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EU Omnibus Package: Proposed Changes to Reduce ESG Compliance Burdens for Businesses

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On 26 February 2025, the European Commission (Commission) published the so-called "EU Omnibus Package" (Proposal). The Proposal aims to reduce the administrative burden for businesses operating in the EU by easing compliance requirements under several key EU environmental, social, and governance (ESG) laws, including the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D). The Proposal must be read against the background of the "Draghi report" on European competitiveness published last year, which urged to reduce the administrative and regulatory burden within the EU, and the Commission's target to reduce such burden by 25% overall and by at least 35% for SMEs. This GT Alert provides an overview of the most important proposed changes to these regulations.

Key Proposed Changes

Amendments to CSRD

- Scope of application for EU companies: The CSRD's scope of application would be limited to undertakings that have more than at least 1,000 employees and either a net turnover of at least EUR 50 million or a balance sheet total of at least EUR 25 million. In addition, publicly listed small and medium sized undertakings (SMEs) that do not meet these thresholds shall be completely removed from the scope of the CSRD. The Commission estimates that these changes would remove approximately 80% of the current in-scope companies from the scope of the CSRD. Currently, the CSRD still captures all "large" undertakings, being companies which meet two of the three following criteria: (i) average number of employees: 250; (ii) balance sheet total: EUR 25 million; and (iii) net turnover: EUR 50 million, as well as listed SMEs (regardless of their number of employees).

- Scope of application for non-EU companies: The Proposal suggests to significantly increase the threshold for non-EU companies to be subject to reporting requirements under the CSRD. The reporting obligation for non-EU companies shall now only be triggered if the ultimate non-EU parent company has a total turnover in the EU of at least EUR 450 million at group level (now: EUR 150 million) and either a "large" EU-based subsidiary (meeting two out of three criteria referred to above) or a branch in the EU with a turnover of at least EUR 50 million (now: EUR 40 million). The employee threshold was not raised to 1,000 for EU subsidiaries of non-EU parent companies, which may have been an oversight.

- Scope of reporting requirements: The scope of the reporting requirements set out in the European Sustainability Reporting Standards (ESRS) shall be simplified through a reduction of the number of data points to be reported in the CSRD report. The Proposal also removes the obligation for the European Commission to adopt delegated acts to supplement CSRD in order to, where appropriate, provide for reasonable assurance standards. This would mean that CSRD would, also in the future, only require an audit opinion about the compliance of the sustainability reporting based on limited assurance standards.

- Timing of reporting: The Proposal suggests postponing the CSRD reporting requirements by two years for all so-called “wave 2” and “wave 3" companies, i.e. companies which are currently required to report under the CSRD in 2026 (over the financial year 2025) or 2027 (over the financial year 2026). If the Proposal is adopted, these companies would only have to provide their first CSRD report in 2028 and 2029, respectively. On the contrary, the Proposal does not change the timing of the reporting for so-called “wave 1” companies (i.e. publicly listed EU companies, insurances and banks with an average number of employees during the financial year of at least 500) which are already required to do CSRD reporting in 2025 (for the financial year 2024). The Commission intends to fast-track this part of the Proposal to provide legal certainty for companies with looming reporting obligations in 2026, and to “win time” for adoption of the envisaged substantive changes (in particular the introduction of the 1,000-employee threshold). Should the substantive changes be adopted and become effective as they currently stand, the “wave 1” companies that do not meet the new scoping criteria (because they have more than 500 but less than 1,000 employees) would no longer be subject to the CSRD.

Amendments to CS3D

- Timing of due diligence obligations: The Proposal leaves the thresholds for the applicability of the CS3D unchanged but proposes to postpone the deadline for Member States to transpose the CS3D into national law by one year to 26 July 2027. Consequently, the first phase of application of the new due diligence obligations (i.e. for large companies) would begin on 26 July 2028.

- General limitation of due diligence obligations to direct business partners: The Proposal generally limits the due diligence obligations of in-scope companies to direct business partners. An exception (i.e. an obligation to conduct an in-depth assessment of adverse impacts at the level of indirect business partners) shall only apply in limited circumstances where the company has plausible information suggesting that adverse impacts have arisen or may arise at the level of the respective indirect business partner. Hence, it would no longer be required to monitor and assess the entire supply chain.

- Greater intervals for monitoring: As another significant relief for in-scope companies, the Proposal suggests requiring companies to assess the adequacy of their supply chain due diligence measures only every five years instead of every 12 months.

- Termination of business relationships: Under the Proposal, in-scope companies would no longer be required to terminate their entire business relationship with business partners towards which preventive or corrective measures have failed to address their adverse impacts on human rights or environmental objectives. Instead, they would only be required to terminate business relationships with respect to the activities concerned.

Other Proposals

The Proposal also includes:

- measures to reduce the regulatory burden and scope of the Taxonomy Regulation, including by introducing materiality thresholds and reducing reporting templates by around 70%;
- changes to the Carbon Border Adjustment Mechanism (CBAM), including by exempting small importers from CBAM obligations; and
- an amendment to the InvestEU Regulation, involving reduced reporting requirements.

Outlook

It remains to be seen whether the Proposal will become law in its current form. It is still subject to approval by the European Parliament and the Council of the EU Member States. Generally, EU legislative procedures can last up to 18 months – which is why the Commission has asked to fast-track the changes, in particular regarding the postponement of CSRD deadlines.

Whilst some EU politicians have raised concerns that the Proposal would lead to a setback for the EU’s sustainability objectives, the Proposal would significantly reduce the compliance burden for companies and limit the CSRD’s scope of application. For this reason, the Proposal has found support in some key EU Member States (e.g. Germany). Further intense discussions can be expected as the legislative procedure moves along.

Considerations for Companies

Until the Proposal becomes final and is adopted, the existing ESG rules (including CSRD) will continue to apply. What steps should companies consider taking before then? In particular for the CSRD, the answer depends on the circumstances for each company:

- Companies that are already required to report under CSRD (“wave 1” entities) in 2025 should continue to comply. Companies with more than 500 but less than 1,000 employees may no longer be required to comply after adoption of final rules, but whether those rules will indeed become effective in their current form remains to be seen.
- For companies that are currently due to report under CSRD in 2026 and 2027 (“wave 2” and “wave 3” entities), the prudent approach is to continue preparing for CSRD on the basis of the existing rules.
- Non-EU parent companies of EU subsidiaries or branches should reconsider applicability of the scope to determine whether they will be required to report in 2029.

All companies are advised to monitor the development of upcoming rules.

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