NEWSLETTER

EU Commission’s proposed omnibus package to amend sustainability rules and companies’ voluntary sustainability activities

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EU Commission's proposed omnibus package to amend sustainability rules and companies' voluntary sustainability activities

The European Commission presented its long-awaited proposal for an omnibus package on 26 February 2025.

It includes proposals for significant amendments to some of the rules in the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Taxonomy Regulation.

The omnibus package proposal is part of a wider effort to simplify sustainability requirements and reduce administrative burdens and costs for businesses, while maintaining the EU's overall environmental and social objectives.

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

You can read more about the omnibus package proposal in the European Commission's official press release on the omnibus package here: European Commission press release.

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1 Summary

The European Commission has presented a proposal for an omnibus package that includes significant changes to EU sustainability rules.

The proposal aims to simplify and reduce companies' obligations and work regarding sustainability reporting and due diligence on sustainability matters.

The proposal also aims to reduce administrative burdens and associated costs for businesses and create a better balance between sustainability ambitions and business competitiveness.

Main changes

The important changes proposed by the omnibus package include the following:

- **Corporate Sustainability Reporting Directive (CSRD):**
  - **Postponement of the start dates for reporting obligations:** Large and medium-sized listed companies are given an additional two years to adapt to the CSRD, meaning that the first covered companies will now only have to report from 2027 instead of 2025.
  - **Limiting the companies covered:** From 2027, the applicability thresholds will be raised so that only companies with more than 1,000 employees and either a net turnover of more than €50 million or a balance sheet total of more than €25 million will be covered. Small listed companies and small public-interest entities (PIEs) will be exempt from 2028.
  - **Simplification of the European Sustainability Reporting Standards (ESRS):** The standards are changed to provide with greater flexibility to companies regarding which sustainability data they must report. A stronger emphasis will be placed on materiality assessment rather than prescriptive reporting requirements.
- **Voluntary reporting for small businesses:**
  - Smaller companies may opt to report voluntarily according to the Voluntary Standard for Sustainability Reporting by Small and Medium-Sized Enterprises **(VSME)**. The VSME standard is designed to make sustainability reporting more simple, proportionate and aligned with companies' resources and capabilities, and less burdensome and costly.
- **Strategic application and value creation:** Using the VSME standard can help organisations improve their risk management, sustainability performance and relationships with stakeholders, including customers, suppliers, investors and lenders. A systematic approach to sustainability can also create internal benefits and efficiency gains, including more efficient and effective business operations and better strategic planning.
- **Corporate Sustainability Due Diligence Directive (CSDDD):**
  - **Reduction of due diligence requirements:** Companies will only need to perform due diligence on **Tier 1 suppliers in the first tier of their supply chain,** unless plausible information suggests that adverse impacts may arise further down the value chain. A company must also perform due diligence on Tier 2 and Tier 3 suppliers and other suppliers further down the value chain where a company has plausible information that suggests that adverse impacts at the level of the operations of an indirect business partner have arisen or may arise. This reduces the scope of corporate responsibility and administrative burden, but may make it more difficult to ensure sustainability further down the supply chain.
  - **Transfer of responsibility to national authorities:** Responsibility for due diligence will be transferred from the EU level to national authorities, which can lead to differences in enforcement between member states.
  - **Penalty framework adjustment:** The requirement for fines to be calculated based on a company's global turnover is removed. This reduces the risk of very high fines for companies with an international presence.
  - **Postponed implementation:** The application of the CSDDD requirements is delayed by up to a year for the largest companies and even longer for smaller companies. This gives them more time to prepare and adapt to the rules.
- **EU Taxonomy Regulation:**
  - **Relaxed reporting requirements:** Only companies with more than **1,000 employees** and a **turnover of over €450 million** will be required to report according to the taxonomy. This significantly reduces the number of companies covered.
  - **Introduction of a proportionality mechanism:** Smaller companies may opt for a **simplified reporting framework** where they only have to report key sustainability data and information rather than conducting a comprehensive assessment of their economic activities against the taxonomy and report on that.
  - **Simplification of technical screening criteria:** The conditions under which an economic activity will be classified as sustainable will be clarified and simplified to reduce compliance complexity

and costs for businesses.

  - **Voluntary reporting, market influence and practical consequences:** Even if smaller companies are not legally required to report, they may still face indirect pressure from stakeholders, including investors, lenders and customers, who demand sustainability data and information as part of their risk and investment assessments. This may have the effect that companies voluntarily disclose sustainability data and information to maintain their market competitiveness and access to investments and finance.

- **The Carbon Border Adjustment Mechanism (CBAM):**
  - **Revised compliance obligations:** A significant proportion of companies previously covered under the CBAM are now exempt from direct compliance requirements. However, most emissions from imported goods remain regulated.
  - **New voluntary certification scheme:** Companies may now opt for a simplified certification process to demonstrate compliance with the CBAM without being subject to comprehensive reporting obligations.
  - **Potential financial impact on smaller companies:** Smaller companies that are not directly covered under the CBAM may still be indirectly affected if larger businesses pass on CBAM-related costs to their suppliers, contractors and business partners.

The way forward

The omnibus package reflects a broader policy initiative aimed at making sustainability regulations simpler, more practical and easier to comply with in practice. These changes reduce regulatory burdens and costs. They also seek to preserve and promote the EU's overarching sustainability objectives.

Many businesses and policymakers welcome the proposed amendments and consider them necessary to simplify compliance and reduce compliance burdens and costs. However, some stakeholders have raised concerns that relaxed reporting requirements could weaken corporate transparency and accountability regarding sustainability and sustainability activities and measures.

The proposal will now undergo negotiations in the European Parliament and the Council, where amendments may be made before final adoption.

The coming months will be crucial for the finalisation of the legislation and its practical implications for businesses across the EU.

2 Ensuring competitiveness in a changing global economy

Amid rapidly evolving global economic conditions and markets, the EU, its member states and European businesses face mounting pressure to maintain and further develop competitiveness.

Geopolitical changes, changing trade relations and accelerating technological advancements are reshaping global markets and relationships and necessitate regulatory frameworks which promote economic resilience and development.

The omnibus package seeks to strike a balance between ambitious sustainability policies and objectives and the need to ensure EU companies can compete effectively with companies in other countries, particularly with companies in countries and markets with less comprehensive, onerous and costly regulatory frameworks.

The European Commission and other legislators and officials emphasise that having laws and regulations which promote sustainability, while maintaining and promoting economic competitiveness and sustainability, is essential for the current and long-term prosperity of the EU and its businesses and people.

3 Changes to the Corporate Sustainability Reporting Directive (CSRD): limiting the scope and easing reporting obligations

The omnibus package proposal will bring significant changes to the Corporate Sustainability Reporting Directive (CSRD) if adopted without amendments.

The aim is to minimise the burdens and costs of compliance for companies while maintaining a high level of sustainability reporting and transparency.

Changed and higher thresholds for covered companies

Some of the most important changes are modified and higher thresholds for covered companies.

The omnibus package divides the changes to the CSRD into two phases to ensure gradual implementation and reduce the administrative burden on businesses.

In **phase 1**, the start date of reporting obligations for some companies is postponed by two years.

In **phase 2**, the thresholds which determine which companies are covered by the CSRD change and certain requirements are relaxed or removed.

