Shape the future with confidence

How to navigate the EU Omnibus Simplification Package

Key implications for companies

7 March 2025

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Contents page

1 Foreword

For businesses and policy makers, it has been a significant journey from the European Union's (EU) introductory proposals to transform the sustainability reporting landscape and extend obligations beyond the nonfinancial Reporting Directive (NFRD) as part of the EU Green Deal to where we are today. Only recently have the first sustainability reports including EU Taxonomy disclosures been published under Wave 1 of the Corporate Sustainability Reporting Directive (CSRD). Businesses have gone to tremendous lengths and worked diligently to comply with the obligations set out for them. Real progress has been made, setting the benchmark for others to follow. The EY organization remains committed to helping clients meet their sustainability-related strategic objectives in a dynamic policy environment.

The release of the EU's first Omnibus Simplification Package (the Package) marks a significant moment for corporate sustainability. This legislative initiative aims to streamline sustainability reporting and due diligence requirements by, among other measures, delaying implementation and raising application thresholds to take an estimated 80% of companies out of scope, while still maintaining alignment with the principles of the EU's Green Deal and its complementary Clean Industrial Deal.

Simplification with a view to boosting competitiveness raises fundamental questions as to whether the necessary transition is sustainable. Are companies willing and able to channel their available resources on integrating sustainability in their core processes instead of using these resources for compliance with sustainability regulation? Will investors prioritize long-term value creation above short-term results? Will companies' products and services remain competitive once sustainability principles have been incorporated in an uneven, competitive international landscape? These are critical considerations as they directly impact the competitiveness and resilience of companies.

If sustainability reporting becomes an increasingly voluntary activity down the value chain, with many companies taken out of scope, then the benefits and additional value of companies that invest in sustainability must be assessed and recognized by a broad range of stakeholders, from customers and investors, affected communities, to the companies' boards. This value could manifest in various ways, such as lower impacts from managed risks, higher returns from seized opportunities and stronger market positioning through enhanced trust from stakeholders. In the long run, simplification could facilitate more material disclosures, demonstrating how sustainable businesses are generating market opportunities. Logically, this should also help providers of sustainable finance to deploy finance and capital at a lower cost.

If the proposed simplifications can be agreed and effectively implemented, this first Omnibus has the potential to reduce compliance costs for businesses around the globe. It seems clear that the EU's goal is to change the path toward sustainability, but not to reduce the ambition for achieving the transition.

However, it is important for companies to recognize that, despite the European Commission's call for swift action, these proposals will take time to navigate through the EU institutions and Member States and may see further significant changes before they can be finalized, transposed, and implemented.

As we explore the implications of this legislative package, we encourage all stakeholders to engage actively in the process and keep monitoring developments. By carefully examining our initial insights and actioning the recommendations provided in this report, your business will be better prepared to navigate the challenges ahead and contribute to a more sustainable future. EY teams are here to help you do that.

So together, let's embrace this chance to make meaningful change in the strategic, opportunity-focused approach to sustainability across Europe.

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2 Executive summary

What does this document cover?

The first EU Omnibus Simplification Package is a significant legislative initiative designed to streamline and simplify existing sustainability reporting requirements and the due diligence framework, reducing the number of companies in scope and making it easier for those companies that remain in scope to comply.

This document will summarize at a high level the European Commission's proposed amendments to the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D), the EU Taxonomy Regulation (EUTR), and the Carbon Border Adjustment Mechanism (CBAM).

For each of CSRD, CS3D, EU Taxonomy and CBAM you will find the following sections:

- Recap of the legislation
- Proposed changes in the EU Omnibus Simplification Package
- Timelines
- What key aspects of legislation are not intended for change?
- What impacts could the proposed changes have on businesses?
- What should businesses do to prepare?

The content is based on our initial impressions and reading of the proposals in the EU Omnibus Simplification Package as of the date on the cover page (the proposals are subject to amendment by the EU co-legislators). The analysis and recommendations do not constitute legal advice.

Where are we now, and what happens next?

- The first EU Omnibus Simplification Package was published on 26 February 2025 and is composed of several legislative proposals:
  - A "stop-the-clock" directive to postpone the effective dates of requirements under the CSRD and CS3D
  - A directive making substantive amendments to the CSRD and CS3D and their linkage to the Taxonomy
  - A draft delegated act to revise some of the currently applicable delegated acts under the EUTR
  - Proposal to amend the CBAM Regulation
- Publication of the proposals marks the start of the legislative process. They will now be subject to negotiations with the European Parliament and Council of the EU.
- The Package is using a staggered approach. The first step is to "stop-the-clock". The objective is to avoid a situation in which certain companies are required under the CSRD to report for financial year 2025 (second wave) or 2026 (third wave) and are then subsequently relieved of this requirement in a revised CSRD. Hence, the European Commission (or "the Commission") is seeking to avoid these companies incurring unnecessary costs.
- All things remaining equal, companies in the first wave will continue having to report in line with the original CSRD in countries that have already transposed it until the directive making substantive amendments takes effect (see below). Whether or not a simplified European Sustainability Reporting Standards (ESRS) will take effect for these companies in the interim remains to be seen.
- Similarly, for CS3D, application timelines are delayed by one year to July 2028. The Commission's aim is logically to have this "stop-the-clock" directive become law in all EU Member States by 31 December 2025 at the latest.
- In a second step, the Commission seeks to amend the CSRD and CS3D more substantively with a separate directive. The aim is to conclude this step and have the law for a revised CSRD and CS3D implemented across the EU Member States before implementing and reporting for FY2027 takes place under the revised timelines implemented via the first step above.
- The directive making substantive amendments to the CSRD and CS3D must be transposed into national legislation within twelve months after its entry into force.

- It is important for companies to recognize that, despite a call from the Commission for swift action, these proposals will take time to navigate through the EU institutions with the potential for changes to be made to the proposals released in February.
- The draft delegated act amending the Taxonomy Regulation will be adopted after public feedback (open to consultation until 26 March 2025) and scrutiny by the European Parliament and the Council of the EU. It is expected that it will be adopted at some point late in Q2 2025.
- As the proposed CBAM Regulation would delay the purchase and selling of CBAM certificates, among other things, from 1 January 2026 until 1 February 2027, the aim of the Commission must be to finalize a revised Regulation so that it takes effect in all Member States by 31 December 2025.
- The European Financial Reporting Advisory Group (EFRAG) will play a role in refining the ESRS over the next six months and beyond.

At a glance – what are the key proposed changes, and what general actions should companies take?

The following summary tables illustrate the most significant headline amendments proposed by the Package and are therefore not exhaustive. Details of the potential changes and an analysis of their potential impacts for each legislative file can be found in the corresponding section below. The titles will link you to those sections.

Corporate Sustainability Reporting Directive (CSRD)

<table>
<tr><th>Topic</th><th>Proposed amendments</th><th>General actions</th></tr>
<tr><td>Implementation</td><td>Postponed by two years for Wave 2 (FY2027) and Wave 3 (FY2028)</td><td rowspan="5">Stay informed about legislative developments and respond to public consultation on ESRS.
Assess scope and compliance impact.

For companies in proposed "revised" scope:
Continue to prepare for reporting obligations where applicable.
Continue double materiality assessments and integrate them as a strategic tool.
Align with industry best practices in the absence of sector-specific standards.
Ensure data traceability, internal controls and governance frameworks.
Consider impact of ESRS revision on reporting obligations.
Collect voluntary sustainability data from suppliers, but consider impact of reduced information received.

For companies out of proposed "revised" scope:
Define the strategy, governance and sustainability objectives based on the analysis of impacts, risks and opportunities for the business.
Enhance active dialogue with stakeholders to understand their expectations related to sustainability information.
Consider voluntary reporting to meet investor and stakeholder expectations.
Safeguard competitive position by aligning disclosures to the expectations applicable for larger companies.</td></tr>
<tr><td>Threshold (EU and European Economic Area (EEA)</td><td>Adjusted for large undertakings to >1,000 employees and either >EUR50m turnover or >EUR25m balance sheet (raised from >250 employees)</td></tr>
<tr><td>Threshold (non-EU)</td><td>Raised from >EUR150m to >EUR450m turnover generated in the EU (>250 employee threshold remains, branches threshold >EUR50m turnover)</td></tr>
<tr><td>Value chain</td><td>Introduction of "value chain cap" on information requests of companies below revised CSRD threshold. Information requested cannot exceed that which is set out in a newly developed set of voluntary standards based on the current voluntary small and medium-sized enterprises (VSME) standards.</td></tr>
<tr><td>Simplified ESRS</td><td>Reduce mandatory data points and improve consistency</td></tr>
</table>

Corporate Sustainability Due Diligence Directive (CS3D)

<table>
<thead>
<tr><th>Topic</th><th>Proposed amendments</th><th>General actions for in-scope companies</th></tr>
</thead>
<tbody>
<tr><td>Implementation</td><td>Application timeline for the first wave delayed by one year to July 2028</td><td rowspan="4">Integrate due diligence into policies and risk management systems

Identify and assess actual or potential adverse impacts and perform in-depth assessment in case of plausible information (including indirect business partners)

Develop action plans to prevent, mitigate, or cease potential or actual adverse impacts

Strengthen compliance procedures, grievance mechanisms and stakeholder engagement

Develop frameworks to monitor and assess the impact and effectiveness of implemented measures</td></tr>
<tr><td>Due diligence in the value chain</td><td>Assessments limited to direct suppliers unless there is plausible information of adverse impacts relating to indirect business partners; Assessment interval extended from annual to every five years</td></tr>
<tr><td>Disengagement</td><td>No duty to terminate relationship with business partners identified as having severe adverse impacts</td></tr>
<tr><td>Civil liabilities and penalties</td><td>EU-wide civil liability regime removed. 5% of turnover minimum fine cap removed</td></tr>
</tbody>
</table>

EU Taxonomy Regulation (EUTR)

<table>
<thead>
<tr><th>Topic</th><th>Proposed amendments</th><th>General actions for companies</th></tr>
</thead>
<tbody>
<tr><td>Opt-in reporting</td><td>“Opt-in” regime introduced for companies with >1,000 employees and net turnover <EUR450m; those >EUR450m still in scope</td><td rowspan="4">For in-scope companies:

Large companies >EUR450m: Continue to report in line with the Taxonomy Regulation, benefiting from simplified templates and materiality thresholds.

