



# Real-time ESRS

Findings from the first wave of ESRS reporting

Updated July 2025



# ESRS and the need for simplification

What can we learn from the first wave of ESRS reporting?

In March 2025 we released our FAST 50 report, which looked at the reporting by 50 companies that issued statements in January and February. Our early-stage findings showed trends consistent with our experience as advisors and assurance providers.

Our latest report includes data from the analysis of 270 companies. These results – combined with our practical experience and country-specific analyses conducted by several of our member firms – paint a picture of some of the most challenging areas of reporting under ESRS.

- Compliance is overwhelming the strategic story.
- The double materiality assessment is complicated and subject to interpretation.
- The compliance burden is very high.

Related to the Omnibus proposals, the European Commission has tasked EFRAG with providing technical advice on how ESRS can be revised and simplified; the deadline is 30 November. EFRAG's proposals are expected to be released for public consultation at the end of July.

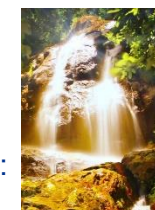
As we await the public consultation, we note that the main themes in our findings are generally consistent with the progress report issued by EFRAG in June.

In addition, our findings reveal enduring lessons about stakeholder engagement, the impact of AI and telling your strategic story amid complexity.

These lessons are relevant for all companies looking to improve their sustainability reporting – whether under ESRS or IFRS® Sustainability Disclosure Standards or as part of voluntary reporting. There are also compelling questions about the relationship between impact and financial materiality, and connectivity to the financial statements.

With this background in mind, we hope you find our analysis useful.

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KPMG Global Head of ESG Reporting



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# 1. Our methodology: Data and experience

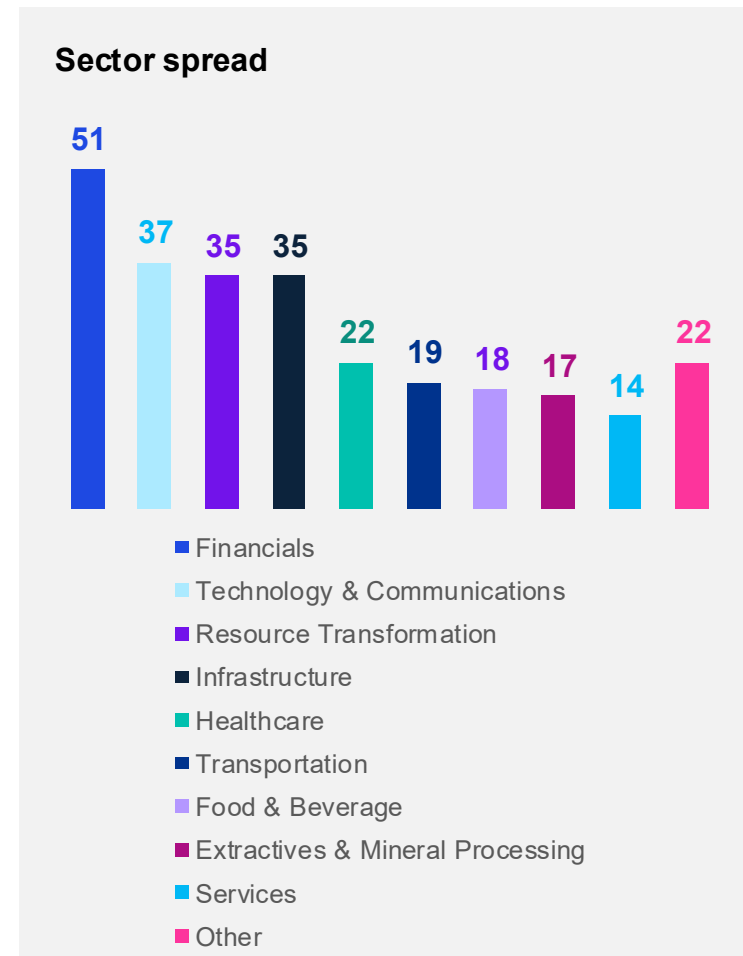
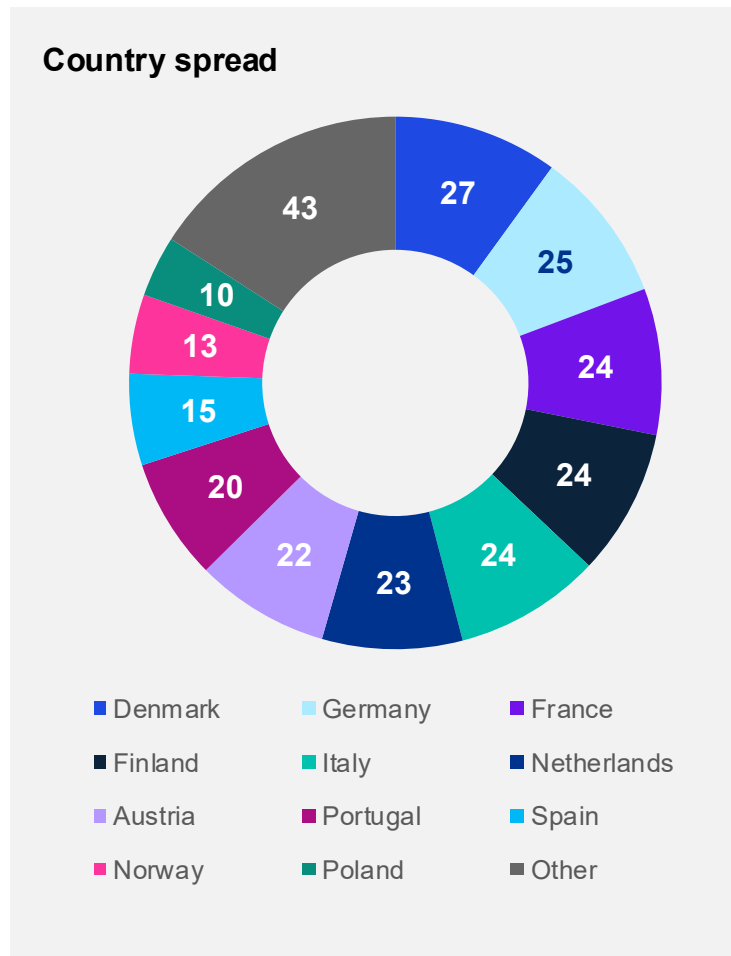
We analysed the sustainability statements of 270 companies that reported under ESRS in the first half of 2025.

