The Omnibus Package

A Legal-Dogmatic Analysis of the Simplification of EU Corporate Sustainability Legislation

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Abstract
Dette speciale undersøger Kommissionens lovforslag, kaldet Omnibus-pakken, der blevet publiceret d. 26 februar 2025 og dets indvirkning på EU's bæredygtighedsreguleringer for virksomheder. I forhold til metodisk fremgangsmåde anvender specialet den retsdogmatiske metode til at analyse og vurdere, om de foreslåede ændringer til Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD) og EU Taxonomy Regulation (EUTAXR) er i overensstemmelse med EU's overordnede klimamålsætninger, særligt den Europæiske Grønne Pagt og Paris-aftalen, og de retsprincipperne om retssikkerhed og proportionalitet, der gør sig gældende på EU-niveau. Specialet indledes med en historisk kontekstualisering af udviklingen fra soft law til bindende EU-retsakter (hard law) inden for området. På denne baggrund gennemføres en analyse af Omnibus-pakkens forslåede indhold samt den lovgivningsmæssige proces. Særligt de forslåede ændringer til lovgivningens omfang, tidsfrister, standarder og due diligence-forpligtelser. Indholdet i Omnibus-pakken vurderes løbende op mod EU's overordnede politiske forpligtelser. Området for EU's bæredygtighedsregulering for virksomheder har, i de sidste to årtier, været under markant udvikling. Specialet gennemgår denne udvikling med henblik på at redegøre, for tendenser og incitamenter, der har skabt udviklingen på området. Dernæst inddrages området tre nøgleinstrumenter, CSRD, CSDDD og EUTAXR, for at redegøre for dets indhold, set i lyset af den historiske udvikling samt den forestående analyse af Omnibus-pakken.
Analysen sammendrager Omnibus-pakkens indhold, for at udlede bevæggrunde og den fremtidig retstilstand for området. Afslutningsvist konkluderer specialets, at Omnibus-pakken ikke eksplicit udgør en *dergulering* af området, men derimod en væsentlig justering af dens omfang, indhold og ambitionsniveau. De foreslåede ændringer forsøger at lette de administrative byrder og øge proportionaliteten, herunder særligt for små og mellemstore virksomheder. Det påpeges dog, at forslagene indebærer risiko for en reduceret gennemsigtighed og usikkerhed omkring den fremtidige retstilstand på området. Afhandlingen understreger desuden nødvendigheden af, at de overordnede målsætninger i den Grønne Pagt og Paris-aftalen bør fastholdes i implementeringsfasen, hvis EU skal kunne være i stand til at leve op til dens målopfyldelse.

Table of Content

List of Abbreviations

EU Legislation and Directives

Full text	Alias	Shortened
Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups	Non-Financial Reporting Directive	NFRD
Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting	Corporate Sustainability Reporting Directive	CSRD
Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859	Corporate Sustainability Due Diligence Directive	CSDDD
Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088	EU Taxonomy Regulation	EUTAXR
Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC	Audit Directive	
Directive (EU) 2025/794 of the European Parliament and of the Council of 14 April 2025 amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements	First directive adopted under the Omnibus Package	

EU Institutions & Strategic Documents

Full text	Shortened
European Commission	The Commission
Council of the European Union	The Council
European Parliament	Parliament
European Financial Reporting Advisory Group	EFRAG
European Securities and Markets Authority	ESMA
European Banking Authority	EBA
European Green Deal	EGD
Budapest Declaration on the New European Competitiveness Deal	Budapest Agreement

International Standards & Frameworks

Full text	Shortened
Global Reporting Initiative	GRI
United Nations Guiding Principles on Business and Human Rights	UNGPs
OECD Guidelines for Multinational Enterprises	OECD Guidelines
United Nations Global Compact principles	UN Global Compact
United Nations Sustainable Development Goals	SDG
International treaty under the UN Framework Convention on Climate Change (UNFCCC)	Paris Agreement

Key Concepts and Terms

Full text	Shortened
Corporate Social Responsibility	CSR
Environmental, Social, and Governance	ESG
Principle requiring disclosure of impacts on sustainability and sustainability impacts on company performance	Double Materiality
Do No Significant Harm principle	DNSH
Technical Screening Criteria	TSC
Capital Expenditure	CapEx
Operating Expenditure	OpEx
Limit on mandatory reporting requirements along the value chain under CSRD	Value chain cap

1.Introduction

The European Union's framework for corporate sustainability has evolved over the past two decades. What began as soft law guidance with initiatives like the Global Reporting Initiative (GRI), the UN Guiding Principles on Business and Human Rights (UNGPs), and the OECD Guidelines for Multinational Enterprises has gradually been transformed into binding legal obligations, also known as hard law.
The European Union progressively introduced "hardened" norms by moving from guidance to directives and regulations in order to meet the Union's overarching sustainability obligations under the European Green Deal (2019), the Paris Agreement (2016), and the UN Sustainable Development Goals (2015). The "hardened" movement also reflects a response to market failures that were being observed as voluntary sustainability efforts proved insufficient to promote transparency, action and commitment across the private sectors in order to prevent environmental, social and governance-related issues.
From 2020 to 2024, EU introduced an ambitious sustainable finance architecture (including the Corporate Sustainability Reporting Directive in 2022 (CSRD), the Corporate Sustainability Due Diligence Directive in 2024 (CSDDD), and the EU Taxonomy Regulation in 2020 (EUTAXR)). The architecture was designed to expand the scope of sustainability reporting, improve transparency in relation to companies' sustainability reporting format, and to channel the private sector investment towards a more sustainable pathway.

However, the implementation of these new instruments had barely seen its practical application before concerns about regulatory complexity and administrative burdens in EU started to surface. In late 2024, Mario Draghi's report on "The Future of European Competitiveness" warned that complex sustainability reporting and due diligence would obstruct competitiveness across the EU. Followed by that, the Budapest Declaration on the New European Competitiveness Deal in November 2024 called for a "simplification" to *"drastically reduce administrative, regulatory and reporting burdens"* on companies subject to report under the CSRD, CSDDD and EUTAXR.

In response, the European Commission communicated their proposed Omnibus Package on the 26 February 2025. The package contained two proposals for directives with the intent to simplify and streamline the instruments. The first of these proposals concerning application dates would postpone the application requirements under the CSRD and CSDDD, while the second proposal concerning technical contents would make amendments to each instrument's scope, thresholds, and technical content.

This introduction provides the ramification in order to comprehend the proposed amendments of the Omnibus Package. It does so by examining the historical evolution from voluntary to mandatory obligations to bring contextuality in the analysis of the Omnibus Package, where the legal background, legal certainty, proportionality and coherence will be displayed.

1.1 Background and Purpose of the Thesis

As mentioned in the introduction, the European Union's Sustainable Finance has seen gradually increased efforts to integrate an architecture into the corporate sustainability framework in order to facilitate the ambition of making companies aware of their environmental, social, and governance-related impacts. As of 2025, the area of Sustainable Finance is set for streamlining and simplification of legislative acts to accommodate the need for competitiveness across the EU (as introduced by the Draghi Report 2024[1]) and to cut administrative burdens and requirements for companies within the EU (as introduced by the Budapest Agreement 2024[2]). On this background, the Commission introduced the Omnibus Package on the 26 February 2025, proposing several amendments to the CSRD, CSDDD and EUTAXR[3].

The purpose of this thesis is to examine the aforementioned evolution, the Omnibus Package' influence and the future outlook thereafter. First, it examines the historical evolution from voluntary to mandatory obligations to bring contextuality and provide the background to understand the scope and justification of the current legislative framework and in the analysis of the Omnibus Package. Secondly, it subjects the Omnibus proposals to a legal analysis measuring the key amendments against the principles of legal coherence in terms of complementary pending and in-force legislation, legal certainty, and proportionality, as well as against the EU's overarching climate and sustainability commitments. Finally, the thesis examines the future outlook for Sustainable Finance and the interrelating instruments that the Omnibus Package will impact.

In light of the Omnibus Package, the current objectives of the sustainable framework, and the future outlook for Sustainable Finance, this raises the following research questions:

[1] Draghi, Mario. *The Draghi report: A competitiveness strategy for Europe.* European Commission, 2024

[2] European Council, *Budapest Declaration on the New European Competitiveness Deal*. Brussels: Council of the European Union, 2024.

[3] European Commission. *Commission Proposes to Cut Red Tape and Simplify Business Environment*. Last modified February 26, 2025

1.2 Research Questions and Objectives

<u>Primary research question</u>

To what extent does the proposed Omnibus Package reshape EU sustainable finance-agenda, and are the proposed amendments to the CSRD, CSDDD and the EU Taxonomy Regulation consistent with the principles of legal coherence, legal certainty and proportionality, as well as with the European Unions's high-level commitments under the EU Green Deal and the Paris Agreement?

