Snapshot

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Impact to US entities of EU sustainability proposals

The Corporate Sustainability Reporting Directive (CSRD), which requires in-scope entities to report on environmental, social, and governance (ESG) activities and to obtain assurance over this reporting, may create reporting obligations for U.S. parent entities with operations in the EU at both a consolidated parent and EU subsidiary level. On February 26, 2025, the European Commission released two proposals that impact the CRSD. The first or “stop the clock” proposal was approved by the European Parliament on April 3, 2025 and postpones by two years all reporting requirements for undertakings due to report under the CRSD in 2026 and 2027 (that is, wave 2 and wave 3 reporting entities). This “stop the clock” directive is effective as of April 17, 2025, and member states have a deadline to transpose these updated timelines into national legislation by December 31, 2025. The second proposal outlines detailed amendments to the CSRD and may potentially reduce the number of entities in scope for CSRD reporting by approximately 80%.

Omnibus proposed changes

Summaries of the proposed revisions to the CSRD and other changes included within the remaining Omnibus proposal are discussed below.

Entities subject to CSRD reporting requirements and implementation timelines

The proposed changes would update reporting requirements to apply to those EU undertakings or groups with more than 1,000 employees on average during the financial year and either net turnover in excess of €50 million or a balance-sheet total in excess of €25 million.

Non-EU parent undertakings with a net turnover exceeding €450 million derived from operations in the EU for the last two consecutive financial years and with either at least one EU subsidiary with more than 1,000 employees (including holding companies that collectively have 1,000 employees) or an EU branch with net turnover of at least €50 million would also be within the scope of the CSRD under the proposed changes.

As noted above, the “stop the clock” directive postpones reporting timelines for many entities by two years. These updated reporting timelines are now effective and are reflected in the table below; however, the other proposed changes discussed below are subject to change throughout the negotiation and approval process within the EU.

<table>
<tr><th></th><th colspan="2">Existing requirements</th><th colspan="2">Proposed changes</th></tr>
<tr><td rowspan="3">Wave 1 reporting entities</td><td colspan="2">• Large undertakings or groups listed on an EU regulated market with more than 500 employees
• Insurance companies and credit institutions designated as public-interest entities with more than 500 employees
• Effective dates for reporting would begin as follows:</td><td colspan="2">• Undertakings or groups with more than 1,000 employees on average and either of the following:
– Net turnover > €50 million
– Balance sheet total > €25 million
• Effective dates for reporting would begin as follows:</td></tr>
<tr><td>Financial year</td><td>Reporting in</td><td>Financial year</td><td>Reporting in</td></tr>
<tr><td>2024</td><td>2025</td><td>2024</td><td>2025</td></tr>
<tr><td rowspan="3">Wave 2 reporting entities</td><td colspan="2">• Large undertakings or groups that meet two of the following three criteria for two consecutive financial years:
– Net turnover > €50 million
– Balance sheet total > €25 million
– Average of > 250 employees over the financial year
• Effective dates for reporting would begin as follows:</td><td colspan="2">• Undertakings or groups with more than 1,000 employees on average and either of the following:
– Net turnover > €50 million
– Balance sheet total > €25 million
• Effective dates for reporting would begin as follows:</td></tr>
<tr><td>Financial year</td><td>Reporting in</td><td>Financial year</td><td>Reporting in</td></tr>
<tr><td>2025</td><td>2026</td><td>2027</td><td>2028</td></tr>
<tr><td rowspan="3">Wave 3 reporting entities</td><td colspan="2">• Small and medium-sized undertakings or groups (SMEs), which are listed on an EU-regulated market, that meet two of the following three criteria for two consecutive financial years:
– Net turnover > €15 million
– Balance sheet total > €7.5million
– Average of > 50 employees over the financial year
• Small and noncomplex credit institutions as well as captive insurance undertakings meeting large undertakings or groups criteria
• Effective dates for reporting would begin as follows:</td><td colspan="2">• Undertakings or groups with more than 1,000 employees on average and either of the following:
– Net turnover > €50 million
– Balance sheet total > €25 million
• Effective dates for reporting would begin as follows:</td></tr>
<tr><td>Financial year</td><td>Reporting in</td><td>Financial year</td><td>Reporting in</td></tr>
<tr><td>2026</td><td>2027</td><td>2028</td><td>2029</td></tr>
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<td rowspan="3">Wave 4 reporting entities</td>
<td colspan="2">Non-EU parent undertakings that meet the following criteria:
• Net turnover of €150 million in the EU for the last two consecutive financial years and one of the following:
– At least one EU subsidiary that is a large undertaking or listed entity; or
– An EU branch with a net turnover of at least €40 million.
• Effective dates for reporting would begin as follows:</td>
<td colspan="2">Non-EU parent undertakings that meet the following criteria:
• Net turnover of €450 million in the EU for the last two consecutive financial years and one of the following:
– At least one EU subsidiary with more than 1,000 employees (including holding companies that collectively have 1,000 employees); or
– An EU branch with a net turnover of at least €50 million.
• Effective dates for reporting would begin as follows:</td>
</tr>
<tr>
<td>Financial year</td>
<td>Reporting in</td>
<td>Financial year</td>
<td>Reporting in</td>
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<tr>
<td>2028</td>
<td>2029</td>
<td>2028</td>
<td>2029</td>
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</table>

Value chain

The CSRD and the proposed changes maintain reporting requirements for entities to include activities in their upstream and downstream value chains. However, the proposed changes include a limit to information that can be requested from entities that do not meet reporting criteria. This limit is expected to be based on the Voluntary reporting standards for SMEs (VSME) prepared by EFRAG and is expected to substantially reduce the trickle-down effect on entities without a CSRD reporting requirement.