The postponements in Phase 1 are intended to give these companies more time to adapt to the new framework and address concerns from companies and industry organisations that the original deadline was too short to adapt internal reporting systems and practices to the new requirements.

The Phase 1 deferrals also allow regulators and standardisation bodies to fine-tune the technical guidance and clarify any outstanding uncertainties regarding the interpretation and implementation of the ESRS requirements

Many companies welcome this change as it gives them a longer transition period to develop the necessary internal expertise, integrate sustainability data collection processes and practices and establish robust governance structures for sustainability reporting.

However, some sustainability advocates have expressed concern that delaying the start date of reporting requirements could slow progress towards increased corporate transparency and accountability. They argue that delaying the deadlines could make it less urgent for companies to implement sustainability measures and could undermine investor confidence in the reliability of sustainability information.

Some policymakers emphasise that while the extension provides flexibility, companies should still take proactive steps to ensure they are prepared to meet reporting obligations when the new deadlines come into effect.

Phase 1: Deferring the reporting obligation

In phase 1, the reporting requirements are deferred for large companies and medium-sized listed companies and public-interest entities (PIEs) (for example companies in accounting class C large and listed companies in class D under the current rules of the Danish Financial Statements Act - future accounting classes may change). The term "public-interest entities" (PIEs) is defined in article 2(1) of Directive 2013/34 (Accounting Directive), which is referenced in the CSRD. According to this definition, PIEs include: (1) companies listed on an EU-regulated market, (2) credit institutions (for example banks), (3) insurance undertakings, and (4) other entities designated as PIEs by an EU member state due to their significant public relevance.

These companies are characterised by meeting the requirements of at least 250 employees and either a net turnover of more than 50 million euros or a balance sheet total of more than 25 million euros.

These companies were originally required to submit sustainability reports from the financial year 2024 with reporting from 2025. Now they are only required to submit sustainability reporting from the financial year 2026 with reporting from 2027.

In phase 1, the reporting requirements are also postponed for medium-sized companies that are not listed companies or public-interest entities (PIEs) (for example companies in accounting class C under the current rules of the Danish Financial Statements Act - future accounting classes may change).

These companies are characterised by meeting the requirements of at least 50 employees and either a net turnover of more than 10 million euros or a balance sheet total of more than 5 million euros.

These companies were originally required to submit sustainability reports from the financial year 2025 with reporting from 2026, but are now required to submit sustainability reports from the financial year 2027 with reporting from 2028.

The legal position of companies that have already published their sustainability report for 2024

Several large and listed companies and public-interest entities (PIEs) have already submitted and published their sustainability report for the financial year 2024 in early 2025 in accordance with the original CSRD requirements.

For these companies, the omnibus package creates a situation where the postponement of the deadline has no practical effect as the reporting has already been done before the possible adoption of the new rules. As this is not a retroactive change, these companies will still have to follow the reporting standards that were applicable at the time they published their report.

Phase 2: Changed thresholds and relaxed requirements

From the financial year 2027 with reporting from 2028, new thresholds will apply. Only companies with more than 1,000 employees and either a net turnover of more than 50 million euros or a balance sheet total of more than 25 million euros will be subject to CSRD.

From the financial year 2028 with reporting from 2029, small listed companies and public-interest entities (PIEs) will be completely exempt from CSRD.

In addition, Phase 2 removes requirements for sector-specific standards and mandawtory external assurance of sustainability reports (replacing it with external limited assurance reviews) and provides the option to opt out of reporting certain EU taxonomy information.

Timetable for implementation and application of CSRD changes

Time Changes regarding CSRD	
2024	The CSRD applies to large companies and medium-sized companies that are publicly listed or public interest, that is companies with more than 250 employees and either a net turnover of more than €50 million or a balance sheet total of more than €25 million.
2025	The above-mentioned companies were originally due to submit their first sustainability report for the financial year 2024 with reporting from 2025, but this deadline has now been postponed so that they must report from the financial year 2026 with reporting from 2027. CSRD also applies to medium-sized companies (accounting class C medium), that is companies with more than 50 employees and either a net turnover of more than €10 million or a balance sheet total of more than €5 million. These companies were originally required to submit their first sustainability report for the 2025 financial year with reporting from 2026, but this deadline has now been extended to 2027 with reporting from 2028.
2026	No changes to the thresholds. The thresholds from 2024 continue to apply. Medium-sized companies (accounting class C medium) were originally required to submit their first sustainability report for the financial year 2025 with reporting from 2026, but this deadline has now been extended to report from the financial year 2027 with reporting from 2028.
2027	Reporting deadline extended: Large companies and medium-sized companies that are listed or public interest organisations are now required to submit their first sustainability report for the financial year 2026, reporting from 2027 (originally 2025). Medium-sized companies (accounting class C medium) are now required to submit their first sustainability report for the financial year 2027 with reporting from 2028 (originally 2026).
2028	New thresholds apply: Only companies with more than 1,000 employees and either a net turnover of more than €50 million or a balance sheet total of more than €25 million will remain subject to the CSRD. Small listed companies are completely exempt from the CSRD.

Amendment of the European Sustainability Reporting Standards (ESRS)

The omnibus package simplifies the ESRS framework by reducing mandatory disclosures, allowing companies greater flexibility in determining which sustainability information is relevant to their business activities.

The changes place a stronger emphasis on materiality assessments, meaning that companies will have more discretion to decide which Environmental, Social, and Governance (ESG) factors they report on based on their actual impact and financial relevance.

Instead of following a rigid set of predefined disclosure requirements, companies will be expected to conduct their own materiality assessments to determine the significance of various sustainability factors in their specific business context.

This shift moves away from a ‘one-size-fits-all’ approach, acknowledging that sustainability risks and opportunities vary significantly across industries and company sizes.

The new framework also removes certain sector-specific reporting requirements and introduces greater proportionality in sustainability disclosures, particularly for smaller companies that may not have the same capacity for extensive reporting as large corporations.

The focus on materiality allows companies to streamline their reporting efforts by concentrating on ESG topics that are most relevant to their stakeholders, operations, and financial performance.

However, this increased flexibility also places greater responsibility on companies to justify their reporting choices, as materiality assessments will be subject to scrutiny by investors, regulators, and other stakeholders.

By prioritizing relevant and meaningful sustainability disclosures, the omnibus package aims to improve the overall quality of ESG reporting while reducing the administrative burden on businesses.

The changes are expected to enhance comparability and usefulness of reported information, ensuring that sustainability data remains transparent and decision-useful without imposing unnecessary reporting obligations.

The principle of double materiality and double materiality assessment

Under the omnibus package, companies subject to the CSRD will be required to apply the principle of double materiality by conducting a comprehensive materiality assessment. This means assessing both how sustainability factors impact the company’s financial performance (financial materiality) and how the company’s operations affect environmental and social factors (impact materiality).

For SMEs that choose to report under the voluntary standard (VSME), a simplified materiality assessment approach will apply, tailored to their size and reporting capacity.

The two perspectives of dual materiality assessment:

1. *Financial materiality:* Assesses how external sustainability issues, such as climate change or social conditions, affect and may affect the company's financial performance.
2. *Impact materiality:* Assess how the company's own activities affect and can affect external sustainability issues, including the environment, people and society.

The dual materiality assessment ensures that companies assess and take into account both their impact on sustainability issues in the wider world and the impacts, risks and opportunities that sustainability issues bring to their own business.

