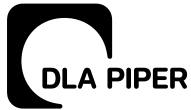

# EU Commission proposes omnibus package to amend key sustainability rules

Per Vestergaard Pedersen

Partner

## EU Commission proposes omnibus package to amend key sustainability rules

The European Commission has presented its long-anticipated omnibus package on 26 February 2025.

It introduces substantial changes to some of the provisions of the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy Regulation. The initiative is part of a broader effort to simplify sustainability requirements and reduce administrative burdens and costs on businesses while maintaining the EU's overall environmental and social objectives.

The proposal also includes adjustments to the Carbon Border Adjustment Mechanism (CBAM), though these changes are more limited in scope.

For further details, the European Commission's official press release on the omnibus package can be accessed here: EU Commission Press Release.

**Ensuring competitiveness in a changing global economy**

In the face of rapidly evolving global economic conditions, the EU, its member states, and European businesses face increasing pressure to remain competitive.

Geopolitical shifts, evolving trade relationships, and accelerating technological advancements have reshaped global markets, demanding regulatory approaches that support economic development and resilience.

The omnibus package reflects an effort to balance ambitious sustainability policies with the need to ensure that EU companies can compete effectively with companies in other jurisdictions with different regulatory frameworks.

Policymakers stress that creating a regulatory environment that fosters sustainability while maintaining economic viability is critical for the EU's long-term prosperity.

**Changed to CSRD: reducing the scope and easing reporting obligations**

The omnibus package introduces significant changes to CSRD, aiming to reduce the compliance burden and costs on businesses while maintaining a high level of sustainability transparency.

The main adjustment is a higher threshold for reporting, which now applies only to companies with more than 1,000 employees and either €50 million in turnover or €25 million in balance sheet total. Currently, the CSRD reporting requirements apply to companies exceeding two out of the following three general thresholds: 250 employees, €40 million in turnover, or €20 million in balance sheet total. For listed companies and large public-interest entities, the CSRD reporting requirements currently apply to companies exceeding two out of the following three general thresholds: 50 employees, €8 million in turnover, or €4 million in balance sheet total.

The European Sustainability Reporting Standards (ESRS) have undergone significant simplifications as part of the omnibus package. The current framework, which mandates reporting on over 1,100 data points, is generally regarded as overly complex and administratively burdensome for companies, particularly small and medium-sized enterprises (SMEs). But this figure of 1,100 data points refers to the entire ESRS framework and not necessarily to each company's reporting obligations. The revised approach introduces a stronger focus on materiality assessment and matters which are material, ensuring that businesses prioritise sustainability factors that are most relevant to their activities, industry, and stakeholders. This means that companies will need to conduct their own assessment of which environmental, social, and governance (ESG) factors have the most material (significant) impact in relation to the companies, the environment, people and society, rather than generally following a rigid, pre-determined set of reporting requirements.

Under this approach, businesses are required to apply the principle of double materiality, which considers not only how sustainability matters impact the financial performance of the company but also how the company's operations affect the environment, people and society.

This general change in focus is intended to make sustainability reporting more meaningful and relevant, helping investors, regulators, and other stakeholders better understand a company's material (significant) sustainability impacts, risks and opportunities.

Additionally, the revised framework grants businesses greater flexibility in structuring their sustainability reports, allowing them to integrate sustainability disclosures with their broader corporate reporting strategies. This integration is designed to reduce duplication, enhance efficiency, and align sustainability reporting more closely with financial disclosures.

Supporters of these changes argue that reducing compliance costs will free up resources for businesses to invest in real sustainability improvements rather than administrative work. The flexibility introduced in the ESRS is also seen as a way to improve corporate engagement with sustainability principles rather than imposing an overly rigid structure.

However, some critics contend that limiting reporting requirements could weaken corporate accountability and reduce transparency for investors and stakeholders.

Some stakeholders argue that the removal of sector-specific reporting standards could result in inconsistencies in sustainability disclosures.

A significant change introduced by the omnibus package is the removal of the EU Commission's ability to propose a transition from limited assurance to reasonable assurance for sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD). Under the current framework, companies subject to CSRD must obtain limited assurance on their sustainability reports, meaning an auditor or independent assurance provider conducts a review to confirm that the reported information is not materially misstated. However, the original CSRD framework included a provision allowing the Commission to propose an eventual shift towards reasonable assurance, a stricter verification standard similar to the level required for financial statements.