European sustainability reporting standards

The CSRD required the development of European Sustainability Reporting Standards (ESRS) by EFRAG (refer to the Appendix for additional information on ESRS). The proposed Omnibus changes include revisions of existing ESRS that aim to reduce the number of data points, clarify unclear provisions, focus on quantitative data points, and improve consistency with other sustainability regulations, such as the Corporate Sustainability Due Diligence Directive (CSDDD).

The Omnibus proposal would maintain the requirement for reporting entities to perform a double materially assessment over their sustainability reporting.

Sector-specific standards

The proposed changes clarify that no sector-specific sustainability standards would be introduced.

Assurance requirement

The CSRD currently contains a requirement for entities with CSRD reporting requirements to obtain independent assurance over their reporting. This requirement begins with limited assurance in initial reporting periods and contemplates a potential update to reasonable assurance in future reporting periods.

Under the proposed changes, reporting entities would be required to obtain limited assurance only, with no requirement to move to reasonable assurance in future reporting periods.

In addition, the proposed changes would remove an obligation for the European Commission to adopt standards for sustainability assurance by 2026. Instead, the Omnibus proposal indicates that the European Commission would issue targeted assurance guidelines by 2026.

EU Taxonomy regulation

The CSRD currently contains requirements for reporting key performance indicators that are aligned with the EU Taxonomy, which is a classification system that assists in the identification of environmentally sustainable economic activities.

The EU Taxonomy reporting obligation would remain applicable for entities exceeding the thresholds noted above.

The proposed changes introduce an “opt-in” regime for the EU Taxonomy reporting obligation for undertakings or parent undertakings with less than 1,000 employees and a net turnover not exceeding €450 million. The “opt-in” requirement is triggered by entities meeting these thresholds who claim that their activities are aligned or partially aligned with the EU Taxonomy. These entities would be required to disclose their turnover and capital expenditure key performance indicators (CapEx KPIs) and may optionally disclose their operating expense key performance indicators (OpEx KPIs).

Additionally, the proposed changes would allow for more flexibility by allowing qualifying undertakings to report on activities that meet some, but not all, Taxonomy technical screening criteria. This reporting on partial alignment would allow for a gradual transition of activities over time.

Next steps

With the “stop the clock” changes now adopted, discussion and debate over the second Omnibus proposal will proceed. While the timeline for finalization of these remaining Omnibus proposed changes is uncertain, these updates will ultimately be submitted to the European Parliament and the EU Council for final review and approval. The final directive must then be incorporated into legislation at each EU member state level.

Grant Thornton insights

Entities currently within the scope of CSRD reporting requirements are encouraged to evaluate their specific facts and circumstances to determine appropriate actions moving forward, including:

- Analyzing their organizational chart and determining the applicability of the changes proposed in the Omnibus proposal, which could result in a potential change in reporting strategy or a delay or reduction in the scope of reporting.
- For entities that have a double materiality assessment in process, completing that process is advised, as the double materiality principle is likely to remain within any revised reporting requirements.
- For entities that do not have an existing process to report climate-related information and greenhouse gas emissions, proceeding with preparations to support such reporting, as an emphasis on reporting this information is unlikely to change under any revised CSRD or ESRS requirements.
- Pursuing assurance readiness for the double materiality assessment and greenhouse gas emissions reporting that will be included in CSRD reporting to enhance preparedness for upcoming reporting requirements.
- Monitoring for further updates to the proposed changes included within the Omnibus proposal and further EU developments until proposed changes are adopted as final requirements.

Appendix: Existing ESRS requirements and accommodations

The CSRD, as currently approved, has resulted in the development of European Sustainability Reporting Standards (ESRS) by EFRAG, which were finalized and adopted by the European Commission as of July 2023. The ESRS aim to utilize leading existing international sustainability frameworks, such as those developed by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI), but they significantly expand the scope of reported ESG information. This appendix provides important context for consideration in conjunction with the proposed changes included in the Omnibus proposals.

General disclosure requirements

Entities required to follow the ESRS are subject to ESRS 1, *General requirements*, and ESRS 2, *General disclosures*. These "cross-cutting" standards apply to all in-scope entities and include such topics as policies and targets, governance in relation to sustainability, and an entity's assessment of material sustainability impacts, risks, and opportunities.

The ESRS also include 10 topical standards related to an entity's ESG impact that will apply based on an entity's consideration of double materiality. Under this double materiality concept, entities are required to consider the following factors:

- Impacts of the entity's activities on the environment and society; and
- How sustainability matters impact the entity's business

Entities are also required to consider each materiality perspective individually, disclosing information material to both materiality perspectives and information that may be material from only one of the materiality perspectives.

Reporting accommodations

The directive currently allows (1) non-EU parent entities with EU subsidiary reporting obligations to produce a consolidated CSRD-compliant report, and (2) non-EU parent entities with multiple in-scope EU subsidiaries to provide a consolidated CSRD-compliant report that includes all in-scope EU subsidiaries in initial reporting periods. In both cases, the reporting requirements applicable to EU-based entities, rather than the anticipated standard for non-EU parents, are expected to apply.

When considering the general disclosure requirements and reporting accommodations, it is important to note that the Omnibus proposals seek to revise the existing ESRS, as noted above. However, the nature of such revisions are not yet clear, and it is also uncertain what changes, if any, will be made to reporting accommodations in light of adopted delays in reporting timelines. The Omnibus proposals do retain the double materiality principle to guide reporting but acknowledge that additional instructions will be provided to clarify how to apply the double materiality principle.

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