Our analysis also includes observations from KPMG specialists who are providing ESRS-related advisory and assurance services (referred to as 'our experience'), some of whom have conducted their own country-specific analyses.

Our sample of companies was not intended to be statistically representative, but reflects our experience and the first wave of ESRS reporting.

Our findings are a valuable part of the discussion about ESRS simplification – with lessons emerging about the practical application of the standards and areas that companies found challenging.

On the pages that follow, we include our simplification recommendations (opportunities) that correspond to our findings. Read more about our simplification feedback to EFRAG [here](#).



# 2. The (missing) link to strategy

Many sustainability statements included the required disclosures, but the link to the company's overall business strategy was unclear. There was also significant repetition and an apparent tension between providing sufficient information in each section vs cross-referencing.

Overall, it appeared that the compliance exercise had often overwhelmed how a company effectively communicates its story and its strategy.

## Opportunities for simplification

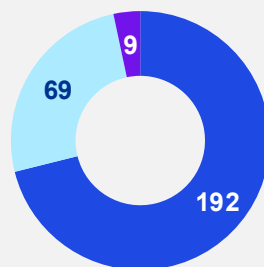
- Introduce an information hierarchy allowing sorting by relevance.
- Revisit the mandatory nature of minimum disclosures.
- Move general disclosures in topic-specific standards to ESRS 2 *General disclosures* itself.
- Clarify the relationship between voluntary datapoints and mandatory entity-specific information.

### Structure and length of the statement

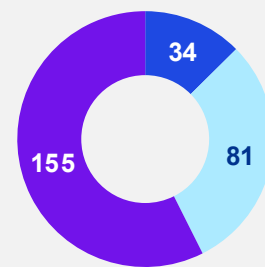
71% of sustainability statements followed the structure illustrated in ESRS, as encouraged by ESMA.

In all cases, the statement was presented as a single statement rather than being split across the management report.

The average number of pages (excluding information incorporated by reference) was 127; the median was 107 pages.



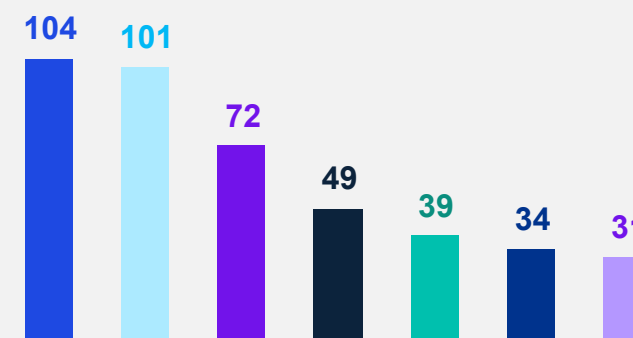
- Followed exact structure
- Made some modifications
- Used own structure



- Under 60 pages
- 60-100 pages
- Over 100 pages

### Disclosures incorporated by reference

53% of companies incorporated some information by reference. The chart shows the most common disclosures that were referenced.



