

International Sustainability Reporting – Divergence and Equivalence

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Since the first application of the EU Corporate Sustainability Reporting Directive (“CSRD”) to companies in 2024, two projects have been underway to produce detailed sustainability reporting standards: (i) the EU’s Sustainability Reporting Standards, with separate standards for EU companies (the “ESRS”) and groups with non-EU parents (the “N-ESRS”) reporting under CSRD and (ii) the International Sustainability Standards Board’s (“ISSB”) standards published by the International Financial Reporting Standards (IFRS) Foundation. As states around the world adopt sustainability reporting standards by reference to the ISSB standards, either by directly adopting those standards or by producing local standards derived from ISSB, world-wide groups will produce sustainability reports by reference to more than one set of standards.¹

States and regulators now have the opportunity to address the divergence that has developed internationally. In this In Depth, we discuss the challenges raised by different sustainability standards around the world and the steps that states and authorities are taking to develop an equivalence or passporting system.

CSRD—Equivalence

CSRD contains a procedure for the European Commission (the “Commission”) to determine that the reporting standards of a non-EU state are “equivalent” to the ESRS. If the Commission makes an equivalence determination on the reporting standards of a non-EU state, a company in scope of CSRD may discharge its obligation under CSRD to produce a sustainability report by using those third-country standards in place of the

¹ We omit consideration of the U.S. Securities and Exchange Commission’s efforts to develop climate-related reporting requirements, which the SEC has recently moved to rescind, as well as U.S. state-level initiatives to mandate GHG emissions and climate risk reporting, such as in California.

ESRS or N-ESRS.² Any such equivalence determination will require the Commission to pass a delegated act, using the following criteria to assess equivalence:

- (a) that the sustainability reporting standards require companies to disclose information on environmental, social and governance factors; and
- (b) that the sustainability reporting standards require companies to disclose information necessary to understand their impacts on sustainability matters and information necessary to understand how sustainability matters affect their development, performance and position.

Condition (b) refers to the fundamental concept underpinning CSRD sustainability reporting for EU companies under the ESRS, which is the double materiality assessment. Whilst an equivalence decision will necessarily be made by reference to the ISSB framework, the provisions in CSRD require the Commission to make individual decisions on a country-by-country basis.

CSRD Position

We set out below the separate reporting obligations under CSRD, the relevant reporting standards and the position in relation to equivalence.

	Reporting by public issuers (in scope from their 2024 financial years)	Reporting by EU private companies (in scope from their 2027 financial years)	Reporting by EU subsidiary companies with non-EU ultimate parent companies (in scope from their 2028 financial years)
Parent company reporting	Companies which are in scope of CSRD by having transferable securities admitted to trading on an EU-regulated market may not discharge their reporting obligation by reliance on a	Subject to conditions, private EU companies in scope of CSRD may discharge their reporting obligation by reliance on a consolidated parent report, including a report published by a	EU subsidiary companies or branches which meet specific size thresholds are required to publish a report at the group level of their ultimate non-EU parent company if the parent company generates a

² At the time of writing, the ESRS are in near-final form and will be adopted shortly as a Delegated Act before entering into force following approval from the EU institutions. EFRAG has published the N-ESRS, which are subject to the Commission's input.

	consolidated parent report.	non-EU parent company. Until 2030, private EU companies in scope of CSRD which share the same non-EU parent can also delegate preparation of the CSRD report to the largest EU company in scope.	certain level of turnover in the European Union.
Relevant reporting standards	EU ESRS, with topics selected on the basis of double materiality (financial and impact). These companies in scope of 2024 should report under the “original” ESRS, with the Commission intending to introduce simplified ESRS shortly.	EU ESRS, with topics selected on the basis of double materiality (financial and impact).	N-ESRS, with topics selected on the basis of impact materiality only.
Equivalence	Not applicable.	Where an EU company is a subsidiary of a non-EU parent company, it may discharge its reporting obligations by using the third country’s reporting standards if considered equivalent to the ESRS.	The EU company may discharge its reporting obligations by using the N-ESRS, ESRS or a third country’s reporting standards if considered equivalent to the ESRS. ³

³ Note that CSRD contemplates the Commission determining that a third country’s reporting standards are equivalent to the full EU ESRS, as opposed to the non-EU ESRS. Hence, a company that has prepared a sustainability report in accordance with the Global Sustainability Standards Board’s Global Reporting Initiative, which covers impact reporting, cannot discharge its obligations under N-ESRS.

