Rethinking Sustainable Disclosure Functions: A Text-Based Analysis of ESRS Amendments under the CSRD Omnibus Package

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Introduction

The ongoing revision of the ESRS (European Sustainable Reporting Standards) is justified by the European Commission as a simplification and administrative burden reduction exercise under the 2025 Omnibus package. This political rationale is unambiguous in public communications, which emphasise the need to streamline reporting requirements and make them more proportionate and practicable for companies of different sizes[1].

This article proposes a functional and text-based analysis of the reform. It does not argue that policymakers explicitly intended a reorientation of the reporting framework toward a risk-centric architecture. Rather, it advances a more modest and testable thesis: the simplification exercise operates selectively and tends, in its practical effects, to favor preserving the informational core available for risk management and economic decision-making, while reducing requirements more closely tied notably to climate-related transformation (*e.g.*, trajectory granularity, exhaustive narrative explanation, and indirect prescriptions).

To test this hypothesis, the article reconstructs the functional priorities of the framework through a structured comparison between (I) the "First Set" of ESRS adopted in 2023 and (II) the amended versions emerging from the Omnibus mandate in 2025. The analysis is grounded in the cross-cutting standards (ESRS 1 and ESRS 2) and on ESRS E1: Climate Change, a standard particularly relevant for banks, insurers, and supervisors in their assessment of physical and transition climate risks[2] [3].

1. Method and analytical framework

1.1 Purpose of the methodological approach

The central hypothesis which has been tested is that recent amendments of the ESRS do not affect all reporting functions equally, but tend to preserve more strongly disclosures related to risk management and financial decision-usefulness, while reducing requirements more closely associated with transformation-oriented steering, narrative exhaustiveness or indirect disciplining mechanisms. This hypothesis does not presuppose any intentional reorientation by policymakers; it examines whether such a functional reallocation can be observed ex post in the amended texts.

To test this hypothesis, the article combines three complementary methods:

I - structured textual comparison of successive regulatory texts;

II - functional coding of disclosure requirements based on their dominant informational purpose;

III - and targeted quantitative and lexical analysis, used strictly as triangulation to stabilise qualitative findings.

1.2. Corpus and comparison logic

1.2.1 Selection of texts

The analysis relies on:

- CSRD (Corporate Sustainable Reporting Directive, (EU) 2022/2464), used as the level 1 reference to identify the objectives of sustainability reporting, intended users, and the role of double materiality[4].

1. https://www.efrag.org/en/news-and-calendar/news/press-release-efrag-shares-revised-esrs-exposure-drafts-and-launches-60day-public-consultation
2. https://www.efrag.org/en/sustainability-reporting/esrs/sector-agnostic/first-set-of-draft-esrs
3. https://www.efrag.org/en/projects/esrs-simplification
4. https://eur-lex.europa.eu/eli/dir/2022/2464/oj

- ESRS cross-cutting standards (ESRS 1[5] and ESRS 2[6]), analysed in their amended 2025 versions. Where relevant, the analysis also compares successive amended iterations (*e.g.* Exposure Draft July 2025 *vs* later 2025 versions) to identify the direction of simplification choices within the amendment process.
- ESRS E1 – Climate Change[7], analysed through a comparison between the Set 1 version (2023) and the amended Exposure Draft (2025). ESRS E1 is selected because it concentrates the main disclosure mechanics relevant to financial actors: climate risk identification, scenario analysis, resilience and anticipated financial effects.

1.2.2 Logic of comparison

The comparison follows a before/after logic, focusing on substantive changes rather than stylistic ones. Three dimensions are systematically examined:

- Datapoints: what types of information are removed, consolidated or preserved?
- Materiality and judgement: how does simplification affect the way undertakings identify and justify material information?
- Value chain coverage: how are feasibility constraints and estimation practices reintroduced, and with what implications?

The underlying assumption is that changes in disclosure requirements reveal implicit functional priorities embedded in the amended framework.

1.3. Functional grid of analysis

To interpret these changes, the article uses a functional grid reconstructed from (I) the CSRD's general-purpose reporting objective and identified user needs, (II) ESRS 1's qualitative characteristics and connectivity requirements, and (III) established uses of sustainability disclosures in financial analysis and risk governance.

Four reporting functions are distinguished:

- Accountability and transparency
- Risk management
- Strategic steering
- Usefulness for financial decision

Each disclosure requirement is analysed according to its dominant function. Where relevant, secondary functions are acknowledged, but the emphasis remains on the primary informational purpose.