Applying dual materiality assessment in small and medium-sized enterprises (SMEs)

Under current rules, small and medium-sized enterprises (SMEs) that are not listed on a stock exchange are not required to perform a dual materiality assessment.

This means that they do not need to systematically assess how sustainability issues affect both their financial performance (financial materiality) and how their activities impact the environment, people and society (impact materiality).

However, the EU has created a voluntary standard for SME sustainability reporting that companies can choose to follow. Its English title is Voluntary Standard for Sustainability Reporting by Small and Medium-Sized Enterprises (SMEs). In English and Danish it is often referred to as "VSME" for short.

This standard was developed by the European Financial Reporting Advisory Group (EFRAG). This standard is designed to help SMEs structure, promote and develop their sustainability efforts.

It can be a useful tool for companies looking to improve their sustainability performance and adapt to increasing sustainability expectations from investors, customers and regulators.

It follows from the proposal for the omnibus package that the principle of double materiality and double materiality assessment must also be applied in the new, amended reporting standard for VSME.

This means that companies that voluntarily choose to report according to this standard must address both financial materiality and impact materiality, but in a simplified form that is adapted to the capacity and resources of SMEs.

This development signals that dual materiality is increasingly becoming a central part of sustainability reporting in the EU, not only for large companies that are required to report, but also for SMEs that want to voluntarily assess and report on their sustainability performance and work on their sustainability performance.

The impact of the omnibus package on double materiality assessment in SMEs

However, the omnibus package proposal does not introduce changes that impose a mandatory double materiality assessment on SMEs.

Therefore, it remains voluntary for SMEs to use this method in their sustainability reporting.

It is generally advisable for companies to keep up to date with the current sustainability regulations and assess how companies can best integrate sustainability into their corporate strategy and business activities, regardless of whether or not companies are obliged to do so under sustainability regulations.

General purpose and intended effects of changes

This general shift in focus aims to make sustainability reporting more meaningful and relevant and help investors, regulators and other stakeholders better understand a company's material sustainability impacts, risks and opportunities.

In addition, the amended rules give companies more flexibility to structure their sustainability reports to integrate sustainability information into their broader corporate reporting strategies and reports.

This integration aims to reduce duplication, increase efficiency and bring sustainability reporting closer to financial information.

Supporters of these changes argue that reducing compliance costs will free up resources for companies to invest in real sustainability improvements instead of administrative work.

The flexibility introduced in the European Sustainability Reporting Standard (ESRS) is also seen as a way to improve companies' commitment to sustainability principles and activities, rather than imposing an overly rigid reporting structure.

However, some critics argue that limited reporting requirements can weaken corporate accountability and limit transparency for investors and stakeholders.

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

Verification (auditing) of sustainability reporting

In relation to the rules on verification (audit) of sustainability reporting, the adoption of the omnibus package will have the significant change of removing

the possibility for the European Commission to propose a transition from limited assurance to reasonable assurance for verification (audit) of sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD).

Under the current rules, companies subject to the CSRD must obtain limited assurance on the verification (audit) of their sustainability reports.

This means that an auditor or independent assurance provider conducts a review to confirm that the information reported is not materially misstated.

However, the current CSRD rules contain a rule that allows the EU Commission to propose a possible shift to reasonable assurance, a stricter audit standard (verification standard) similar to the level required for financial statements.

Under the omnibus package, the EU Commission's ability to introduce a transition from limited assurance to reasonable assurance for sustainability reporting has been removed.

As a result, sustainability reports under CSRD will remain subject to limited assurance, rather than the stricter verification standards applied to financial statements.

Proponents of this change argue that maintaining limited assurance reduces compliance costs and administrative burdens, particularly for companies that have only recently become subject to the CSRD.

They highlight that reasonable assurance would have required more extensive verification processes, significantly increasing work and costs without necessarily improving the quality of sustainability information.

However, critics warn that removing the option to introduce reasonable assurance could undermine investor confidence in sustainability reporting, as limited assurance provides a lower level of scrutiny.

Some stakeholders argue that a gradual transition to reasonable assurance would have strengthened the reliability and comparability of sustainability disclosures, aligning them more closely with financial reporting standards.

By maintaining the assurance requirement at a limited level, the Commission seeks to balance the need for credible sustainability reporting with the aim of avoiding excessive costs for companies.

However, the long-term implications of this decision, particularly regarding investor confidence and the reliability of reported sustainability data, remain a subject of debate among policymakers and industry stakeholders.

CSRD changes	Previous requirements	New requirements
Threshold value for employees	250 employees (generally, but 50 employees for listed companies and large public interest entities)	1,000 employees
Turnover threshold	€€40 million (generally, but €8 million for listed companies and large public interest entities)	€50M
Balance threshold	€20 million (generally, but €4 million for listed companies and large public interest entities)	€25M
Sector-specific standards	Required	Removed
Reporting obligation	Immediately	Postponed by two years

4 Small and medium-sized enterprises (SMEs) and small mid-cap companies (SMCs): reducing the reporting burden and voluntary sustainability reporting standard (VSME standard)

The omnibus package proposal brings significant changes for small and medium-sized enterprises (SMEs) and small mid-cap companies (SMCs). It does this by reducing the reporting burden and limiting what information larger companies can require from smaller business partners.

Limiting the indirect reporting burden

Although many SMEs and SMCs are not directly covered by CSRD, they often experience an indirect reporting burden as larger companies in their value chain require sustainability data or sustainability reports to fulfil their own reporting obligations.

The omnibus package seeks to limit this so-called "trickle-down effect" by stipulating that large companies subject to the CSRD may generally only request sustainability-related information from SMEs within the framework of the VSME standard. However, large companies may request additional data from SMEs only if they are under a specific legal obligation to

do so under legislation or due diligence requirements. In such cases, the request must be strictly limited to what is necessary and proportionate, and the company must demonstrate that the required information cannot be reasonably obtained elsewhere.

The VSME standard - voluntary sustainability reporting standard for SMEs

The European Commission has developed a standard for voluntary sustainability reporting for SMEs. The title of the standard is Voluntary Standard for Sustainability Reporting by Small and Medium-Sized Enterprises (VSME standard).

The VSME standard was prepared for the European Commission by the European Financial Reporting Advisory Group (EFRAG).

The VSME standard is voluntary. It is designed to help SMEs report on sustainability in a simplified, structured and flexible way that fits their more limited resources and capabilities. The standard also ensures that reporting requirements remain proportionate and do not impose unnecessary administrative burdens and costs on SMEs.

The VSME standard's function as a "reporting shield"

As proposed in the omnibus package, the VSME standard will serve as a "reporting shield" to protect SMEs from disproportionate sustainability reporting burdens.

This means that large companies covered by the CSRD cannot require SMEs to provide sustainability-related data beyond what is included in the VSME standard, unless they can demonstrate a specific and legally binding obligation to collect such information. In such cases, the request must be clearly justified, limited in scope, and subject to review by competent authorities if contested by the SME.

To ensure compliance, the European Commission may introduce guidelines or enforcement mechanisms to prevent large companies from imposing excessive sustainability reporting demands on SMEs.

The purpose of the limited reporting requirement is to ensure that SMEs are not unnecessarily burdened by the compliance obligations of larger companies.

