SUSTAINABILITY GUIDE

The EU sustainability reporting reset

Five ways EU rules can reach you — scoping and readiness for North American companies

August 2026

The EU's sustainability reporting regime has been rebuilt in eighteen months. The **Omnibus I Directive (EU)** 2026/470 — in force since 18 March 2026 — removed approximately 80–90% of previously expected reporters from mandatory CSRD scope, and on 3 July 2026 the European Commission adopted the **revised (simplified)** ESRS, cutting mandatory datapoints by more than 60% and total datapoints by more than 70% (European Commission figures); they apply from FY 2027, subject to Parliament and Council scrutiny. On 23 July 2026 EFRAG opened a 100-day public consultation, running to 31 October 2026, on the **ESRS** for certain non-EU undertakings (**ESRS-40a**, previously **ESRS-TC**) — the standard that would apply directly to US and Canadian parent companies from FY 2028. For North American groups the question is no longer "does CSRD apply to us?" but "through which of five pathways it may apply — and what do we do with the double materiality assessment and ISSB reporting we already have?" This alert maps each pathway, what changed, and how to build one reporting architecture that serves all of them.

At a glance — five pathways into the regime	What boards should do now
1. Large EU subsidiary or sub-group — full CSRD, FY 2027	• Reassess scope entity by entity against the Omnibus I thresholds
2. EU subsidiaries below the new thresholds — out of mandatory scope; voluntary standard available	• Refresh or re-run the DMA — depending on when it was done last
3. Securities listed on an EU-regulated market — full CSRD, FY 2027	• Decide the reporting architecture (exemptions, consolidation, voluntary full ESRS)
4. Non-EU parent with significant EU business — ESRS-40a at group level, FY 2028	• Approve the ISSB–ESRS "build once, disclose many" integration model
5. Value-chain participant only — data requests, capped at the voluntary standard for smaller companies	• Participate in the ESRS-40a consultation before it closes 31 October 2026

80–90%

of previously expected reporters are estimated to fall out of mandatory CSRD scope after Omnibus I raised thresholds to >1,000 employees AND >€450M net turnover (Commission and market estimates; methodology-dependent).

−60% / −70%

Reduction in mandatory / total datapoints in the revised ESRS adopted by the Commission on 3 July 2026 — mandatory datapoints fall from over 1,000 to roughly 320 (European Commission figures).

~1,200

Non-EU parent groups estimated in ESRS-40a scope worldwide — 350–450 US and 20–50 Canadian; no official list exists. Source: EFRAG SRB meeting materials, 3 June 2026.

1. The architecture in two minutes: CSRD, ESRS, EFRAG — and what just changed

The CSRD is the EU directive that creates the legal obligation to publish an assured sustainability statement; it is transposed into national law by each Member State (Omnibus I amendments due in national law by 19 March 2027), so deadlines and enforcement vary by country of incorporation. The ESRS are the reporting standards themselves, adopted by the European Commission as delegated acts. EFRAG is the Commission's private-sector technical advisor: it drafts the standards through a public due process (exposure drafts, consultations, field tests) but does not make law. Reports require limited assurance — Omnibus I removed the planned escalation to reasonable assurance. Digital tagging is mandated by the Accounting Directive but is not yet operative: it takes effect only once the Commission adopts the delegated act establishing the digital taxonomy, based on ESMA's technical standards. Omnibus I also deleted sector-specific ESRS and introduced a "value-chain cap" protecting smaller companies from data requests beyond the voluntary standard. Separately, on the due diligence side, Omnibus I removed the CSDDD duty to adopt a climate transition plan; the ESRS requirement to disclose a transition plan where one exists is unaffected.