<u>Sub-questions</u>

1) *How did the European Sustainable Finance framework evolve from the late 1990's to the adoption of the Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive and EU Taxonomy Regulation and what rationale has underpinned the shift from soft law to hard law?*

2) *How do the proposed amendments of the Omnibus Package interrelate and affect associated pending and adopted legislative instruments?*

In order to examine the research questions described above, it is necessary to contextualize the current state of Sustainable Finance by analysing the evolution from soft law to hard law in a chronological manner (see Chapter 2), followed by an introduction and examination of the three key legislative pillars of the Omnibus Package (see Chapter 3). This will complement the objective of the thesis by stating the background of Sustainable Finance up until the introduction of the analysis of the Omnibus Package (see Chapter 4). By analysing the proposed amendments of the Omnibus Package, the objective sought is to state and deduce the implications and purpose of the proposal in light of its consistency with legal principles. Additionally, Chapter 5 and 6 will bring nuanced perspectives in terms of interrelated legal instruments, and a reflection based on the prior chapters. Finally, Chapter 7 will conclude on the findings held up against the research questions.

1.3 Methodology

The thesis employs a legal dogmatic method as its primary methodological approach. The choice of a legal dogmatic method is justified by the research objectives. The questions presented are fundamentally questions of law: they ask *what* the legal changes are, and *how* those changes impact the applicable law.

The legal dogmatic method is grounded in the structured analysis of legal sources (Chapter 3 & 4) with the intent to deduce and interpret the state of the present applicable law. Furthermore, the method is applied in the examination and analysis of the proposed Omnibus Package with the intent to examine, clarify and comprehend the legal and policy intended objectives of the proposal. In particular, the thesis' analysis examines 1) the purpose, intent, and interplay between current EU legal instruments (CSRD, CSDDD, EUTAXR) and 2) the Omnibus Package proposals to deduce its purpose and legal justifications. The analysis, in regard to the Omnibus Package, primarily seeks to address the legal coherence, proportionality, and legal certainty. Additionally, preparatory documents (such as explanatory memorandums, staff working documents, and impact assessments) will be included to further interpret the underlying legal objectives.

The Omnibus Package is set to amend key provisions of the sustainable finance area which will have an impact on in-force instruments as well as pending legislative initiatives.

In the latter part of the thesis (Section 4.6 and Chapter 5), the thesis employs a methodological approach with the intent to compare complementary legislation with the objective to 1) examine the efficacy and practical coherence of the Omnibus Package's interconnecting amendments and 2) broaden the scope of the analysis to include actual and future relevant legislative propositions, with the intended aim to compare the proposed amendments of the Omnibus Package in light of its synergies with legislative initiatives outside the Omnibus Package.

The thesis' collection and selection of sources has mainly been constrained to EU-level documents to 1) ensure the legitimacy of background information, and 2) account for the uncertainty of new, arising literature, as the Omnibus Package is new and the legislative procedures are developing week by week. As the evolution of Sustainable Finance has gradually increased from soft law to hard law, the initial foundation of the thesis (Chapter 2), in part, has its background of source collection from international organisations (such as OECD and GRI). Furthermore, in the latter part of the thesis (Chapter 5 & 6), academic literature and cited experts are used as sources to bring contextuality. The thesis acknowledges the legal hierarchy of EU Law, ensuring the proper interpretation of principles and objectives in primary and secondary law.

Methodologically, it is important to clarify the legislative procedure of the Omnibus Package as it is being implemented through two legislative proposals under the Omnibus Package. Both are directives, but do not follow the same timeline in terms of procedural progress. The first proposed directive focuses on postponing the application of certain requirements (also referred to as "Stop-the-Clock"). This directive has been subject to an urgent legislative procedure in order to 1) bring certainty to companies in scope of the directive, and 2) to make room for the second directive's timeline as it contains amendments that will demand stakeholder surveys, impact assessment, and collaboration with mandated EU-funded institutions (such as EFRAG). The second proposed directive follows the ordinary legislative procedure with the objective to simplify and streamline certain corporate sustainability reporting and due diligence requirements.

1.4 Delimitations of scope

In order to provide a comprehensive and just examination of the research questions, the thesis has delimitations in the following aspects: firstly, the thesis has its legal foundation in European Law, in particular the Sustainable Finance area. This is based upon the profound legislative movements and literature in this area, which on its own serves as one the backbones of the Green Transition in EU. Adding to that, the priority and objective of this thesis is to comprehend, contextualise, and deduce the Omnibus Package. As the content of the proposal does not pose any particular deviations, in terms of Treaties and legal basis, this thesis delimitates any comprehensive analysis of that matter. The context of the Omnibus Package will solely be focused on amendments to CSRD, CSDDD, and EUTAXR. Secondly, the scope is viewed from an EU-level perspective, and the scope therefore does not include the assessment of the Omnibus Package's impacts on Member States. Thirdly, the developments in relevant areas, in regards to this thesis, will be followed up until 25 April 2025. Post-development will therefore fall outside the scope of the thesis.

Lastly, the interpretation, deduction, and reflections of the broader sustainable framework (i.e. the European Green Deal and the Paris Agreement) are limited to its dimensions in regards to Sustainable Finance. It is important to acknowledge the framework's substantial reach and broad scope, and the fact that any concluding statements in light of the Omnibus Package's parallel correlation with the framework cannot be seen as an misalignment of the overarching objectives in the European Green Deal or the Paris Agreement.

2. Evolution from Soft Law to Hard Law in EU Sustainability Finance Regulation

Building on the thesis' introduction sustainable finance agenda, this chapter provides a chronological overview of the development of the corporate sustainability framework. It examines how early initiatives on voluntary standards and non-binding principles (soft law) gradually have evolved into mandatory EU legislation (hard law).
By identifying this gradual evolution from voluntary to binding rules, Chapter 2 provides the background for understanding the scope and justification of the current legislative framework. In doing so, it highlights the most fundamental policies and legal initiatives that constituted the "hardened" obligations on companies as it is known today, thereby encapsulating the problem-field the Omnibus Package now intends to amend.

2.1 Early International Frameworks and Voluntary CSR (1990s–2000s)

The origins of the Corporate Sustainability framework lie in soft law and self-regulation. During the 1990s and early 2000s, multinational organisations and stakeholders developed voluntary standards addressing environmental, social, and governance (ESG) performance. In 2000, the Global Reporting Initiative (GRI) guidelines were introduced, which provided companies a universal set of standards for ESG reporting[4], alongside the United Nations Global Compact, which encouraged firms to adhere to principles on human rights, labour, environment, and anti-corruption[5]. These instruments were influential at the time but non-binding as they relied on voluntary uptake. Many large companies did begin issuing CSR or sustainability reports referencing GRI or other standards, although overall uptake was uneven, and the information was often incomparable across sectors and countries. By the late 2000s, there was a growing recognition that voluntary measures had not driven sufficient change in disclosure practices or in corporate behaviour.

[4] Global Reporting Initiative. *GRI Guidelines (G1), 2000*
[5] United Nations Global Compact, 2000

2.2 Initial EU Responses to Sustainability (2000–2014)

Similarly in the 2000s, the EU gradually began shifting from voluntary (and incompatible) standards toward more structured frameworks, although still without proposing binding obligations upon companies. A series of Commission Communications and strategies signaled this evolution:

The Commission's 2001 CSR Green Paper "Promoting a European framework for Corporate Social Responsibility" defined CSR as "a process by which companies manage their relationships with a variety of stakeholders who can have a real influence on their licence to operate, the business case becomes apparent[6]", and urged that it should remain a voluntary initiative[7]. A follow-up Communication in 2002 outlined an EU strategy to promote CSR as a contribution to sustainable development[8]. A decade later, the Commission's "Renewed EU Strategy for CSR (2011–2014)" proposed a combination of voluntary and obligated regulatory measures, primarily focused on incentivising responsible business conduct rather than mandating it[9]. These policy documents reflected the initial approach: acknowledging the growing demand from stakeholders in terms of sustainable-related expectations for companies.

Although comprehensive EU initiatives and frameworks were absent, there were early steps to introduce non-financial disclosure in company legislation. The Accounts Modernisation Directive (2003) required that large companies include an analysis of environmental and employee-specific information in their annual reports "to the extent necessary for an understanding of the company's development, performance or position"[10]. This requirement seemed relatively vague and lacked detailed metrics or enforcement. However, it signalled the first time that non-financial information (like environmental and social issues) was relevant to corporate reporting in EU legislation.

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[6] European Commission. 2001. *Green Paper: Promoting a European Framework for Corporate Social Responsibility*. COM(2001) 366 final, July 18, 2001, Recital 12

[7] Ibid., Recital 90

[8] European Commission, *Communication on Corporate Social Responsibility: A business contribution to Sustainable Development*, COM(2002) 347 final (July 2002)

[9] European Commission, *A renewed EU strategy 2011–14 for Corporate Social Responsibility*, COM(2011) 681 final (25 Oct 2011)

[10] Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 (Accounts Modernisation Directive), amending the Accounting Directives, OJ L 178, 17.7.2003, p. 16. Article 46 of Directive 78/660/EEC (as amended by 2003/51/EC) required the annual report to include non-financial key performance indicators

As of 2009, the EU introduced the Renewable Energy Directive[11]. The directive was focused on environmental outcomes (emissions reductions, clean energy) rather than corporate transparency or due diligence. It applied to specific sectors (energy, heavy industry, etc.) rather than imposing general obligations on all companies across sectors.

As the 2010s began, the European Parliament and civil society organisations pushed for greater corporate transparency and accountability. In 2013, the Parliament adopted resolutions calling for legislation on corporate disclosure of social and environmental information. The need for improved legislation was clear as the resolution argued that transparency and accountability was "vital for managing change towards a sustainable global economy[12]. These developments contributed to a shift in the EU's strategy: from viewing CSR as voluntary to considering minimum legal (and obligated) standards for corporate transparency and due diligence.

