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Highlights of the Sustainability Omnibus Package

On **26 February 2025**, the European Commission published the first of a series of packages of legislative proposals known as “**Omnibus I**”. This package includes two proposals which seek to recalibrate the EU’s corporate sustainability obligations: (i) **COM(2025) 80 final** and (ii) **COM(2025) 81 final**. The most significant of these proposals, **COM(2025) 81 final**, seeks to amend three core instruments of the EU’s sustainability framework:

- i) the “Audit Directive” (**Directive 2006/43/EC**);
- ii) the “Accounting Directive” (**Directive 2013/34/EU**), as amended by the Corporate Sustainability Reporting Directive (**Directive (EU) 2022/2464** or the “**CSRD**”); and
- iii) the “Corporate Sustainability Due Diligence Directive” (**Directive (EU) 2024/1760** or the “**CSDDD**”).

Since the launch of the European Green Deal in 2019, sustainability reporting and due diligence requirements have expanded significantly, creating a complex regulatory landscape that has raised concerns regarding administrative costs, overlapping legislative frameworks, and potential adverse consequences for the competitiveness of the EU’s economy.

In 2020, the EU adopted the **EU Taxonomy Regulation for Sustainable Activities** (the “**Taxonomy Regulation**”), a classification system intended to assist businesses and investors in identifying activities that substantially contribute to achieving the EU’s environmental sustainability goals. This taxonomy has served as a fundamental tool for promoting the alignment of economic activities with the EU’s broader environmental objectives.

In 2023, the CSRD was introduced, imposing comprehensive reporting obligations for greenhouse gas emissions and other environmental, social, and governance (ESG) matters. Under the CSRD, large companies have started reporting for the fiscal year 2024, with the reports due in 2025.

In addition, the CSDDD, which was adopted in May 2024, imposed internal due diligence obligations on companies and throughout their supply chains in order to detect, prevent, mitigate, eliminate and repair adverse effects on human rights and the environment, as well as requiring the adoption of climate change transition plans. The CSDDD sought to ensure that the direct actions of companies and their suppliers comply with established climate and human rights objectives.

However, after the EU elections, and the Draghi Report, which called for a reduction in the excessive administrative burdens placed on companies in order to revamp the competitiveness of the EU economy, the President of the European Commission, Ursula von der Leyen, announced changes to the Taxonomy Regulation, the CSRD, and the CSDDD.

Through Omnibus I, in particular, Proposal COM (2025) 81 final (the “**Proposal**”), the Commission seeks to uphold the essential policy objectives of transparency, accountability, and responsible business conduct while significantly simplifying compliance requirements. Key amendments include narrowing the scope of the CSRD to focus on undertakings with over 1,000 employees, refining assurance obligations, and removing sector-specific expansions. For the CSDDD, this includes focusing due diligence efforts on direct suppliers, adjusting enforcement mechanisms and clarifying civil liability regimes.

With the proposed amendments, the European Commission aims to achieve a comprehensive simplification of compliance requirements which will reduce the administrative burdens on undertakings by at least 25% (35% in the case of SMEs) by the end of the Commission mandate.

In this legal briefing, we will summarise the main changes proposed by the European Commission.

I. Amendments to the Corporate Sustainability Reporting Directive: The scope of corporate sustainability reporting obligations has been reduced

1. Threshold of more than 1,000 employees

Under Article 2 of the Proposal, which, for example, amends Article 19a(1) of the Accounting Directive, only large undertakings with an average of more than 1,000 employees during the fiscal year and a net turnover exceeding EUR 50 million or total assets over EUR 25 million are required to publish sustainability information. This amends the previous threshold of 250 employees and eliminates the mandatory reporting regime for listed SMEs, effectively removing them from the scope of the CSRD. The Commission's explanatory memorandum explains this realignment by referencing the competitiveness concerns raised in recent policy communications (Recitals (5) – (6) of the Proposal).

A salient feature of this new threshold is its direct alignment with key provisions in the CSDDD, which also uses a 1,000-employee benchmark. By narrowing the reporting thresholds, the Proposal aims to ease the compliance burden for small and medium-sized listed undertakings while maintaining reporting obligations for large companies.

Given that the **Non-Financial Reporting Directive** (the “**NFRD**”) originally applied to companies with more than 500 employees, the scope of mandatory sustainability disclosure now becomes more restrictive than under the NFRD, reflecting a deliberate choice to substantially reduce administrative costs (Article 2(2) of the Proposal, amending Article 19a of the Accounting Directive).

2. Exclusion of listed SMEs

The amended text deletes the original mechanism that allowed small and medium-sized undertakings listed on regulated markets to apply simplified disclosure standards (formerly set out in Articles 19a(6) – (7) and 29c of the Accounting Directive). According to the proposed Articles 19a(3) and 29a(3) of the Accounting Directive, SMEs listed on regulated markets will no longer be subject to mandatory sustainability reporting requirements, allaying concerns that such undertakings would shoulder disproportionate costs (Articles 2(2)(c) and 2(7) of the Proposal).