2. Are you in scope? The five pathways for a North American group

Most North American multinationals touch the regime through more than one pathway simultaneously — the pathways are cumulative, not alternatives. Screen each of the following, entity by entity. All thresholds reflect Omnibus I as now in force; final application depends on Member State transposition. In practice, scoping is where most errors happen: companies screen the parent and miss the branches or carry the Article 40a two-year EU-turnover lookback (Pathway 4) across to Pathways 1 and 3, which turn on employee and turnover figures at the balance-sheet date.

In scope if...	Obligation	First reporting
Pathway 1 — Large EU subsidiary or EU sub-group		
The EU undertaking (individually or as consolidating EU parent) has >1,000 average employees AND >€450M net turnover	Full CSRD sustainability statement under revised ESRS, in the (consolidated) management report; limited assurance; digital tagging once applicable marking-up rules are adopted.	FY 2027 (reports in 2028) under the new scope
Pathway 2 — EU subsidiaries below the new thresholds		
Entity fails either test (≤1,000 employees or ≤€450M net turnover); listed SMEs also removed from mandatory scope	Out of mandatory CSRD scope. If it was a "Wave 1" reporter, Member States may exempt it for FY 2025–2026 — optional per country, so check local transposition. Voluntary (VSME-based) standard available.	N/A — monitor national transposition and the scheduled scope review
Pathway 3 — Securities listed on an EU-regulated market		
Non-EU issuer with equity or debt listed on an EU-regulated market AND >1,000 employees AND >€450M net turnover	Full CSRD reporting as a listed issuer. The subsidiary exemption has been extended to public-interest entities listed on EU-regulated markets where a qualifying parent report exists — under the current ESRS-40a proposal, only a full-ESRS parent report qualifies; an ESRS-40a report would not.	FY 2027 (reports in 2028) under the new scope

In scope if...	Obligation	First reporting
Pathway 4 — Non-EU parent with significant EU business (Article 40a / ESRS-40a)		
Third-country undertaking with EU net turnover >€450M in each of the last two consecutive financial years, AND at least one EU subsidiary or EU branch with net turnover in the EU >€200M in the previous financial year (parent not listed on an EU-regulated market; no employee test)	Group-level (global parent) report under ESRS-40a, focused on impact materiality; applies regardless of whether any EU subsidiary reports in its own right — see Section 3. **The current design remains subject to public consultation and may change materially.**	FY 2028 (reports due in 2029)
Pathway 5 — Out of scope, but in an EU reporter's value chain		
You supply, distribute for, or borrow from a CSRD reporter or EU financial institution	No direct obligation — but expect data requests. Companies with ≤1,000 employees are "protected" and may refuse requests beyond the voluntary (VSME-based) standard, applying from FY 2027. Procurement questionnaires continue even where mandatory obligations disappear.	Ongoing — contract-driven

A quick screen: which pathway applies?

Step	Question	If yes / if no
Q1	Do you have securities listed on an EU-regulated market, with >1,000 employees and >€450M net turnover?	YES → Pathway 3 (and continue — pathways stack). NO → Q2
Q2	Does any EU subsidiary or EU sub-group exceed 1,000 employees AND €450M net turnover?	YES → Pathway 1 (and continue). NO → Pathway 2 for those entities; continue to Q3
Q3	Does group EU net turnover exceed €450M in each of the last two financial years, with an EU subsidiary or branch above €200M?	YES → Pathway 4 (ESRS-40a, FY 2028). NO → Q4
Q4	Do EU customers, distributors, or lenders subject to CSRD request sustainability data from you?	YES → Pathway 5 (value-chain cap applies). NO → Outside the regime today; monitor the scheduled scope review

A note on branches: The subsidiary and branch limbs of Article 40a do not operate symmetrically: the branch route is engaged by reference to the absence of a qualifying EU subsidiary, and it also determines which EU entity carries the publication obligation and therefore which Member State's filing, language and format rules apply. Groups whose only EU presence above €200M is a branch — rather than a subsidiary — should confirm their position against the amended Article 40a before concluding on scope.