With the omnibus proposal, this possibility is now eliminated, meaning that the limited assurance requirement will remain the highest level of assurance under CSRD. Supporters of this change argue that maintaining limited assurance reduces compliance costs and administrative burdens, particularly for companies newly subject to CSRD. They highlight that reasonable assurance would have required more extensive verification processes, increasing costs for businesses without necessarily improving the quality of sustainability disclosures.

However, critics contend that removing the option to introduce reasonable assurance could weaken investor confidence in sustainability reporting, as limited assurance provides a lower level of verification. Some stakeholders argue that a gradual move towards reasonable assurance would have helped ensure the reliability and comparability of sustainability disclosures, aligning sustainability reporting more closely with financial reporting standards.

By keeping the assurance requirement at the limited level, the Commission aims to strike a balance between ensuring credibility in sustainability disclosures and avoiding excessive compliance costs for businesses. However, the long-term implications of this decision, particularly in terms of investor trust and reporting reliability, remain a point of debate among policymakers and industry stakeholders.

Another key change is the postponement of reporting obligations for companies that still fall under the new CSRD scope. Reporting deadlines have been extended by two years to give businesses more time to adapt to the new framework. This delay is intended to address concerns from businesses and industry representatives who argued that the initial reporting timeline was too aggressive and did not allow sufficient preparation time for companies to align their internal reporting systems with the new requirements.

The extension also allows regulators and standard-setting bodies to fine-tune technical guidance and clarify any outstanding uncertainties regarding the interpretation and implementation of the ESRS requirements. Many businesses welcome this change, as it provides them with a longer transition period to develop necessary

internal expertise, integrate sustainability data collection processes, and establish robust governance structures for ESG reporting.

However, some sustainability advocates have raised concerns that delaying the reporting requirements may slow down progress toward increased corporate transparency and accountability. They argue that pushing back deadlines could reduce the urgency for companies to implement sustainability measures and could undermine investor confidence in the reliability of ESG disclosures.

Policymakers, therefore, stress that while the extension offers flexibility, companies should still take proactive steps to ensure that they are prepared to meet reporting obligations once the new deadlines take effect.

| CSRD Change | Previous Requirement | New Requirement |
|---|---|---|
| Employee threshold | 250 employees (generally but 50 employees for listed companies and large public-interest entities) | 1,000 employees |
| Turnover threshold | €40M (generally but €8M for listed companies and large public-interest entities) | €50M |
| Balance sheet total | €20M (generally but €4M for listed companies and large public-interest entities) | €25M |
| Sector-specific standards | Required | Removed |
| Reporting obligation | Immediate | Postponed by two years |

**Small and medium-sized enterprises (SMEs) and small midcap companies (SMCs): new limitations on information requests from covered large companies and voluntary sustainability reporting standard (VSME standard) for SMEs and SMCs**

The omnibus package introduces new measures to reduce the so-called "trickle-down effect" of sustainability reporting obligations on small and medium-sized enterprises (SMEs) and small midcap companies (SMCs). While SMEs – except listed SMEs – are not directly subject to the Corporate Sustainability Reporting Directive (CSRD), many are indirectly impacted by information requests from larger companies within their value chain or from financial institutions, such as banks, that fall within the scope of the CSRD.

To address this issue, the EU Commission will adopt a voluntary sustainability reporting standard (VSME standard) by delegated act. This standard, developed by the European Financial Reporting Advisory Group (EFRAG), will serve as a reporting shield by limiting the information that companies within the scope of the CSRD can request from SMEs and small midcaps. Companies in scope will not be allowed to demand sustainability-related data from their smaller business partners beyond what is specified in the VSME standard, unless additional information is strictly necessary for impact mapping and cannot reasonably be obtained elsewhere.

The EU Commission estimates that the changes to the CSRD will reduce the number of companies required to report under the CSRD by 80%. Additionally, companies that are no longer in scope due to the increased thresholds (that is companies with fewer than 1,000 employees and both an annual turnover below €50 million and a balance sheet total below €25 million) may choose to report voluntarily under the VSME standard. This voluntary approach is intended to support businesses that wish to continue sustainability reporting while avoiding unnecessary administrative burdens.