1.4. Role of quantitative and lexical support

Quantitative tools are used as supporting evidence, not as standalone proof. They serve to stabilise and objectify trends identified through close textual and legal analysis.

- The analysis relies on three complementary layers:
- Lexical frequency and prominence analysis (risk/scenario/resilience/financial effects);
- Structural comparison (location, sequencing, linkage across disclosure requirements);
- Co-occurrence analysis (risk concepts associated with financial impacts and strategic elements).

These analyses are conducted with the support of AI-assisted text analysis tools used to extract terms, compute frequencies and co-occurrence patterns, and facilitate structured comparison across large legal texts. Keyword sets are derived from ESRS categories and then validated manually; AI outputs are systematically checked against the text. Interpretation remains manual, and quantitative indicators are used only as triangulation to avoid over-interpretation.

2. Simplification by compression: what is reduced and what is preserved in ESRS framework

This section operationalises the methodological framework set out in Part I by examining how simplification affects the structure, content and functional balance of the ESRS framework. The analysis covers the cross-cutting standards (ESRS 1 and ESRS 2) and relies on ESRS E1 – Climate Change as a central test case, given its high materiality and its direct relevance for financial users.

The simplification of the ESRS framework does not operate as a uniform reduction of disclosure requirements. A systematic comparison between the ESRS E1 Draft (November 2022) and the amended versions issued in July and November 2025 shows that the reform combines a sharp

5. https://xbrl.efrag.org/e-esrs/esrs-set1-2023.html
6. https://www.efrag.org/sites/default/files/media/document/2024-08/ESRS%202%20Delegated-act-2023-5303-annex-1_en.pdf
7. https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/08%20Draft%20ESRS%20E1%20Climate%20Change%20November%202022.pdf

quantitative contraction with a selective preservation, and, in relative terms, an increased weight, of disclosures most directly usable for climate risk assessment and financial analysis.

The analysis combines :

I - a replicable datapoint count based on normative verbs;

II - measures of obligation density and drafting structure; and

III - normalised lexical and co-occurrence metrics.

Taken together, these indicators make it possible to observe how simplification reallocates normative emphasis across reporting functions, without presupposing any intentional policy reorientation.

2.1 Datapoint contraction without dilution of the risk signal

External interpretative analyses of the Omnibus-driven revision of the ESRS characterise the reform primarily as a burden-reduction exercise, based on datapoint compression and procedural streamlining, rather than as a substantive redesign of sustainability objectives. PwC's guidance on ESRS simplification, for instance, emphasises a sharp reduction in mandatory datapoints, a simplified approach to double materiality documentation and a clearer structuring of disclosure requirements, with the stated objective of improving usability while preserving the relevance of core information for users[8].

Applying a strict and replicable counting convention: limited to explicit normative verbs ("shall disclose/report/include/provide/describe/explain"), with list items counted separately and no weighting by perceived importance – the number of mandatory datapoints in ESRS E1 falls from 190 in the November 2022 draft to 108 in the July and November 2025 drafts. Over the same period, the length of the standard contracts from 19,243 words to 7,553 words. This confirms a substantial quantitative contraction.

However, the reduction is not functionally neutral. Datapoints removed or consolidated are concentrated in disclosures related to highly granular transition planning, detailed action breakdowns and extensive narrative explanation. By contrast, datapoints linked to climate risk identification, scenario analysis, resilience and anticipated financial effects are less affected by simplification and account for an increased share of the remaining obligations.

The internal structure of obligations also evolves. While the absolute number of "shall" obligations declines, the share of list-based datapoints rises from 46% in 2022 to 61% in November 2025. This indicates a drafting strategy that compresses requirements while preserving deliverable content. In parallel, the verb profile shifts away from "shall explain" towards "shall disclose/include/report", signalling a move from narrative justification to output-oriented disclosures.

When assessed against the functional grid outlined in Part I, **datapoint reduction operates less as a neutral simplification than as a reallocation of normative emphasis:** disclosures primarily supporting transformation steering and narrative completeness are streamlined, while those enabling exposure mapping, scenario analysis and financial impact assessment are preserved in relative and structural terms.

2.2 Materiality reframed: measurable procedural simplification and preserved filtering power

A second, more structural transformation concerns the operationalisation of double materiality. Textual comparison shows that simplification affects not the principle itself, but the procedural architecture through which materiality assessments are documented.

In earlier drafts, ESRS E1 relied on three mandatory levels of topic decomposition (topic, sub-topic and sub-sub-topic). In the amended 2025 version, this structure is reduced to two levels, eliminating one full layer of mandatory categorisation. This represents a 33% reduction in normative depth in the formal structuring of materiality.