3. How the pathways interact — the decisions that matter

- **Subsidiary exemption:** an EU subsidiary caught by Pathway 1 can be exempted if it is included in the consolidated sustainability report of a parent reporting under ESRS — including a North American ultimate parent that voluntarily applies full ESRS. Under the current ESRS-40a proposal, reporting under ESRS-40a alone would not qualify for this exemption; only full ESRS does. Groups with large EU subsidiaries should assess whether one voluntary full-ESRS group report is more efficient than parallel EU-subsidiary reports plus an ESRS-40a report — the answer depends on group structure, reporting objectives and assurance strategy.
- **Consolidate at the top of the EU chain:** where multiple EU subsidiaries are in scope, reporting at the highest EU consolidation level (an EU sub-holding) can collapse several obligations into one statement.
- **Two waves, one program:** Pathways 1 and 3 (FY 2027) land a year before Pathway 4 (FY 2028). Sequence data readiness so EU-entity reporting becomes the pilot for the group-level ESRS-40a report, not a separate reporting program.
- **Private equity:** portfolio companies with significant EU operations should run the same screen at two levels: portfolio-company obligations (Pathways 1–3) and sponsor- or holding-level exposure (Pathway 4 and CSDDD) can arise independently, and fund and holding structures can trip group-level EU turnover tests in non-obvious ways.
- **CSRD and CSDDD scopes have decoupled:** Omnibus I raised the CSRD and CSDDD thresholds by different amounts, so the two regimes' scopes no longer move together. The CSDDD (due diligence) now applies at >5,000 employees and >€1.5B net turnover (for non-EU companies, >€1.5B EU turnover), with Member State transposition by 26 July 2028 and general application from 26 July 2029. A group whose EU subsidiaries have all fallen out of CSRD reporting can still be captured by CSDDD — and by ESRS-40a — so each screen must be run separately.

4. Pathway 4 in focus: ESRS-40a — the parent-level standard, open for consultation until 31 October 2026

The Exposure Draft was published on 23 July 2026, with a 100-day public consultation running to 31 October 2026, alongside a 70-day field test (mixed approach, internationalization of EU references, IFRS interoperability — with ISSB staff observing). EFRAG has published education material from the 22 July launch webinar. EFRAG is due to deliver technical advice to the Commission by January 2027, with adoption as a delegated act expected in 2027. Note that the Article 40a report is subject to assurance — so data quality, controls and documentation matter as much here as on the CSRD track. Key design features of the current draft:

- **Impact materiality focus:** the standard mirrors the simplified ESRS architecture (12 standards) but is focused on impact materiality rather than double materiality — financial-materiality content (risks and opportunities, financial effects, resilience, dependencies) is excluded from the mandate. A structured impact materiality assessment across the value chain remains mandatory.
- **Three routes: (i) Global approach** — all material impacts reported at group level; (ii) Mixed approach — climate always global, other topics may be limited to "EU-related impacts" (products and services sold or assumed to be sold in the EU, plus EU-located activities), exercisable per topic, sub-topic or group of impacts, and only where the business is structured or managed to permit meaningful identification and faithful representation; (iii) voluntary full ESRS — which, under the current proposal, is also the only route that unlocks the subsidiary exemption.
- **The mixed approach is contested:** it was included at the explicit request of the European Commission, and proponents argue it offers proportionality and feasibility for globally diversified groups whose EU footprint is a small share of worldwide operations. At EFRAG's technical expert group vote on 23 June 2026, however, 6 of 21 votes carried reservations and 1 dissented — over legal basis, feasibility

of separating EU-related impacts, assurance limitations, level playing field, loss of human rights information and greenwashing risk. The consultation asks directly whether fair presentation is achievable under the mixed approach, whether human rights should be reported on a global basis only, and whether geographic-boundary conditions should be added. Our view: most North American groups will find the mixed approach harder operationally than it first appears — isolating impacts tied to products "sold or assumed to be sold" in the EU requires downstream sales-channel tracing at product-line level that few data architectures can produce today. Treat it as genuinely open to revision, and stress-test it against your operating model before relying on the relief.