Re-assess the eligible activities according to the new criteria and benefiting from simplification.

For out-of-scope companies:

Companies <EUR450m: Assess if the Taxonomy Regulation represents an opportunity for accessing financial capital and remaining competitive and consider performing a Taxonomy assessment on a voluntary basis.</td></tr>
<tr><td>Reporting templates</td><td>Simplification of reporting templates by reducing data points by 70%, open for consultation until 26 March 2025</td></tr>
<tr><td>Materiality thresholds</td><td>Introduce materiality thresholds to exempt alignment assessment (<10% of eligible activities) and reporting of OpEx (<25% of eligible turnover), open to consultation as above</td></tr>
<tr><td>Pollution prevention and control</td><td>Simplification of Appendix C, related to the use or presence of hazardous substances, open to consultation as above</td></tr>
</tbody>
</table>

Carbon Border Adjustment Mechanism (CBAM)

<table>
<tr><th>Topic</th><th>Proposed amendments</th><th>General actions for importers</th></tr>
<tr><td>Threshold</td><td>Exempts importers of small quantities of CBAM goods (up to 50 tonnes of mass (weight)) from compliance obligations</td><td rowspan="3">Above threshold: Analyze if they are at or beyond the threshold, collaborate with manufacturers, and establish compliant CBAM emissions calculation and information sharing.

Below threshold: Monitor ongoing legislative dynamics and assess whether the potential expansion to include additional Emission Trading System (ETS) sectors and downstream goods in 2026 will bring company back into scope.</td></tr>
<tr><td>Certificate purchase date</td><td>Defers the obligation to purchase certificates to February 2027 to cover CBAM goods imported in 2026</td></tr>
<tr><td>Declaration submission</td><td>Extends the annual submission due date for declarations covering the previous year from 31 May to 31 August</td></tr>
</table>

What effect will the changes have?

The proposed changes in the Omnibus simplification package aim to streamline and simplify existing sustainability reporting requirements and the due diligence framework. These changes are expected to have significant impacts on businesses.

- **Reduced compliance burden:** Simplifying reporting requirements aims to lower administrative costs for businesses, particularly SMEs, allowing them to focus more on growth and innovation. Some companies will have simplified reporting requirements while others will be taken out of scope entirely, allowing a voluntary approach.
- **More time to prepare:** The proposal provides additional time for companies to align with new regulations and develop a strategic approach to sustainability reporting and buildout core capabilities across data, controls, technology and risk to support a smoother transition.
- **Focus on material activities:** Introducing materiality thresholds allows companies to concentrate on significant elements, reducing the burden of reporting non-material activities.
- **Sustainability integration beyond compliance and competitive advantage:** Companies that go beyond regulatory requirements may be better equipped to navigate future changes and meet investor expectations. Voluntarily adopting strong sustainability practices can provide a competitive edge and attract sustainability-conscious investors. Reduced reporting complexity may foster innovation in sustainable practices.
- **Improved reporting consistency:** Simplified reporting is intended to enhance consistency and comparability in sustainability practices.

However, potential risks include:

- **Delay in EU economies transitioning toward net zero-enabled business models:** There is a risk that the transition of EU economies toward business models that are net zero-enabled and operate within planetary limits may be delayed. This could happen if some businesses choose to deprioritize their sustainability efforts.
- **Reduced transparency on human rights and environmental breaches in the value chain:** The proposed limitations in the level of transparency required regarding human rights and environmental breaches within the value chain could make it more challenging to identify and address violations, potentially allowing continued unethical practices and environmental harm.
- **Potential delays to flows of capital to sustainable businesses:** There is a possibility that the flow of capital to companies that follow sustainable practices and have the potential to create more value over the mid to long term could be delayed. This delay could impact the growth and development of these businesses, as well as the overall progress toward a more sustainable economy.

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3 Context

Background and drivers for change

The Green Deal, now succeeded in 2025 by the Clean Industrial Deal, is the European Commission's strategy aimed at transforming the EU into a modern, resource-efficient and competitive economy. Its primary objective is to achieve net-zero greenhouse gas emissions by 2050, decoupling economic growth from environmental harm and to ensure that no person or place is left behind. The strategy also aims to put Europe's biodiversity on a path to recovery by 2030. The Green Deal encompassed a wide range of policies and measures, including climate action, clean energy, sustainable industry and biodiversity conservation.

The pace and volume of new legislation set by the EU over the last five years as part of the Green Deal has been prolific.

However, while establishing the EU's lead and maturity in regulating sustainability reporting and setting standards, the scale, complexity and cost of compliance associated with these legislative initiatives have been criticized by various segments of both the private and public sectors. Critics argue that these factors inhibit Europe's potential for investment, innovation and growth, leaving it unable to compete on the global market.

Key factors driving the European Commission's proposed changes in the first EU Omnibus Simplification Package include:

1. **Enhancing competitiveness and compliance:** Streamlining sustainability reporting reduces administrative burdens and compliance costs, allowing businesses to allocate more resources toward growth, innovation and attracting investments. Simplified reporting and due diligence frameworks enhance legal certainty, making it easier for companies to understand and meet their obligations under the EU Green Deal.
2. **Encouraging innovation and economic resilience:** By reducing reporting complexity, businesses can focus on developing innovative sustainable practices and technologies. The aim would be to position Europe as a leader in sustainability and drive long-term economic resilience.
3. **Fostering transparency and trust:** A straightforward reporting regime enhances consistency in sustainability practices across the EU, building transparency and trust among stakeholders. This is essential for a competitive business landscape aligned with the EU's sustainability objectives

To address these drivers, the key principles underlying the simplification in the Package are as follows:

1. **More time to implement:** The proposal provides additional time for companies to align and prepare for compliance with new regulations.
2. **Fewer companies in scope:** By raising application thresholds, the proposal aims to leave only the largest companies in scope, reducing the overall compliance burden (particularly on SMEs).
3. **More alignment between different rules:** The proposal seeks to harmonize various sustainability reporting and due diligence requirements.
4. **Simplification of rules:** The proposal aims to streamline existing sustainability reporting requirements and the due diligence framework.

What is in the EU Omnibus Simplification Package?

The Commission released the first package on the simplification of sustainability reporting on 26 February 2025. The Package focuses on the simplification of CSRD, CS3D, the EU Taxonomy Regulation and CBAM.

The Package contains the following publications:

1. **A proposal for a "stop-the-clock" directive delaying implementation of the CSRD and CS3D** (Omnibus I – COM(2025)80)
2. **A proposal for a directive covering the substantive changes to the CSRD, CS3D (including the empowerment to simplify ESRS) and linkages to the EU Taxonomy** (Omnibus I – COM(2025)81)
3. **A proposal to amend the CBAM Regulation** (Omnibus I – COM(2025)87)
4. **Draft delegated act amending the Taxonomy Disclosures, Climate, and Environmental Delegated Acts** – this draft delegated act is open to public consultation until 26 March 2025

Timeline

July 2020	EU Taxonomy Regulation enters into force.
January 2023	The CSRD enters into force.
March 2023	European Commission President von der Leyen set out an ambition to reduce overall reporting burdens by 25 % and by 35 % for small-medium enterprises (SMEs).
May 2023	CBAM Regulation enters into force.
July 2023	First set of European Sustainability Reporting Standards adopted.
April 2024	Enrico Letta's report on the Future of the Single Market published, calling for simplification of rules and reducing bureaucracy.
July 2024	CS3D enters into force.
September 2024	Mario Draghi's report on European competitiveness released. Sustainability reporting and the due diligence framework identified as source of regulatory burden and compliance costs.
November 2024	President von der Leyen announced plans for "Omnibus Package" to simplify the EUTR, CSRD, CS3D and CBAM.
December 2024	Member States, industry and civil society begin sharing varying recommendations on how to address simplification.
29 January 2025	European Commission releases Competitiveness Compass, outlining the EU's strategy to strengthen competitiveness, foster innovation and ensure economic security.
12 February 2025	European Commission Work Program for 2025 released, highlighting a simplification agenda with at least five Omnibus Packages planned for the year. These include: ▪ Sustainability reporting (Q1 2025 – covered by this document) ▪ Investment simplification (Q1 2025) ▪ Small mid-caps and removal of paper requirements (Q2 2025) ▪ Digital simplification, including cybersecurity (Q4 2025) ▪ Common Agricultural Policy simplification (Q2 2025)
26 February 2025	First EU Omnibus Simplifcation Package on sustainability reporting published.