These changes align with broader efforts to simplify sustainability reporting obligations while ensuring that large companies remain accountable for their sustainability impacts. However, some stakeholders have raised concerns that limiting mandatory disclosures from SMEs and SMCs could reduce transparency in supply chains and affect investors' ability to assess sustainability impacts, risks and opportunities a comprehensive and accurate manner.

**Changes to CSDDD: a narrower focus on direct business partners**

The Corporate Sustainability Due Diligence Directive (CSDDD) has been revised to simplify compliance and reduce costs while maintaining accountability for corporate sustainability impacts. Companies are now required to conduct due diligence only on their Tier 1 suppliers  in the first tier of the supply chain, rather than across all supply chain tiers, unless heightened risk is identified. However, there is no uniform definition of "heightened risk" at this stage, and companies may face uncertainty in determining when they must extend due diligence beyond Tier 1.

If a company identifies heightened risk further down the supply chain, it must extend due diligence beyond Tier 1, assessing and addressing sustainability and human rights concerns among lower-tier suppliers. This may involve enhanced risk assessments, third-party audits, and remediation measures, particularly in high-risk sectors or regions.

To strengthen compliance, companies must include contractual clauses in agreements with Tier 1 suppliers, ensuring sustainability standards are upheld throughout the supply chain. These clauses may require Tier 1 suppliers to pass on due diligence obligations to their own subcontractors, creating a cascading effect. Contractual enforcement mechanisms, such as termination rights or penalty clauses, may also be necessary for non-compliance.

Another key change is reducing the frequency of due diligence assessments from annual reviews to every five years, allowing businesses to focus on long-term risk mitigation rather than constant compliance reporting. However, companies must still monitor emerging risks continuously and take corrective action when necessary.

If a company detects excessive risk during ongoing monitoring, immediate action is required, including conducting deeper assessments, enforcing stricter supplier standards, and engaging stakeholders. If a supplier fails to address violations, companies may need to terminate the business relationship to mitigate legal and reputational risks.

Supporters argue that a five-year assessment cycle enables better resource allocation and integration of due diligence into long-term strategic planning, aligning with industry trends towards risk-based compliance. However, critics warn that a longer cycle may allow sustainability violations to go undetected for extended periods, potentially leading to financial and reputational risks.

The penalty framework has also been adjusted, removing the requirement for fines to be calculated based on a company's global turnover.

Another significant revision concerns liability enforcement, which has shifted from the EU level to national authorities, granting individual member states more discretion in making and applying due diligence liability rules. While this increases flexibility and allows liability rules and enforcement to align with national legal and economic contexts, it also raises concerns about potential inconsistencies across member states. Such variations could create legal uncertainty and an uneven playing field for businesses operating across multiple jurisdictions.

Proponents of these changes to the CSDDD generally argue that they provide much-needed regulatory relief, especially for companies that previously struggled with the broad scope of supply chain assessments. They also highlight that Tier 1 supplier monitoring remains an effective approach to ensuring sustainability compliance while avoiding unnecessary bureaucratic burdens.

However, critics claim that this revision could reduce corporate accountability, as it allows companies to avoid responsibility for violations occurring further down their supply chains. Some argue that this could weaken the directive's original intent of addressing global human rights abuses and environmental harm.

| CSDDD Change | Previous Requirement | New Requirement |
| --- | --- | --- |
| Scope of due diligence | Entire supply chain | Tier 1 suppliers only |
| Assessment frequency | Annual | Every five years |
| Penalty structure | Linked to global turnover | No turnover-based fines |
| Liability | EU-wide civil liability | National-level liability |

**Changes to EU Taxonomy Regulation: reducing reporting burdens**

The EU Taxonomy Regulation has been revised to reduce the administrative burden on businesses while maintaining transparency in sustainable investment classifications. Only companies with more than 1,000 employees and a turnover exceeding €450 million are now required to comply.

Supporters argue that this change will ensure the regulation remains effective without placing excessive costs on smaller companies. They highlight that the reduced reporting burden will make compliance more feasible while still requiring large companies to provide sustainability disclosures under the taxonomy requirements. Additionally, the focus on larger companies ensures that sustainability reporting is concentrated where it has the most material impact.