3. Value-chain cap and voluntary standards for out-of-scope entities

The “value-chain cap” has been introduced via amendments to Articles 19a(3) and 29a(3) of the Accounting Directive, and further elaborated in the new Article 29ca. Notably, as currently proposed, the text provides that companies reporting under the CSRD “*shall not seek to obtain from undertakings in their value chain with fewer than 1,000 employees any information that exceeds the data specified in the standards for voluntary use*” (Articles 2(2)(b)(i) and (4)(b)(i) of the Proposal). This would effectively protect smaller undertakings from excessive data requests.

The Proposal empowers the Commission to adopt a delegated act establishing voluntary sustainability reporting standards (“**VSME standards**”) developed by **EFRAG** (formerly the “European Financial Reporting Advisory Group”) for undertakings that fall outside the revised scope (Article 2(8) of the Proposal, inserting a new Article 29ca). The VSME standards, intended to be simpler and proportionate, offer an avenue for SMEs to demonstrate sustainability credentials without facing the full rigour of the CSRD.

This mechanism, as it has been proposed, reduces the “trickle-down” effect that the industry had criticised: large in-scope companies often imposed near-identical reporting requirements on smaller partners. The proposal introduces an explicit safe harbour in the second subparagraph of Article 19a(3), stating that if an in-scope undertaking respects the VSME threshold for relevant data requests, it is deemed compliant with its own value-chain reporting obligations.

4. Removal of sector-specific standards

Subparagraphs 3 and 4 of Article 29b(1) of the Accounting Directive (as amended by the CSRD) required the Commission to adopt sector-specific standards by June 2026. The Proposal removes the Commission's power to adopt sector-specific standards by way of delegated acts.

This aims to avoid an increase in the number of data points that undertakings must report, allowing undertakings to avoid additional sectoral obligations (Article 2(6)(a) of the Proposal). Therefore, the Proposal eliminates the requirement established by the CSRD which obliges undertakings within its scope to report sustainability information according to mandatory European Sustainability Reporting Standards ("ESRS").

The proposed amendment addresses the concerns raised by companies, which have called for the postponement of the sector-specific sustainability reporting standards or their complete removal from the CSRD to avoid further complicating the sustainability reporting process for companies.

5. Modification of the assurance regime: assurance limited to "limited assurance"

The Proposal eliminates the Commission's mandate to adopt standards for reasonable assurance by 2028 (see amended Article 26a(3) of the Audit Directive in Article 1 of the Proposal). Instead, the Commission will produce targeted assurance guidelines by 2026, which will address issues around planning, risk assessment, and methodology, without increasing the assurance standard. This shift reflects an effort to contain compliance costs, aligning with repeated calls from stakeholders that raising the standard to "reasonable assurance" could have created disproportionate audit burdens (Recital (3) and (4) of the Proposal).

6. Clarifications on taxonomy reporting ("opt-in")

A new set of provisions (Article 2(3) and (5) of the Proposal, introducing Articles 19b and 29a) allow certain undertakings with a turnover of up to EUR 450 million to opt for partial or full EU Taxonomy alignment. These undertakings must disclose their turnover, capital expenditures (CapEx), and key performance indicators (KPIs) while retaining the option to exclude operating expenses (OpEx) if they decide to. In other words, undertakings that do not engage in green activities and do not declare partial alignment with green activities are exempt from reporting under the Taxonomy Regulation altogether.

This "opt-in" approach is a notable adjustment. It seeks to foster a gradual environmental transition of activities over time by enabling undertakings to make incremental disclosures and a gradual integration of environmentally sustainable strategies while insulating them from the strict compliance faced by the largest companies.

The amendment, as proposed, provides for more flexibility by allowing in-scope undertakings to report on activities that meet certain technical screening criteria of the Taxonomy Regulation without needing to meet them all.

7. Adjustments to application dates and digital markup requirements

The Proposal also contemplates the postponement of the CSRD's second and third "waves" (Recital (5) and Article 3 of the Proposal), meaning that newly in-scope large companies and SMEs would not face immediate reporting obligations in 2025 or 2026 only to be later exempted by the Proposal. This deferral helps to avoid a scenario where medium-sized companies invest heavily in compliance but are subsequently removed from the scope of the reporting obligations. Furthermore, the digital markup obligation has been relaxed, meaning that companies are not required to provide sustainability data in a structured format (XHTML) until an implementing act is adopted (Article 2(9), replacing Article 29d of the Proposal).

