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Towards simplification of sustainability reporting

Proposal to limit CSRD Directive’s scope to large businesses

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KEY ASPECTS

- During the next five years, the European Commission (the “**Commission**”) has proposed to reduce companies’ reporting obligations by 25%, raising this threshold to 35% for SMEs, by implementing various omnibus regulations.
- On February 26, 2025, the first regulatory simplification proposals were approved. The objective is to reduce the information requirements imposed on companies subject to the CSRD Directive and the trickle-down effects for SMEs.
- The Commission has asked parliament and the council to fast-track these proposals that could be amended during the process.

Introduction

In January, in her special address at the World Economic Forum in Davos, the Commission President highlighted the need for Europe to "shift gears" given this era of "harsh geostrategic competition"; a need that has intensified given recent events.

In the following weeks, the Commission presented its action plan for the next five years—the *EU Competitiveness Compass*—and the *2025 Work Programme*, defining an ambitious roadmap with a very tight timetable. The cornerstone of the Commission's new strategy is the drive for innovation, particularly regarding startups, as a lever for encouraging productivity and competitiveness. It also maintains its commitment to a "decarbonized economy," prioritizing investment in cleaner sources of energy, reduction of energy costs and promotion of green technologies through incentives for supply- and demand. To generate an environment favorable to this digital and green transition, the Commission has proposed "to make life easier for companies" and give them better financing options.

In its session of February 26, the Commission started to implement its approved action plan:

- Various **proposals to simplify legislation** in the area of sustainability and investment.
- A short-term strategy proposal to enable EU industry to regain competitiveness while decarbonizing—the **Clean Industrial Deal**—together with an **Action Plan for Affordable Energy** to address the high prices and high energy costs for homes and industry.

In this document we describe the simplification proposals affecting the sustainability reporting that some companies have to present. The Commission has asked parliament and the council to fast-track these proposals that could be amended during the process.

Simplification measures to boost competitiveness

"Regulatory burden has become a brake on Europe's competitiveness." The complexity and duration of administrative procedures and procedures for obtaining permits makes the EU less attractive for investment than other regions. Therefore, the Commission proposes to:

- reduce companies' reporting obligations by 25%, raising this threshold to 35% for SMEs, by implementing various omnibus regulations;
- simplify and expedite procedures for accessing EU funds and obtaining administrative decisions; and
- use digital and standardized formats whenever possible and to promote a new tool—the European business wallet—to digitalize the interaction between companies and public administrations.

In the communication "*A simpler and faster Europe*," the Commission gives details of its strategy for improving the application of EU regulations, simplifying them and reducing the administrative burden; it also clarifies that the reduction of red tape will not be limited to reporting obligations.

The first regulatory simplification package: Omnibus I and Omnibus II

On February 26, 2025, the Commission approved a proposal for a regulatory package to implement two simplification measures included in its work program for the first quarter of 2025: **Omnibus I** and **Omnibus II**. Omnibus I focuses on simplifying sustainability reporting and due diligence, and on reviewing the requirements of the Carbon Border Adjustment Mechanism ("CBAM"). Omnibus II focuses on simplifying European investment programs.

The Commission's regulatory package proposal includes:

- A *directive* delaying the application of Directive on corporate sustainability reporting (2022/2464/EU)—the "**CSRD Directive**"—and the Directive on corporate sustainability due diligence (2024/1760/EU)—the "**CS3D Directive**."
- A *directive* amending requirements concerning the sustainability and due diligence directives reforming the CSRD Directive, the CS3D Directive, the Accounting Directive (2013/34/EU) and the Audit Directive (2006/43/EC).
- A *delegated act* amending the Commission Delegated Regulation 2021/2178/EU (the technical standards of article 8 of the Taxonomy Regulation), the Climate Delegated Act (2021/2139/EU) and the Environmental Delegated Act (2023/2486/EU).
- A *regulation* amending the CBAM Regulation (2023/956/EU).
- A *regulation* simplifying the European investment programs.

Main new developments in sustainability reporting

The objective of the Commission's proposal is to reduce the information requirements imposed on companies subject to the CSRD Directive and limit the trickle-down effects for SMEs. It proposes:

1. A reduction in the CSRD Directive's scope of application: The reporting requirements would be mandatory for companies with over 1000 employees that meet one of the two requirements at the balance sheet date: (a) a turnover above €50 million, or (b) a balance sheet above €25 million. Likewise, the number of companies from outside the EU that would have to present sustainability information in 2029 is reduced by raising the threshold to determine that they carry out significant activities in the EU from €150 million to €450 million.

   It intends on only the biggest companies being subject to the CSRD Directive, as they have the greatest potential to influence people and the environment. It would also enable for better alignment with the CS3D Directive, ensuring that the same company profile has both the sustainability reporting and due diligence obligations.

   In practice, around 80% of companies currently subject to the CSRD Directive would be excluded. This includes many of the companies that, under the current version of the CSRD Directive, would have to present sustainability reports in 2025 or 2026, and listed SMEs, which would have to do so in 2027 (with the option of delaying until financial year starting on or after January 1, 2028).

   Companies that are no longer subject to the CSRD Directive may choose to report on sustainability using voluntary standards that will be approved by the Commission and will be similar to the VSME standard developed by EFRAG for SMEs. The Commission understands that the simplification and flexibility introduced by the reform could encourage more companies to voluntarily apply sustainability and taxonomy reporting at a bigger scale. Companies with stronger sustainability profiles could potentially attract more investments by exposing this differentiator. Companies in transition could benefit, as they will be able to decide how to communicate their transition strategies without the pressure of mandatory disclosures, while also attracting investments.

2. A delay period of two years (until 2028) on reporting obligations for companies reporting in 2026 or 2027.

3. A limit of trickle-down effects of CSRD Directive: The information that companies subject to the CSRD Directive can request from SMEs integrated in their value chain is limited. The voluntary standards developed by the Commission for companies that choose to submit sustainability reports voluntarily will serve as a guide.

4. A simplification of the current European Sustainability Reporting Standards (“**ESRS**”): The Commission will revise the ESRS to simplify the reporting obligations of companies still subject to the CSRD Directive.

5. Removal of both the mandate to develop sector-specific ESRS and the possibility of moving from a requirement for “limited assurance” to a requirement for “reasonable assurance.”

6. The limitation of the obligation to report on aligning with the taxonomy: Only companies with over 1000 employees and a net turnover not exceeding €450 million will have to report on aligning with the taxonomy. The rest of the companies subject to the CSRD Directive that do not reach these thresholds will be able to voluntarily apply taxonomy reporting.

7. A greater emphasis on transition financing by enabling reporting on partial alignment with the taxonomy.

8. A review of the taxonomy regulations to (i) simplify reporting templates, (ii) introduce a materiality threshold so that reporting on alignment is not mandatory for companies with less than 10% of eligible activities, (iii) enable banks to exclude from the denominator of GAR (the green asset ratio) exposures related to companies not subject to CSRD, and (iv) introduce simplifications of the more complex “no significant harm” criteria with the aim to prevent and control pollution related to the use and presence of chemicals that apply horizontally to all economic sectors under the EU taxonomy framework, as a first step to review and simplify all such criteria.

For additional information, please contact our Knowledge and Innovation Group lawyers or your regular contact person at Cuatrecasas.