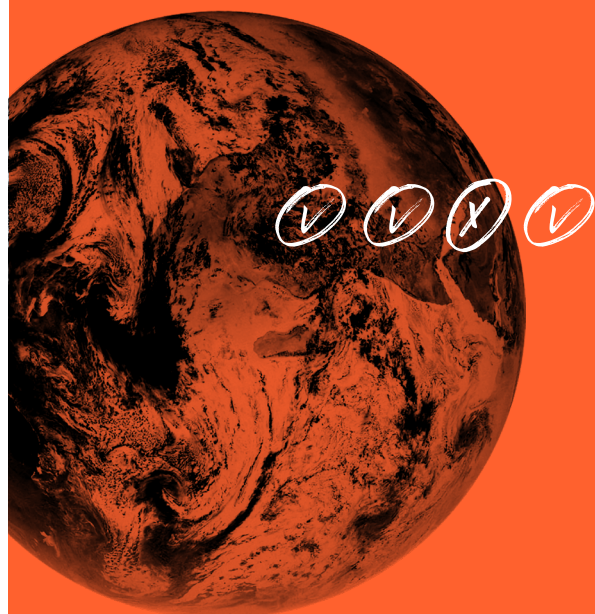


**SALTERBAXTER**

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# **ESRS 2.0: FROM BURDEN TO OPPORTUNITY?**

Do the ESRS amendments signal a brighter future for authentic sustainability reporting?



Last week we saw the publication of the revised European Reporting Standards (ESRS) Exposure Drafts, forming part of the EU's Omnibus proposal to reduce the sustainability reporting and regulatory burden on companies.

Developed by EFRAG, these amendments address the implementation pain points that emerged during the first year of reporting, while preserving the standards' core purpose and decision-usefulness.

We largely welcome these amendments as they represent a move away from compliance-driven disclosure to materiality-focused reporting that better aligns with how businesses actually manage sustainability issues. We're also pleased to see the push for more authentic, organisation-specific disclosure which recognises sustainability reporting is most valuable when it provides insights into how organisations actually think about and manage their sustainability challenges, rather than simply documenting adherence to overly prescribed disclosure formats.

**The revised standards deliver:**

**Efficiency gains** through reduced granularity requirements and eliminated duplication

**Preserved rigour** while reducing unnecessary complexity and overwhelm

**Resource optimisation**, allowing reallocation of effort from administrative compliance to strategic sustainability initiatives

**Narrative freedom** to tell coherent stories about material sustainability topics

**Communication flexibility** through streamlined executive summary options

**01**

## DOUBLE MATERIALITY ASSESSMENT: EMBRACING STRATEGIC PRAGMATISM

The most significant change is the encouragement of a top-down materiality approach. Companies can now pre-determine material topics based on industry context and business model - because let's face it, most organisations already know what their key sustainability topics are before conducting exhaustive bottom-up assessments. This is expected to be a more pragmatic approach, reducing process complexity.

### Topic simplifications

First of all, in a move we are relieved to see, the term 'sustainability matters' has been abandoned, replaced instead with the more straightforward 'sustainability topics'. Sub-sub-topics have also been eliminated and merged with sub-topics for easier categorisation and are now non-mandatory non-binding guidance in Appendix A to ESRS 1.

### Proportionate assessment requirements

The amendments streamline the layers of complexity that added administrative burden without necessarily improving materiality outcomes. Organisations can now focus their resources where they matter most, rather than conducting a comprehensive analysis for completeness's sake.

**Non-exhaustive:** Organisations are not required to assess every possible IRO across all operations and value chain areas.

**Simplified analysis:** Unless necessary for materiality determination, organisations don't need to analyse every time horizon for all IROs or separately analyse each severity characteristic for impacts.

**Qualitative sufficiency:** Quantitative scoring is not required in all cases - qualitative analysis may be sufficient for materiality conclusions.

#### Gross vs. net impact clarity

New guidance addresses the frequent implementation question of when to consider remediation, mitigation, and prevention efforts in materiality assessment, driving consistency across organisations:

**Actual negative impacts:** Severity evaluated considering mitigation/prevention measures implemented before impact occurred, but remediation actions during the reporting period are not considered.

**Potential negative impacts:** The effect of mitigation/prevention actions is considered, except where significant ongoing actions are needed to contain severity/likelihood.

02

## STREAMLINED DISCLOSURES: CUTTING THROUGH THE NOISE

The disclosure requirements themselves have undergone substantial simplification, whilst still maintaining the core architecture of the standards. The changes demonstrate a clear intent to reduce administrative burden while maintaining the quality and relevance of information.