5. You already did a double materiality assessment — what now?

Many companies see their double materiality assessment as money spent on a rule that has since shrunk. It isn't. The DMA is the one piece of CSRD work you can reuse everywhere. It has two halves: what your company does to people and the environment, and what sustainability issues affect your business financially. The first half drives ESRS-40a reporting. The second feeds ISSB and Canadian CSDS. Do it well once and it serves all three. Let it go stale and every report built on it inherits the same mistake. Treat it like a valuation model, not a report annex — it has a vintage, and both the regulation and your business have moved underneath it.

First decide whether refreshing is still defensible:

- **Under 18 months** — refresh against the revised topic structure and datapoint set
- **18 months to 3 years** — re-test material topics substantively, not just re-confirm them
- **Three years or older** — re-run. It predates the revised ESRS, the Omnibus scope changes and, in most groups, material portfolio and value-chain change

No fixed expiry exists in the standards. But the DMA sits inside limited-assurance scope, and assurance providers will test whether it reflects current circumstances — a 2023 vintage rarely survives. Decide deliberately and document why; that is cheaper than defending it later. Then, whichever bucket you are in:

→ Keep the evidence, retest the conclusions. Stakeholder input and process documentation stay valid even where conclusions don't. A re-run should build on what exists, not start blank.

→ Re-map to the revised data points before touching data collection. Many datapoints your teams were chasing no longer exist. Map first or pay to collect them anyway.

→ Move from checklist to fair presentation. Relevance and faithful representation are now the test — ISSB logic, not compliance ticking. Reframe sign-off accordingly.

→ Simplify the method, keep the audit trail. Top-down and business-model-led, on evidence ***available without*** undue cost or effort. Scoring matrices are optional; documentation is not.

→ Split into two registers — impacts, and risks and opportunities. This is the design decision that turns the DMA from a deliverable into shared infrastructure across ESRS-40a, ISSB and CSDS.

→ Put the refresh cadence on the audit committee calendar. Annual light-touch; full on significant business change. Boards are testing whether the process is controlled, not whether it is elaborate.

Sidebar — Built a full CSRD program in 2023–2025 and now out of scope? It was not wasted

Keep the data architecture and GHG inventory: investors, lenders and EU customers still ask, and California, CSDS and ISSB draw on the same backbone. Keep the governance and controls — rebuilding costs more than maintaining. Re-baseline to the voluntary (VSME-based) standard as the new floor for value-chain requests. A scope review is written into the legislation, and perimeters have historically expanded again. Groups that keep capability warm re-enter scope at a fraction of the cost of those that dismantled it.

6. The IFRS S1/S2 overlap — and how to replicate instead of duplicate

Interoperability with ISSB was an explicit lever of the ESRS simplification, and it is a named consultation and field-test topic for ESRS-40a. That is the single biggest efficiency opportunity for North American groups already on ISSB-based frameworks — Canadian groups voluntarily applying CSDS 1 and 2 (ISSB-based, not yet mandated by securities regulators), and US groups preparing for California SB 253 (SB 261 is enjoined pending appeal) or reporting voluntarily against ISSB.

It is also a competitive one: mature CSRD programs transfer directly — the same governance, controls and data architecture serve ISSB, California and ESRS-40a. And note the pattern in those caveats: ESRS-40a in consultation, CSDS unmandated, California in rulemaking and litigation. When the regimes are still moving, one adaptable core beats four compliance builds.