4 Implications for the Corporate Sustainability Reporting Directive (CSRD)

The CSRD was introduced with the objective of improving sustainability reporting to help stakeholders to evaluate the sustainability performance of companies in turn contributing to the transition to a fully sustainable and inclusive European economy under the European Green Deal and UN Sustainable Development Goals. The CSRD mandates that companies disclose comprehensive information on their environmental, social and governance (ESG) impacts.

Reporting standards

Companies are required to report according to the ESRS, developed by the European Financial Reporting Advisory Group (EFRAG). These standards ensure consistency and comparability in sustainability reporting across the EU.

Double materiality

The CSRD adopts a double materiality approach, requiring companies to report on how sustainability issues affect their business and how their business impacts society and the environment.

Assurance and digitalization

The CSRD mandates limited assurance of sustainability information by independent third parties and will eventually require companies to prepare their reports in a digital format, facilitating accessibility and transparency.

Value chain reporting

Companies must provide information on their entire value chain, including their own operations, products and services, business relationships and supply chain.

Proposed changes in the EU Omnibus Simplification Package

Proposals for change to the CSRD are significant and aim (i) to reduce the compliance burden on smaller companies; and (ii) simplify the process and disclosure requirements for companies still in scope. These changes and their implications for business are set out and contextualized in the table and sections below.

Topic	Proposed amendments
Timeline	Reporting timelines "postponed" by two years for current Wave 2 (now FY2027) and Wave 3 (now FY2028) in the "stop-the-clock" directive. The Commission's aim is to take some of Wave 2 and all of Wave 3 out of scope completely in a separate directive to substantively revise the CSRD so they do not have to report at all. The postponement seeks to allow enough time to agree the directive revising the CSRD to achieve this. The Wave 1 reporting timeline is unchanged.
Threshold (EU and EEA)	Threshold adjusted for large undertakings to >1,000 employees on average and either a turnover >EUR50m or a balance sheet >EUR25m (raised from >250 employees). This applies to listed and non-listed undertakings. Listed SMEs are removed from scope.
Threshold (Non-EU)	Third-country companies threshold raised from >EUR150m to >EUR450m turnover generated in the EU. Branches are captured, if >EUR50m turnover; the employee threshold for large subsidiaries remains at >250. Listed SMEs are removed from scope.
Value chain	Introduction of "value chain cap" to limit information that can be requested by reporting entities of businesses in their value chain where those businesses are not within the proposed "revised" scope of the CSRD. The limit will equate to that which is disclosable under a newly developed set of standards based on the voluntary SME (VSME) standards.
Materiality (DMA)	Concept of double materiality assessment maintained (no changes).
Assurance	The requirement for limited assurance is maintained with targeted assurance guidelines to be issued by 2026, but the empowerment to adopt standards for reasonable assurance by October 2028 is removed.
ESRS	ESRS to be revised to reduce the number of mandatory data points, clarify provisions and improve consistency with other legislation.
Sector standards	Removes the Commission's empowerment to adopt sector-specific standards to avoid increasing the number of data points required in reporting.

Timelines

Wave	Company classification	Original dates	Effect of proposed "stop-the-clock" directive	Proposed revisions in substantive change directive
Wave 1	Large listed companies[1] >1,000 employees	Report from 2025 for fiscal years starting on or after 1 January 2024	None. Continue to report against ESRS in current form.	Continue to report against a "simplified" ESRS
	Large listed companies <1,000 employees			Out of scope for reporting following transposition Value chain responses under new VSME standard
Wave 2	Large companies >1,000 employees[2]	Report from 2026 for fiscal years starting on or after 1 January 2025	Postpone reporting until 2028 and monitor final scoping and reporting requirements	Report from 2028 for fiscal years starting on or after 1 January 2027 against "simplified" ESRS
	Large companies <1,000 employees			Out of scope for reporting following transposition Value chain responses under new VSME standard
Wave 3	Listed SMEs[3] (excluding micro-enterprises), small and non-complex credit institutions, and captive insurance undertakings	Report from 2027 for fiscal years starting on or after 1 January 2026	Postpone reporting until 2029 and monitor final scoping and reporting requirements	Out of scope for reporting following transposition Value chain responses under new VSME standard
Wave 4	Non-EU undertakings with significant EU activity[4]	Report from 2029 for fiscal years starting on or after 1 January 2028	No change	No change for ultimate parents with at least one large subsidiary or branch with revenue >EUR50m generating overall >EUR450m revenue
				Ultimate parents below proposed "revised" threshold out of scope for reporting following transposition

[1] Listed companies >1,000 employees AND >EUR50m turnover OR >EUR25m total assets (originally defined as >250 employees AND >EUR40m turnover OR >EUR20m total assets. Financial thresholds were raised to >EUR50m turnover OR >EUR25m total assets in 2023)
[2] Companies >1,000 employees AND >EUR50m turnover OR >EUR25m total assets (originally defined as reference above)
[3] Able to opt-out on a comply-or-explain basis until FY2028 under current unamended version of the CSRD
[4] Ultimate parents with at least one large subsidiary or branch with revenue >EUR50m generating overall >EUR450m revenue (raised from large subsidiary or branch with revenue >EUR40m generating overall >EUR150m revenue)

What key aspects of the legislation are not intended for change?

As outlined above, some key elements of the CSRD remain:

Encouraging transparency through sustainability reporting	Mandatory reporting for the largest undertakings, both EU and third country, would remain. For undertakings out of scope, voluntary reporting would be encouraged. This means companies having the greatest economic impact will have to be transparent about their sustainability management and performance.
A holistic way of determining sustainability priorities	The concept of double materiality would remain. This holistic approach of capturing both financial materiality and impact materiality supplements traditional risk assessment processes to capture a more comprehensive and granular understanding of impacts, risks and opportunities.
Providing a structured framework for sustainability reporting	ESRS Set 1 remains applicable, although reductions are identified in the following areas: (i) Reduction of disclosure requirements and data points to be reported, (ii) Clarifying certain provisions and (iii) Improving consistency with other legislation. The standards are expected to drive a common language about sustainability in Europe.
Limited assurance for mandatory reporting	Mandatory limited assurance for mandatory reporting will remain to promote confidence in sustainability information available to the market for different uses, e.g., managing risk, informing decision-making and supporting value creation.
Going beyond a company's own operations	Information to be disclosed would still cover the entire value chain, going beyond own operations. However, to cut burden and reduce complexity, the proposals seek to narrow the definition of value chain for reporting purposes.

What impacts could the proposed changes have on businesses?

The proposed amendments to the CSRD introduce significant changes to sustainability reporting requirements. The reduced scope and reduced requirements create opportunities for flexibility, more time for preparation and cost savings. They also present potential challenges to achieving sustainability outcomes.

This section highlights the main risks and opportunities from the proposed CSRD amendments, helping businesses understand the implications and rethink their strategy in face of the changing regulatory landscape.

Key opportunities:

1. **More time to prepare:** The Omnibus proposal gives companies more time to comply, allowing them to better align with the new regulations. This extension will also help them refine their sustainability practices and develop effective transition plans, which should lead to higher quality and adherence to standards. Companies will also have opportunity to access benchmarks and comparatives.
2. **More resources to focus on strategic initiatives:** Companies out of scope for the CSRD will save on compliance-related costs, enabling them to allocate resources more strategically elsewhere, such as increasing investments in sustainability-related projects that drive long-term performance (e.g., investments in clean technology).
3. **Sustainability impact beyond compliance:** Companies that integrate sustainability into their strategy anyway should be better equipped to navigate future changes and supply chain risks, as well as meet evolving investor and stakeholder expectations. By proactively adopting sustainable practices, these businesses can enhance their resilience and seize new opportunities, positioning themselves favorably in the market and contributing positively to a more sustainable future.
4. **Competitive advantage and market leadership:** Businesses that voluntarily adopt strong sustainability reporting practices may gain a competitive edge by demonstrating leadership and instilling confidence in investors and other stakeholders. This approach may enhance brand reputation, attract sustainability-conscious investors and provide access to green financing and lower capital costs, positively influencing their market position.

Key risks:

1. **Risk exposure:** The gap between regulatory requirements and investor expectations may widen. Companies reducing disclosures following changes to the CSRD may face greater scrutiny from sustainability-focused stakeholders. It may also cause some companies to deprioritize climate adaptation efforts and the management of other sustainability-related risks.
2. **Lack of comparability across companies, sectors and countries:** Reducing the number of companies and reporting requirements may hinder benchmarking. It could also lead to new frameworks being developed in certain industries or regions, undermining the goals of harmonization and standardization intended by the CSRD.
3. **Reduced governance over sustainability information:** A voluntary reporting regime would not (by definition) include assurance automatically and could raise concerns over greenwashing and reporting inconsistencies. Additionally, companies may struggle to manage sustainability risks due to incomplete value chain information.