II. Amendments to the Corporate Sustainability Due Diligence Directive (the CSDDD)

1. Tier 1 focus, plausible information, and suspension instead of termination

The Proposal amends several central provisions of the CSDDD. Of particular note is the revised Article 8, which ensures that mandatory due diligence typically extends only to direct business partners (“Tier 1 suppliers”), unless a company possesses “plausible information” (broadly defined in the new Article 8(2a) of the CSDDD) that indicates that an indirect business partner is harming human rights or the environment. This is a notable change from the original horizontal approach that required scrutiny of the entire value chain. The new text aligns with practices in certain national legal systems, such as the German Supply Chain Act (*Lieferkettensorgfaltspflichtengesetz*), which also focuses on direct suppliers.

Additionally, Article 10(6) and Article 11(7) of the CSDDD, as proposed, have been amended to clarify that when there is a reasonable expectation that an enhanced prevention action plan will succeed, the mere fact of continuing to engage with the business partner shall not trigger the company’s liability.

2. Definition of “stakeholder” and reduced frequency of monitoring

The Proposal narrows the definition of “stakeholder” in Article 3(1)(n) of the CSDDD to cover only workers, their legitimate representatives, and individuals or communities “directly” affected by the operations of a company or its partners. Stakeholder engagement obligations, formerly applied at multiple due diligence stages, are confined to significant phases: the identification of impacts, the design of remedial measures, and enhanced action plans (Article 4(2) of the Proposal). Monitoring intervals shift from annual to every five years, subject to *ad hoc* assessments if new information arises (Article 15 of the CSDDD, as amended by the Proposal).

This proposed amendment reduces the continuous oversight duties, acknowledging that some industries may not need annual audits once stable compliance routines are established (Article 4(8) of the Proposal).

3. Climate transition plans and revised liability provisions

Under the new Article 22(1) of the CSDDD, companies must still adopt climate transition plans. The adoption and the design of these plans remain subject to administrative supervision.

In this regard, the Proposal clarifies that these plans should include “implementation actions” planned and taken, which seek to ensure, through best efforts, that the business model and the company’s strategy are compatible with the transition to a sustainable economy, the objective of limiting global warming to 1.5°C in line with the Paris Agreement, and the EU’s objective of climate neutrality.

Therefore, through its amended wording (see Article 4(10) of the Proposal), the CSDDD does not require companies to fully realise their climate transition plans. Instead, it focuses on whether climate transition plans have been duly adopted, updated, and supervised rather than imposing strict liability for not meeting greenhouse gas reduction targets.

Concerning liability, Article 29 of the CSDDD has been substantially amended (Article 4(12) of the Proposal), as it removes the specific, EU-wide liability regime in the Directive. However, in line with the core objective of the Directive to ensure protection against human rights violations and environmental harm resulting from business operations, the proposed amendments maintain the requirements for effective access to justice, including the right to full compensation in the event that a company is held liable for a failure to comply with the due diligence requirements under this Directive in accordance with national law and where such failure caused damage, while also protecting companies from over-compensation.

The proposed amendments to Article 29 of the CSDDD mean that liability claims will now hinge on national rules. This grants Member States the opportunity to maintain or introduce specific rules regarding civil liability regimes, limiting possible litigation risks due to the substantive changes and the wide harmonising approach under the CSDDD.

III. EU Outlook

This Proposal represents a recalibration of the EU's sustainability reporting and its due diligence framework. The CSRD replaces broad coverage with a more targeted approach that is limited to larger undertakings, particularly those with over 1,000 employees, thereby exempting numerous small and medium-sized listed issuers. At the same time, it reduces sector-specific disclosure requirements and retains only limited assurance requirements to ease compliance costs. Voluntary standards under the new Article 29ca of the Accounting Directive may still guide smaller entities seeking to meet value-chain demands from larger clients.

Regarding the CSDDD, the revised scheme balances the imperative of upholding human rights and environmental standards with corporate concerns over administrative feasibility. The Proposal has a more balanced approach, taking all interests into consideration, focusing on Tier 1 suppliers, and introducing suspension rather than termination as a last resort to achieve more practical outcomes, especially in global supply chains where abrupt exits can exacerbate local issues.

Stakeholders should note that, while the overall burdens for small and medium-sized companies have been significantly reduced, the largest companies in the EU remain subject to onerous requirements. Nonetheless, the alignment in scope between the CSDDD and the CSRD, a simplified assurance structure, and the partial retraction of civil liability provisions reinforce the Commission's stated aim of preserving the European Green Deal's objectives without unduly impairing competitiveness.

The legislative process has only started, and the negotiations between the European Parliament and the Council will determine the final contours of the Proposal. Companies are advised to monitor transposition measures and any subsequent delegated acts, particularly regarding the prospective VSME standards and digital reporting formats. If the Proposal is adopted in its current form, Member States will be required to transpose the amendments within 12 months of it entering into force.

Finally, in light of the current geopolitical context and the EU's pressing need to regain competitiveness, the Omnibus I package should be adopted as soon as possible to provide legal certainty to companies. Coherence between the different instruments and simplification should be the guiding principles in this legislative process, keeping the measures which are necessary and proportionate to fulfil the EU's long-term social, economic and environmental objectives.

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