Layer	Shared with IFRS S1/S2	EU-specific increment
General disclosures (ESRS 2 <-> IFRS S1)	Governance, risk management processes, targets — common reporting content intended to carry across both reports	Double-materiality basis (CSRD track); impact-materiality basis (ESRS-40a); EU value-chain and consolidation rules
Climate (ESRS E1 <-> IFRS S2)	Transition plan disclosure, GHG emissions and emission targets, carbon credits — the core climate content is designed to be common	Impact-side additions: energy consumption and mix, locked-in emissions, 1.5°C compatibility, biogenic emissions, GHG removals, fossil-fuel sector activity disclosures
Beyond climate	IFRS S1 covers other sustainability risks and opportunities only when material to enterprise value — thin topical content today	Full topical standards: pollution, water, biodiversity, circular economy, own workforce, value-chain workers, communities, consumers, business conduct — driven by impact materiality
Mechanics	ISSB report can anchor the shared content; ESRS-40a proposes incorporation by reference to an IFRS report as an explicit option (a field-test topic)	EU limited assurance, ESEF digital tagging, Member State filing mechanics, and (CSRD track) EU Taxonomy disclosures

The replication playbook: build once, disclose many

- **One core, two layers:** make ISSB/CSDS climate and governance disclosures the single-source "core" dataset — same GHG inventory, same transition plan narrative, same governance description — then layer EU increments on top rather than running parallel workstreams.
- **Interoperability mapping**: maintain a living datapoint-level map (revised ESRS <-> IFRS S1/S2 <-> CSDS <-> California) so every disclosure is authored once and routed to each report; EFRAG–ISSB interoperability guidance provides the starting grid, to be refreshed against the final adopted texts.
- **Draft to the higher bar:** write shared climate content so it satisfies the stricter of the two regimes; use incorporation by reference deliberately where permitted, and respond to the ESRS-40a consultation to push for practical anti-double-reporting solutions — EFRAG has explicitly asked for them.
- **Respect the materiality boundary:** the frameworks answer different questions — ISSB asks what affects enterprise value; ESRS also asks what the company does to people and planet. Reusing data is efficient; reusing conclusions across materiality lenses without re-testing is a foreseeable assurance risk

7. Key dates

Date	Milestone
18 March 2026	Omnibus I Directive (EU) 2026/470 in force — new CSRD scope (>1,000 employees AND >€450M net turnover) applies for financial years starting on or after 1 January 2027
3 July 2026	Commission adopts delegated acts: revised (simplified) ESRS and the voluntary reporting standard; two-month European Parliament and Council scrutiny period (extendable) follows
22 July 2026	EFRAG/European Commission launch webinars held across three time zones; education material subsequently published
23 July 2026	ESRS-40a Exposure Draft **published**; 100-day public consultation and field test open
31 October 2026	EFRAG due to deliver ESRS-40a technical advice to the Commission; adoption as a delegated act expected later in 2027
January 2027	Member State deadline to transpose Omnibus I CSRD amendments (CSDDD provisions: 26 July 2028) — national variations possible until then
FY 2027 → 2028	First reporting under the new CSRD scope for in-scope EU entities and EU-listed non-EU issuers (Pathways 1 and 3)
FY 2028 → 2029	First Article 40a parent-level reporting under ESRS-40a (Pathway 4)

8. Five decisions for boards and executive committees in 2026–2027

- **Reporting architecture:** One voluntary full-ESRS group report (unlocking the subsidiary exemption), consolidated EU sub-holding reporting, standalone subsidiary reports, or ESRS-40a at parent level — a structuring decision with cost, comparability, assurance and exemption consequences, not a reporting-team decision.
- **DMA strategy:** Decide refresh versus re-run based on vintage and mandate the two-register split for multi-framework reuse.
- **ISSB–ESRS integration model:** Approve the "build once, disclose many" architecture and the target framework map before teams commit to parallel workstreams.
- **Assurance readiness strategy:** Decide the target state for data governance, controls and documentation under the limited-assurance regime — 12–18 months of lead time before first filing.
- **Regulatory engagement posture:** Decide whether, and through which channels, to participate in the ESRS-40a consultation and field test — the principal window to shape the mixed approach and anti-double-reporting mechanics closes on 31 October 2026.