This table aligns impacts with companies likely to remain in scope of the CSRD and those outside of the revised scope:

Category	Impacts
Companies likely to remain in scope of the CSRD	▪ Reporting obligations will persist, but some requirements will be relaxed, partially allowing more time to prepare. Continue conducting double materiality assessments to disclose both financial and impact-related risks. ▪ Sector-specific reporting will be eliminated, but businesses should align with industry best practices to maintain transparency and credibility. ▪ Limited assurance will remain in place, making data traceability, internal controls and governance frameworks essential for ensuring accuracy and consistency of disclosed data. ▪ Value chain reporting requirements will be eased, but companies are encouraged to collect voluntary sustainability data from suppliers to maintain disclosure consistency and meet stakeholder expectations.
Companies outside the CSRD's revised scope	▪ Mandatory reporting requirements will be lifted, reducing regulatory pressure. Investor and stakeholder expectations are likely to remain high, making voluntary sustainability reporting a strategic consideration for market credibility. ▪ Supply chain pressures from larger companies is expected to necessitate some level of sustainability disclosure, as such data will continue to play a crucial role in business partnerships and financing decisions. ▪ To future-proof compliance and strengthen long-term corporate responsibility, companies should consider maintaining strong sustainability practices. ▪ Organizations must stay informed about legislative developments, as national transpositions could introduce stricter reporting obligations at Member State level.

What should businesses do to prepare?

First, companies should monitor the progress of the Package through the legislative process and follow national transpositions. The CSRD revisions are still under legislative review. Track updates in EU Parliament and Council decisions. Be aware of potential national-level sustainability reporting requirements beyond the EU directives.

Class of company	Actions
Current Wave 1 (still in scope under proposed amendments)	Enhance and comply: ▪ Improve your processes and procedures ▪ Prepare to report on elements that are no longer in the phased-in period ▪ Assess future reporting reductions related to adjustments to ESRS Set 1
Current Wave 1 (to be out of scope under proposed amendments)	Comply and assess: ▪ Assuming the current implementation picture across EU remains static, i.e., the CSRD in place in some countries, the NFRD still in place in others, remain compliant. ▪ As it is proposed that this group will drop out of the mandatory reporting requirements, companies may consider continuing to report against mandatory requirements on a voluntary basis or to transition to the adjusted VSME standards as a listed undertaking that needs to report until the amendments are effective.
Current Wave 2	Assess and take advantage: ▪ Monitor the developments and use the postponement to: ▪ Address the topic strategically; ii) Continue to implement necessary processes and procedures; iii) Benefit from the reduction in the reporting requirements. ▪ Also be mindful that compliance may be necessary assuming the current implementation picture across EU remains static and the "stop-the-clock" directive is not agreed or transposed. Monitor closely.
Current Wave 3	Take advantage and strengthen resilience: ▪ Factually subject to amended VSME, determine the reporting requirements to maintain a strong position in the market and to be able to react to regulatory changes on sustainability matters. ▪ Use the leeway of voluntary reporting to address the topic strategically and to meet stakeholders' expectations as a listed SME. ▪ Also be mindful that compliance may be necessary assuming the current implementation picture across EU remains static and the "stop-the-clock" directive is not agreed or transposed. Monitor closely.
Current Wave 4 **Non-EU ultimate parent reporting**	Continue, but monitor: ▪ As only the revenue thresholds have changed, reassess the scoping and reporting requirements and options within the ultimate parent's group. Be mindful of large subsidiaries no longer in scope of the CSRD themselves, while being in scope for Wave 4 reporting of the ultimate parent, consolidating these subsidiaries. ▪ Continue the preparation of a group consolidated sustainability report for FY2028 or with the intent to exempt in-scope subsidiaries at a prior point in time. ▪ Monitor the reporting requirements to determine the appropriate reporting strategy and apply one of the following: ▪ Report under amended ESRS globally on a voluntary basis; ii) Report under Non-EU Sustainability Reporting Standards (NESRS) as adopted by the EU; iii) Report under an alternative set of standards, such as those of the International Sustainability Standards Board (ISSB) or the Global Reporting Initiative (GRI) ▪ Based on your reporting strategy, continue the implementation efforts with remaining flexibility to regulatory changes.
Complexities where group spans Member States that have implemented or not implemented	Comply and prepare: ▪ Continue to comply with Member States' reporting requirements. Once the CSRD is transposed, refer to the above. ▪ Prepare for the implementation of the new reporting framework in consideration of the business implications and in alignment with the sustainability strategy.

Regardless of the outcome of the legislative process, here are general recommendations (including no-regret actions) that are applicable for all companies:

- **Assess scope and compliance impact:** Determine whether your company remains in scope based on the new proposed CSRD thresholds (also considering the extra-territorial reach on non-EU parent undertakings). If excluded, consider whether voluntary disclosure aligns with investor and stakeholder expectations.
- **Strengthen governance and data integrity:** Develop strong ESG data governance frameworks to promote accuracy, reliability and traceability. Establish internal controls to enhance quality and provide greater confidence for administrators and investors, so that the disclosed information is reliable and can withstand scrutiny from stakeholders and regulatory bodies. This will help build market trust in sustainability reporting.
- **Future-proof sustainability strategy:** Strengthen internal sustainability expertise and integrate ESG considerations into corporate governance and strategy to future-proof compliance and enhance long-term sustainability-derived value.
- **Leverage technology:** Consider developing technology-enabled solutions to support reporting. Focus on building out core capabilities across data, controls, technology, risk and reporting, which are multi-purpose across multiple risk and reporting frameworks.
- **Maintain double materiality analysis:** Double materiality remains unchanged. Continue assessing financial risks (e.g., regulatory changes) and impact risks (e.g., carbon emissions, human rights issues). Use scenario analysis and stakeholder engagement to refine materiality assessments and inform strategy.
- **Adapt value chain engagement:** Identify key sustainability risks and opportunities within the supply chain. Encourage voluntary sustainability disclosures from SMEs (and any larger business partners that have been de-scoped) to maintain reporting consistency.
- **Engage with customers and clients further up value chain:** Seek clarity and understand their expectations and information needs for future reporting periods. In any event, make efforts to understand the position of the first company higher up chain that will be within scope of the CSRD.
- **Align with voluntary standards and best practices:** Companies may voluntarily adopt sustainability frameworks (e.g., GRI, ISSB, TCFD). Continue transparent ESG disclosures to maintain credibility with investors and stakeholders.

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As global assurance professionals, we see the EU Omnibus Simplification Package as an opportunity for companies to focus on material impacts that truly matter to their business and stakeholders. While it may not provide them with all the answers right now, it provides welcome clarity to companies after a short period of uncertainty.

Marie-Laure Delarue

EY Global Assurance Leader

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Implications for the Corporate Sustainability Due Diligence Directive (CS3D)

Recap

The CS3D entered into force on 25 July 2024 after a lengthy legislative process introducing significant changes to the original text. It already provides for a phased-in application approach recognizing that companies of different sizes have different capacities to implement a new human rights and environmental due diligence framework.

The CS3D ensures that affected companies have proper governance and management systems. They must address human rights and environmental impacts in their operations, subsidiaries and global value chains. Additionally, they must implement a climate change mitigation transition plan.

By focusing on responsible business conduct, the EU sought to increase the long-term attractiveness of business partners and to help Europe build up sustainable and trusted relationships with the aim of delivering resilient global supply chains.

The CS3D contains a broad set of principles-based mechanisms to ensure proportionality. Companies are supposed to adopt a risk-based approach, allowing them to prioritize the most severe and likely impacts first.

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Despite the EU Omnibus Simplification Package delaying implementation and scaling back the number of affected companies, sustainability leaders should see this as creating a window of time to balance reporting with sustainability action. This is more than just a competitiveness challenge; it is about businesses moving beyond compliance to build authentic sustainability practices. Ultimately, those that do will be the ones who are resilient to disruption and reap the rewards that the transition presents.

Dr. Matthew Bell

EY Global Climate Change and Sustainability Services Leader

Proposed changes in the EU Omnibus Simplification Package

The proposed revisions are extensive because, if implemented, they would significantly limit the requirement for due diligence assessments on indirect business partners and require only limited information to be obtained from SMEs. Other changes relate to the reduced liability exposure of companies which may reduce incentives for companies to take action on responsible business conduct. These and further changes are contextualized in the table and sections below, which outline the specific amendments and their implications for businesses.

Topic	Proposed amendments
Companies covered	Unchanged
Timeline	Application timelines delayed by one year to July 2028, while guidelines to be published in three tranches starting in July 2026 with the final tranche due by July 2027.
Due diligence in the value chain	Due diligence assessments generally limited to direct business partners including suppliers (Tier 1). However, if there is "plausible information" about potential or actual adverse impacts involving indirect partners (below Tier 1), they should be assessed. Companies should seek to ensure that their code of conduct is followed throughout the chain of activities via contractual cascading.
Maximum harmonization	Member States cannot introduce stricter requirements for certain due diligence duties such as the identification duty, duties to address adverse impacts and duties to engage with stakeholders.
Termination	No duty to terminate contracts with non-compliant suppliers as a last resort, now focused on suspension of relationship and remediation.
Monitoring	Review assessment intervals extended from annually to once every five years with ad hoc assessments for any significant changes to the business relationship.
Civil liability	Removes EU-wide civil liability regime but maintains access to justice and compensation for victims.
Penalties	Clarifies that fines should be effective, proportionate and dissuasive, while the minimum cap of 5% of global turnover for Member States' maximum fine structure is removed.
Stakeholders	Stakeholders re-defined and limited to relevant stakeholders or right-holders who are directly affected by the products, services and operations of the company, its subsidiaries and its business partners.
Stakeholder engagement	Stakeholder engagement now only required when identifying impacts, developing action plans and when designing remediation measures.
Representative action	Deletes the provisions on representative actions allowing the different rules and traditions that exist at national level to continue.
Transition plan	Removes the requirement to put "into effect" a climate transition plan to align with the CSRD. Proposes that transition plans now include "outlining implementation actions, planned and taken".
Financial sector	The Commission is no longer required to consider tailored sustainability due diligence requirements for financial institutions.