This gradual shift set the stage for the EU's first push into hard law on corporate sustainability. By 2014, decades of soft law measures had established a background of principles and an acknowledgement of the limits of voluntary standards.

2.3 The Non-Financial Reporting Directive (2014)

The adoption of the Non-Financial Reporting Directive (NFRD) on disclosure of non-financial and diversity information marked a turning point from soft law to hard law in the corporate sustainability framework[13]. As Recital 3 of the NFRD emphasized, the legislation sought a balance between *flexibility* (recognising the "multidimensional nature of corporate social responsibility (CSR)" and diversity of businesses) and *comparability* of disclosures to meet stakeholders' needs[14].

The NFRD amended the Accounting Directive (2013/34/EU) to require certain large companies to report on their environmental, social and employee-related information, human rights issues, anti-corruption and bribery issues, and diversity policies. This meant that the EU for the first time introduced a legal obligation for companies to report on sustainability-related information,

[11] Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources, OJ L 140, 5.6.2009
[12] Directive 2014/95/EU of the European Parliament and of the Council of 22 Oct 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, OJ L 330, 15.11.2014
[13] Ibid.
[14] Ibid., Recitals 1 and 3

and thereby moving CSR from a soft law to a matter of complying with legislative acts (hard law).

The NFRD obligates public-interest entities with > 500 employees to include a non-financial statement covering at least environmental, social and employee, human rights, and anti-corruption/bribery information in their annual report[15]. Companies must include a description of their business model, policies, and key performance indicators related to those areas[16]. Adding to that, the NFRD allowed companies flexibility in how they report, as they were allowed to rely on international frameworks such as GRI or the UN Global Compact principles to report on their disclosures[17]. The NFRD did not demand or prescribe uniform metrics or a single reporting standard at the time. This reflected a compromise between the introduction of a binding transparency framework, while allowing companies to decide the included information of what and how to report. This was justified as long as companies addressed the core topics “to the extent necessary for an understanding of the company’s development, performance, position and impact” on society and environment[18].

Rationale and objectives

By 2014, some EU countries had introduced their own non-financial reporting requirements, resulting in a misalignment of legal coherence. The Commission argued that raising non-financial transparency to a higher and more consistent level “across all Member States” would avoid disproportionate competition[19]. In its 2011 CSR Strategy, the Commission had committed to propose legislation on non-financial disclosure[20], and the European Parliament had repeatedly called for such action[21]. Adding to that, the NFRD had its legal basis justified as an internal market measure (based on Article 50 TFEU) to ensure that all large companies operating within the EU met a baseline transparency standard. This enabled comparability and informed decision-making across borders[22].

[15] Directive 2013/34/EU as amended by Directive 2014/95/EU, Article 19a (for individual companies) and 29a (for group reporting)
[16] Ibid.
[17] Directive 2014/95/EU (n13), recital 9
[18] Directive 2013/34/EU (16)
[19] Ibid., Recital 1,5 and 9
[20] European Commission (n10), 2011
[21] Directive 2014/95/EU (n13), recitals 1 and 3
[22] Ibid.

Limitations

While seen as a key instrument to initiate a "hardened" approach to corporate sustainability reporting, the NFRD was limited in scope and detail. Firstly, as already mentioned, it only applied to large public-interest entities with > 500 employees (about 11,000 companies)[23]. Therefore, unlisted, small-sized and medium-sized listed companies were outside its scope. Secondly, the flexibility of the NFRD meant that disclosures often lacked standardisation, as companies could choose different frameworks or omit information, making reports difficult to compare. Thirdly, the NFRD did not provide a uniform EU reporting standard. Instead, the Commission only issued non-binding guidelines (in 2017 and updated in 2019) to assist companies in reporting on non-financial topics[24].

In summary, the NFRD introduced the principle of mandatory sustainability reporting, but without a highly uniform way of reporting. However, the NFRD represented an important step in the evolution of corporate sustainability, and the stage was set for the EU to build on this foundation in the following years.

2.4 The Paris Agreement (2015)

In 2015, the crucial international Paris Agreement on climate change was introduced, which reshaped the landscape for corporate sustainability and the green transition as a whole in the EU. The Paris Agreement, adopted in December 2015 under the UN Framework Convention on Climate Change, is a legally binding treaty committing its parties to take action to limit global warming. Specifically, the EU and other parties agreed to renew efforts to stop the increase in global average temperature to "well below 2°C above pre-industrial levels", and to pursue efforts to limit warming to 1.5°C under Article 2(1)(a) of the Paris Agreement, and to reach climate neutrality in 2050.[25].

As the EU adopted the Paris Agreement, it translated its aims into EU-binding commitments, and shortly after EU institutions began their work to prepare and propose its climate ambitions to adhere to the agreement. By 2019, the European Council endorsed the objective of making the EU climate-neutral by 2050, and thereby aligning EU objectives with the Paris Agreement's

[23] European Commission, *Proposal for a Corporate Sustainability Reporting Directive*, COM(2021) 189 final, p. 1.
[24] European Commission, *Guidelines on non-financial reporting (methodology for reporting non-financial information)*, C(2017) 4234 final; and *Guidelines on reporting climate-related information*, C(2019) 4490 final.
[25] Paris Agreement (adopted 12 December 2015, entered into force 4 November 2016), Article 2(1)(a) and (c).

Article 2(1)(a)[26]. In 2021, the political commitment was adopted as a legally binding proposition in the European Climate Law, which introduced a net-zero emissions target by 2050, and an interim target of at least –55 percent emissions by 2030 (from 1990 levels) in the EU[27]. Recital 1 of the Climate Law explicitly affirms that the EU's legislation is "guided by its principles and on the basis of the best available scientific knowledge, in the context of the long-term temperature goal of the Paris Agreement[28]", which has direct implications for corporate and financial regulation. Article 2(1)(c) of the Paris Agreement calls for "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"[29]. The EU recognised the fact that private investment flows had to be redirected towards climate-reducing activities.

In hindsight, the influence of the Paris Agreement has been a key contribution to the corporate sustainability framework and can be seen throughout the sustainable initiatives. The 2018 Sustainable Finance Action Plan (introduced below) explicitly mentions the need to redirect capital flows in line with the Paris Agreement[30]. Adding to that, the corporate sustainability framework (which will be introduced in-depth in Chapter 3) incorporates climate alignment to adopt strategies compatible with limiting warming to 1.5°C[31]. Concludingly, the Paris Agreement not only provided a new political direction, but also serves as the backbone of future corporate sustainability frameworks.

2.5 United Nations Sustainable Development Goals (2015)

In the same year, 2015, the UN 2030 Agenda for Sustainable Development was adopted. It includes 17 Sustainable Development Goals (SDGs) addressing global challenges such as poverty, inequality, climate change, environmental degradation, peace, and justice[32]. The SDGs are not legally binding, however, the EU quickly endorsed the SDGs as a guiding framework for policy. In the Commission's Action Plan *Financing Sustainable Growth,* it was noted that "by adopting the Paris Agreement on climate change and the UN 2030 Agenda in 2015,

[26] European Council, *Conclusions – 12 December 2019* (EUCO 29/19), endorsing the 2050 climate-neutrality objective.
[27] Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 (European Climate Law), OJ L 243, 9.7.2021, p. 1. Recital 1 and Article 2
[28] Ibid.
[29] Paris Agreement (n26), 2016
[30] European Commission, *Action Plan: Financing Sustainable Growth*, COM(2018) 97 final (8 March 2018), pp. 2–4.
[31] European Commission, *Proposal for a Directive on Corporate Sustainability Due Diligence*, COM(2022) 71 final (23 Feb 2022), Article 15.
[32] United Nations General Assembly. *Transforming Our World: The 2030 Agenda for Sustainable Development*. A/RES/70/1, October 21, 2015

governments chose a more sustainable path for our planet and our economy[33]", which underlines the EU's endorsement of the SDGs as a tool to shape the EU's long-term strategy.

The SDGs provided a blueprint that extended beyond climate to embrace the broad topics of sustainability. Particularly for corporate sustainability policies, the SDGs strengthened the need for greater corporate transparency and accountability, as set out in Goal 13 (Achieving goals on climate action), Goal 8 (Decent work), Goal 10 (Reduced inequalities), and Goal 16 (Strong institutions)[34]. The SDGs indirectly influenced the EU to consider more ambitious measures on these issues, as well as providing a common language and benchmarks (e.g. science-based climate targets, human rights standards, anti-corruption measures), which were very much needed (as mentioned earlier in this chapter).

In summary, these two international frameworks introduced in 2015 further contributed to picking up momentum for the EU to act upon. The Paris Agreement provided a clear quantitative climate objective and a mandate to align financial flows, while the SDGs offered a set of objectives linking sustainability to economic and social progress.