In parallel, the number of explicit procedural steps required to evidence materiality assessments falls from seven to four. Earlier drafts required systematic identification, scoring, prioritisation, validation, documentation, justification and articulation with disclosure requirements. The amended version focuses on identification, judgement, justification and coherence checks, corresponding to a reduction of more than 40% in procedural obligations.

Crucially, this procedural relief proves asymmetric. Climate-related risks retain a higher evidentiary threshold: undertakings concluding that climate change risk is not material must still disclose the reasoning supporting such a conclusion. **Materiality therefore remains a substantive filtering mechanism, not a discretionary option.**

8. https://www.pwc.fr/fr/publications/2025/12/avis-technique-de-l-efrag.html

Functionally, materiality simplification reduces documentation volume while reinforcing auditability and internal consistency. It shifts the burden from exhaustive procedural mapping to the coherence between materiality conclusions and subsequent disclosures, thereby supporting risk management and financial decision-usefulness more directly than prescriptive or indirectly steering approaches.

2.3 Value-chain flexibility: quantified shift toward feasibility and estimation

A third vector of simplification concerns the treatment of value-chain information. Here, the reform introduces a clear and measurable normative shift from data completeness toward feasibility-based risk coverage, defined in the amended text through explicit conditions of reasonableness, supportability and transparency.

In the November 2022 draft of ESRS E1, explicit references authorising the use of estimates appear only twice, and always as residual options subordinate to the collection of primary data. In the amended November 2025 version, the number of explicit feasibility clauses allowing the use of "reasonable and supportable estimates" rises to nine, based on an explicit count of provisions referring to such estimation and feasibility language. This constitutes a more than fourfold increase in the formal recognition of estimation practices.

This shift is particularly significant for Scope 3 emissions and downstream transition risks, which dominate value-chain complexity. In the amended framework, Scope 3 disclosure requirements are no longer conditionally tied to the systematic collection of primary data. Reasonable and supportable estimates are explicitly recognised as a valid means of compliance where primary data are not reasonably available, subject to transparency and justification.

Lexical evidence reinforces this reading. Normalised term frequencies show an increase in the salience of value-chain terminology in the November 2025 text, consistent with the formal integration of feasibility constraints. At the same time, co-occurrence analysis confirms that value-chain risks continue to be structurally linked to climate risk and transition concepts, even when quantified data are estimated rather than observed.

When assessed against the functional grid outlined in Part I, this flexibility introduces a trade-off. While greater reliance on estimates may reduce strict methodological comparability, as estimation techniques and underlying assumptions are not standardised across undertakings or sectors, it does not suppress the risk signal. Material physical and transition risks across the value chain remain visible, aligning sustainability reporting more closely with established financial risk-management practices, where uncertainty, estimation and judgement are intrinsic.

3. Simplification reshapes the function of sustainability reporting without affecting its risk core

The Omnibus-driven revision of the CSRD–ESRS framework is officially presented as a simplification exercise, aimed at reducing administrative burden and supporting European competitiveness[9]. This framing is consistent across Commission communications and parliamentary debates surrounding the Omnibus package. At the same time, several published analyses suggest that simplification is not functionally neutral, particularly for financial markets and other intensive users of sustainability data.[10]

Building on the text-based results established in Part II, this section interprets simplification through the functional grid outlined in Part I. The objective is not to assess legal validity or policy intent, but to examine how simplification reshapes the balance between reporting functions, and how this reallocation affects the usability of sustainability information for different categories of users.

3.1 Transition disclosure survives, but loses disciplining capacity

The amended ESRS do not remove transition-related disclosures. Climate transition plans, targets and actions remain part of ESRS E1, and undertakings are still required to explain how transition considerations are integrated into strategy[11]. However, simplification significantly reduces the granularity and density of these disclosures.

As shown in Part II, datapoints related to transition plans and decarbonisation levers are among those most strongly reduced. Several external analyses note that this reduction limits the capacity of reporting to function as an indirect steering mechanism through detailed comparability and

9. https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52025PC0080
10. https://www.ipe.com/news/eu-omnibus-far-right-helps-vote-through-changes-to-sustainability-laws-in-parliament/10133706.article
11. EFRAG, Amended ESRS E1 – Climate Change, Exposure Draft, July and November 2025.

narrative pressure, even if minimum transparency is preserved[12].