Timelines

Applies to	Original text	Proposed amendments
EU businesses with over 5,000 employees and global turnover (revenues) of over EUR1.5b and non-EU businesses generating EUR1.5b of turnover in the EU	Applicable as of July 2027	Applicable as of July 2028
EU businesses with over 3,000 employees and global turnover (revenues) of over EUR900m and non-EU businesses generating EUR900m of turnover in the EU	Applicable as of July 2028	No change
All other businesses within scope (e.g., EU businesses with over 1,000 employees and global turnover (revenues) of over EUR450m and non-EU businesses generating EUR450m of turnover in the EU, plus businesses with franchising or licencing agreements in the EU where royalties exceed EUR22.5m and the business's worldwide turnover (revenue) exceeds EUR80m	Applicable as of July 2029	No change

Guidelines to be made available	Original text	Proposed amendments
Guidance and best practice on how to conduct due diligence	26 January 2027	26 July 2026
Guidance on the assessment of risk factors Reference to data and information sources available for compliance	26 January 2027	No change
Transition plan practical guidance Information on how to share resources and information among companies for compliance Information for stakeholders and their representatives on how to engage	26 July 2027	No change

What key aspects of the legislation are not intended for change?

Impacted companies will still need to establish adequate governance and management systems. They must take appropriate measures to identify and address human rights and environmental impacts within their own operations. This also applies to the operations of their subsidiaries, direct business partners and global value chains where impacted companies have "plausible information" of actual or potential adverse impacts. Consequently, companies will still be required to map their value chains in areas where adverse impacts are most likely and severe. Focusing solely on direct business partners would not align with the CSRD, which is not limited to direct value chain business partners. EU member states will designate one or more supervisory authorities to oversee companies' compliance with the respective CS3D obligations.

What impacts could the proposed changes have on businesses?

Under the proposed amendments to CS3D, obligations would be delayed by one year for the largest EU companies that are in the first wave of companies to comply from 26 July 2028 (i.e., companies with more than 5,000 employees and a global net turnover of EUR1.5b). The scope of impacted companies would not change with the proposal and there has been no delay for companies who were originally envisaged to come into scope in 2028 and 2029.

Although the proposal suggests focusing on direct business partner due diligence, it still supports the responsibility of companies to respect human rights and environmental matters along their value chains when there is plausible information about likely or actual adverse impacts.

Key opportunities

1. **More time to prepare:** Establishing adequate CS3D-compatible governance and management systems for human rights and environmental due diligence takes time and will need continuous improvement. With a delay, companies would have more time to prioritize key risks and opportunities. A well-conducted double materiality assessment can help set the right priorities.
2. **More time to follow through on due diligence:** Increasing monitoring intervals from annual assessment reviews to a five-year cycle provides additional time to thoroughly conduct due diligence, address associated risks and track remediation outcomes.
3. **First-mover advantage:** Responsible business guidance is widely available and has served as a blueprint for the CS3D. Starting with an approach that is not solely driven by compliance considerations would enhance companies' credibility as sustainable and attractive business partners, aiming to establish resilient supply chains.
4. **Meaningful stakeholder dialogue:** Many companies lack visibility into issues within their indirect value chain. Proactive and meaningful stakeholder dialogue beyond Tier 1 would provide important feedback to inform future business decisions including where human rights or environmental risks may be much higher.
5. **Working with business partners rather than terminating relationships:** The proposed removal of the duty to terminate relationships with business partners that do not comply or are responsible for severe adverse impacts will allow companies to work with suppliers to address such issues. This has the potential to improve adverse environmental and human rights impacts more positively than walking away from relationships.

Key risks

1. **Reduced oversight of indirect business partners**: While limiting due diligence assessments to direct suppliers and limiting to obtain information from SMEs may reduce the compliance burden, it could lead to gaps in identifying and addressing risks in the broader value chain. This might result in unforeseen issues that could have been mitigated with more comprehensive oversight.
2. **Delay of necessary action**: The delay of the CS3D may lead to companies delaying their action on necessary responsible business conduct measures. A delay and revision of the CS3D could also cause planning insecurity as the outcome of such a process would remain open.
3. **Liability risks**: Although the removal of the EU-wide civil liability regime formally reduces the immediate exposure to legal risks, companies still face potential legal challenges and reputational damage if they fail to address human rights and environmental impacts effectively. This could lead to costly litigation and damage to brand reputation.

4. **Inconsistent stakeholder engagement:** Redefining and limiting stakeholders to those directly affected by the company's operations may streamline processes but could result in overlooking important voices and perspectives.
5. **Uneven enforcement and penalties**: While the proposal clarifies that fines should be effective, proportionate and dissuasive, the removal of the minimum cap for maximum fines may lead to inconsistent enforcement across member states. This could reduce the overall deterrent effect and create an uneven playing field for businesses.

What should businesses do to prepare?

Class of company	Actions
Large companies in scope	**Monitor ongoing legislative developments.** **Integrate due diligence into policies and risk management systems:** ▪ Perform a comprehensive gap analysis designed to review the company's policies and guidelines, incorporating the continuous operational integration of due diligence practices into business processes. **Identify and assess actual or potential adverse impacts on human rights and the environment:** ▪ Assess and identify actual and potential human rights and environmental impacts caused, contributed to or linked to the company's and subsidiaries' activities. Focus also on direct business partners and consider indirect business partners in case of "plausible information" of actual or potential adverse impacts related to them. ▪ Carry out in-depth assessment in the areas where adverse impacts were identified to be most likely to occur and most severe. **Prevent, mitigate or cease potential or actual adverse impacts and remediate where required:** ▪ Develop a concrete action plan to follow up on identified risks for negative impact in own operations and with suppliers, specified for short-, mid- and long-term. **Engage with key stakeholders and establish and maintain a complaints procedure:** ▪ Establish or strengthen complaint procedures, grievance mechanisms, effective remediation strategies and stakeholder engagement. **Monitor the effectiveness of due diligence policies and procedures:** ▪ Develop frameworks to assess the impact and effectiveness of implemented measures to identify and take action on negative impact. This entails involving stakeholders. **Ensure that transition plan includes planned and taken implementation actions.** Prepare to publish annual report or statement. **Achieve compliant as well as transparent public reporting on the entire due diligence process (e.g., integrated in the CSRD report).**
SMEs	Consider taking voluntary measures in line with responsible business conduct principles set out for companies in scope of CS3D.

Implications for the EU Taxonomy Regulation (EUTR)

Recap

A cornerstone of the EU's Sustainable Finance initiative was the creation of a classification system to provide a common language and clear definition of sustainable economic activity. To that end, the EU Taxonomy Regulation entered into force on 12 July 2020 and began to apply from 1 January 2022.

This regulation defines the criteria for an economic activity to be considered environmentally sustainable, offering precise definitions for companies, investors and policymakers. The current, unamended text of the EU Taxonomy Regulation is applicable to undertakings that are required to publish a nonfinancial statement or a consolidated nonfinancial statement. This currently includes listed entities with >500 employees and either >EUR40m in revenue or >EUR20m on the balance sheet. The regulation is also applicable to financial market participants who offer financial products.

Under the EUTR, undertakings must disclose the proportion of their activities that are taxonomy-eligible and taxonomy-aligned. Eligible activities are not necessarily environmentally sustainable, but have the potential to contribute to one of the six environmental objectives outlined in Article 9 of the EU Taxonomy Regulation:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

Proposed changes in the EU Omnibus Simplification Package

The requirements for companies to produce Taxonomy reporting are revised via the proposed directive amending the CSRD and CS3D. The reduction of data points in reporting templates, the materiality thresholds and the simplification of Appendix C (generic criteria for Do No Significant Harm to pollution prevention and control) is proposed to be made via a delegated act which can be done on an expedited basis by the Commission. Such an act would amend the existing relevant delegated acts under EUTR. A draft delegated act to achieve this is already open to public consultation until 26 March 2025.

Topic	Proposed amendments
Threshold	"Opt-in" regime introduced for companies with >1,000 employees with net turnover <EUR 450m; these entities would no longer be required to produce Taxonomy reporting, but they may choose to do so to claim that their activities are aligned (or partially aligned – see next), in which case they should disclose turnover and CapEx KPI and may disclose OpEx KPIs. Companies with >1,000 employees and >EUR450m of net turnover would still be in scope of mandatory Taxonomy reporting.
Partial alignment	Companies that opt in but only partially meet Taxonomy requirements shall report on partial alignment. Such reporting on partial alignment aims to foster a gradual environmental transition of activities, in line with the aim to scale up transition finance.
Reporting templates	Simplification of reporting templates by reducing data points by 70%.
Do no significant harm	Simplification of rules around pollution prevention and control. The proposed change focuses on the paragraph in Appendix C requiring undertakings to assess the use and presence of substances that have been self-classified according to the Classification, Labelling and Packaging (CLP) Regulation and that do not have a so-called "harmonised classification" (10,000 substances). Two options are proposed: 1. Delete the paragraph entirely or 2. Limit the assessment to substances that have a harmonised classification and are included in the candidate list of substances of very high concern for authorization published by the European Chemicals Agency in accordance with the criteria in Article 57 and identified in Article 59 of the Registration, Evaluation, authorization and Restriction of Chemicals (REACH) Regulation.
Materiality threshold	Introduce thresholds for all entities in scope to exempt non-material activities. ▪ Companies with eligible activities (cumulative) <10% of any of the KPIs' denominators would not be required to perform an alignment assessment (Turnover, CapEx, OpEx, Assets). ▪ Companies with eligible activities turnover (cumulative) <25% of the turnover KPI denominator may omit reporting on the OpEx KPI.
Financial institutions	Exposures to undertakings other than large undertakings >1,000 employees during the financial year, shall be excluded from the denominator of key performance indicators of financial undertakings.