#### The ongoing debate of anticipated financial effects:

Two options are under consultation, reflecting the considerable debate and uncertainty around one of the most challenging aspects of ESRS reporting:

**Option 1:** Require reporting qualitative information only when the level of estimation uncertainty is so high that the resulting quantitative information would not be useful.

**Option 2:** Only qualitative information is mandatory, leaving the option for undertakings to report quantitative information if they wish (for the anticipated financial effects of climate change, in particular, this does raise concerns that the amendments could undermine the importance of providing detailed information).

#### Systematic reductions in granularity:

Recognising that excessive detail can counterintuitively obscure key sustainability information, the amendments systematically remove granular requirements that added extra complexity without providing proportionate benefit:

**Integration and simplification:** Removed redundant data points already covered in financial statements or topic standards, with some requirements merged to eliminate duplication.

**Stakeholder engagement streamlining:** High-level description is sufficient, with detailed process requirements deleted.

**Voluntary requirements elimination:** All 'may disclose' requirements deleted.

#### Acknowledgement of operational reality:

A suite of new practical reliefs acknowledges the real-world constraints organisations face in data collection and preparation, particularly for complex global organisations with diverse operations and supply chains:

'Without undue cost or effort' guidance was introduced across multiple disclosure areas.

**Value chain data flexibility:** Explicit acceptance of proxies, secondary data, and sector averages.

**Partial reporting permission:** Organisations can report partial scope when reliable data is only available for part of their operations.

**Acquisition/disposal flexibility:** Relief for treatment of acquisitions and disposals in the year they occur, with the option to defer subsidiary inclusion to subsequent reporting period.

**Aggregation/disaggregation guidance:** Companies can choose to aggregate or disaggregate information (at the sites and subsidiaries level) to reflect the significant variations of material IROs arise.





## PREPARATION AND STRUCTURE: FLEXIBILITY MEETS AUTHENTICITY

Perhaps the most welcome development is enhanced flexibility in structuring and presenting sustainability information. This moves away from prescriptive formatting toward approaches that align reporting with strategic priorities and management processes - recognising that effective communication requires coherent, differentiated storytelling.

**Reporting level flexibility:** The choice between IRO-level and topic-level reporting represents a fundamental recognition that different organisations manage sustainability issues at different levels of granularity. Reporting should reflect management realities rather than impose artificial uniformity.

### Enhanced presentation options:

The amendments recognise that effective sustainability communication requires flexibility in how information is structured and presented to different audiences.

**Executive summary:** Option to include an executive summary at the beginning of sustainability statements, covering key messages about material IROs and their management, with detailed content remaining in the main statement.

**Integrated IRO-PATs presentation:** Companies can present IRO descriptions alongside related Policies, Actions, and Targets (PATs) in the same location to avoid duplication and support a coherent narrative.

**Cross-referencing freedom:** To avoid repetition and duplication, the information can be presented once and cross-referenced elsewhere.

**Financial statement connectivity:** Organisations can cross-reference to monetary amounts in financial statements.

### Emphasis on authentic narratives:

A key theme throughout the amendments is the push toward more authentic, organisation-specific disclosure that reflects genuine management approaches rather than templated compliance responses.

**Anti-boilerplate guidance:** Explicit emphasis on avoiding generic descriptions and encouraging organisation-specific disclosure.

**Management alignment:** Disclosures can better reflect the undertaking's strategy and business model.

## AREAS OF CONTINUED CHALLENGE

While these changes are largely positive, we anticipate organisations will still need to navigate:

### Anticipated financial effects uncertainty:

Ongoing consultation creates planning uncertainty between quantitative vs. qualitative approaches. Given financial institutions and investors consider the financial impacts of sustainability topics, especially climate change, in their portfolios, this will further create challenges in assessing companies' prospects.

**Interpretation consistency:** Newly introduced guidance and flexibility measures may lead to inconsistent and varied approaches between preparers and assurers, particularly for top-down materiality.

**Value chain boundaries:** Despite relief provisions, determining appropriate scope remains challenging, particularly for complex global operations.

**Consistency concerns:** While increased flexibility is a positive step, this may also make year-on-year and peer comparisons more difficult.

**Integration complexity:** Organisations may find it difficult to create coherent narratives across different reporting sections without duplication.

### Data quality vs. efficiency tension:

Organisations may struggle to balance the desire for cost-effective reporting with maintaining credible, decision-useful information.

## THE STRATEGIC OPPORTUNITY

These amendments signal EFRAG's recognition that proportionality and practicality are essential for effective sustainability reporting. We are feeling cautiously optimistic that this signals the era of compliance-driven box-ticking is giving way to strategic, materiality-driven reporting that serves both organisations and their stakeholders.

If you would like more information or to discuss further, please get in touch with  
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