2.6 High-Level Expert Group on Sustainable Finance (2017-2018)

In December 2016, the Commission established the High-Level Expert Group on Sustainable Finance (HLEG) in the pursuit of shaping a new approach to sustainable finance[35]. The group had an influential role in the development of the EU Sustainable Action Plan (which will be introduced below), and in January 2018 they published their final report[36]. The final report was a delivery of a comprehensive sustainable finance strategy blueprint with a particular recommendation to dramatically improve corporate disclosures of sustainability information. The HLEG argued that the EU needed to "upgrade disclosure rules to make climate change risks and opportunities fully transparent[37]" to investors. This directly recognised the need for corporate financial reporting to include climate-related information in a more structured and compatible way (as already pointed out in Section 2.3). Adding to that, the HLEG highlighted

[33] European Commission (n31), 2018
[34] United Nations General Assembly (n33), 2015
[35] European Commission, *Capital Markets Union – Accelerating Reform,* 2016, Recital 3
[36] High-Level Expert Group on Sustainable Finance. *Financing a Sustainable European Economy: Final Report 2018*. Brussels: European Commission, January 2018
[37] Ibid., Chapter 3

the need for a broader ESG-disclosure framework. The suggested topics by the HLEG included topics such biodiversity, labour and human rights issues and corruption[38].

The HLEG's report also indirectly led to the adoption of the EU Taxonomy Regulation (EUTAXR, 2020), which will be introduced in-depth later. In summary, the HLEG served as a catalyst for the further evolution of the corporate sustainability framework (as introduced in Chapter 3), pushing the EU to lead on global best practices. The report had a clear vision of integrating sustainability into financial reporting, and doing so by uniform and harmonised standards, metrics, and methodologies.

2.7 The EU Sustainable Finance Action Plan (2018)

In March 2018, the Commission published its *Action Plan* on *Financing Sustainable Growth* which provided key initiatives[39]. As mentioned above, the Action Plan was informed by the recommendations of HLEG and recognised that, in order to achieve the EU's climate and environmental goals (as examined in Section 2.4-5), it would require massive private investment, as the public funding would not be able to provide the capital needed on its own. In short, this meant that the private sector needed clearer signals and frameworks to drive capital towards sustainable projects.
Among the most significant propositions to this thesis were, firstly, to create an EU-wide taxonomy of environmentally sustainable economic activities (which later led to the EUTAXR); secondly, to announce an update of the non-binding guidelines for NFRD (which ultimately led to the CSRD); and thirdly, to develop carbon benchmarks and incorporate sustainability into investment advice[40].

The objectives of the Action Plan can be split into three main categories. Firstly, to redirect capital flows towards sustainable investments; secondly, to manage financial risks from climate change, resource depletion, and human right issues; and thirdly, to increase transparency and encourage a long-term focus on financial and economic activity[41]. These three categories can be seen as catalysts, each on its own, as sustainability in the private sector was no longer seen as only an ethical and compliance concern, but as a financial tool and necessity to stabilise the internal efficiency of markets.

[38] Ibid., Chapter 1
[39] European Commission (n34), 2018
[40] Ibid.
[41] Ibid.

The legislative procedure onwards from the 2018 Action Plan was decisive and urgent. By 2019–2020, the EU had adopted a key instrument in sustainable finance, the EUTAXR. The EUTAXR, passed in June 2020, established a science-based classification system defining what counts as an environmentally sustainable economic activity[42], which will be examined in-depth in Section 3.4. By implementing sustainability in financial regulation, the Action Plan set a precedent that would extend the reach of corporate sustainability frameworks, much in contrast with the earlier attempts (as NFRD in Section 2.3). It showed a commitment in terms of making disclosure and standard-setting behavioural catalysts to change markets. In summary, the late 2010s saw the EU develop an initial architecture for the corporate sustainable framework, and this groundwork paved the way for a new wave of corporate sustainability legislation in 2020–2022, and thereby, turning the EU's strategic vision into concrete obligations for companies.

2.8 The European Green Deal as a Strategic Framework (2019)

In December 2019, the von der Leyen Commission took office and began its mandata by announcing a strategy to transform the EU's economy toward sustainability and to achieve climate neutrality by 2050: the European Green Deal (EGD). The EGD was presented in the Commission Communication in December 2019 as the EU's new growth strategy, aiming to separate economic growth from resource use and environmental harm[43]. The strategy covered a broad set of policies ranging from climate, energy, transport, agriculture, industry, biodiversity, construction, and more, all aligning with the overarching objectives of making Europe reach climate neutrality in 2050 and making it the first climate-neutral continent. Politically, the EGD committed the EU to align its policies with its commitments set out in the Paris Agreement[44].

Indeed, the EGD was an unprecedented commitment from the Commission. The EGD can be thought of as an umbrella framework that links high-level objectives to specific regulatory initiatives. Most importantly for the objectives set in this thesis, the EGD explicitly stated the need to strengthen corporate sustainability frameworks as part of the transition. As it has already been mentioned, the HLEG recommended revising the NFRD, which was exactly what the EGD included in one of its many objectives, by stating to "review the Non-Financial Reporting Directive"[45]. It is also important to note the "foreshadowing" of the sustainable corporate governance initiatives to address environmental and human rights impacts in company

[42] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (EU Taxonomy Regulation)
[43] European Commission, *The European Green Deal*, COM(2019) 640 final (11 Dec 2019).
[44] Ibid.
[45] Ibid., Section 2.2.1

operations and supply chains, which later led to the CSDDD (which will be introduced in-depth in Section 3.3)[46].

Thereby, the EGD provided a political mandate and direction for new "hardened" measures, in order to achieve the EU's overarching climate and environmental objectives. It required the private sector to help redirect capital flows, and in order to ensure transparency and aligned, standardised frameworks through hard law measures. It also showed that sustainability is not solely a climate and environmental issue, but that social factors also must be considered and that, in order to accomplish the transition in the private sectors, there must be paid attention to the entire value chain and not just the companies own output.

In summary, voluntary guidelines like GRI and UN Global Compact encouraged companies to disclose ESG KPIs, however, their effectiveness was limited. The EU gradually transitioned, initially through communications CSR, toward more structured disclosure requirements, which in the end led to the NFRD. This gradual transitioning was accelerated by the Paris Agreement and the SDGs, and led to the EU setting binding climate targets. The Sustainable Finance Action Plan and the EGD further institutionalised sustainability goals, in light of this thesis, as overarching objectives of the future corporate sustainability framework. The next chapter examines the development of the three key legislative pillars (CSRD, CSDDD, and EUTAXR) in light of the abovementioned evolution from soft to hard law measures. Building upon decades of initiatives, standards, and legal instruments, these three pillars together form the backbone of the EU's corporate sustainability framework.

[46] Ibid.

3. Key Legislative Pillars of EU Sustainable Finance Law

Following the change in ambition and strategy, the early part of this decade (2020s) has seen the EU move decisively from planning to legislating in the area of corporate sustainability. Building on the strategies and international commitments outlined in Chapter 2, the EU introduced a regulative "tsunami" of binding instruments that collectively embed ESG measures into the private sector. Three initiatives stand out as pillars of this "tsunami" of instruments: the CSRD, the CSDDD, and the EUTAXR.

Each pillar addresses a different dimension of sustainable finance and corporate accountability. The CSRD provides corporate transparency, the CSDDD focuses on corporate conduct, and the EUTAXR regulates the classification of sustainable economic activities, all with the ambition to complement each other. Before analysing the Omnibus Package, it is crucial to understand the legal background and development of these instruments, as they are the main focus that the Omnibus Package aims to adjust.

3.1 Transition to Binding Corporate Sustainability Legislation

By 2020 (and following the EGD), the political roadmap was set for the EU to "upgrade" its initial efforts (like the NFRD) into a more robust legal framework. The NFRD's limited scope and lack of standardised reporting were seen as a barrier to the EGD's objectives, as the private sector, investors and banks in particular, lacked comparable data on companies' sustainability reporting. Adding to that, the absence of an EU-harmonised framework on supply chain due diligence hindered and fragmented the internal markets, as only some leading companies were addressing human rights and environmental risks in their value chains.

The Commission's Work Programmes for 2020 and 2021 reflected this determination to "upgrade" its efforts. They included proposals to revise non-financial reporting (announced as part of the EGD) and to introduce a horizontal due diligence duty for companies[47]. When these proposals were published in 2021-2022, they explicitly showed the intent to move from soft law led principles to hard law derived instruments. Each proposal also explicitly linked back to the international and strategic objectives. As per the CSRD, the proposal was justified by the need to meet the data demands of sustainable investors (in line with EUTAXR) and to track progress toward the SDGs and the Paris Agreement objectives[48]. Similarly, the Explanatory

[47] European Commission, *Commission Work Programme 2020,* Annex 1
[48] European Commission (n24), 2021

Memorandum of the CSDDD proposal mentioned its aim to implement the UN Guiding Principles on Business and Human Rights and OECD Guidelines by translating them into hard law obligations[49].

The following subsections introduce the development of each key pillar (CSRD, CSDDD and EUTAXR) in-depth by examining their background, rationale and development, and legal significance in the corporate sustainability framework.

3.2 Corporate Sustainability Reporting Directive (CSRD)

Background and Rationale

As already established, the CSRD is the successor of the earlier NFRD. The rationale for proposing the CSRD was rooted in the main deficiencies of the NFRD. In particular, it was evident that the NFRD's narrow scope (large public-interest entities with > 500 employees) left out the vast majority of companies within the EU. Moreover, investors and other stakeholders were clear in their concerns about the lack of comparability and transparency in companies' non-financial reports. The Commission's public consultation (2020) confirmed that the private sector wanted more detailed, standardised, and comparable sustainability information[50].