Timelines

Topic	Timelines
Draft delegated act to amend: ▪ Taxonomy Disclosures Delegated Act ▪ Taxonomy Climate Delegated Act ▪ Taxonomy Environmental Delegated Act	Open to feedback via public consultation from 26 February to 26 March 2025. Expected to be adopted by the Commission in Q2 2025, with full application from 1 January 2026 for fiscal years beginning on or after 1 January 2025.
Disclosure requirements	Refer to the CSRD timeline (mandatory disclosures for large companies >EUR450m of net turnover, opt-in for large companies <EUR450m of net turnover).

What key aspects of the legislation are not intended for change?

The proposed amendments to the EUTR do not simplify the alignment criteria, with the exception of Appendix C. While this allows companies to leverage the investments they have already made to achieve alignment, it does not address the need for clarity and simplification around certain criteria. Instead, the proposed changes primarily impact the reporting requirements. This means that the investments made to achieve alignment remain consistent with the regulatory framework. Consequently, businesses can be confident that their efforts toward alignment continue to meet the necessary standards, even as the reporting obligations evolve.

What impacts could the proposed changes have on businesses?

This section highlights the key risks and opportunities resulting from the proposed amendments. It aims to help businesses understand the implications and proactively reconsider their strategies to better position themselves in the evolving regulatory landscape.

Key opportunities

1. **More time to prepare:** Companies covered by the proposed delay will have additional time to better prepare for compliance activities. This would allow businesses to refine their sustainability practices and align more effectively with the environmental and social criteria defined by the Taxonomy Regulation. This would be particularly beneficial for businesses that are not yet classified under the Taxonomy Regulation.
2. **Focus on material activities:** The proposed changes introduce materiality thresholds, allowing companies to avoid performing alignment assessments on non-material activities. This should help reporting undertakings focus their compliance efforts on significant elements, without the obligation to report and assess alignment for non-material activities.
3. **Simplified reporting:** The proposed changes would simplify the templates required for Taxonomy disclosure, reducing the number of data points and the complexity of the information to be reported. This would enable undertakings to appreciate the competitive potential behind the Taxonomy, rather than viewing it solely as a compliance exercise.
4. **More resources to focus on the relevant:** Out-of-scope companies would save on compliance-related expenses, allowing them to allocate resources more strategically. They would be able to use the Taxonomy classification system as a guide to select sustainability-related projects and initiatives and to direct research and development investments more effectively.
5. **Competitive advantage and access to capital:** Businesses that voluntarily choose to report in line with the Taxonomy Regulation, even showing only a "partial alignment" could gain a competitive edge against those not reporting through investor interest and trust and through access to pools of financial capital allocated to sustainability.

Key risks:

1. **Financial capital allocation in line with the EU Green Deal:** The EUTR aims to direct investments toward the economic activities most needed to meet the objectives of the sustainable transition, envisioned under EU Green Deal. It serves as a tool for financial undertakings and governments to identify businesses that align with the net zero trajectory by 2050 and broader environmental goals beyond climate. However, the postponement of reporting requirements for many undertakings and the reduction in the scope of application could hinder financial institutions and governments from effectively allocating economic resources in line with the EU Green Deal, thereby impacting the achievement of EU goals.
2. **Access to financial capital for nonfinancial undertakings:** The classification system for sustainable economic activities will remain in any event as a reference for directing investments toward sustainable projects and activities in the future. This means that undertakings no longer in scope of the EUTR or not otherwise "opting in" may face challenges in accessing public and private funds allocated to sustainable finance (such as EU green bonds).
3. **Lack of comparability across companies and sectors:** One of the primary goals of the EUTR is to establish a common language and clear definition of what is "sustainable," to prevent greenwashing and to enhance transparency and comparability. The reduction in the scope of reporting requirements may make it more difficult to compare the environmental performance of companies, especially within the same sector.

What should businesses do to prepare?

Assuming the proposed amendments are approved, companies should focus on:

1. Assessing the proposals and responding to the consultation on the draft delegated act
2. Assessing the simplifications and use the new simplified mandatory templates
3. Assessing whether they can benefit from the reporting exemptions related to the introduced materiality thresholds
4. Assessing compliance with the revised Do No Significant Harm criterion on pollution prevention and control, if applicable to their eligible activities

Class of company	Actions
Listed large companies >1,000 employees and >EUR450m – CSRD Wave 1 (Mandatory reporting)	▪ Continue reporting in line with the EUTR, benefiting from the simplified templates and materiality thresholds. ▪ Continue investing in projects and initiatives that align with the environmental criteria defined by the EUTR.
Non-listed large companies >1,000 employees and >EUR450m (Mandatory reporting)	▪ Take advantage of the additional time proposed via "stop-the-clock" directive to prepare for Taxonomy obligations. ▪ Use the next two years to understand how the EUTR applies to your business and start investing in projects and initiatives that meet the environmental criteria of the EUTR to: 1. Access financial capital 2. Remain competitive 3. Be prepared for the first year of reporting
Listed and non-listed companies >1,000 employees and <EUR450m ("Opt-in" reporting)	▪ Assess whether the EUTR represents an opportunity for accessing financial capital and remaining competitive, rather than viewing it as a non-mandatory action. ▪ Benefit from the optionality on OpEx and the possibility to report on partial alignment. ▪ Consider performing a Taxonomy assessment on a voluntary basis.

Implications for the Carbon Border Adjustment Mechanism (CBAM)

Recap

CBAM is one of the cornerstones of the EU's strategy to reduce greenhouse gas emissions and achieve its net-zero ambition. Among other objectives, CBAM was introduced to:

- Address the risk of carbon leakage.
- Create a level playing field facilitating fair competition with non-EU products.
- Provide a stable policy framework for EU based investment in low carbon technologies.
- Encourage third-country importers into the EU to adopt low carbon technologies.

CBAM was set to gradually expand, aligning with reduced EU Emission Trading System (EU ETS) allowances and was expected to cover all EU ETS goods by 2030.

Under CBAM, businesses importing certain emission-intensive goods into the EU are required to report on emissions and will be required to purchase CBAM certificates based on specific embedded greenhouse gas (GHG) emissions in their imports.

Financial penalties will apply to EU importers for non-compliance or inaccurate reporting during the CBAM transitional period.

> The Package seeks to strike a pragmatic balance between sustainability ambitions and business realities, offering companies additional time while navigating implementation challenges. However, the direction remains clear – organizations that continue building sustainability capabilities should maintain a competitive advantage, even as regulatory requirements become more proportionate.

Hermann Sidhu
EY EMEIA Assurance Leader

Proposed changes in the EU Omnibus Simplification Package

The proposed changes should keep the Package in line with the EU's environmental objectives and also achieve the administrative simplification targets (25% for businesses generally and 35% for SMEs). The proposed changes are twofold. First, the proposed mass-based de minimis threshold would exempt 90% of current importers (estimated at 182,000). Despite this reduction of importers subject to CBAM obligations, more than 99% of the embedded emissions in imported goods would still be covered under the CBAM system. Secondly, the proposed administrative and financial changes aim to deliver simplification, streamlining and cost-efficient improvements.

Topic	Proposed amendments
De minimis threshold	Exempts importers of small quantities of CBAM goods (up to a 50-tonne of mass excluding Hydrogen and Electricity per calendar year) from compliance obligations. The threshold will be reviewed on ongoing basis.
Certificate purchase date	Defers the obligation to purchase certificates to February 2027 to cover CBAM goods imported in 2026.
Authorization procedure of CBAM declarants	Allows delegation to a qualified person or third party but remains legally liable.
Declaration submission extension	Extends the annual submission due date for declarations covering the previous year from 31 May to 31 August of the following year.
Data collection processes from third countries	Default or actual carbon price paid in a third country can be deducted from the required number of certificates. Evidence of rebates or compensation must be retained and certified.
Precursors	Embedded emissions from input materials (precursors) produced in countries where EU ETS applies should be excluded from calculations. Similarly, some downstream production processes for certain steel and aluminium goods are also excluded to align with the EU-ETS rules.
Access to CBAM registry	Accredited verifiers and parent companies can access the CBAM registry to register and share relevant data.
CBAM certificates holding requirements	The quarterly requirement to hold CBAM certificates is reduced from 80% to 50% of the emissions embedded in the imported goods. Declarants can rely on the previous year's CBAM declaration for the same goods and third country to calculate the amount of CBAM certificates required at the end of the quarter.
Changes to the products in the scope of CBAM	Relating to electricity, only direct emission should be considered for CBAM. Non-calcinated kaolinic clay has been removed from the scope.
Enforcement and penalties	Strengthened anti-abuse provisions and a joint anti-circumvention strategy together with national authorities. New provisions allow discretion to reduce penalties for negligible or unintentional errors, but deliberate infringement will be subject to increased penalties.