Many SMEs have experienced an indirect reporting burden because large companies in their value chain have made extensive demands for sustainability data without a clear proportionality assessment.

The VSME standard therefore creates a harmonised framework where SMEs are only required to provide information that is relevant and reasonable in relation to their size, resources and impact.

While the VSME standard is designed to limit reporting burdens on SMEs, certain exceptions remain where additional data may be required. If a large undertaking can demonstrate a clear and specific legal obligation to collect sustainability data from an SME – such as under due diligence requirements – it may request additional information. However, such requests must be strictly limited to what is legally required and must not impose disproportionate burdens on SMEs. Large companies cannot justify additional data requests solely based on a perceived increase in sustainability risk exposure.

The EU Commission may issue further guidance to clarify how proportionality should be assessed in such cases.

These changes reflect a balanced approach that preserves supply chain transparency while protecting smaller businesses from unnecessary requirements that could create financial and administrative burdens disproportionate to their capabilities.

Coherence with wider sustainability regulation

The introduction of the VSME standard is part of a broader effort to simplify and harmonise sustainability reporting in the EU. The new approach reflects a balance between ensuring transparency and sustainability responsibility on the one hand, and reducing overly burdensome requirements for smaller companies on the other.

However, some stakeholders have expressed concerns that relaxing requirements for SMEs could lead to reduced visibility of their sustainability efforts and make it more difficult for investors to assess risks in supply chains. While the VSME standard provides a voluntary framework, SMEs may still face informal pressures from financial institutions, business partners and investors who prefer sustainability data beyond the voluntary standard. This could create a competitive disadvantage for SMEs that choose not to report, even though they are not legally required to do so.

On the other hand, it is emphasised that more flexible and proportionate reporting requirements could provide SMEs with a greater incentive to engage in sustainability initiatives without being unduly burdened.

By reducing compliance costs and administrative complexity, the VSME standard may allow SMEs to allocate resources toward actual sustainability improvements rather than extensive reporting obligations.

Additionally, some industry experts warn that the voluntary nature of the VSME standard today does not preclude future regulatory changes that could make certain sustainability disclosures mandatory for SMEs in the long term. As the EU continues to refine its sustainability framework, businesses should remain aware of potential shifts in reporting expectations and obligations.

5 Voluntary and strategic and operational use of the VSME standard and value creation using the VSME standard

Voluntary and flexible use of the VSME standard

Under the proposed new rules in the omnibus package, it will remain voluntary for SMEs to use the VSME standard.

The VSME standard can serve as a valuable strategic tool for SMEs seeking to structure, plan and integrate sustainability into their business operations more effectively.

By voluntarily adopting the VSME standard, companies can enhance their ability to assess and manage sustainability-related impacts, risks and opportunities (IROs), strengthen their sustainability strategy and policies, and reinforce their sustainability profile. This structured approach also enables businesses to align with growing stakeholder expectations, including those of investors, lenders, customers and regulators.

The VSME standard provides a clear framework for setting sustainability objectives, improving internal governance and ensuring transparent sustainability communication, helping companies align with market expectations and regulatory developments.

Investors, customers, financial institutions and regulatory authorities are increasingly prioritising transparency, accountability and structured sustainability reporting as key factors in business evaluation and decision-making.

Value creation through sustainability reporting and sustainability work

Structured and effective sustainability reporting can create or contribute to value creation in many different ways. Here are just a few examples.

Improved access to capital and financing

The application of the VSME standard can enhance a company's access to capital, as investors and lenders increasingly assess sustainability-related Impacts, Risks, and Opportunities (IROs) as an integral part of their investment, lending and risk assessment processes.

By voluntarily reporting in accordance with the VSME standard, SMEs can provide structured, standardised and comparable sustainability data, which financial institutions increasingly consider when evaluating creditworthiness, investment risk and lending terms.

Many banks and investors integrate sustainability factors into their credit and investment policies, meaning that SMEs that proactively report under a recognised framework may benefit from improved access to sustainability-linked loans, green bonds and ESG-focused investment funds.

A structured approach to sustainability reporting can also enhance a company's risk management profile, which may lead to more favourable financing conditions, lower borrowing costs, and reduced insurance premiums.

Companies applying the VSME standard can further benefit from a more systematic and transparent approach to financial assessments and sustainability-related documentation. Investors and lenders favour companies that demonstrate a clear sustainability strategy, effective implementation, and structured risk management.

This can result in lower capital costs, better loan conditions, and greater financial flexibility.

Thus, companies that proactively integrate sustainability into their financial and operational strategies can gain a competitive advantage in securing financing while also strengthening their resilience to economic fluctuations.

Business development and creating commercial and business benefits

The use of the VSME standard can not only strengthen a company's sustainability reporting but also create significant commercial and strategic advantages.

By systematically applying sustainability reporting and integrating sustainability considerations into business assessments, decision-making processes and strategic planning, companies can enhance operational efficiency, market positioning and stakeholder engagement.

This structured approach can drive innovation in product and service development, optimise supply chain management, and improve organisational resilience – leading to tangible business benefits.

Companies that adopt a structured approach

to sustainability can identify emerging market opportunities and develop solutions that align with the evolving expectations of customers, investors and regulators.

These opportunities are increasingly shaped by regulatory frameworks, corporate procurement policies and financial incentives, such as sustainability-linked financing, green subsidies and preferential tax treatments.

By leveraging the VSME standard, companies can develop resource-efficient, circular and low-carbon products and services, positioning themselves as leaders in a rapidly evolving sustainability-driven economy.

In addition, an active sustainability strategy can lead to operational efficiencies, including reduced resource consumption, lower energy costs and optimised supply chains.

The VSME standard can support the development of new forms of collaboration, market models and partnerships that can strengthen long-term business growth. Companies that work strategically with sustainability can differentiate themselves by developing innovative solutions, products and services that combine different aspects of economics and sustainability.

A company using the VSME standard can also improve its relationships with customers, suppliers, investors, lenders and other stakeholders. Greater transparency and clear sustainability commitments can make it easier to attract long-term partnerships, obtain better financing terms, and access sustainability-focused investment funds and credit opportunities.

Banks, investors and other financial institutions increasingly rely on sustainability criteria and ESG ratings when assessing companies for financing, investment and risk management purposes. SMEs that voluntarily align with the VSME standard can benefit from enhanced credibility in ESG assessments, improved access to sustainability-linked financing and stronger positioning in capital markets.

A structured sustainability reporting approach helps companies meet the disclosure expectations of institutional investors, lenders and rating agencies, leading to more favourable financing conditions and reduced capital costs.

Companies that proactively report and act on their sustainability credentials can be stronger in their negotiation and making of agreements and terms for capital and financing.

A key benefit of a structured approach to sustainability is the ability to adapt to changing customer demands and market expectations. Many organisations find that customers and business partners are increasingly demanding products and services with proven sustainability benefits. Through a strategic use of the VSME standard, companies can purposefully develop and market solutions that meet these demands while increasing their competitiveness.

Strengthening relationships with strategic partners can provide significant advantages for companies seeking to enter sustainability-focused value chains.

Many large corporations are required to comply with sustainability due diligence laws – such as the Corporate Sustainability Due Diligence Directive (CSDDD) –which obliges them to ensure that their suppliers meet sustainability and human rights requirements and standards.