Differences Between ESRS and ISSB

There are two key differences between the ESRS and ISSB standards:

- For the ESRS, double materiality is the basis for sustainability reporting—meaning that EU companies in scope of CSRD should determine material information to be reported on the basis of impact materiality, when a topic pertains to the company’s material actual or potential positive or negative impacts on people or the environment, or financial materiality, when a topic generates risks or opportunities that affect the company’s financial position, financial performance, cash flows, access to finance or cost of capital. Again, EU subsidiaries of non-EU groups which are in scope of N-ESRS are only required to report on impact, rather than financial, materiality.
- Whilst ISSB, to date, comprises a standard for general reporting requirements and a standard for climate-related disclosure,⁴ the ESRS comprise general, climate and nine additional reporting standards dedicated to additional environmental and social topics. Under ISSB, companies report on topics other than climate under a general requirement to identify and disclose information on other sustainability topics, with entities required to consider disclosure topics included in the Sustainability Account Standards Board (SASB) Standards, which contain industry-by-industry lists of relevant sustainability topics and metrics, and may, in reporting on relevant topics, use the ESRS topic standards for reporting beyond climate reporting.

As above, the Commission has neither produced an equivalence decision nor indicated that it is working on any such decision. However, under the draft N-ESRS, a reporting company will be allowed to cross-refer to information it publishes in a separate sustainability report which it prepares under national law of a third country, for example, under a national law requirement report under ISSB, to meet a disclosure requirement under the N-ESRS. In addition, to assist companies’ sustainability reporting, EFRAG, the body that advises the Commission on sustainability reporting, and the IFRS Foundation published in May 2024 “inter-operability” [guidance](#).⁵ This shows a high degree of alignment between the climate-related disclosures in both sets of standards and confirms that the concept of “financial materiality” in the ESRS is aligned with the concept of “materiality” in the ISSB’s standards, as well as common defined terms in the two sets of standards. The inter-operability guidance leaves open the following points:

⁴ The ISSB has indicated that it is working to incorporate nature-related disclosures into IFRS S1 and S2 rather than releasing new standards.

⁵ This guidance relates to the “pre-Omnibus” ESRS and as a result may change.

- that the ESRS double-materiality assessment requires companies to consider impact, as well as financial, materiality when selecting material information to report;
- that the ESRS includes topic specific standards, with detailed reporting requirements in each standard.

Review of ESRS

As part of the Commission's Omnibus review, the ESRS are undergoing considerable simplification, with the Commission publishing draft revised ESRS for consultation in May 2026. During the process, various groups lobbied for the ESRS better to align to the ISSB standards, with at least one proposal that the ESRS should allow companies to report information under financial materiality and impact materiality in separate sections, thereby allowing companies to publish an ISSB-compliant report, with add-on material to satisfy ESRS impact materiality. In the event, the draft revised ESRS contained no such flexibility, reflecting an unwillingness on the part of the Commission to introduce any type of hierarchy between financial and impact factors, and arguably undermine the European Union's double-materiality principle.

The draft N-ESRS state that if a reporting company prepares sustainability information covering risks and opportunities under a local reporting framework, it may refer to that information in its N-ESRS report, provided it presents the information in a neutral way to give a balanced presentation of positive and negative contextual information.

ISSB Passporting

As above, countries around the world typically adopt ISSB standards by publishing their own ISSB-derived reporting standards. To address concerns that international groups will need to report by reference to more than one ISSB-derived reporting standard, the ISSB in October 2025 announced an initiative to facilitate a "global passport" for ISSB standards, which would allow, in a given jurisdiction, either a foreign public issuer or a subsidiary of an international company to report in the jurisdiction using the original ISSB standards, with jurisdiction-specific conditions as needed. Any such agreement to passporting is up to the government or competent authority of the jurisdiction in issue, with ISSB not having any control over a country's decision to participate in passporting.

Conclusion

In the Commission’s review of the ESRS and N-ESRS, it did not significantly advance equivalence of these with ISSB standards, nor restructure the ESRS to accommodate better companies that report under both standards. Given any equivalence decision is conditional on the non-EU sustainability reporting standards embodying the double-materiality principle, it is unclear whether the European Union will ever consider ISSB-derived standards as fully equivalent.

Both the ISSB and the European Union have emphasised the close connection between financial and impact materiality. In its guidance, the ISSB states that “Describing ISSB Standards as ‘outside-in’ is an incomplete, and therefore incorrect, description. The effect of an entity’s activities on resources and relationships—including on people and the environment—might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects and thus are relevant when applying ISSB standards.” The European Union has also been clear that many matters may be material from both an impact and a financial perspective—in other words, that financially material topics often arise either from impacts that a company makes on society or the environment, such as pollution, or from a company’s “dependencies” on natural or human resources, such as water use or elements of its supply chain which are prone to environmental risk. The proposed N-ESRS standards state that reporting on impacts only under the standards does not exclude non-EU groups from reporting on impacts which do or may result in sustainability-related risks and opportunities. It is also worth noting that, under ISSB, companies report on financial risks and opportunities linked to sustainability that can be expected to affect a company’s prospects—without specifying a minimum financial impact or time horizon, which the company will determine.

The interplay between impact and financial materiality reflects the European Union’s unwillingness to separate each materiality lens into two separate parts of the report. In practice, one distinction between impact and financial materiality may be that certain impacts that a company identifies will not become financially material for many years—although it is unclear whether companies will wish to distinguish reporting on material impacts on this basis.

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