Development process

The Commission published its proposal for the CSRD in April 2021[51]. The proposal aimed to significantly expand the scope of reporting to all large companies (whether listed or not) and to listed small and medium-sized enterprises (SMEs), although with a longer phase-in for SMEs. Hence, the only category of companies excluded was micro-enterprises. This would bring an estimated 49,000 companies under the scope of the CSRD[52], which was a major increase from scope under the NFRD (around 11,000, as mentioned in Section 2.3).

The companies subjected to report under the CSRD were split into "waves" to account for the phase-in proposition:

Wave 1 (defined as large companies with > 500 employees) was obligated to report from 1 January 2024[53],

Wave 2 (defined as companies meeting at least two of the three requirements; > 250 employees,

[49] European Commission (n32), 2022
[50] European Commission, *Public Consultation on the Review of the Non-Financial Reporting Directive*, 2020
[51] European Commission (n24), 2021
[52] Ibid., Recital 3
[53] European Commission, Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

> €50 million in turnover and/or > €25 million in total assets) being obligated to report from 1 January 2025 and[54]

Wave 3 (defined as small and medium-sized enterprises listed on EU-regulated markets and meeting at least two of the three requirements; > 10 employees, > €700,000 in net turnover and/or > € 350,000 in total assets) having to report by 1 January 2026[55].

The proposal also introduced the initiative to establish mandatory European Sustainability Reporting Standards (ESRS) by delegated acts. The task of developing these delegated acts was mandated to the European Financial Reporting Advisory Group (EFRAG).[56]
EFRAG is a crucial institution within the framework (CSRD). As mandated by the Commission, EFRAG's primary task is to develop the ESRS, which serve as the center-piece of the CSRD's reporting methodology. The ESRS are detailed reporting requirements, containing over 1,100 *possible* data points to report on, if it is deemed material. They are designed to ensure standardised and comparable sustainability reporting across EU companies. The content of the ESRS is inspired from international principles and voluntary standards such as the GRI, OECD Guidelines, and UN Global Compact. These standards outline mandatory disclosures aligning corporate sustainability reporting with the overarching objectives set out in the EGD and the Paris Agreement.
After negotiations in the Council and Parliament through 2021-2022, the CSRD was formally adopted in December 2022. Member States must transpose it by mid-2024, and the new reporting requirements apply in "waves" from fiscal year 2024 (as mentioned above).

Key provisions
Pursuant to the objectives of this thesis, the key provisions will be highlighted in light of the Omnibus Package. As already stated above, the widened scope is a central, key provision, which encapsulates the intent to broaden sustainability measures across the private sector. It expands the scope of mandatory sustainability reporting to effectively all large companies in the EU (whether privately held or listed) and to listed SMEs (except micro-companies), ensuring a far more comprehensive coverage of the private sector[57].
Another key aspect is the introduction of external assurance[58]. In line with how financial statements must be audited, the CSRD would require limited assurance of sustainability

[54] Ibid., article 5 (b)
[55] Ibid., article 5 (c)
[56] Ibid., article 29b
[57] Ibid.
[58] Ibid., article 26a

information (with the possibility of moving to reasonable assurance in the future). This was an important provision as it provided legal certainty of the information included in the CSRD reporting. By requiring third-party auditing of the sustainability report, the Commission held their promise to ensure that investors and other stakeholders could rely on the information as well as adding a layer of proof in terms of transparency.
Furthermore, the CSRD also included a provision to standardise the sustainability reporting by implementing the abovementioned ESRS into the sustainability reporting framework as an integral part of the structure and methodology. The ESRS provided by EFRAG was built on the groundwork of principles and voluntary standards such as GRI, OECD and UN Global Compact. ESRS specified the mandatory, partial voluntary and phase-in disclosure requirements across environmental, social, and governance (ESG) topics in the pursuit of aligning reporting with EU objectives (such as the EGD and the Paris Agreement)[59].
Lastly, the CSRD introduced the intent to adopt sector-specific standards by a delegated act to account for sectors where the environmental and climate-related issues are most prominent. This included sectors such as oil, gas and, agriculture.

In summary, the CSRD was set up to be a cornerstone of the EU's corporate sustainability architecture. It clearly emphasises the need to ensure that the sustainability reporting is backed by high-quality, comparable data from companies across the EU. The implementation of ESRS and the introduction of external assurance was further proof of the intent to make reporting comparable, transparent, and credible.

3.3 Corporate Sustainability Due Diligence Directive (CSDDD)

Background and Rationale

In 2021, the Parliament adopted a resolution with a draft directive attached, calling for mandatory due diligence requirements across the private sector to prevent and act on issues in companies' value chains[60]. The Commission published its proposal for the CSDDD in February 2022 with the aim of extending the EU's corporate sustainability framework further out into companies' values chains, doing so by demanding proper business conduct and governance[61]. In particular, the CSDDD focused on human rights issues and environmental impacts across the

[59] European Financial Reporting Advisory Group, Commission Delegated Regulation (EU) 2023/2772 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards, published in the Official Journal of the European Union on 22 December 2023 and including the corrigendum published on 18 April 2024, Annex 1
[60] European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability (2020/2129(INL))
[61] European Commission, *Proposal on Corporate Sustainability Due Diligence*, COM(2022) 71 final, 2022

value chain. As briefly pointed out in Chapter 2, the groundwork of principles and methodology has its roots in international guidelines such as the UN Guiding Principles on Business and Human Rights (2011) and the OECD Guidelines for Multinational Enterprises (specifically the guidelines on due diligence). For over a decade, these voluntary instruments have urged companies to conduct due diligence to identify and address risks to people arising from their operations, suppliers, and business partners.

The rationale of the CSDDD therefore lies in the intent to ensure companies take responsibility for ethical issues throughout their value chains and to harmonise the internal market to create a level playing field, that beforehand was mainly derived from voluntary guidelines and Member States own initiatives. Additionally, the CSDDD aims to give affected people (e.g. victims of human rights violations or environmental damage that have occurred in the value chain) better access to remedies by imposing liability provisions.[62]

Key provisions

Pursuant to the objectives of this thesis, the key provisions will be highlighted in light of the Omnibus Package. The provisions of the CSDDD were seen as far-reaching and ambitious, with the first key provision being the scope. The proposed scope of the CSDDD was initially split into two groups of undertakings:

Group 1 contained companies who at least had > 500 employees and > €150 million in net worldwide turnover. Group 1 were subject to report for two years after the enforcement of the CSDDD.

Group 2 contained companies who, firstly, were operating in "high-impact" sectors (such as textile, agriculture, gas and oil industries) and secondly, had at least > 250 employees, > €40 million, where at least 50 percent of the turnover came from the listed "high-impact" sectors. Group 2 were granted a phase-in period of two years from the fiscal year Group 1 were subject to report.[63]

However, in December 2023 the now adopted scope was reached through trilogue negotiations, leading to companies with > 1,000 employees and a net worldwide turnover >€450 million being subject to report under the CSDDD. Additionally, the proposed Group 2-scope was dropped.[64]

Companies in scope would be required to conduct due diligence to identify, prevent, mitigate, and account for actual and potential human rights and environmental impacts in their value

[62] Ibid., Recital 1
[63] Ibid.
[64] Ibid., Article 2

chains[65]. Adding to that, the proposal included a requirement to conduct yearly monitoring of companies' value chains in order to ensure that the due diligence was performed on a continuous basis[66]. Furthermore, the proposal also included an obligation for companies to adopt a transition plan ensuring their business model and strategy are compatible with the transition to a sustainable economy and the limiting of global warming to 1.5°C in line with the Paris Agreement[67].The CSDDD also proposed the requirement of Member States to impose sanctions and civil liability for non-compliance, and damage that could have been avoided with proper due diligence[68].

In summary, the CSDDD will be one of the most far-reaching instruments in the corporate sustainability area. It acts as a directive focused on 'action' in contrast to the CSRD, which focuses on 'reporting and complying'. In doing so, it shifts the focus from *telling what the company is doing* to *ensuring the company is behaving responsibly*. Its reach is also noticeable, and far-reaching in its literal sense, as companies will need to conduct proper due diligence through their value chains (which given the scope of companies very well could be globally). This, in effect, also creates a 'Brussels effect[69]', exporting EU legislation to other continents.

Finally, the CSDDD exemplifies the evolution and transitioning of international soft law into EU hard law. It takes principles, guidelines, and standards from the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises and makes them obligatory enforcements.

3.4 EU Taxonomy Regulation

The EUTAXR is a foundational piece of the corporate sustainability framework, while also serving as a complementary instrument to the CSRD. Adopted in June 2020, the EUTAXR establishes a classification system for environmentally sustainable economic activities[70]. Its main contribution is to define the criteria(s) under which an activity (for example, generating electricity, manufacturing cement, or growing crops) can be considered sustainable in terms of environmental objectives. By creating a uniform EU classification instrument, the EUTAXR aims to direct capital flows towards actual sustainable projects, in line with the EU's climate and environmental commitments (as mentioned in Chapter 2).