By adopting a structured approach to sustainability reporting through the VSME standard, SMEs can differentiate themselves in business-to-business (B2B) markets, positioning themselves as preferred suppliers to corporations that must demonstrate compliance throughout their supply chains.

This strategic positioning can open doors to new business partnerships and supplier contracts and access to sustainability-focused procurement programs, providing a competitive advantage that would otherwise be difficult to achieve.

Sustainability efforts can also lead to internal organisational benefits, including improved employee engagement, better talent attraction and a stronger reputation as a responsible company. As regulation and market conditions change, companies that integrate sustainability into their business model early on can gain a competitive advantage in a world where sustainability is becoming an increasingly important parameter for success.

The VSME standard can help companies capitalise on market trends, develop scalable business models and position themselves more strongly in an economy where sustainability is an integral part of business strategy.

Risk management and long-term resilience

A proactive approach to sustainability reporting and due diligence can significantly reduce long-term financial, legal and reputational risks.

Companies that systematically assess and manage sustainability risks – such as regulatory non-compliance, greenwashing claims and supply chain violations – can avoid costly legal penalties, contract terminations and reputational damage.

The VSME standard enables SMEs to establish clear sustainability documentation and risk mitigation strategies, ensuring compliance with evolving EU regulations while enhancing investor and stakeholder trust.

The company's work with sustainability impacts, risks and opportunities (impacts, risks and opportunities (IROs)) as part of its strategy and business operations

A company's sustainability impacts, risks, and opportunities (IROs) are assessed through the principle of double materiality, as defined under the Corporate Sustainability Reporting Directive (CSRD). This means that companies must consider both:

- Financial materiality – how sustainability issues impact their financial performance.
- Impact materiality – how their business activities affect society, the environment and people.

By integrating double materiality assessments into their business strategy, companies can better anticipate and comply with regulatory requirements, align with investor expectations and strengthen their sustainability performance – all while supporting long-term financial resilience and stakeholder trust.

Companies that systematically apply the VSME standard are better equipped to identify, assess, and document their IROs. By structuring their sustainability reporting around the VSME framework, companies can implement clear methodologies for data collection, risk analysis and materiality assessments, thereby improving transparency and decision-making.

This structured approach enhances regulatory preparedness, stakeholder communication and the integration of sustainability into corporate governance, helping companies navigate evolving sustainability reporting requirements.

A structured approach to the VSME standard can thus provide valuable support for a company's internal strategy, business operations and relationships with customers, suppliers, investors, lenders and other stakeholders.

Increased flexibility and better customisation and strategic use of the VSME standard through voluntary reporting

The EU Commission estimates that raising the CSRD thresholds will significantly reduce the number of companies directly subject to mandatory sustainability reporting, potentially by as much as 80%. This change is intended to reduce compliance costs for SMEs, allowing them to focus on voluntary and proportional reporting through the VSME standard instead.

With fewer companies subject to mandatory CSRD reporting, more businesses can opt for voluntary reporting under the VSME standard. This gives companies greater flexibility to tailor sustainability reporting to their business model, industry context and stakeholder priorities, rather than adhering to a rigid regulatory framework.

Voluntary sustainability reporting can also serve as preparation for potential future regulatory developments, ensuring companies are ahead of evolving compliance expectations while enhancing their credibility with investors and business partners.

The voluntary use of the VSME standard allows for customisation, allowing companies to focus on the aspects of sustainability that are most relevant to their operations, value chain and stakeholders. Instead of following a fixed and comprehensive regulatory framework, companies can customise reporting to support their own development goals, risk management and commercial relationships.

At the same time, strategic application of the VSME standard can strengthen a company's access to capital, market position and competitiveness. A company that works systematically with sustainability reporting and integrates it into its strategic decisions can improve its relationships with investors, customers and financial institutions that demand transparency on sustainability issues. Furthermore, a proactive approach to sustainability can contribute to business development, operational efficiency and reduction of long-term risks.

Overall, the VSME standard enables companies to approach sustainability strategically and operationally in a flexible and proportional manner. By integrating sustainability into business operations through structured voluntary reporting, companies can enhance risk management, improve investor confidence and unlock new market opportunities – while maintaining the flexibility to adapt their efforts to their specific circumstance, needs and priorities.

6 Changes to the Corporate Sustainability Due Diligence Directive (CSDDD): a more limited focus on direct suppliers

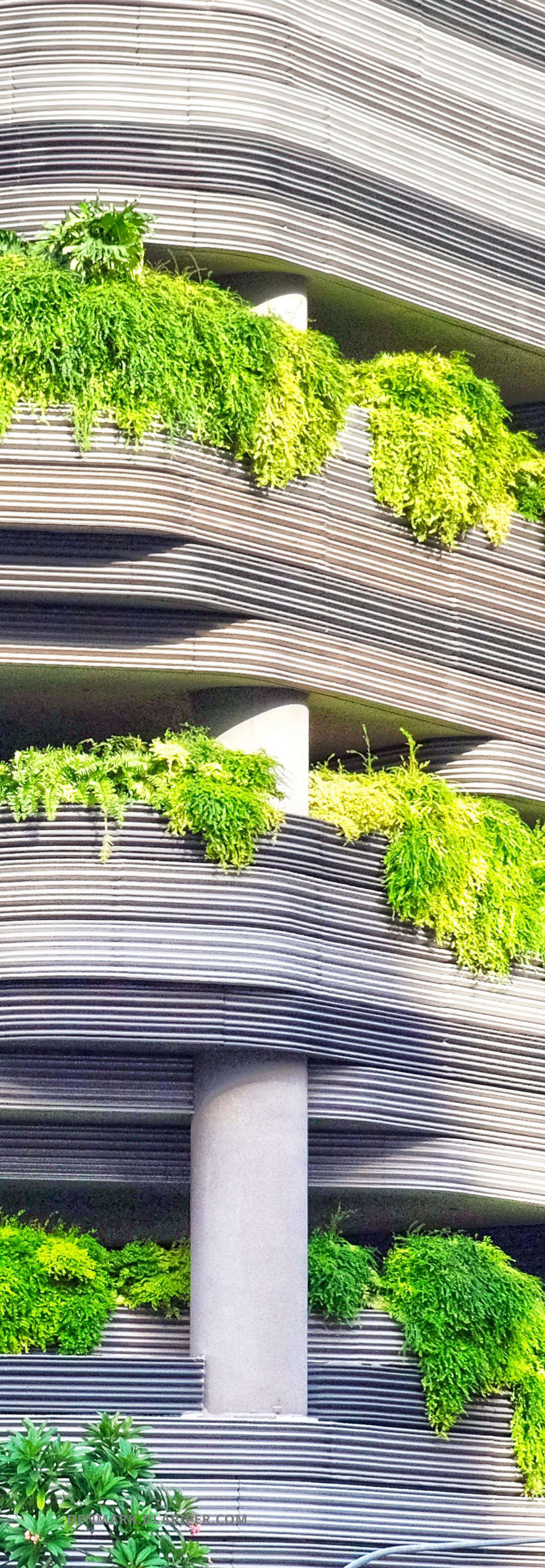
The omnibus package proposal introduces significant changes to the Corporate Sustainability Due Diligence Directive (CSDDD), aiming to simplify compliance, reduce administrative burdens and costs, and clarify corporate due diligence obligations, while still ensuring accountability for sustainability impacts.

