



SUSTAINABILITY STRATEGY AND TRANSFORMATION

What Europe's Sustainability Reporting Reset Means for Companies

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ARTICLE JANUARY 16, 2026 5 MIN READ

Europe's sustainability reporting framework has entered a new phase. Following the first wave of Corporate Sustainability Reporting Directive (CSRD) disclosures for fiscal year 2024, the European Union moved to simplify requirements. In February 2025, policymakers introduced the "Omnibus simplification package," aimed at reducing reporting burden by 25%, and by 35% for smaller companies.

The Omnibus process is still unfolding, but several elements are now clear. These include a two-year submission delay for smaller companies, a substantial reduction in the number of companies in scope, and draft revisions to the European Sustainability Reporting Standards (ESRS) that would lower the number of mandatory datapoints by around 60% under ESRS Set 2 (the simplified version of Europe’s sustainability reporting standards).

Together, these changes give companies greater discretion in how they approach sustainability reporting—and greater responsibility for how that discretion is used. Organizations now face a choice. They can continue to treat simplification as a technical exercise or use it as an opportunity to rethink how sustainability reporting supports value creation, risk management, and strategic clarity.

Key Shifts in ESRS Set 2

ESRS Set 2 is intended to produce reporting that is easier to create, easier to use, and more aligned with corporate strategy than ESRS Set 1. (See “The Road to Simplification.”)

— The Road to Simplification

Early experience with CSRD reporting made clear why simplification was needed. The first wave of CSRD reports, prepared under ESRS Set 1, revealed the limits of an overly prescriptive system. More than 1,000 mandatory datapoints, combined with hundreds of voluntary disclosures, created a complex and costly reporting landscape. Many preparers responded by reporting across a very broad set of topics, often including topics of less strategic importance to their business.

The result was reporting that was lengthy, technical, and difficult to use. Some reports exceeded 500 pages, becoming complex and time-consuming to navigate and making it difficult for stakeholders to discern insights on performance, resilience, or strategic priorities.

Simplification was also driven by broader concerns about European competitiveness. In September 2024, a report by former European Central Bank President Mario Draghi found that regulatory burden had become a significant drag on growth and called for clearer and more workable rules.

Simplification was—and is—not simple. In drafting ESRS Set 2, Europe’s sustainability standards organization, the European Financial Reporting Advisory

Group (EFRAG), had to balance sharply different expectations across preparers, business associations, auditors, civil society groups, trade unions, and nongovernmental organizations. Civil society stakeholders tended to emphasize completeness for accountability while preparers prioritized disclosures that are more decision useful. These tensions reflect the ongoing work of EFRAG's technical bodies, where the standards must balance diverging opinions across a wide spectrum of stakeholders.

The simplified ESRS Set 2 cuts the number of required datapoints by around 60%, streamlines the structure, eliminates voluntary disclosure points, and clarifies how double materiality is applied—the process companies use to determine which items to report. Fiscal year 2025 effectively becomes a bridge year: ESRS Set 1 remains the formal basis for reporting, but ESRS Set 2 is already shaping expectations.

Taken together, the ESRS Set 2 changes involve three main shifts:

Materiality becomes strategic. Under ESRS Set 1, the double materiality assessment was often treated as a catalog of impacts, risks, and opportunities. ESRS Set 2 recognizes that an assessment anchored in the corporate business model, value chain, and peer benchmarks is equally legitimate. This change enables companies to focus on the topics that shape their performance, resilience, and stakeholder perception. The EU Omnibus provides a basis for this recalibration and helps connect reporting to business strategy.

Decision-usefulness takes precedence. The revised standards clarify that disclosures should prioritize what is decision-useful for primary users while still considering the needs of other stakeholders. The intent is to focus reporting on insights that matter for corporate strategy and for investors.

Streamlined for clarity. Structural changes are designed to improve the usability of reports. Mandatory datapoints have been significantly reduced, all voluntary datapoints have been removed, and there is now a single set of general disclosures. These adjustments create a more coherent reporting structure allowing companies to shift effort from collecting data to acting on it.

Three “No-Regret” Moves for Companies

Europe’s simplified sustainability standards create a clear moment for action. While the revised requirements will not formally apply until reporting on 2026 data, they already signal how reporting expectations are evolving. Companies preparing fiscal year 2025 disclosures can use this transition period to sharpen priorities, exercise judgment, and strengthen the link between sustainability reporting and how the business is run.

Against that backdrop, there are three “no-regret” moves companies should consider.

Revisit the double materiality assessment as a strategic lens. Review and revise the materiality process with a focus on business strategy and the information needs of primary users. For example, a company may narrow its material topics to those that are truly strategic for the business and its stakeholders. This will reduce the data collection and reporting burden while increasing the effectiveness of reporting.

Anchor disclosures in a business-relevant narrative. Companies can use the executive summary to articulate their strategy, priorities, and approach—before readers navigate to more detailed disclosures. This improves usability and creates continuity between strategic priorities and subsequent reporting. One strong approach is to map strategic priorities to material impacts, risks, and opportunities in the executive summary so users can interpret the disclosures without losing the thread.

Focus analytical effort where it counts. The simplifications allow companies to direct capacity to the topics that matter most. With voluntary datapoints removed and requirements consolidated, organizations can invest these resources in a deeper analysis of strategically relevant areas such as transition risk, supply chain resilience, or workforce capabilities. The goal is to focus resources on the areas of highest risk and opportunity.

Europe’s simplification drive is ultimately about economic competitiveness, and the same logic applies at the company level. The revised standards offer a rare opportunity to rethink sustainability reporting as a tool for value creation and risk management, not just compliance. Several academic studies indicate that companies with more transparent and reliable sustainability disclosures tend to exhibit higher valuation metrics, such as higher price-to-earnings ratios and market value, suggesting that investors value quality ESG reporting as part of their investment decisions. Companies that use this reset to improve focus, alignment, and insight can leverage reporting resources for strategic advantage and value creation.

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