9. Practical next steps: five actions for North American headquarters

- **Run the five-pathway scope screen:** entity by entity: every EU subsidiary and sub-group (employees AND turnover), any EU-listed securities, group EU turnover for Article 40a (€450M over two consecutive years plus a €200M subsidiary or branch), and value-chain exposure. Document the conclusion per entity — dated, versioned and evidence-backed. In our experience, EU net turnover is one of the least mature datapoints in multinational reporting architectures — it is rarely a controlled, consolidated line item — and FY 2026–2027 figures determine FY 2027–2028 applicability, so establish tracking now.
- **Take the reporting architecture decision to the board**: per Section 7 — the exemption, consolidation and voluntary full-ESRS choices shape everything downstream. In practice, this means choosing between four approaches: (1) everyone reports separately — each in-scope EU subsidiary files its own statement, plus an ESRS-40a report at parent level; (2) combine within Europe — one consolidated report at the highest EU holding level covers the subsidiaries beneath it; (3) one global report from the parent — the parent voluntarily applies full ESRS, exempting the EU subsidiaries and satisfying Article 40a in a single report, at the cost of broader global disclosure; or (4) parent reports under ESRS-40a only — the lighter parent-level report, but in-scope EU subsidiaries still report separately. Option 1 is what happens by default if no one decides. For entities exiting mandatory scope, follow the sidebar in Section 4.
- **Refresh — or re-run — the DMA**: per Section 4: the approach depends on vintage; then re-map to the revised datapoints, adopt the fair-presentation and reasonable-evidence standard, split impact and financial legs, document the refresh cadence.
- **Build one architecture serving all frameworks:** maintain the interoperability map (revised ESRS <->IFRS S1/S2 <-> CSDS <-> California), refreshed against the adopted delegated-act texts, with the ISSB/CSDS report as the core dataset and EU increments layered on top — so shared content is authored once and routed to every report.
- **Plan data, controls and assurance readiness on the long-lead items:** value-chain data, EU-turnover measurement, EU-impact segmentation (if the mixed approach is used) and ESEF tagging all require architecture decisions 12–18 months before first filing; build audit-ready documentation from day one.

The bottom line

The Omnibus reforms simplify EU sustainability reporting — they do not eliminate it. And they reduce mandatory reporting, not investor expectations. Organizations that settle their scope conclusions, revisit their materiality process and commit to a single integrated reporting architecture in 2026 will be positioned to meet EU, ISSB, Canadian and California requirements through one program — at materially lower cost than those that rebuild reactively in 2028.

Sources

European Commission and Council of the European Union publications related to Directive (EU) 2026/470 (Omnibus I), Official Journal of the European Union (26 February 2026); European Commission delegated acts adopting the revised European Sustainability Reporting Standards (ESRS) and voluntary sustainability reporting standard (3 July 2026); EFRAG ESRS simplification publications, including datapoint reduction analyses; EFRAG Sustainability Reporting Board (SRB) materials relating to ESRS-40a (SRB meetings of 3 June and 1 July 2026, including the report on the SR TEG vote of 23 June 2026); and EFRAG public communications, including the ESRS-40a Exposure Draft and consultation package and the education material from the 22 July 2026 launch webinar.

Disclaimer

Information is current as of 30 July 2026. The ESRS-40a Exposure Draft is not final, and the revised ESRS remain subject to regulatory scrutiny, including a two-month review period by the European Parliament and Council that may be extended. Accordingly, the requirements described herein may change prior to final adoption. Amendments introduced through Omnibus I to the Corporate Sustainability Reporting Directive (CSRD) must be transposed into national law by 19 March 2027, and implementation may vary across EU Member States. This document is provided for general informational purposes only and does not constitute legal, regulatory, financial, or other professional advice. Readers should seek independent professional advice tailored to their specific circumstances.

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