[65] Ibid.
[66] Ibid., Article 15
[67] Ibid., Article 15
[68] Ibid., Articles 20-22
[69] Anu Bradford, *The Brussels Effect*, 2020
[70] Regulation (EU) 2020/85 (n44), 2020

Key provisions

The EUTAXR provides a framework consisting of six environmental objectives (as briefly introduced in Chapter 2) and technical screening criteria (TSC) for each objective[71]. As an example, for climate change mitigation, the criteria define thresholds (like grams of CO2 per kWh for power output) that an activity must meet to be classified as a sustainable economic activity. Companies must gather evidence that a sustainable activity ”does not significantly harm” (DNSH)[72]. DNSH ensures that activities contributing to one of the six environmental objectives do not have significant negative impacts on any other of the five objectives. It therefore can be seen as a “safeguard” to ensure coherence and credibility of the aligned sustainable economic activity. Recitals 9 and 24 of the EUTAXR explicitly link it to the EU's EGD, the Paris Agreement, and the SDGs[73].

The EUTAXR is similar to the CSRD, as it does not impose obligations on companies to “act” its disclosed sustainable activities (while the CSDDD does indeed create “action”). Instead, it regulates disclosures that companies must provide (thereby complementing the CSRD) to align with the TSC.

Alongside the classification of disclosures, Article 8 of EUTAXR requires companies subject to the CSRD to disclose the proportion of their turnover, capital expenditures (CapEx) or operating expenditures (OpEx) that are “taxonomy-aligned”[74].

Thereby, the EUTAXR acts as a crucial “bridge“ between EU's sustainable objectives (EGD and Paris Agreement) and the CSRD (as an enabler of the EUTAXR). It classifies environmental and climate-related goals into specific criteria (TSC), which then align with the reporting required under the CSRD.

Integration with EU financial law

The EUTAXR has been woven into multiple legal instruments. As mentioned, the CSRD requires companies to report not just qualitatively on sustainability, but also quantitatively on their taxonomy alignment, ensuring consistency between narrative reporting and the EUTAXR's numerical benchmarks[75]. The CSRD and related delegated acts require investment funds that promote environmental characteristics (so-called Article 8 funds) or that have sustainable investment as their objective (Article 9 funds) to report EUTAXR alignment of their portfolios. By integrating in this way, the EUTAXR has effectively become the linchpin of EU

[71] Ibid., Article 9 Article 19
[72] Ibid., Article 2a
[73] Ibid., Recital 9 and 24
[74] Ibid., Article 8
[75] Directive (EU) 2022/2464 (n55), Recital 30

sustainable finance. It ensures a common understanding of what “sustainable” means, which is crucial for credibility and comparability.

In summary, this chapter examines the three key legislative pillars in the EU’s corporate sustainability framework. The chapter builds upon the evolution described in Chapter 2, marking the decisive transition from voluntary standards (soft law) to legally binding obligations (hard law).
Each legislative pillar serves independent, but complementary, purposes. The CSRD provides transparency by mandating uniform sustainability reporting across 49,000 companies in the EU. Furthermore, it ensures comparability and credibility by establishing mandatory ESRS and requiring a limited assurance on companies’ sustainability reporting.
The CSDDD implements “action-based” requirements on companies’ ethical conduct, in contrast to the CSRD (which implements “reporting-based” requirements). It imposes obligations for companies to proactively identify, prevent, and mitigate adverse human rights and environmental impacts throughout their value chains.
The EUTAXR is complementary to both the CSRD and the CSDDD. It defines a classification-scheme in order to align sustainable economic activities with EU’s high-level climate and environmental objectives. Furthermore, it mandates taxonomy-aligned disclosures, which creates coherence with the CSRD’s reporting requirements.
Together, they reflect a comprehensive framework and a completely different approach in the EU’s strategy compared with prior decades.

4. The Omnibus Proposal

The following chapter will be focused on the proposed amendments of the Omnibus Package (as introduced below). It will be dealt with in separate sections as per the CSDRD, CSDDD and EUTAXR. In correlation with this structure, a legal analysis on the specific matter of the separate amendments will be conducted. Furthermore, an overview of the legislative procedure will be presented with a particular focus on the European entities involved, timeline and structure in terms of the procedure.

4.1 Background information

In the final months of 2024 and early 2025, the EU initiated a coordinated effort to streamline its corporate sustainability framework in response to concerns over its potential impact on competitiveness. This initiation was catalysed by the Draghi Report on *The Future of European Competitiveness*[76], which identified the framework as too complex and burdensome. In particular, the Draghi Report urged simplification measures to address undue administrative burdens and costs in order to ensure the EU's competitiveness.

In November 2024, these concerns were backed by the Council in the *Budapest Declaration on the New European Competitiveness Deal,* which called for a "simplification revolution" and set a political target of reducing regulatory reporting burdens by 25 percent for companies in general and 35 percent for SMEs before mid-2025[77].

In January 2025, the Commission responded to these political signals. Its *Competitiveness Compass* communication hinted the forthcoming "Simplification Omnibus Package" (referred to as the Omnibus Package in this thesis), which contained the proposed amendment to the three key pillars (CSRD, CSDDD, and EUTAXR) that will be subject to a legal analysis below.[78]

The Commission's Work Programme for 2025[79] and its *A Simpler and Faster Europe*[80] strategy communication further established the commitment to streamlining parts of the sustainable framework under the EGD, with a promise not to compromise the overarching objectives in the EGD itself and the Paris Agreement.

As a result of, the Commission proposed the Omnibus Package on 26 February 2025, which consisted of two interrelated legislative proposals (COM(2025) 80 and COM(2025) 81), aimed

[76] Mario Draghi, *The Future of European Competitiveness* (2024)
[77] European Council (n2), 2024
[78] European Commission, *Competitiveness Compass* (January 2025)
[79] European Commission, *Commission Work Programme 2025*
[80] European Commission *A Simpler and Faster Europe* (2025)

at simplifying the CSRD, CSDDD, and EUTAXR to reduce economic and administrative burdens upon companies and to maintain competitiveness across the EU[81].

4.1.1 Reasoning and Rationale

The Omnibus Package must be understood not only as a simplification, but as a legislative measure to encompass both strategic and legal concerns. The Commission justified the package through a dual rationale: 1) to align sustainability reporting and due diligence legislation with the EU's evolving economic and political context and 2) to address implementation challenges from the "tsunami" of legislative instruments adopted between 2020 and 2024. The political context was seen as troubled by international conflicts, wars, and geopolitical tensions that demanded the EU to rationalise their policies and strategies in order to address more urgent issues appropriately.

The Omnibus Package has its legal basis primarily inArticle 114 of the Treaty on the Functioning of the European Union (TFEU), which provides the legal basis for harmonising national provisions that affect the establishment and functioning of the internal market[82][83]. Furthermore, in terms of proportionality, the Commission states that the Proposal is an appropriate balance between accomplishing the objectives of the EGD and the Paris Agreement. The Commission also notes the desire to eliminate undue administrative burdens in order to ensure legal certainty and coherence[84].

4.1.2 Legal Procedure of the Omnibus Proposal

EU legislation normally follows the ordinary legislative procedure (OLP). However, in specific situations, the Parliament and Council can accelerate the procedure when urgency demands faster procedural action. The first legislative act adopted under the Omnibus Package was Directive (EU) 2025/794, which amended the CSRD and the CSDDD to postpone the application of required reporting deadlines[85]. The proposal was initially published as an ordinary legislative procedure (OLP) pursuant to Article 294 TFEU[86].

On 1 April 2025, the Parliament's plenary made use of Rule 170 (Urgent Procedure)[87], allowing

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[81] European Commission, *COM(2025) 80 final* and *COM(2025) 81 final* (26 February 2025)
[82] Treaty on the Functioning of the European Union (TFEU), art. 114
[83] European Commission (n83), 2025, Section 2
[84] Ibid.
[85] European Commission, *Directive (EU) 2025/794 of The European Parliament and of The Council of 14 April 2025 amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements*, 2025
[86] EU Law Tracker*, 2025/0044(COD),* (https://law-tracker.europa.eu/procedure/2025_44?lang=en)
[87] European Parliament, *Rules of procedure 2024-2029*, Rule 170

the legislative procedure to skip the committee stage and proceed directly to plenary vote.
This application of Rule 170, normally seen in crisis situations (such as Covid-19), was recently (October 2024) used in a similar proposal for the postponement of the EU Deforestation Regulation, to adopt a one-year postponement of the Regulation's enforcement[88].
On 3 April 2025, the Parliament adopted its position at first reading[89]. The Council formally endorsed the Parliament's position on 14 April 2025 without further amendments, thereby completing the OLP at first reading[90].
The Directive was formally signed by the Presidents of the European Parliament and the Council and published on 16 April 2025 as Directive (EU) 2025/794. It entered into force on 17 April 2025[91].

4.2 Proposed amendments to the CSRD

As explained in Section 1.3, the amendments are contained in two directives with separate legislative objectives: (1) postponing application timelines to allow stakeholders more time for preparation, and (2) narrowing and refining the scope of reporting requirements to reduce compliance complexity. The Commission framed these changes as essential to ensure the effectiveness and proportionality of the CSRD, without compromising its long-term objectives[92].
The next section provides a granular legal analysis of the most prominent proposed amendments, evaluating their consistency with the EU's legal framework, and overarching policy goals (The EGD and the Paris Agreement). A summarised overview of the changes can be found in Annex 1.
The Commission's proposal introduces seven key amendments to the CSRD framework (alongside parallel tweaks to the CSDDD and theEUTAXR).