Functionally, transition disclosure shifts from a model of transformation-through-granularity to one of transparency-through-thresholds. Finally the much-expected activation of a transition dynamic now relies even more on external actors: investors, lenders, supervisors and civil society, because the density of reporting prescriptions embedded in the standards themselves has been relieved. This interpretation is consistent with business-oriented commentary welcoming relief from reporting complexity, as well as with academic critiques warning that simplification may weaken the transformative force of EU sustainability regulation[13].

3.2 Climate risk disclosure becomes the backbone of the simplified framework

By contrast, disclosures related to climate risk identification, scenario analysis, resilience and anticipated financial effects emerge as the most robust component of the simplified framework.

The amended ESRS E1 and the Commission's explanatory documents explicitly preserve these disclosures, notably because of their usefulness for financial decision-making and interoperability with EU sustainable finance and prudential frameworks[14]. Quantitative analysis in Part II confirms that risk-related datapoints are reduced far less than other categories and gain relative weight within a significantly shorter text.

External market commentary broadly supports this reading. Investor-focused sources report concerns that excessive simplification could weaken ESG data quality overall, while also acknowledging that climate risk information remains central for investment analysis, credit assessment and supervisory processes[15].

Functionally, climate reporting under the amended ESRS increasingly operates as a risk-information infrastructure, designed to make exposures, vulnerabilities and financial implications visible and usable for financial actors, rather than as an exhaustive account of environmental impacts or transition pathways.

3.3 Feasibility-based value-chain reporting preserves visibility but limits comparability

A third major consequence of simplification concerns value-chain information. The amended ESRS introduce a clear shift from data completeness toward feasibility-based coverage, notably through the explicit recognition of estimation methods where primary data are not reasonably available[16].

This shift is widely recognised in external analyses as a pragmatic response to implementation challenges, particularly for Scope 3 emissions and downstream transition risks[17]. At the same time, commentators underline that increased reliance on estimates may reduce fine-grained comparability and increase methodological heterogeneity across companies and sectors.

For financial users, the implication is not the disappearance of value-chain risk signals, but a change in how these signals would be interpreted. Risk remains visible, but coverage becomes more uneven, especially when combined with a reduced CSRD perimeter and delayed implementation timelines. Sectoral and investor-oriented analyses point out that this may increase the need for triangulation using proxies, sector data and third-party providers[18].

3.4 Competitiveness narrative strengthens, while accountability channels narrow

Although the reform of the ESRS cannot be causally attributed to any single policy document, its functional effects resonate with the broader competitiveness narrative articulated in EU policy debates, notably in the report on European competitiveness led by Mario Draghi[19].

The Draghi report does not address CSRD or ESRS directly. However, it emphasises the need to reduce regulatory complexity, improve investment efficiency and ensure that policy frameworks support capital allocation and risk pricing. In this context, the selective preservation of risk- and finance-relevant disclosures in the amended ESRS appears functionally coherent with a policy environment increasingly focused on competitiveness and investment capacity, even if this alignment is contextual rather than intentional.

12. https://www.intereconomics.eu/contents/year/2025/number/3/article/deregulating-to-no-avail-how-the-omnibus-package-falls-short-in-simplifying-key-eu-green-deal-instruments.html
13. *ibid*.
14. https://www.efrag.org/sites/default/files/media/document/2025-12/Draft_Amended_ESRS_Basis_for_Conclusions_2025_December.pdf
15. https://fintech.global/2026/01/14/efrag-study-finds-investors-fear-loss-of-esg-data-quality/
16. https://www.efrag.org/sites/default/files/media/document/2025-12/November_2025_ESRS_E1.pdf
17. https://www.cbre.com/insights/articles/what-does-the-eu-sustainability-omnibus-mean-for-real-estate
18. https://www.cbre.com/insights/articles/what-does-the-eu-sustainability-omnibus-mean-for-real-estate
19. https://commission.europa.eu/topics/competitiveness/draghi-report_en

External market commentary broadly supports this reading. Investor-focused sources report concerns that excessive simplification could weaken ESG data quality overall, while also acknowledging that climate risk information remains central for investment analysis, credit assessment and supervisory processes. In addition, a coalition of over 90 NGOs, including WWF EU, Finance Watch and Reclaim Finance, has publicly warned that the Omnibus simplification risks undermining the availability and comparability of key sustainability data if implemented without safeguards for data quality[20].

4. Implications for financial institutions

The Omnibus reforms reshape the availability and usability of risk information for financial institutions, but they do not suppress the overarching climate risk signal present in sustainability disclosures.