- GOV-1 (role of governance bodies)
- SBM-1 (strategy, business model, value chain)
- GOV-3 (related incentive schemes)
- GOV-2 (considerations of governance bodies)
- GOV-5 (risk management, internal controls)
- IRO-1 (process to identify, assess material IROs)
- SBM-3 (IRO interaction with strategy, business model)

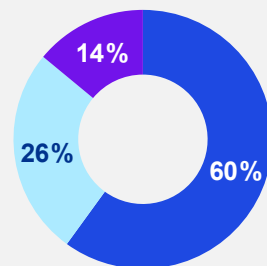
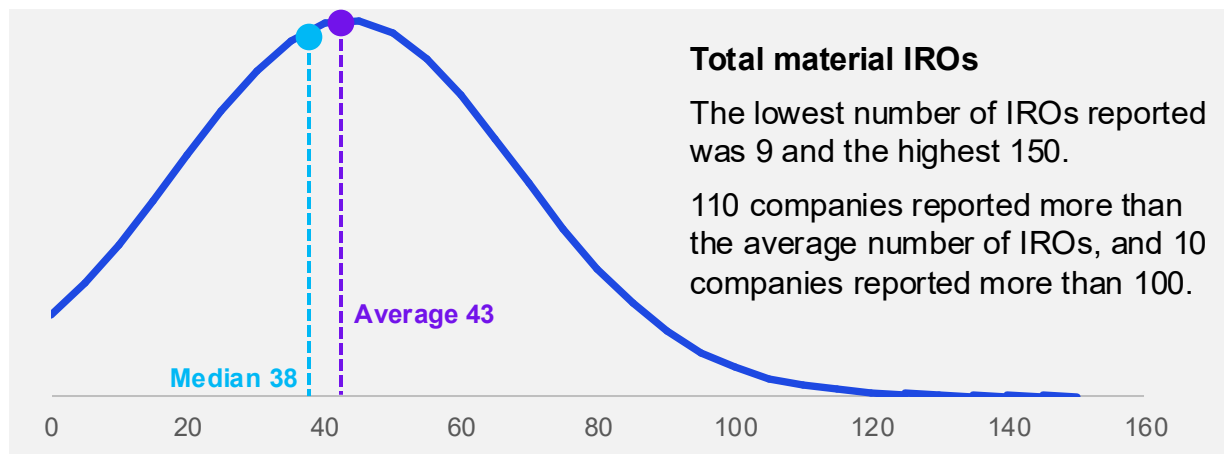
# 3. A wide range in the number of IROs

Identifying material IROs is the foundation for reporting under ESRS and our analysis shows that companies' first experience with the DMA process was challenging.

There was a great deal of variety in the way companies categorised and presented their IROs. In addition, although companies may have appreciated EFRAG's implementation guidance, many needed to make key reporting decisions before the guidance was published because of the CSRD's rapid implementation period.

## Opportunities for simplification

- Expand the guidance on performing a DMA – e.g. on the approach to mitigation activities.
- Strengthen the concept of material information and make it available for all datapoints.
- Clarify how to determine reportable information relating to material IROs. At present, this is particularly difficult where impacts are material to affected stakeholders that are not users.

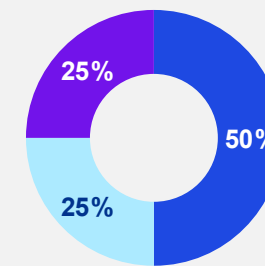


- Impacts
- Risks
- Opportunities

## Type and location of material IROs

More than half of the identified IROs were impacts; two-thirds of impacts were identified as negative. Half of all IROs affected own operations.

The classification of IROs as short-, medium- and long-term was often unclear; the distinction between actual and potential impacts was sometimes unclear.



- Own operations
- Upstream
- Downstream

# 4. Four topical standards dominate

ESRS 1 *General requirements* includes a list of topics, subtopics and sub-subtopics that informs a company's identification of material IROs.

The list is not exhaustive and 7% of the total IROs identified were entity-specific.

## 'Quick fix' amendments

On 11 July, the European Commission adopted a delegated act providing relief for companies already reporting under ESRS in the first wave.