4.2.1 Postponement of reporting deadline (Stop-the-Clock)

The Omnibus Package introduces a "Stop-the-Clock" measure, aimed at postponing the reporting deadlines for companies subject to reporting obligations under the CSRD. The application of reporting requirements for the second and third waves of companies (as outlined in Section 3.2) is proposed to be delayed by two years, by amendment of Article 5(2) of the

[88] EU Law Tracker, *2024/0249(COD),* (https://law-tracker.europa.eu/procedure/2024_249?lang=en)
[89] European Parliament, *Plenary Vote Summary*, 3 April 2025
[90] Council of the European Union, *Press Release*, 14 April 2025
[91] European Commission (n89), 2025
[92] European Commission (n83), 2025

CSRD[93]. Specifically, the second wave will see its first reporting year pushed from 2025 to 2027, while the third wave will similarly be postponed from 2026 to 2028. A critical aspect of the postponement is its combination with the proposed reduction of scope and thresholds (as analysed below in Section 4.3.2). While the second and third wave companies will, in principle, experience a postponement, many of these undertakings will simultaneously fall outside the revised scope of the CSRD, which also will be examined in Section 4.3.2.

Legal analysis on the specific proposed amendments

These postponement of reporting deadlines respond to practical concerns about readiness, as companies has urged for more time to prepare data systems. Perhaps moving from a legal landscape with a minimum of mandatory reporting, and now with the CSRD, to a complex, mandatory framework with a *possible* 1,1000 data points in the ESRS, third-party audit requirements, and obligations to disclose alignment with the EUTAXR, has proven to be too much for most companies to prepare for. Adding to that, the reporting standards under CSRD (ESRS) were only finalised in mid-2024[94], leaving little time for companies to adapt[95]. By "stopping-the-clock" temporarily, the EU aims to ensure a smoother implementation and to avoid a situation in which a large number of companies would be technically in non-compliance due to rushed timelines.[96]

The decision to split the Omnibus Proposal into two separate directives, with one of those being solely about postponing the reporting deadlines, is important in various ways. Firstly, it is crucial to bring clarity upon the companies subject to report under the CSRD (as the original CSRD requirements were still in force until the proposal adopted and published)[97]. Secondly, it makes room for the preparing bodies of the EU to revise the technical amendments of the CSRD (especially scope, reduction of data points and guidance). This will be introduced in Section 4.3.2 and onwards. Thirdly, it allows the use of the rule 170 Urgent Procedure (as mentioned in Section 4.1.2) to only adopt the proposal of postponement in an urgent manner, combining the first two points of clarity for the companies and ensuring time for the EU to prepare the technical revision and amendments of the CSRD.

[93] European Commission (n83), 2025, Section 5
[94] European Financial Reporting Advisory Group (n61), 2024
[95] European Commission (n83), Staff Working Document, 2025
[96] Ibid.
[97] Ibid.

In summary, this postponement is the center-piece of the Omnibus puzzle. To put it at the edge, if the proposal of the postponement did not go through in the legislative voting procedure, there would be several gaps in terms of companies being in scope and effectively falling out of scope (if the latter directive gets voted through) and an even higher degree of uncertainty for companies.

4.2.2 Changes to scope and thresholds

As mentioned in Section 3.2, reporting requirements applied in stages from fiscal year 2024 (for the largest companies already subject to report under the former NFRD) to fiscal year 2026 (for listed SMEs).

As per the Omnibus proposal, the CSRD's size thresholds would be raised so that only very large companies must report. Specifically, the proposal limits the CSRD scope to EU companies with >1,000 employees and exceeding either €50 million in net turnover or €25 million in assets by amending Article 5(2) of the CSRD[98].

Legal analysis on the specific proposed amendments

This aligns the CSRD's scope with the CSDDD's higher thresholds (as mentioned in Section 3.3) and would remove an estimated 80 percent of companies from mandatory reporting under the CSRD. The Commission estimates that this approach would cover approximately 7,000 companies, while still covering a large share of market capitalisation, although it's a substantial reduction from the 49,000 companies under the current CSRD.[99] Notably, the second and third waves of companies (> 500 employees or listed SMEs) would no longer be subject to the CSRD under this higher threshold.

In effect, this could narrow the scope from an expected three waves of implementation to just one wave, focusing on the very largest companies. This amendment clearly strikes the question, whether proportionality is withheld. In order, for the CSRD, to meet its objectives with the EU's high-level commitments, it is an ambitious proposition to exclude 80 percent of its original scope. Moreover, the effect, in terms of scope, means that the proposed CSRD would encompass a lower share of companies (7,000) than its predecessor, the NFRD (11,000).

[98] Ibid.

[99] European Commission (n83), 2025, Section 1

4.2.3 Changes to assurance requirements

Under the current CSRD, company sustainability reports must be accompanied by limited assurance from an third-party auditor, while also having the possibility of moving to reasonable assurance in the future (similar to a full financial audit)[100].

The amendment in the Omnibus Package proposes to remove the possibility of mandating reasonable assurance later and instead to empower the Commission to issue guidance on assurance by 2026[101]. It does so by amending Article 26a(3) of the Audit Directive[102] to *delete the empowerment for the Commission to adopt standards for reasonable assurance*[103]. In other words, the legal mandate for assurance will be capped at limited assurance permanently.

Legal analysis on the specific proposed amendments

Limited assurance provides a basic level of trust (the assurer checks nothing is obviously wrong or omitted), but it does not guarantee accuracy to the extent of a full financial audit. By ruling out reasonable assurance, the EU is essentially saying it will tolerate a lower verification level for sustainability data in the future. This could affect the efficacy of the disclosures, as stakeholders might view the information as less credible than financial statements. However, given the current state of reporting, a limited assurance could prove sufficient while methodologies improve. It will at least provide clarity as auditors know their role will not expand, and companies know they will not be met with new audit burdens. It might encourage more focus on making limited assurance robust, rather than planning for an upgrade. The Commission explicitly notes this provides clarity as "there will be no future increase in costs of assurance[104]" for companies, and thereby, implying that they see the primary effect as positive for cost-saving and certainty.

While proportionate from a compliance perspective, the exclusion of reasonable assurance may diminish the reliability of sustainability disclosures, which is a foundational pillar of the CSRD. Without reliable affirmation on the content of sustainability report, the transparency and certainty for stakeholders diminishes.

In summary, freezing assurance at the limited assurance-level is a coherent and proportionate adjustment to avoid unintended consequences on cost, with an arguable trade-off in terms of the reliability of sustainability disclosures.

[100] Directive (EU) 2022/2464 (n55), article 34a(2)
[101] European Commission (n83), 2025, Section 5
[102] European Commission, *Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC*
[103]European Commission (n83), 2025, Section 5
[104] Ibid., Section 5

4.2.4 Revision of ESRS Datapoints

An integral part of the CSRD's architecture is the datapoints and methodology derived from the ESRS. It provides 1,100 *possible* data points, and a substantive blueprint on how to disclose each data point. The Omnibus proposal also aims to simplify the reporting standards, responding to feedback about the complexity of its content and interoperability.

The Commission, in cooperation with EFRAG, proposes to revise the ESRS to reduce the number of prescribed data points companies must report. This involves removing or scaling down disclosures deemed *"least important for general purpose[105]"* reporting, prioritising quantitative metrics over lengthy narrative descriptions, and differentiating clearly between mandatory versus voluntary datapoints.[106]

Legal analysis on the specific proposed amendments

The idea is to simplify and streamline reports, focus on key ESG metrics, and allow flexibility for less material information. The proposed amendments reflect the concern that early drafts of companies' reports under the CSRD could be exceedingly long and detailed, potentially neglecting important information. By streamlining disclosures, the Commission aims to maintain high-quality reporting while easing the administrative work. Importantly, the Commission insists this will be done *"without undermining interoperability with global reporting standards[107]"* (such as GRI as mentioned in Chapter 2 and 3).

As of now, there is no certainty in terms of the amount of datapoints expected to be eliminated, although the Commission has explicitly set a goal of cutting reporting costs for large companies by 25 percent and for SMEs by 35 percent (as noted in the Budapest Declaration), and these simplification and streamlining measures are central to that goal. Adding to that, the EUTAXR is expected to undergo a reduction of 70 percent in terms of data points[108] (which will be analysed in Section 4.5.)

In sum, the amendment is about right-sizing the reporting framework, focusing on refining the requirements to ensure that the future reports produced are decision-useful and not just compliance documents.

[105] Ibid.
[106] Ibid.
[107] Ibid.
[108] European Commission, *Questions and answers on simplification omnibus I and II*, 2025

4.2.5 Removal of sector-specific standards

As mentioned in Section 3.2, the Commission had tasked the EFRAG with developing standards for particular sectors by June 2024[109]. Sector-specific standards would have added another layer of disclosures on top of general ones, likely expanding the number of disclosure requirements significantly for companies in those sectors.

