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Next steps for Non-EU Groups in Scope of the CSRD

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On 23 July 2026, EFRAG published an **"Exposure Draft"** of the proposed sustainability reporting standards for certain non-EU undertakings under Article 40a of the Accounting Directive, known as the “ESRS-40a Standards”. The Exposure Draft sets out how in-scope non-EU groups would report under the CSRD framework. We summarise the key points below.

1. **By way of reminder: who is in scope?**

Following the amendments to CSRD’s scope via the “Omnibus”, Article 40a of the Accounting Directive (as amended by the CSRD) applies where a non-EU undertaking:

- generates more than EUR 450 million of net turnover in the EU in each of the previous two financial years; and
- has either an EU subsidiary generating more than EUR 200 million of net turnover or, where there is no such subsidiary, an EU branch exceeding that threshold.

The reporting obligation falls on the relevant EU subsidiary or branch, but the report covers the ultimate non-EU parent undertaking or group.

A limited derogation may apply to certain financial holding undertakings with operationally independent subsidiaries. See our earlier update on the revised scope of the CSRD.

2. **Key Development: Option to limit reporting to EU-related impacts**

The default position remains that the report would cover the material impacts of the non-EU parent undertaking or its worldwide group. However, for all sustainability topics other than climate change, including environmental, workforce, community, consumer and business-conduct matters, an in-scope non-EU group could choose to report only on “EU-related impacts”. Climate-related impacts would still have to be reported globally.

EU-related impacts would include:

- impacts arising from the group’s activities in the EU; and
- impacts linked to products or services sold, provided or reasonably expected to be sold or provided in the EU.

The Exposure Draft refers to this as a “mixed approach” to narrow the reporting boundary. This means that the reporting boundary would not be purely geographical. An impact occurring outside the EU could still be reportable where it relates to an EU-facing product or service. For example, working conditions at a non-EU supplier could remain relevant where that supplier produces goods sold in the EU.

The mixed approach is likely to be most useful where EU operations, products and value chains are clearly separated from the rest of the group. It may be harder to apply where companies rely on shared production, global procurement or indirect distribution. Groups using the option would also need to show that the narrower reporting boundary gives a complete and reliable picture of their EU-related impacts. A single report could therefore combine global and EU-related reporting across different sustainability matters.

A point to note is that EFRAG included the mixed approach at the European Commission’s request and has expressed reservations about its practical application, its effect on comparability and the challenges it may create for assurance.

See also our earlier article on the development of the non-EU group reporting standards.

3. **How does this fit with the wider CSRD reforms for EU companies?**

The Exposure Draft is only one part of the wider reform of the CSRD reporting framework. Separately, on 3 July 2026, the European Commission adopted revised ESRS for EU undertakings reporting under Articles 19a and 29a of the Accounting Directive (as amended by the CSRD), together with a new voluntary sustainability reporting standard for certain undertakings outside the CSRD’s mandatory scope.

Key changes include:

- **Fewer datapoints and a stronger materiality filter:**
  - **Significant reduction in datapoints:** the revised ESRS reduce mandatory datapoints by more than 60% and total datapoints by more than 70%.
  - **More proportionate assessment:** the standards move away from a checklist approach and allow companies to take a “top-down” view of their

strategy, business model, sectors, geographies and value chain, reaching conclusions at topic or sub-topic level unless a more granular assessment could change the outcome.

  - **Only material information should be reported:** the revised standards strengthen the materiality threshold by making clear that companies should not report information that is not material, except in specified circumstances. The focus is on providing decision-useful information rather than addressing every possible user need, which may require companies to revisit and streamline their existing materiality assessment methodologies.

- **Targeted reliefs and clarifications:** these include additional phase-ins, clearer recognition that anticipated financial effects will involve estimates that can subsequently be updated without constituting reporting errors, narrower reporting requirements for human-rights and discrimination incidents, and greater transparency where a reported climate transition plan is not compatible with the 1.5°C target.
- **A value-chain cap:** once effective, the voluntary standard will also limit the sustainability information that CSRD-reporting companies can require from undertakings protected by the value-chain cap. This may be relevant to non-EU companies even where they are not themselves directly subject to mandatory CSRD reporting.

4. **Interaction with SFDR 2.0**

Financial market participants in scope of the SFDR, for example alternative investment fund managers, should also consider how these changes interact with the proposed SFDR 2.0 regime. Under the Council’s negotiating position, products using the proposed transition or sustainable categories would need to use at least three principal adverse impact indicators selected from a future Commission list. Although the revised ESRS should provide useful underlying data for some indicators, the mapping is unlikely to be complete. Differences in materiality, calculation methodology and reporting boundaries, particularly where a non-EU group applies the mixed approach, may leave gaps for non-climate indicators. Fund managers may therefore still need separate portfolio-company data or estimates.

See our update on the current status of SFDR 2.0 here.

5. **Timing and Next Steps**

EFRAG's consultation on the non-EU reporting Exposure Draft closes on 31 October 2026. EFRAG expects to submit its technical advice to the European Commission in January 2027.

The new ESRS-40a Standards are expected to apply to financial years beginning on or after 1 January 2028 and reports must be published within 12 months of the financial year end. A calendar-year group would therefore prepare its first report for the 2028 financial year, for publication in 2029.

Subject to completion of the European Parliament and Council scrutiny process, the revised ESRS will apply for financial years beginning on or after 1 January 2027, with early application permitted for financial years beginning in 2026 once the delegated act enters into force.

Non-EU groups should therefore consider both their potential group-reporting obligations under Article 40a and the Exposure Draft developments and whether any EU subsidiaries have separate reporting obligations under the revised ESRS too.

For further CSRD support, please reach out to ukreg@proskauer.com.

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