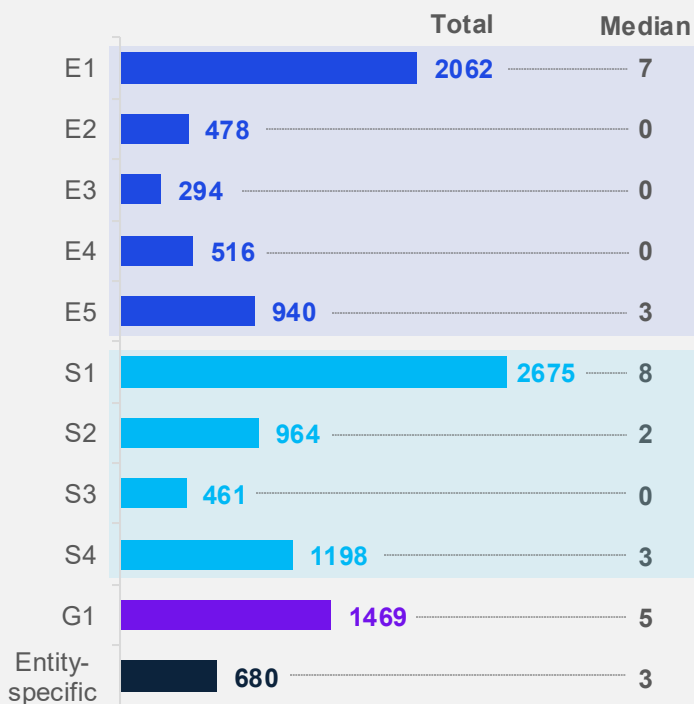
The amendments allow companies with >750 employees to omit disclosures under the following until 2026:

- ESRS E4 *Biodiversity and ecosystems*;
- ESRS S2 *Workers in the value chain*;
- ESRS S3 *Affected communities*; and
- ESRS S4 *Consumers and end-users*.

Read about the amendments [here](#).

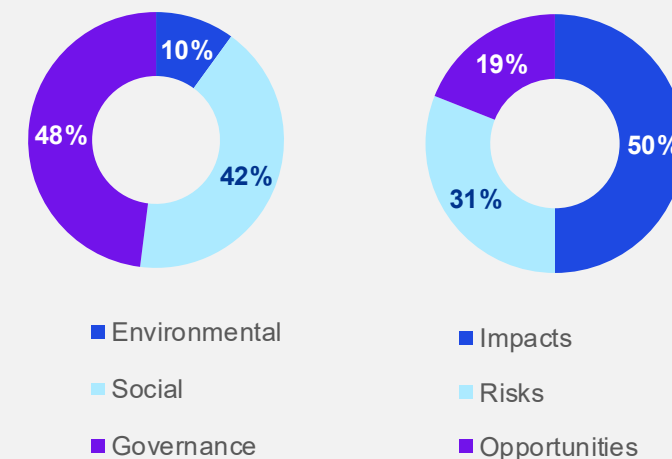
## Topical spread of material IROs

Beyond climate, most IROs related to own workforce (ESRS S1), governance (ESRS G1), and consumers and end-users (ESRS S4).



## Spread of entity-specific material IROs

90% of entity-specific IROs related to governance and social, and half were impacts.



The most frequent matters broadly related to:

- cyber and data privacy (18%); and
- innovation and digital transformation (13%).

# 5. Impacts outpace risks and opportunities

The implementation of ESRS is the first time that the concept of double materiality is being applied at scale. It combines:

- impact materiality through the lens of a wide group of stakeholders, which is familiar to those who have applied GRI Standards; with
- financial materiality through the lens of investors and creditors, which is familiar to those who have applied SASB Standards and generally understandable to accountants because it aligns conceptually with financial statement materiality.

In general, companies disclosed more impacts than risks or opportunities – i.e. they judged some matters to be material for groups such as employees and customers, but not financially material. This raises questions, such as:

- Are many of these impacts simply not financially material?
- Is this relationship between impacts, risks and opportunities what was expected?

## Opportunity for simplification

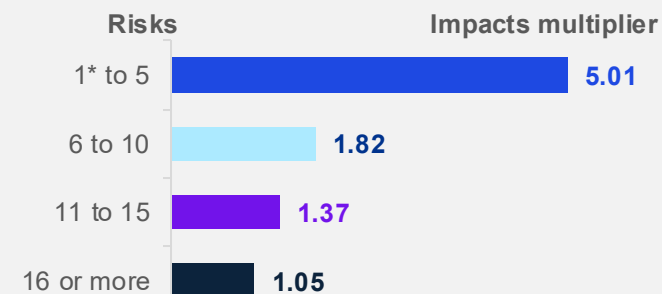
- Provide a clear definition and additional guidance to help companies identify positive impacts and distinguish them from mitigation actions.