Reduction of due diligence scope to Tier 1 suppliers

Under the revised proposal, companies will only be required to conduct due diligence on Tier 1 suppliers – the first tier of their supply chain – unless plausible information suggests that adverse impacts may arise further down the value chain.

This represents a shift from the original CSDDD framework, which required companies to monitor all stages of their supply chain. By narrowing the scope to direct suppliers, the proposal seeks to ease compliance burdens and costs for companies, particularly SMEs and businesses with complex supply chains.

However, if a company has plausible information



that suggests adverse human rights or environmental impacts beyond Tier 1, it must extend its due diligence to Tier 2, Tier 3 and other indirect business partners.

Currently, there is no uniform EU definition of "plausible information", making it unclear how companies should assess when to extend their due diligence. This uncertainty raises concerns about regulatory interpretation, potential compliance inconsistencies across EU member states, and legal risks for companies.

Companies will therefore need to develop clear internal policies for assessing plausible information and maintain documentation of their due diligence decisions to demonstrate compliance in case of regulatory scrutiny.

Strengthened due diligence obligations for high-risk suppliers, sectors and areas

In cases where elevated risks are identified further down the supply chain, companies must:

- Conduct enhanced risk assessments focused on high-risk suppliers, industries, regions or other relevant areas.
- Implement third-party audits and supplier verification mechanisms to assess sustainability compliance beyond Tier 1.
- Establish risk mitigation plans and ensure that corrective actions are taken when violations are detected.

These extended due diligence requirements will apply particularly to high-risk industries, such as mining, agriculture, apparel and electronics, where human rights violations and environmental concerns are more prevalent.

Contractual cascading of due diligence obligations

To strengthen compliance and accountability, companies should include contractual clauses in agreements with Tier 1 suppliers, requiring them to:

- Ensure compliance with sustainability standards throughout their own supply chains.
- Pass on due diligence obligations to their subcontractors, creating a cascading effect.
- Implement enforcement mechanisms, such as termination rights and indemnification clauses, in case of non-compliance.

However, contractual clauses alone may not be sufficient to ensure compliance, as Tier 1 suppliers may lack control over their subcontractors. Companies will need to complement contractual obligations with additional monitoring mechanisms, such as supplier training, third-party audits and periodic compliance reviews.

Extension of due diligence cycle from one year to five years

Another major change is the extension of the due

diligence assessment cycle from annual reviews to once every five years.

This means that companies will not be required to conduct formal due diligence assessments every year, but instead every five years.

This change is made to do the following:

- Reduce administrative burdens and costs by allowing companies to focus on long-term risk mitigation and sustainability work and effects rather than constant compliance reporting.
- Align due diligence obligations with risk-based compliance principles, ensuring that companies prioritise high-risk suppliers and areas rather than conducting frequent but less effective blanket assessments.

However, companies will still be required to conduct ongoing risk monitoring and take immediate action if they detect occurring or emerging sustainability risks.

Critics argue that a longer assessment cycle could allow sustainability violations to go undetected for extended periods, increasing financial and reputational risks. It also remains unclear whether companies will be required to submit interim progress reports within the five-year period.

Changes to the penalty framework

The penalty structure under the CSDDD has been modified:

- The requirement for fines to be linked to a company's global turnover has been removed.
- Instead, fines and penalties will be determined at the national level, allowing EU member states to set their own enforcement rules.

While this increases flexibility, it also raises concerns about enforcement inconsistencies across the EU, as different countries may impose varying levels of penalties.

Decentralisation of liability enforcement to national authorities

Under the revised CSDDD, the EU will no longer impose a uniform civil liability framework, leaving this to member states. National authorities will be responsible for:

- Making and adopting liability rules under their respective legal systems.
- Monitoring corporate compliance with due diligence obligations.
- Applying sanctions and penalties for non-compliance.

This decentralized approach means that:

- Companies operating in multiple EU countries may face different liability standards in each jurisdiction.
- Regulatory arbitrage could occur, with companies structuring and performing operations in member states with weaker enforcement regimes.
- Legal uncertainty may increase, as businesses will need to track and comply with differing national rules.

Critics argue that moving enforcement from the EU to national authorities could weaken corporate accountability and lead to fragmented enforcement across the EU.

Implementation timeline for the revised CSDDD

The implementation of the CSDDD will take place in three phases (waves), with the largest companies covered first (Wave 1), followed by medium-sized large companies (Wave 2), and then smaller large companies (Wave 3). The revised implementation timeline is as follows:

Timeframe	Current rules	Proposed changes
25 July 2024	CSDDD was adopted by the EU and entered into force.	No changes.
25 July 2026	Deadline for EU member states to transpose CSDDD into national law.	No changes.
25 July 2027	Wave 1: The rules apply to large companies with more than 5,000 employees and a global net turnover of more than €1,500 million.	Postponed to mid-2028.
25 July 2028	Wave 2: The rules apply to medium-sized large companies with more than 3,000 employees and a global net turnover of more than €900 million.	Postponed to mid-2029.
25 July 2029	Wave 3: The rules apply to smaller large companies with more than 1,000 employees and a global net turnover of more than €450 million.	Postponed to mid-2030.

Summary of key CSDDD changes

CSDDD changes	Previous requirements	New requirements
Scope of due diligence	The entire supply chain	Tier 1 suppliers only (unless plausible information suggests further risks)
Assessment frequency	Yearly	Every five years
Penalty structure	Fines linked to global revenue	No revenue-based fines
Accountability	EU-wide civil liability	Responsibility at national level

Final considerations

The revised CSDDD introduces significant changes, reducing corporate due diligence obligations while increasing flexibility for businesses.

However, some concerns remain regarding weaker enforcement, regulatory inconsistencies, and the potential for sustainability violations to go undetected.

Companies should carefully assess their due diligence policies, develop robust risk assessment frameworks, and monitor national implementations to ensure compliance and mitigate legal risks.

7 Changes to the EU Taxonomy Regulation: limitations on the reporting burden

The omnibus package proposal introduces several modifications to the EU Taxonomy Regulation, aiming to reduce administrative burdens and compliance costs for companies while maintaining transparency in sustainable investment classifications.

If adopted without amendments, the changes will exempt smaller businesses from mandatory reporting and simplify sustainability reporting requirements for companies covered by the regulation.

Narrowing the scope of mandatory reporting

Under the revised proposal, only companies with more than 1,000 employees and a turnover of more than €450 million will be required to fulfil the taxonomy reporting requirements.

This change substantially reduces the number of companies required to comply with mandatory sustainability reporting, significantly lowering the regulatory burdens and costs for small and medium-sized enterprises. Before the proposed changes, approximately 49,000 companies across the EU were expected to be covered by the taxonomy reporting requirements. With the new thresholds, this number is estimated to drop by around 80%, leaving only the largest corporations – those with more than 1,000 employees and a turnover exceeding €450 million – subject to mandatory reporting. In Denmark, the number of companies required to report under the taxonomy is expected to decrease from several hundred to fewer than 150, representing less than 0.05% of all Danish businesses.

While this reduces administrative burdens and costs for smaller businesses, it also raises concerns about potential gaps in sustainability data coverage, as a significant portion of economic activities may no longer be systematically reported under the taxonomy framework.