Critics, however, warn that voluntary reporting for smaller companies may lead to inconsistencies in sustainability data and a lack of visibility on smaller companies’ environmental and social impacts. Some investors and stakeholders also fear that the reduction in mandatory disclosures could undermine comparability between companies and sectors, reducing the reliability of sustainability-related financial decisions.

| Taxonomy Chang | Previous Requirement | New Requirement |
| --- | --- | --- |
| Reporting scope | All in-scope companies | Only >1,000 employees, >€450M turnover |
| Mandatory reporting | Required for all | Voluntary for most |
| Reporting alignment | Strict alignment with EU criteria | Flexibility introduced for sectoral variations |
| Third-party verification | Mandatory for all companies | Only required for large companies |

**Changes to CBAM: changing compliance mechanisms**

The Carbon Border Adjustment Mechanism (CBAM) has also undergone changes aimed at reducing the regulatory burden on businesses while maintaining environmental objectives. Under the new framework, direct compliance obligations have been eliminated for 90% of previously covered companies, though 99% of emissions originally targeted by CBAM remain under its regulatory scope. This suggests that most emissions are concentrated among a smaller number of large companies, which continue to be regulated under the revised mechanism.

A new voluntary certification system has been introduced, allowing companies to demonstrate compliance without the need for complex reporting requirements. Supporters argue that this approach maintains CBAM's environmental objectives while making compliance more practical. They believe that the streamlined regulatory process will enhance trade relationships while keeping the EU's carbon pricing mechanism intact.

However, some environmental organisations warn that excluding many companies from direct obligations could weaken the impact of the mechanism. Critics argue that reducing direct oversight could make it easier for businesses to evade CBAM's intended carbon pricing impact. Another concern raised by trade associations is that the simplification may lead to legal uncertainty, particularly regarding how imported goods with complex supply chains will be assessed.

| CBAM Change | Previous Requirement | New Requirement |
|---|---|---|
| Regulatory obligations | Applied to most companies | Exempted for 90% of companies, while maintaining 99% emissions coverage |
| Certification system | Not available | Voluntary certification introduced |
| Voluntary certification introduced | No exemptions | Limited exemptions for low-emission industries |
| Reporting frequency | Quarterly | Annually for low-risk sectors |

**The road ahead: balancing ambition and feasibility**

As the omnibus package moves through the legislative process, debates are expected to continue. While many businesses and policymakers see the changes as a necessary step to enhance competitiveness and streamline compliance, sustainability groups remain concerned about potential gaps in transparency and accountability. The European Parliament is expected to discuss whether additional safeguards should be introduced to address some of these concerns.

Negotiations in the European Parliament will be crucial in determining the final shape of these reforms. Policymakers must find a balance between reducing regulatory complexity and costs and maintaining the EU's leadership in corporate sustainability.

The fast-tracked legislative process means that the coming months will be critical in shaping the future of corporate sustainability in Europe.

Businesses, investors, and sustainability advocates alike will be closely monitoring developments to ensure that the EU's sustainability ambitions remain strong while also being practical and cost-effective for companies of all sizes.

**Next steps in the legislative process**

The omnibus package will now proceed through the EU legislative process, where both the European Parliament and the Council of the EU will review and discuss the proposal and may amend it. The European Parliament is expected to hold initial discussions in the coming months, with committee-level assessments taking place before a plenary vote, which could occur later in 2025.

Simultaneously, the Council of the EU will conduct its own deliberations, where member states may seek modifications based on national priorities and business concerns. If the Parliament and the Council adopt differing versions of the proposal, interinstitutional negotiations (trilogues) will follow to reach a final compromise.

The timeline for final adoption depends on the course and complexity of negotiations, but if consensus is reached efficiently, the package could be approved by late 2025 or early 2026, with implementation timelines varying across the different legislative amendments.

Businesses and stakeholders should closely monitor developments to prepare for the upcoming regulatory changes.

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Fagområder: Energi og forsyning, Udbud og offentlige kontrakter, Minedrift, Fast ejendom, Compliance i internationale ansættelsesforhold, International virksomhedsledelse og compliance, Mangfoldighed, forskelsbehandling og ligeløn, Energi og forsyning, Infrastruktur, Regulatoriske forhold i den finansielle sektor, Udbud, International handel, regulatoriske og offentlige forhold, Kapitalmarkeder og børsnoterede

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