### Impacts vs risks

30% of companies had between 1 and 5 risks, but over 5 times as many negative impacts.

That ratio declined as companies identified more risks.

The average ratio of negative impacts to risks was 2.49.



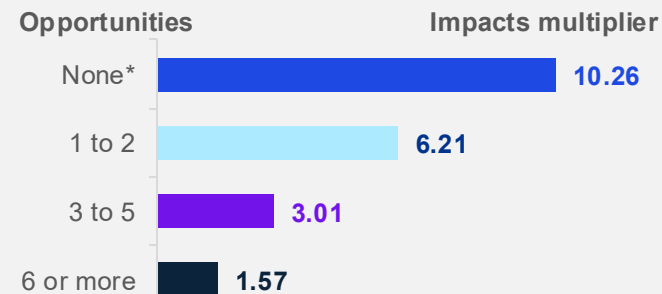
\* Instances of zero risks set to 1 for the purpose of determining the relative number of impacts.

### Impacts vs opportunities

11% of companies identified no opportunities, but over 10 times as many positive impacts.

Similar to risks, that ratio declined as companies identified more opportunities.

The average ratio of positive impacts to opportunities was 4.12.



\* Opportunities set to 1 for the purpose of determining the relative number of impacts

# 6. Judgements are pervasive

The adoption of ESRS has been a complex undertaking, with significant focus on robust data collection and reporting.

Estimates are a fundamental part of preparing the sustainability statement. They do not undermine the usefulness of the information and are needed, for example, when information is forward-looking or because there is a lack of relevant historical data or more accurate measurement techniques.

ESMA has acknowledged that data availability and quality demands could be challenging, noting the need to develop or strengthen data collection and control infrastructure.

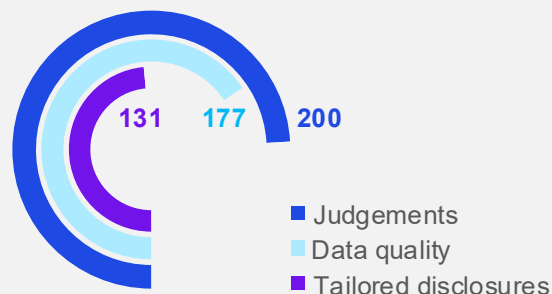
## EFRAG's simplification project

As noted in its June progress report, EFRAG might consider relief based on 'undue cost and effort' when reliable inputs are not available.

### Judgements and data quality

Almost three-quarters (74%) of companies disclosed significant sources of judgement, with almost two-thirds (66%) highlighting challenges with data quality.

Many disclosures were general in nature, although almost half (49%) of companies tailored disclosures to their specific circumstances at least to some extent.

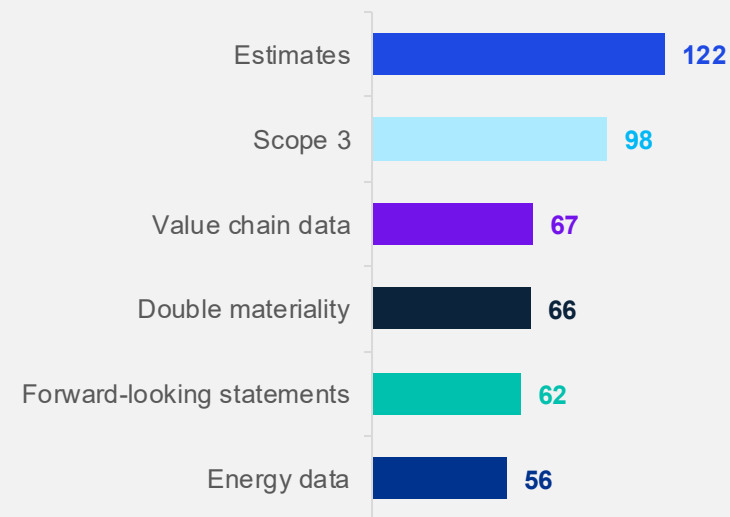


87% of assurance reports included an inherent limitations paragraph on forward-looking information.

### Most frequent judgements

Just under half (45%) of companies cited judgements made in estimates; such disclosure was typically broad about estimates in general.

The most common judgement disclosures linked to specific topics related to Scope 3 GHG emissions (36%), value chain data (25%) and energy data (21%).



# 7. Climate more familiar but still complex

Much of companies' sustainability focus in recent years has been on climate change, including measuring GHG emissions.

Notwithstanding this relative familiarity, it appeared that complying with the specific requirements of ESRS – which introduced a new hybrid approach based on both financial and operational control – was challenging in the first year.