Investors and financial institutions that rely on standardised sustainability disclosures for risk assessment and investment decisions may find it more difficult to compare companies and sectors, potentially leading to market-driven demands for voluntary sustainability reporting, even among companies no longer subject to mandatory requirements.

This change significantly reduces the number of companies subject to mandatory sustainability reporting and aims to ease compliance burdens and costs for smaller businesses. In addition to the change in reporting thresholds, the omnibus package also introduces measures to streamline and clarify the taxonomy framework, including:

- Simplifying technical screening criteria to make it easier for companies to assess and classify their activities under the taxonomy.
- Clarifying “do no significant harm” (DNSH) criteria, ensuring that economic activities contributing to one environmental objective do not harm others.
- Reducing reporting obligations to lower compliance burdens and costs without undermining transparency or investor access to sustainability data.
- Expanding the scope of the taxonomy to include additional sectors under a more targeted and flexible framework.
- Harmonising definitions across EU sustainability regulations to improve consistency with the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR).
- Introducing a proportionality mechanism allowing smaller companies to adopt a simplified sustainability reporting approach.

Proportionality mechanism for smaller companies

The omnibus package includes a proportionality mechanism designed to reduce the administrative burden on smaller businesses, allowing them to use a simplified reporting method instead of the full

taxonomy reporting framework.

The proportionality mechanism consists of the following elements:

- *Simplified assessment and reporting* – smaller companies can report on a limited set of taxonomy data instead of performing a full taxonomy alignment assessment.
- *Less detailed disclosure requirements* – companies are only required to disclose headline figures and key performance indicators (KPIs), with no obligation to report on all technical criteria of the taxonomy.
- *Voluntary application* – companies can choose whether to use the simplified method or continue reporting under the full taxonomy framework.
- *Proportionality by company size and sector* – reporting requirements are adjusted based on company size and industry, ensuring a more flexible and proportionate reporting system.

The purpose of this proportionality mechanism is to allow smaller businesses to contribute to sustainability reporting without imposing disproportionate costs and administrative burdens.

Potential practical implications of the reduced requirements

While the reduction in mandatory reporting obligations is intended to ease compliance for smaller companies, it may also have practical consequences for businesses seeking access to capital, loans or investment funds.

Many banks, investors and financial institutions require comprehensive sustainability data for risk assessment, investment decision-making, and compliance with sustainable finance regulations.

Even if companies opt for the simplified reporting approach, they may still face pressure from financial stakeholders to provide detailed sustainability data. In practice, this could mean:

- Sustainability-focused funds, banks and rating agencies may impose their own reporting expectations beyond the minimum regulatory requirements.
- Companies seeking green finance, sustainability-linked investment funds or favourable lending terms may still need to disclose detailed sustainability data to meet investor and lender expectations.
- Market expectations may drive companies to exceed voluntary reporting standards, effectively limiting the impact of the regulatory relaxation.

This could create a discrepancy between legal reporting requirements and actual market expectations, where companies that formally qualify for simplified reporting still need to provide more comprehensive data in practice to secure investment and maintain business relationships.

Advantages and disadvantages of the proposed changes

The proposed changes reflect the EU's broader objective to balance sustainability reporting requirements with business competitiveness. The EU Commission aims to ensure that the Taxonomy Regulation continues to support the green transition while minimising administrative burdens and costs for businesses and investors.

Potential advantages:

- Reduces compliance burdens and costs for smaller companies and removes unnecessary bureaucratic barriers.
- Allows businesses to focus resources on actual sustainability improvements instead of excessive reporting obligations.
- Maintains strong sustainability reporting for large companies, ensuring transparency where it is most impactful.
- Encourages more businesses to engage in voluntary sustainability reporting by providing a flexible and proportionate system.

Potential disadvantages:

- Reduced mandatory disclosures may limit data comparability between companies and sectors.
- Smaller companies may struggle to attract investment if they do not provide detailed sustainability information, despite being exempt from reporting.
- Inconsistent sustainability data could weaken financial market confidence in sustainability-linked investments and ESG assessments.

Changes to the taxonomy framework

Category	Previous requirements	New requirements
Scope of reporting	All covered companies	Only companies with more than 1,000 employees and €450 million in revenue
Mandatory reporting	Required for all	Voluntary for most companies
Customisation of reporting	Strict alignment with EU taxonomy criteria.	Flexibility introduced based on sector variations.
Third-party verification	Mandatory for all organisations.	Only required for large companies.

Timetable for implementation of changes to the EU Taxonomy Regulation

Time-frame	Before proposed changes	After proposed changes (omnibus package)
2021	Non-financial corporations were required to report whether their activities were covered by the taxonomy (taxonomy-eligible) for the financial year 2021.	No changes.
2022	Non-financial corporations were required to report on taxonomy-aligned activities for the 2022 financial year. Financial companies had to report on the extent to which they finance or invest in taxonomy-aligned activities.	No changes.
2023	Financial companies were required to report on taxonomy-compliant activities for the financial year 2023.	No changes.
2024	Companies covered by CSRD must start reporting in accordance with the extended taxonomy requirements.	Proposal to delay the CSRD reporting application by two years, which would also impact taxonomy reporting.
2026	Expected expansion of the taxonomy to include additional environmental and potentially social objectives.	Proposals to simplify and reduce reporting requirements to minimise the administrative burdens and costs of businesses.

Final considerations

The proposed changes to the EU Taxonomy Regulation reflect the EU Commission's goal of creating a more efficient and less burdensome and costly sustainability reporting system. By limiting mandatory reporting to larger companies and introducing a proportionality mechanism for smaller companies, the omnibus package seeks to simplify compliance while maintaining sustainability transparency.

However, market expectations may still pressure companies to provide extensive sustainability data, even if they qualify for simplified reporting. Businesses should therefore carefully assess whether adopting voluntary reporting standards aligns with their financial and strategic objectives, particularly if they seek access to sustainable finance and ESG-linked investment opportunities.

8 Changes to the Carbon Border Adjustment Mechanism (CBAM): changing compliance mechanisms

The Carbon Border Adjustment Mechanism (CBAM) has been amended to reduce regulatory burdens and costs for businesses while maintaining the EU's environmental objectives. The changes significantly alter compliance obligations, exempting 90% of previously covered companies from direct CBAM requirements. However, 99% of the emissions originally covered under CBAM remain within its scope, indicating that a small number of large companies account for the majority of emissions and remain subject to the regulation.

These adjustments aim to streamline CBAM compliance, ensuring that the mechanism continues to function as an effective carbon pricing tool, while reducing the administrative workload and costs for smaller businesses. However, concerns remain about the potential market impacts and competitive shifts between large and small businesses.

Indirect effects and competitive dynamics for smaller companies

Although a large proportion of companies are now exempt from direct CBAM compliance, the changes may have unintended market consequences, particularly for small and medium-sized businesses (SMEs) that interact with larger CBAM-regulated companies.

- *Cost pass-through from large to small companies:* Large importers and manufacturers that remain subject to CBAM can incorporate compliance costs into their pricing structures. This means that even exempt SMEs may indirectly bear CBAM-related financial burdens, as larger firms pass down costs through supply chain contracts.
- *Weakened bargaining position for SMEs:* Large companies often possess stronger capital reserves, broader supplier networks and greater negotiating power, allowing them to set and agree contract terms that favour themselves. They can also demand and sometimes in practice dictate sustainability requirements to suppliers, making it more difficult for smaller companies to avoid compliance-related burdens and costs despite their exemption.