Timelines

Applies to	Original text	Proposed amendments
Transitional period and quarterly reporting obligations commence	October 2023	No change
CBAM emissions calculations requirement based on actual emissions values	July 2024	No change
Mandatory use of EU framework for calculating CBAM embedded emissions	December 2024	No change
Authorized CBAM Declarant application period open	January 2025	The relevant implementing regulation is delayed
Requirement for Authorized CBAM Declarant authorization	January 2026	Authorization required (at the latest) for import of CBAM goods if tonnage threshold is exceeded
CBAM regulation fully operational, requirement to buy CBAM certificates	January 2026	1 February 2027 (for 2026 imports, and on an ongoing basis for imports in 2027 and subsequent years)

What key aspects of the legislation are not intended for change?

There is very limited change to the products covered by CBAM. Additional guidance and legislation changing the CBAM product scope is expected around the middle of 2025.

The legislative proposal does not introduce the option for corporate groups to perform CBAM group reporting.

Additionally, the proposal does not provide guidance on potential relief measures for carbon-intensive EU manufacturers who export products outside the EU and are subject to multiple layers of carbon pricing regimes at the EU and domestic level. However, the EU Commission has announced that an analysis for potential export reliefs is ongoing, and additional proposals may follow.

What impacts could the proposed changes have on businesses?

As the estimated 182,000 importers currently subject to CBAM measures will benefit from the targeted exemption, importers should analyze whether they are at or beyond the 50-tonne threshold to determine if they continue to be subject to CBAM obligations.

For businesses that will remain within the CBAM scope close to the threshold, preparation should focus on the future EU CBAM compliance obligations and the potential adoption of CBAM-equivalent requirements outside the EU. Additionally, businesses should consider the impact of growing carbon pricing regulations, of which CBAM is only one component, across their value chains and its impact on the businesses' competitive (positive or detrimental) position in the market.

Key opportunities

1. **Reduced administrative burden:** The proposed changes will potentially eliminate the CBAM-related administrative burden for companies below the de minimis threshold, subject to their growth plans and product portfolio. For companies remaining within the scope of CBAM, the proposed changes will introduce greater clarity and simplify reporting, operational and financial obligations.
2. **Extended compliance timeline**: The flexibility in implementation for 2026 gives businesses more time to adapt, potentially easing cash flow concerns.
3. **Lower compliance costs:** With fewer businesses remaining in scope, the overall compliance costs for industries such as iron and steel, aluminium, cement and fertilizers are likely to decrease. Compliance costs will also decrease or be eliminated in sectors such as retail and life sciences, where businesses were brought within the CBAM scope due to a few specific in-scope products and a low previous threshold.
4. **Maintained environmental integrity:** The new threshold is designed to keep 99% of emissions from product categories within the CBAM scope, thereby maintaining the environmental effectiveness of the mechanism and better supporting the EU's climate policy objectives. The threshold is proposed to be reviewed on an ongoing basis to ensure the target coverage remains above 99%.
5. **Sector-specific relief:** The withdrawal of certain clays from the scope will benefit the construction industry, potentially reducing their costs. For specific metal products it shall be regulated that specific down-stream processing steps shall not count into the CBAM embedded emissions calculation which simplifies the emissions calculation in multi-tier value chains.
6. **Competitive implications:** The changes may alter the competitive landscape, potentially benefiting EU businesses that fall under the new exemptions while maintaining pressure on importers of larger volumes of CBAM goods.

Key risks

1. **Supply chain disruption:** Businesses importing CBAM goods at a volume below the threshold must monitor and forecast their imports to make sure they identify early enough that they will exceed the threshold value. Action must be taken in advance to apply to Authorized CBAM Declarant authorization, otherwise upon exceeding the threshold the customs authorities will not accept importation and the supply chain will be disrupted.
2. **Withdrawing established CBAM provisions prematurely:** These obligations may arise due to the expanded EU CBAM scope or upcoming international CBAM provisions. The current EU CBAM internal and external processes, as well as information exchanges with suppliers that businesses have already implemented or begun to implement, may be applied to future CBAM obligations. These obligations may arise due to the expanded EU CBAM scope or upcoming international CBAM provisions.
3. **Impact on competitiveness:** The EU Commission emphasizes that CBAM is a cornerstone measure to stay. Intentionally, the levying of carbon payment for imported goods is expected to have a competitiveness effect that can either be an advantage or key business risk to the whole value chain, depending on the carbon intensity of imported CBAM goods.
4. **Fraud risk:** Some expect that the sharing of CBAM relevant information in the supply chain will be at higher risk of false information and betrayal. The EU emphasises requirement for due diligent administration of CBAM. Operators throughout the supply chain need to exercise risk management and take effective measures to prevent being pulled in fraudulent activities.

What should businesses do to prepare?

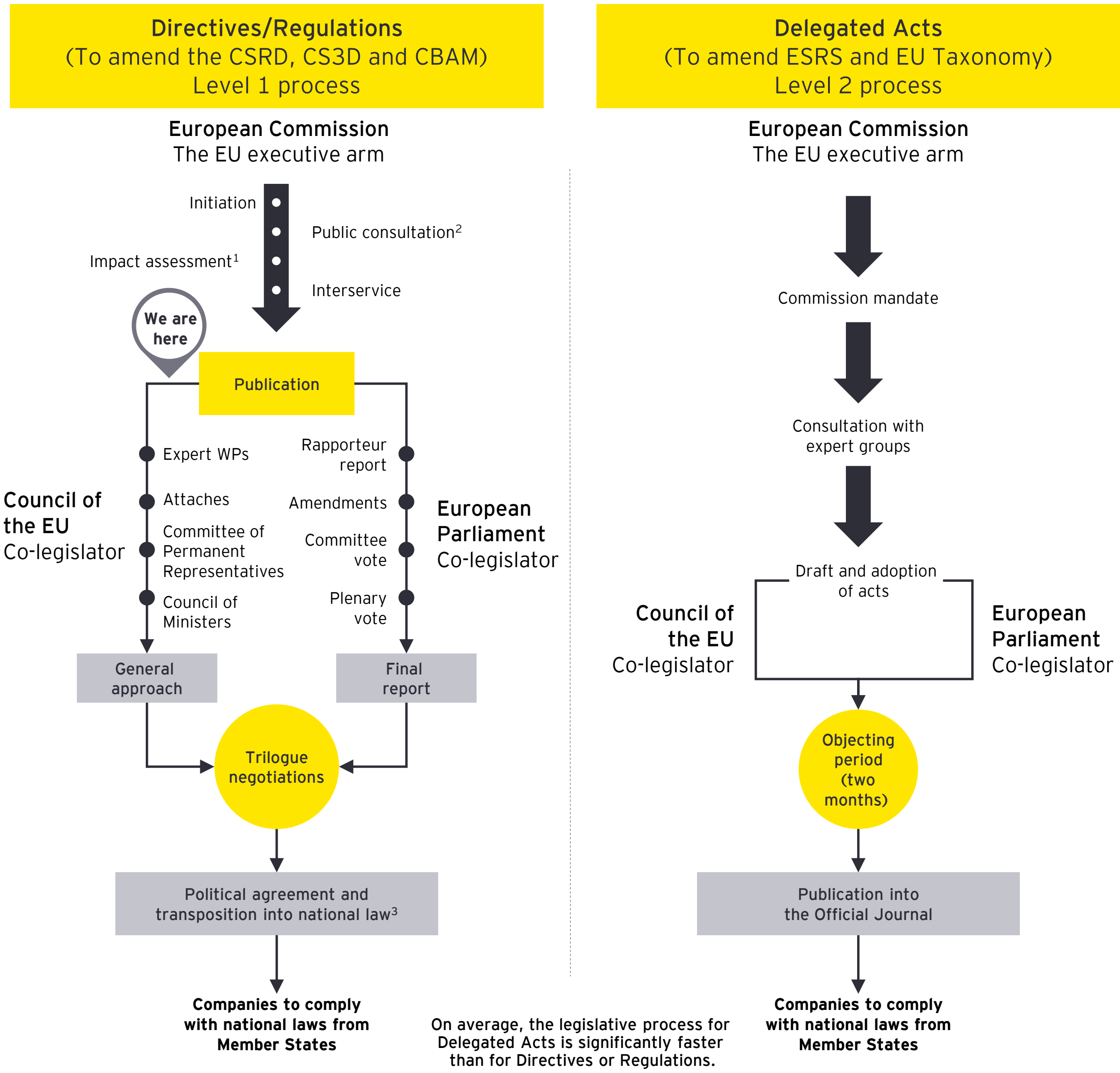
Businesses whose imports are at or beyond the 50-tonne threshold should consider their projected growth plans and how they might compare to the new threshold, current and planned trade flows, or potential product diversifications before halting CBAM-related administrative and operational activities. The plans should be mapped against the anticipated expansion of the EU CBAM scope to cover more EU ETS sectors and additional downstream products. Other jurisdictions, such as the UK and Norway, are also planning to introduce CBAM from 2027, and businesses may benefit from the CBAM-related activities undertaken to date.