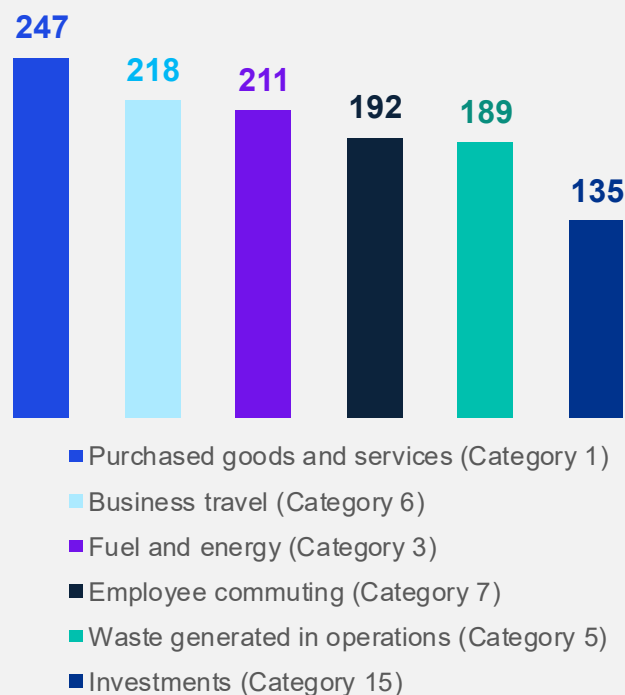
## Opportunities for simplification

There are multiple references in ESRS to how companies consider their reporting boundaries. In that regard:

- Simplify and clarify the concept of operational control across the environmental standards and use consistent terminology.
- As an exception to the above, allow companies to measure their GHG emissions in accordance with the GHG Protocol.

## Scope 3 categories

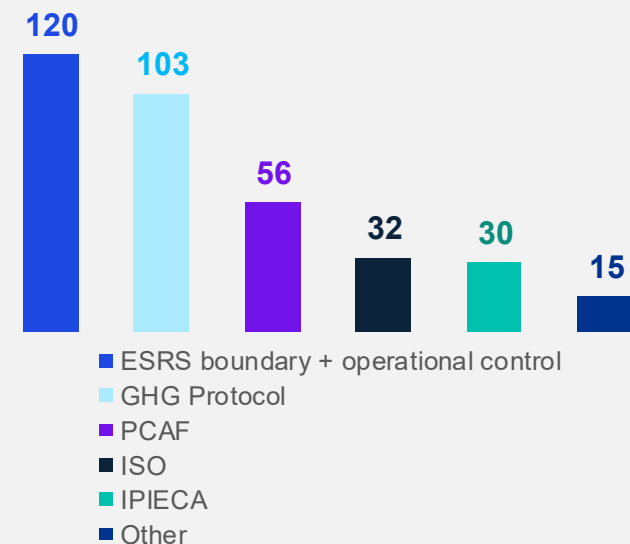
Nearly all companies reported Scope 3 emissions, with purchased goods and services (91%) being the most common.



## Basis of GHG measurement

Nearly half (45%) of companies referenced operational control as an additional consideration in setting the reporting boundary under ESRS.

Although other standards (e.g. GHG Protocol) may not use such a hybrid approach, the result was presumably materially the same.



# 8. Connectivity remains elusive

Many stakeholders have been watching for disclosures that reveal the connectivity between the financial and sustainability statements, and ESMA has stressed the importance of such disclosures.

Excluding EU Taxonomy disclosures, relatively few companies disclosed information about current financial effects. Anticipated financial effects are currently subject to phase-in relief that would be extended (see our [‘Quick fix’ article](#)).

This raises the obvious question: As implied by the lack of disclosure, are the financial effects simply not material?