- *Regulatory expertise gap:* Large companies generally have greater access to legal and regulatory expertise. This enables them to optimise their compliance strategies and minimise financial impacts. SMEs, on the other hand, often lack the resources to engage external consultants or conduct in-depth market analyses. This makes it harder for them to navigate and work with CBAM regulations effectively and avoid unintended financial consequences.

In practice, regulatory relief for SMEs may not translate into actual economic relief, as larger companies leverage their position to shift CBAM-related burdens across the value chain. Rather than creating a competitive advantage for smaller firms, the exemptions may reinforce existing market imbalances by allowing large companies to consolidate their dominance while still complying with CBAM rules.

Introduction of a voluntary certification system

To reduce compliance complexity, a voluntary certification system has been introduced, allowing businesses to demonstrate compliance with CBAM rules without undergoing full reporting obligations.

Potential advantages

- Maintains environmental objectives while simplifying compliance, ensuring continued alignment with EU climate policies.
- Reduces administrative complexity for businesses, particularly those importing goods with lower embedded emissions.
- Strengthens trade relations by allowing companies greater flexibility in demonstrating compliance with CBAM's carbon pricing structure.

Potential disadvantages

- Weaker regulatory oversight: Environmental organisations warn that limiting direct compliance requirements could weaken CBAM's effectiveness by making it easier for companies to circumvent carbon pricing measures.
- Uncertainty for complex supply chains: Industry stakeholders highlight legal uncertainties in determining how imported goods with multi-tiered supply chains will be assessed under the voluntary system.
- Risk of inconsistent application: Without standardised enforcement mechanisms, the voluntary system may lead to inconsistent compliance across different industries and markets.

While the voluntary certification system seeks to ease compliance burdens and costs, it remains unclear whether businesses will widely adopt this framework or whether financial stakeholders will still demand full transparency in carbon emissions reporting.

Key changes to CBAM compliance

CBAM change	Previous requirements	New requirements
Legal obligations	Applied to most businesses.	Exempts 90% of companies while still covering 99% of emissions.
Certification system	Not available.	Voluntary certification introduced.
Sectoral exemptions	No exemptions.	Limited exemptions for low-carbon industries.
Reporting frequency	Quarterly.	Annually for low-risk sectors.

Implementation timeline for CBAM changes

Timeframe	Before proposed changes	After proposed changes (omnibus package)
1 October 2023	Transition period began. Importers had to report quarterly on embedded emissions without financial adjustments.	No changes.
2026	CBAM enters full effect. All importers of covered goods must purchase CBAM certificates corresponding to embedded emissions.	Introduction of a minimum threshold of 50 tonnes per year, exempting around 90% of importers while still covering 99% of emissions.
2027	No specific changes planned.	Simplified compliance rules take effect, including easier recognition of CO_2 prices paid in the country of origin.

Final considerations

The CBAM reforms reflect the EU's broader strategy to balance effective climate policy with reducing administrative burdens on businesses. By limiting direct compliance obligations to the largest emitters, the EU seeks to maintain its environmental objectives while reducing unnecessary regulatory complexity.

However, concerns remain that the cost advantages for exempt SMEs may be offset by indirect financial pressures from large CBAM-covered companies.

The voluntary certification system introduces more flexibility, but questions remain about its effectiveness in ensuring transparency and regulatory compliance, as well as whether it will effectively prevent circumvention of CBAM requirements and how it will be enforced.

Businesses should closely monitor the evolving CBAM framework, particularly how market forces and contractual relationships between large and small firms influence cost distribution and competitive dynamics.

9 The way forward: balancing ambition and feasibility

As the omnibus package progresses through the legislative process, intense debate is expected to continue.

While many businesses and policymakers view the reforms as a necessary step to enhance competitiveness, reduce administrative burdens and costs, and streamline compliance, sustainability groups remain concerned about potential gaps in transparency and accountability.

One of the key issues under discussion will be whether the regulatory simplifications compromise the EU's long-term environmental and social objectives.

The European Parliament will play a critical role in shaping the final outcome. Lawmakers may seek to introduce additional safeguards to strengthen corporate accountability and ensure that sustainability reporting and due diligence obligations remain effective.

Some MEPs have already signalled that they may push for stricter requirements on large companies to offset the reduced obligations for smaller businesses.

Negotiations in the European Parliament and the Council of the European Union will ultimately determine the final shape of the reforms.

Policymakers face the challenge of striking a balance between reducing compliance complexity and costs while maintaining the EU's leadership in corporate sustainability and responsible business practices.

The fast-moving legislative timeline means that the next few months will be decisive for the future of corporate sustainability in Europe. Businesses, investors and sustainability advocates will closely follow developments to seek to ensure that the final rules strike the right balance between ambition and feasibility.

10 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 European Union will review, discuss, and potentially amend the proposals.

The legislative process follows the ordinary legislative procedure, requiring scrutiny and approval from both institutions before the final adoption of the legislative acts.

Anticipated legislative timeline

- *European Parliament review:*
  The proposals have been referred to the relevant parliamentary committees, such as the Committee on Economic and Monetary Affairs (ECON) and the Committee on Legal Affairs (JURI), which will conduct detailed assessments and propose amendments. Preliminary discussions are expected to take place in the coming months, with committee-level evaluations occurring throughout 2025. The plenary vote could take place in late 2025 or early 2026, depending on the pace of negotiations. If the proposal is significantly amended, further discussions will be required before moving to the next stage.
- *Council of the European Union deliberations:*
  In parallel, the Council of the European Union will conduct its own review, where EU member states can propose amendments based on national priorities, economic considerations, and business concerns. The Council's working groups and Coreper (Committee of Permanent Representatives) will negotiate the proposals and attempt to reach a consensus among member states. Differences between national governments on the extent of regulatory simplifications and sustainability commitments could impact the negotiation timeline.
- *Trilogue negotiations:*
  If the Parliament and the Council adopt different versions of the proposal, inter-institutional negotiations (trilogues) will be necessary to reach a final compromise. These discussions, involving representatives from the European Parliament, the Council and the European Commission, are

expected to take place in early to mid-2026, depending on the complexity of the legislative process. If trilogues are required, final approval may be delayed until mid or late 2026.

- *Adoption and implementation:*
  Once a final agreement is reached, the approved legislative acts will be formally adopted and published in the Official Journal of the European Union.

  - Regulations will apply directly across the EU immediately or from the specified implementation date.

  - Directives will require transposition into national law, typically within a two-year period, but specific deadlines may vary depending on the legislation.

Implications for businesses and stakeholders

Businesses and stakeholders should closely monitor legislative developments to prepare for upcoming regulatory changes. Companies should:

- Assess potential compliance adjustments in areas such as sustainability reporting, due diligence obligations and investment disclosures.
- Engage with industry groups, legal experts and EU and national policymakers to provide input on the legislative process and understand sector-specific implications.
- Stay informed about legislative updates, particularly Parliament and Council amendments, as they may introduce further changes to the regulatory framework.

Given the potential complexity of implementation and implementation timelines, companies should begin preparing for regulatory changes now to avoid last-minute compliance challenges once the final rules are adopted.

For more information

You are more than welcome to contact us if you have any questions or would like to discuss any matter in relation to this newsletter or more generally in relation to sustainability and ESG.

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