4.1 Empirical baseline: what banks publicly document today

Supervisory evidence shows that the integration of climate risk at portfolio level remains constrained by data availability, consistency and coverage even before the Omnibus reforms. The European Banking Authority published a February 2025 report on the data availability and feasibility of a common methodology for ESG exposures that assesses institutions' current practices and identifies significant gaps in usable ESG data for risk identification and qualification[21]. The report finds that banks continue to use a mix of internal and external data sources: including climate data, third-party ESG scores and public databases, reflecting the limitations of harmonised sustainability reporting at present[22].

Against this empirical baseline, portfolio-level climate risk analysis already relies heavily on proxies, estimates and third-party data, rather than on harmonised company disclosures alone, for credit assessment, risk rating and scenario analysis.

4.2 Interaction with the Omnibus reforms

- **Reduced perimeter and delayed timelines.** The contraction of the CSRD reporting perimeter and the postponement of ESRS implementation delay the expansion of harmonised sustainability disclosures. As a result, a significant share of counterparties, particularly SMEs and value-chain actors, will remain outside formal reporting in the short to medium term, prolonging the data gaps already identified by supervisors[23].
- **Shift in the nature of available information.** The simplification of ESRS datapoints reduces granularity and explicitly recognises feasibility constraints, thereby increasing the role of judgement and estimation at company level. This does not eliminate risk-relevant information, but it shifts part of the analytical burden to users, who must interpret, map and complement disclosures with internal methodologies, proxies and external datasets[24].

This reading is consistent with banking-sector commentary. The European Banking Federation notes that CSRD/ESRS disclosures are intended to support, rather than replace, counterparty assessment, scenario analysis and monitoring, and must be integrated into existing risk frameworks and complemented by internal models, sectoral benchmarks and external data providers[25]. From an advisory perspective, written sector briefings such as those published by PwC similarly conclude that simplification does not eliminate the climate risk signal, but increases the need for internal processing and interpretation by banks and insurers[26].

4.3 Specific implications for insurers

For non-life and industrial lines, the key issue is not the absence of climate risk information but its uneven availability across portfolios. Large corporates publish relatively rich disclosures on asset exposure and resilience, while smaller counterparties and indirect exposures remain weakly documented.

In practice, non-life insurers rely on location-based risk data, engineering surveys, catastrophe models and historical loss experience to assess physical risk exposures such as flood, storm and wildfire. Sustainability reporting under CSRD/ESRS provides contextual information on governance, risk

20.https://reclaimfinance.org/site/wp-content/uploads/2025/02/EN-FR-Omnibus-Statement-collection.pdf
21. https://www.eba.europa.eu/publications-and-media/press-releases/eba-finds-progress-availability-and-accessibility-data-used-identify-and-qualify-environmental
22. https://engage4esg.eurodw.eu/eba-report-on-data-availability-and-feasibility-of-common-methodology-for-esg-exposures/
23. https://www.efrag.org/sites/default/files/media/document/2025-07/Amended_ESRS_Exposure_Draft_July_2025_Basis_for_Conclusions.pdf
24. https://www.eba.europa.eu/publications-and-media/press-releases/eba-finds-progress-availability-and-accessibility-data-used-identify-and-qualify-environmental
25. https://www.ebf.eu/wp-content/uploads/2025/04/EBF-position-on-the-Omnibus-Level-1-March.pdf
26. https://www.pwc.com/mt/en/publications/sustainability/esrs-simplification-what-you-need-to-know.html

management and adaptation measures at the entity level, which can inform risk dialogue and portfolio monitoring but does not typically serve as the primary basis for underwriting or pricing. This interpretation aligns with analyses of industry practices illustrating that insurers are still developing standardised approaches to integrate climate risks consistently into capital and underwriting frameworks.

Moreover, the European supervisory landscape shows an increasing integration of climate risk considerations into insurers' own risk and solvency assessments (ORSA), including the use of climate scenarios and internal modelling to capture both physical and transition risks in risk management[27].

Conclusion

The Omnibus-driven revision of the CSRD–ESRS framework functions less as a neutral cut in reporting and more as a selective compression of disclosure architecture. A text-based comparison shows that requirements most directly usable for climate risk assessment and financial analysis are comparatively resilient, while granular transition narratives and some disciplining mechanisms are streamlined. Materiality is preserved as a filtering principle, but procedural documentation is reduced; value-chain reporting shifts toward feasibility-based estimation, improving coverage at the cost of comparability. For financial institutions, the risk signal remains visible, but the analytical burden increasingly falls on proxies and external datasets.

27. https://www.eiopa.europa.eu/impact-underwriting-eiopa-reports-insurers-use-climate-related-adaptation-measures-non-life-2023-02-06_en