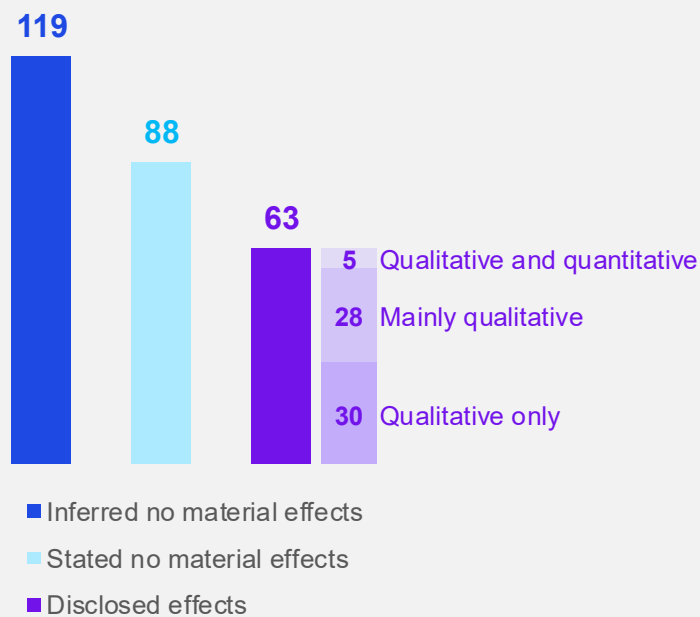
## EFRAG’s simplification project

Without offering potential solutions, EFRAG noted in its June progress report that this disclosure is particularly challenging because it involves forward-looking information (see [#6](#)) that is also potentially sensitive.

### Current financial effects

Nearly half of companies (44%) gave no disclosure about current financial effects, leaving users to infer they were not material.

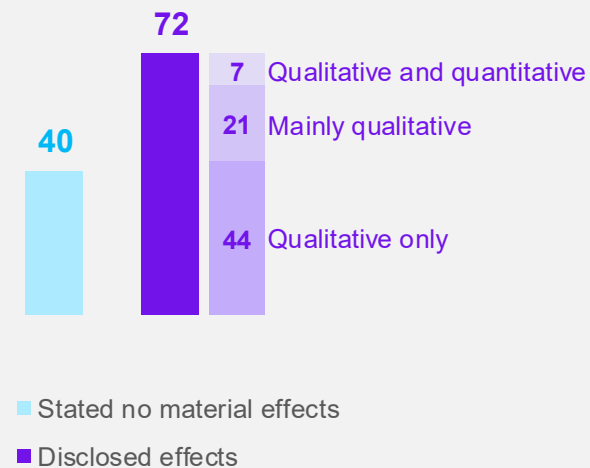
Most disclosures, when presented, were qualitative.



### Anticipated financial effects

Although not required, nearly half of companies (41%) disclosed information about anticipated financial effects. This included all companies which disclosed current financial effects.

Again, most disclosures were qualitative.



# 9. Tailored stakeholder engagement is beneficial

ESRS are new to preparers and other practitioners; they are also new to stakeholders in determining what they consider to be material.

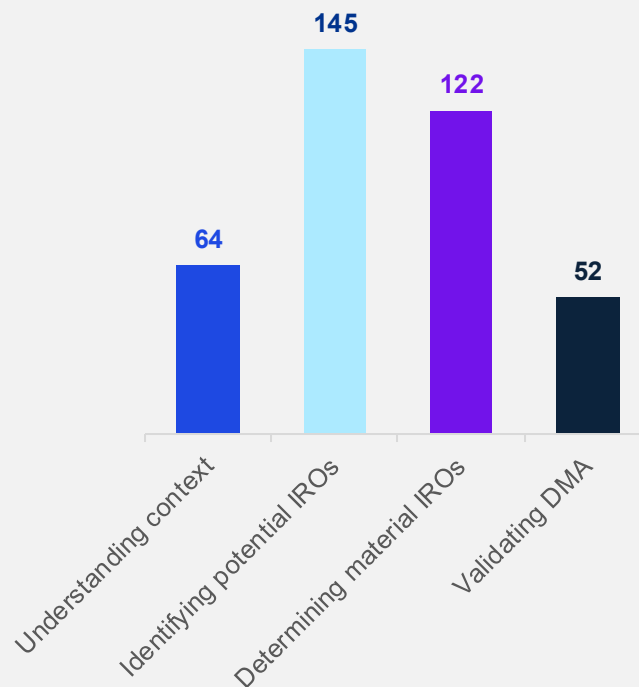
In our experience, stakeholder feedback was most useful when gathered via personal contact that allowed companies to explain the relevant context. Passive methods (e.g. questionnaires) were less useful because instructions could be misinterpreted or misunderstood.

Companies with a mature stakeholder engagement process – or that otherwise invested in direct interviews or focus groups – found it the most helpful to the process.

Designing stakeholder engagement that is based on the level of stakeholders’ knowledge, skills and experience with the DMA concept is beneficial.

