Non-Mandatory Illustrative Guidance' (NMIG): (i) some of the non-mandatory content that was deleted from ESRS Set 1; and (ii) other content that appeared in FAQs or guidance previously published by EFRAG, that was felt to be particularly useful for undertakings with less experience in preparing sustainability statements. EFRAG has stated that this document is guidance for reference only, and can be used by preparers to support their reporting approach but should not be considered as a mandatory checklist. It should also be noted that the legal status of this document is yet to be decided by the European Commission (i.e. whether it will be an appendix to the delegated act, or a document published separately by EFRAG). EFRAG's recommendation is that it should not be part of the delegated act.

5. Introduction of several burden-reduction reliefs:

- incorporating burden-reliefs that are already covered by the ISSB standards[5] and that are compatible in the European context, such as:
  - the general principle that an undertaking must use all reasonable and supportable information that it can obtain at the closing date without undue cost or effort, for example when identifying material IROs, determining

[5] However, EFRAG has clarified that the relief permitted by IFRS S2, which allows companies to omit Scope 3 GHG emissions when it is impracticable to estimate them, has not been included. This is due to the important role played by this metric in the Green Deal and sustainable finance.

the extent of coverage in the value chain, or calculating and presenting any metric;
  - the option of presenting quantitative data on financial effects as ranges rather than exact amounts; and
  - the option of omitting quantitative information on anticipated financial effects if the level of estimation uncertainty is too high. EFRAG designated this as 'option 1' for reporting on anticipated financial effects. In an article published on 18 August 2025, the IFRS Foundation suggested that this would be an opportunity to enhance interoperability with the ISSB standards while reducing the reporting burden for undertakings that apply ESRS. Under 'option 2', only qualitative information would be required, although undertakings would have the option of presenting quantitative information on a voluntary basis[6]; and
- introducing additional reliefs, such as:
  - the option of reporting metrics on a partial scope in the absence of reliable data for part of the scope. However, the undertaking must provide transparency on related assumptions and limitations, on actions taken to improve the coverage and quality of the data in the future, and on the progress towards this goal achieved over the year;
  - the option of excluding non-material activities from the calculation of a given metric when they are not expected to be significant drivers of the underlying IRO(s) due to their nature; and
  - the option of deferring recognition of a subsidiary acquired in a given period until the next financial period, or conversely, not recognising a subsidiary disposed of during the period (i.e. adjusting the reporting scope as if the disposal had taken place at the start of the period). This applies to both the DMA and reporting of metrics.

6. Enhanced interoperability with global reporting standards (in particular, the ISSB's IFRS Sustainability Disclosure Standards):

- emphasising the fact that ESRS are a fair presentation framework and adding materiality of information as a general filter, as in the ISSB standards;
- aligning the reporting scope for greenhouse gas emissions with the financial control approach set out in the GHG Protocol, and requiring a separate disclosure based on operational control (as defined in the GHG Protocol) if reporting based on financial control does not convey a fair presentation of emissions deriving from operated assets outside this scope;
- referencing the ISSB's industry-based guidance (i.e. the guidance in IFRS S2 – Climate-related Disclosures and the SASB standards) as a permanent framework for preparing entity-specific information, now that the European Commission has decided not to adopt ESRS sector-specific standards; and
- incorporating burden-reliefs that are covered by the ISSB standards, as detailed in point 5 above.

Finally, it should be noted that the following topics are not addressed by EFRAG in the exposure drafts, as they are likely to be covered by amendments to level 1 regulation as part of the Omnibus discussions (see the draft 'Content' Directive):

- defining the value chain for financial institutions;
- possible exemption from consolidating subsidiaries for financial holding companies;
- option of omitting confidential/sensitive information[7];
- reviewing transitional provisions (so far the requirements of the July 2023 Delegated Act have been retained, i.e. not incorporating the amendments proposed by the EC in the 'quick fix' draft delegated act adopted on 11 July 2025 – see European Highlights, above); and

[6] EFRAG is specifically asking for feedback from stakeholders on this topic before deciding on an option.

[7] This also explains why EFRAG did not incorporate the ISSB's option of omitting information relating to 'commercially sensitive' opportunities, which is permitted under IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information.

- clarifying the meaning of ’compatibility with 1.5 degrees’ for information relating to transition plans (retaining as well the requirements of the July 2023 Delegated Act).

Next steps

Analysing the feedback from stakeholders is a crucial step that will allow EFRAG to finalise the amended ESRS and submit them to the European Commission as technical advice by 30 November 2025.

The European Commission will then have to follow its own due process based on the European legislative framework. This will involve drawing up proposed amendments to the July 2023 Delegated Act, on which there will then be a four-week public consultation. Readers will remember that under the Omnibus I proposals, the delegated act on the revised ESRS must be adopted within six months of the entry into force of the ’Content’ Directive (i.e. mid-2026 at the earliest, in light of the ongoing negotiations).

Once it has been formally adopted, the delegated act will be reviewed by the European Parliament and Council. If no objections are raised by either of those two bodies, the revised ESRS Set 1 will enter into force, which will probably be for 2028 reporting on the 2027 financial period. Early application for the 2026 period has not been ruled out, but will depend on the progress of the Omnibus I legislative process.

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