Class of company	Actions
Companies importing >50 tonnes mass (weight) into the EU per calendar year	▪ Analyze if they are at or beyond the 50-tonne threshold to determine if they continue to be subject to CBAM obligations. ▪ Collaborate with manufacturers across the value chain to educate and establish compliant CBAM emissions calculation and information sharing. ▪ Consider CBAM-related clauses in purchase and other contracts related to import of CBAM goods. ▪ Establish sound internal CBAM governance structures, process, IT support, internal controls and document well. ▪ Apply for Authorized CBAM Declarant authorization, once legal requirements finally published and application window open. ▪ Identify carbon pricing regimes in place across the supply chain and claim a reduction in the number of CBAM certificates surrendered. ▪ Identify applicable proposed product exemptions. ▪ Review the impact of CBAM(s) and other carbon pricing regimes on the supply chains and identify appropriate strategic and operational responses.
Companies importing <50 tonnes mass (weight) into the EU per calendar year	▪ Analyze if they are at or beyond the 50-tonne threshold to determine if they continue to be subject to CBAM obligations. ▪ Consider if the anticipated EU CBAM scope expansion might bring businesses back into the scope from 2026 or later. ▪ Bear in mind that indirect CBAM cost impact (another party imports, CBAMs for CBAM certificate and sells within the EU at a price including the cost for CBAM certificates), EU carbon pricing as well as foreign carbon pricing may still heavily impact on product pricing and competitiveness.
All	▪ Consider whether the anticipated CBAM regulations in the UK, Norway and other jurisdictions might increase CBAM obligations elsewhere. This could create additional compliance requirements for businesses or their customers in these regions. The latter may push CBAM collaboration requirements down the supply chain, such as embedded emissions calculation and verification. ▪ Consider how the “new” CBAM status impacts the CSRD reporting requirements and voluntary disclosures. ▪ Monitor ongoing CBAM legislative dynamics. ▪ In response to CBAM, a number of jurisdictions are already implementing or planning local carbon pricing measures (emission trading systems, local carbon taxes etc.). These should be monitored and assessed for business impact as well.

8 What next?

Political and legislative steps

The legislative process



[1] There was no impact assessment released for the first EU Omnibus Simplification Package
[2] Public consultation was limited to industry roundtables
[3] Directives must be transposed; regulations apply directly

The CSRD and CS3D

- The first EU Omnibus Simplification Package poses major changes to sustainability reporting. It is important to note that at this stage its contents are in the form of proposals. The next step in the EU legislative process is a review of them by the European Parliament and the Council of the EU. These bodies will likely table amendments before adoption. This means there is still room for modifications (both major and minor) before the legislation becomes final.
- The Package is using a staggered approach to manage both the CSRD and CS3D amendments The first step is to "stop-the-clock". The objective is to avoid a situation in which certain companies are required under the CSRD to report for financial year 2025 (second wave) or 2026 (third wave) and are then subsequently relieved of this requirement in a revised CSRD. Hence, the Commission is seeking to avoid these companies incurring unnecessary costs. Similarly, for CS3D, application timelines are delayed by one year to July 2028. The Commission's aim is logically to have this "stop-the-clock" directive become law in all EU Member States by 31 December 2025 at the latest.
- This stopping of the clock will allow more time to execute the next step. Here the Commission seeks to amend the CSRD and CS3D via COM (2025/81). The aim is to conclude this step and have the law for a revised CSRD and CS3D implemented across the EU Member States before implementing and reporting for FY2027 takes place under the revised timelines implemented via the first step above.
- In the meantime, EFRAG will develop and present to the Commission for adoption: (i) a refined set of ESRS and (ii) a new set of voluntary standards based on VSME[1]. The Commission aims to adopt (i) via a delegated act as soon as possible and, in any event, no later than six months after the entry into force of a revised CSRD. For (ii), the Commission intends to adopt a delegated act (within four months of new directive's entry into force) but will issue a recommendation on voluntary sustainability reporting as soon as possible to meet current market demand. It too will be based on VSME.
- For CS3D, it is proposed to publishing guidelines now in three tranches starting in July 2026 with the final tranche due by July 2027.

EU Taxonomy

- The draft Delegated Act amending the current delegated acts under the Taxonomy Regulation are under public consultation for until 26 March 2025 and is expected to be adopted after the two months scrutiny period by the European Parliament and the Council of the EU.
- This gives a timeline for adoption in Q2 2025 after which it will be effective in all Member States from 1 January 2026.

CBAM

- Like the CSRD and CS3D, the CBAM proposal will require amending some of the key provisions of the original regulations, which will need to be amended and agreed by the co-legislators, the European Parliament and Council of the EU.
- As the Commission proposes to delay the purchase and selling of CBAM certificates, among other things, from 1 January 2026 until 1 February 2027, the aim of the Commission must be to finalize a revised Regulation so that it takes effect in all Member States by 31 December 2025.
- Separately a planned CBAM effectiveness measures review will take place during 2025 and will cover future extension of CBAM to other ETS sectors, inclusion of downstream goods and supporting measures for exporters. The report is due to be released in Q3 2025 and a separate legislative proposal is expected in early 2026.

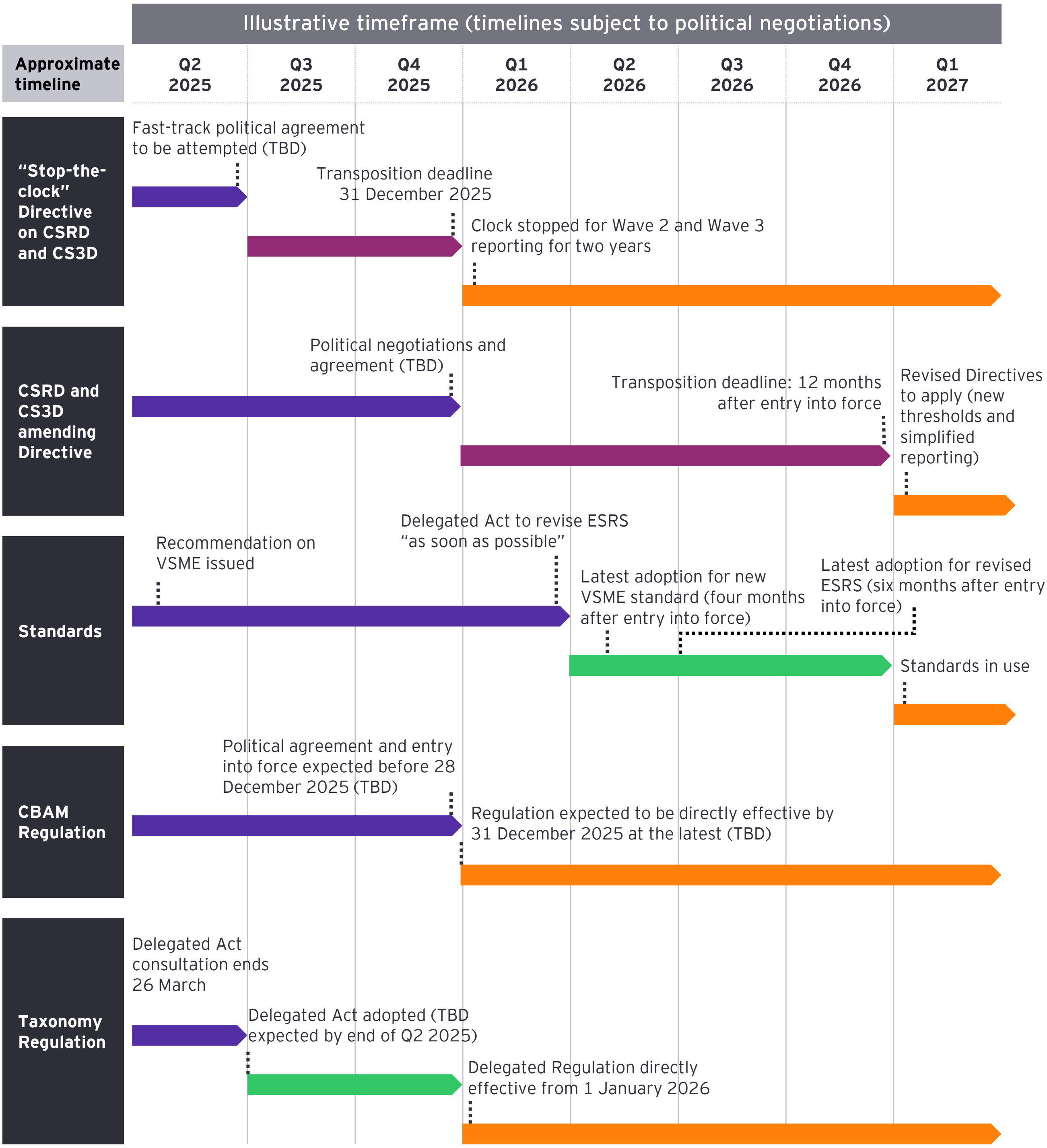
In line with the Communication on simplification and implementation published on 11 January 2025, the Commission has invited the co-legislators to treat this EU Omnibus Simplification Package with priority and consider fast-tracking simplification proposals, without reopening other parts of the legislation, to provide maximum and swift clarity as well as relief to companies. However, despite this call for swift action, it is important to understand that these proposals will take time to go through the EU Institutions and EU Member States before they can be finalised and transposed.

[1] Sustainability reporting standard prepared for use by SMEs not subject to mandatory reporting.

The legislative process: Illustrative timeline

This is illustrative of what the timeline could look like for the legislative process. This is based on our interpretation of the European Commission's intention and is subject to negotiation.

- EU legislative process
- National transposition
- Delegated act and standards adoption
- Legislation applies



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