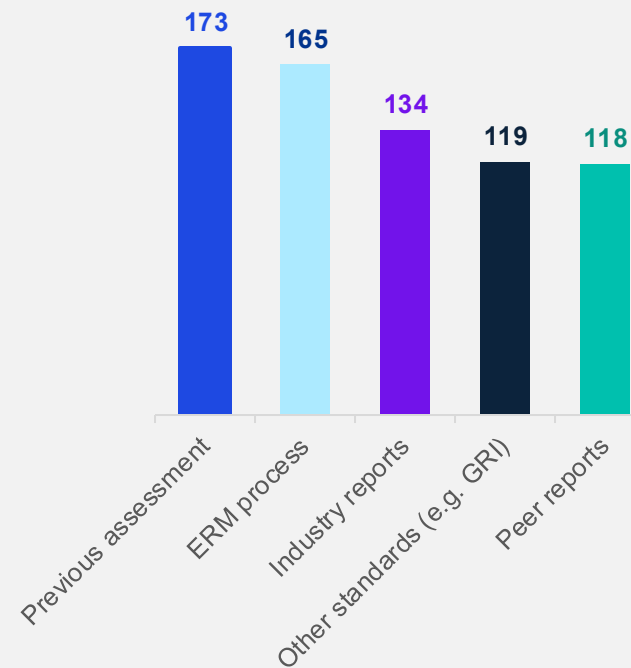
## Direct stakeholder engagement

The most common step of the DMA process in which external stakeholders were directly involved was identifying potential IROs (54%) followed by determining material IROs (45%).



## Other inputs to the DMA

Beyond the views of external stakeholders, the following were most frequently cited as inputs to the DMA process.



# 10. Prepare for machine readability

Most companies used visual elements that made the sustainability statements easier to understand.

These techniques were greatly appreciated by human reviewers; however, AI tools struggled with certain features and required more effort to achieve suitable prompts.

Designing the sustainability statement with AI in mind from the outset has clear advantages. It allows for fast analysis and reduces the risk of messaging being misinterpreted.

Although AI capabilities are developing exponentially, disclosures may require additional legends or tagging to promote machine readability while still optimising for human readability.

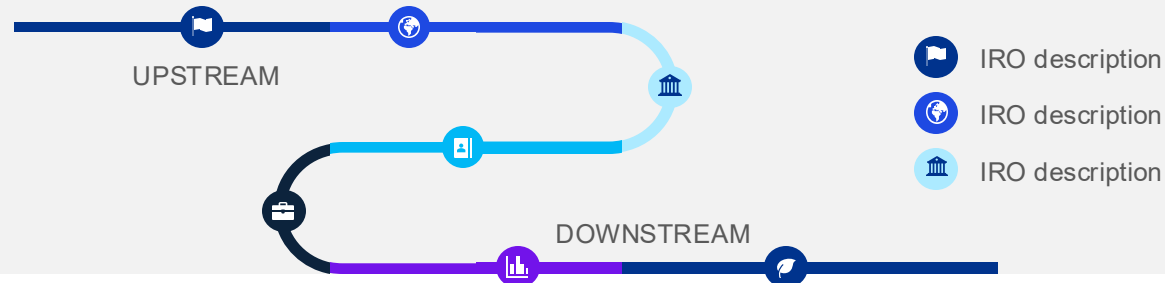
## Summary of IROs

Humans scored IROs that were presented in a table very highly for readability. Current AI tools struggled and required some training.

Title	Classification	Location in the value chain	Time horizon
Description	<ul style="list-style-type: none"> <li>Impact (positive or negative);</li> <li>Risk; or</li> <li>Opportunity.</li> </ul>	<ul style="list-style-type: none"> <li>Upstream;</li> <li>Own operations; and/or</li> <li>Downstream.</li> </ul>	<ul style="list-style-type: none"> <li>Short-term;</li> <li>Medium-term; and/or</li> <li>Long-term</li> </ul>

## Value chain visualisation

Similarly, humans scored very highly those visualisations of value chains that explained the business and plotted IROs. AI tools struggled with pictures and relied on the descriptions and any legend to interpret the messaging.



# Abbreviations and key terms

## **CSRD**

Corporate Sustainability Reporting Directive

## **DMA**

Double materiality assessment

## **EFRAG**

European Financial Reporting Advisory Group

## **ESMA**

European Securities and Markets Authority

## **ESRS**

European Sustainability Reporting Standards

## **GHG**

Greenhouse gases

## **GRI**

Global Reporting Initiative

## **IPIECA**

Global oil and gas association for advancing environmental and social performance across the energy transition

## **IROs**

Impacts, risks and opportunities

## **ISO**

International Organization for Standardization

## **PCAF**

Partnership for Carbon Accounting Financials

## **SASB (Standards)**

Sustainability Accounting Standards Board

## **TCFD**

Task Force on Climate-related Financial Disclosures

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[kpmg.com/esrs](https://kpmg.com/esrs)

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