The Omnibus Package removes this requirement, meaning no separate sector standards will be adopted in the future, and in effect, all sectors will report under the general ESRS framework only. It does so by amending Article 29b of the Accounting Directive by *deleting the empowerment for the Commission to adopt sector-specific standards by way of delegated acts.*[110] It is important to note, that the general ESRS framework refers to the aforementioned standards, which will be subject to revision.

Legal analysis on the specific proposed amendments

The removal of sector standards has several key effects on the CSRD's objectives. Firstly, it prevents an expansion of the ESRS's scope that might have improved the effectiveness of disclosures for specific industries, which could have been an important tool to insert appropriate measures where the climate and environmental risks are the highest. Sector-specific data could also have made reports more decision-useful for investors comparing companies within specific sectors. This could reduce the effectiveness of transparency and coherence in areas like the banking, oil, and agricultural sectors.

On the other hand, the Commission states that the core aims of comparability and transparency in the CSRD are still met through general standards. By removing the sector-specific standards, the EU intents to relief companies, in high-impact sectors, future administrative burdens, and it can be seen as necessary to achieve the simplification target in terms of reducing reporting requirements by 25-35 percent as it would potentially create a new, substantial set of disclosure requirement for those companies. There is also the aspect that introducing further standard would lead to higher uncertainty by missing guidelines and, in result, create a "fatigued" effort in disclosing the standards.

In summary, it is justified as a proportional means to prevent an increase in reporting burden that sector standards would have represented. Some might contend that a more proportional approach would be to still allow sector standards, but make them very limited or voluntary. However, the Commission chose the most straightforward way to ensure no new complexity.

[109] European Financial Reporting Advisory Group (n61), 2024

[110] European Commission (n83), 2025, Section 5

Given that sector standards were not yet in force (as the work was delayed[111]), removing them does not take away any currently effective obligations for companies in the relevant sectors, as also seen with the removal of reasonable assurance in Section 4.3.3.

4.2.6 Proposal of new Voluntary Standards

To address transparency gaps from the scope reduction (in Section 4.3.2), the Commission proposes developing a "proportionate standard" that companies can opt to use voluntarily. With many companies no longer required to report, the proposal introduces a new voluntary sustainability reporting standard as an incentive for those companies. The Commission would adopt, via delegated act, a standard based on EFRAG's work for SME reporting (the "VSME standard")[112]. The intent is to encourage mid-size companies (i.e companies that fall out of the newly proposed CSRD scope as mentioned in Section 4.3.2) with sustainability ambitions or investor pressure to continue reporting sustainability information on a voluntary basis (and to ensure some continued comparability), even though they are no longer obliged to do so.[113]

Legal analysis on the specific proposed amendments
Providing a standardised voluntary template is certainly suitable to encourage some level of continued reporting. The voluntary ESRS provides a middle ground that is less substantive than the full ESRS but still aligned with EU objectives. It likely represents the least restrictive means to achieve some transparency for companies, as the alternative (keeping them mandatory) was taken off the table by the reduction of scope (as mentioned in Section 4.3.2).
Introducing a voluntary standard via the CSRD framework is coherent with how financial reporting is sometimes handled (e.g. some standards are recommended but not required). It also does not conflict with global standards, as it will likely incorporate elements of global frameworks (such as GRI) to ensure interoperability (as prior sustainability efforts examined in Chapters 2 and 3).
This proposed element seeks to strike a balance by making sustainability disclosure optional for smaller companies rather than simply eliminating it altogether. However, the option of voluntary standards will depend solely on uptake by companies. If many mid-sized companies *do* opt to publish sustainability reports per voluntary standards, then the *purpose* of the CSRD (more transparency and comparability) continues to some degree.

[111] Council Of the European Union, *Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU as regards the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertakings,* 14 February 2024
[112] European Commission (n83), 2025, Section 5
[113] Ibid.

In summary, this measure does not propose obligations, it provides an option. By nature, offering a voluntary framework is not a restrictive measure, but rather a measure to expand choices upon companies given the prior analysed reduction of scope.

4.2.7 Proposal of 'Value chain-cap'

Under the current CSRD, companies have to report impacts up and down their value chain ("scope 3" emissions, supply chain risks, etc.)[114], although EFRAG was instructed not to introduce requirements that would force them to obtain data from SME suppliers. This is referred to as the "value-chain cap" , designed to prevent undue burden on SMEs in the value chain.

The Omnibus Proposal aims to extend and strengthen this cap by limiting the information future in-scope companies (i.e > 1,000 employees as clarified in Section 4.3.2) rightfully can obtain from SME (and companies falling out of scope) in line with the CSRD reporting[115].

The cap's boundary is to be defined by what the new voluntary standard contains and by how future data points in the CSRD reporting will be shaped after the reduction of the ESRS datapoints (as mentioned in Section 4.3.4 and 4.3.6). This means that large companies can fulfil their value chain reporting obligations by relying on the "value-chain-cap" and therefore do not need to seek additional information. This proposition aims to reduce impractical data-gathering exercises and shield smaller businesses.

Legal analysis on the specific proposed amendments

This amendment is closely tied to the scope reduction and the introduction of a new voluntary standard. Many companies complained that collecting accurate ESG data from their entire supply chain, especially small suppliers, was challenging[116]. The original CSRD already acknowledged this by instructing a value-chain cap at SMEs, which was proportionate to protect the smallest companies. By extending the cap to cover all companies outside the newly proposed scope of the CSRD, the proposal meets the complaints and eases that pressure significantly. In effect, this could reduce the reporting burdens and legal uncertainty. Proportionality is arguably achieved by aligning expectations with capacity as SMEs (even mid-sized) do not necessarily have the capacity to provide granular ESG data. This prevents disproportionate burdening both the reporting company and the smaller suppliers. The proposition will create a three-layered reporting scheme, with the CSRD being at the top, the VSME standard being at the bottom and lastly, the new proposed voluntary standard being in

[114] Directive (EU) 2022/2464 (n55), Article 19a and recital 33
[115] European Commission (n83), 2025, Section 1
[116] European Commission (n83), Staff Working Document, 2025

the middle. The value-chain cap effectively ensures that the upper and middle blocks are kept in line with their objectives and for the upper block not to go beyond what the EU deems necessary in terms of fulfilling their reporting requirements. An illustration can be found in Annex 3. In theory, this would create certainty for both large and smaller companies as to what they are expected to demand (and or deliver).

In line with this, it also offers the possibility for better alignment of data across the CSRD framework as companies are being offered a 'cap' on the granularity in terms of the collection of data in their value chain.

In reality, there is still uncertainty in terms of the value-chain cap's empowerment. If large companies insist on demanding granular information on their value chain, the value-chain cap will not stand in between the demand, as it is not a mechanism to legally omit the information demanded. As a last resort, it could be a contractual matter with the smaller company imposing a risk of contractual termination, if the large company insists on the information.

4.3 Proposed amendments to the CSDDD

The proposed amendment in regards of the CSDDD are also subject to undergo two legislative procedures: (1) postponing implementation timelines to allow stakeholders more time for preparation and (2) narrowing and refining the scope of reporting requirements to reduce compliance complexity. As introduced in the prior section, this section will follow the same granular legal analysis of the most prominent proposed amendments. A summarised overview of the changes can be found in Annex 2.

The Commission's proposal introduces four key amendments to the CSDDD framework (alongside parallel tweaks to the CSRD, and the EUTAXR).

4.3.1 Postponement of reporting deadline (Stop-the-Clock)

The Omnibus "Stop-the-Clock" proposal (as analysed in Section 4.3.1) also delays the CSDDD's application timeline by one year for the first wave of companies and extends the Member State transposition deadline by one year. Under the current CSDDD, Member States were to transpose by July 2026, with a phased entry into force from 2027. The amendment shifts transposition to July 2027 and defers the first compliance phase from 2027 to 26 July 2028 by amending Article 37 of the CSDDD[117]. In practice, the largest in-scope companies now have until mid-2028 (instead of 2027) to start due diligence, and subsequent waves are similarly

[117] European Commission (n83), 2025

pushed out.[118] Moreover, Rule 170 (Urgent Procedure) is also applied to the amendment of reporting deadlines of the CSDDD.

Legal analysis on the specific proposed amendments

The postponement of the reporting deadline of CSDDD is similar to the postponement of the CSRD. It mainly follows the same reasonings and outcomes as analysed in Section 4.3.1.1.

The difference in years postponed (the CSRD being postponed two years and the CSDDD being postponed one year) is due to the CSDDD entering into force in 2027, which provides a timeline where a one-year postponement is sufficient to account for companies to prepare for the requirements set out in the newly proposed directive.

4.3.2 Changes to scope of value-chain and termination of contracts

One of the most significant and substantive changes is the limitation of the due diligence duty to direct business partners (Tier 1) in a company's value chain. Under the original CSDDD, companies were expected to exercise due diligence across their entire "chain of activities" (the full value chain). The Omnibus proposal amends the CSDDD's Article 5 which states that companies are generally required to identify and address adverse impacts only in their own operations, their subsidiaries, and their direct suppliers or partners.

In-depth due diligence for indirect suppliers would become conditional*:* it is mandated only if the company has "plausible information[119]" of likely harm at those levels of the chain. In other words, the default obligation stops at Tier 1, unless red flags emerge.

Indirectly associated with the abovementioned amendment, the proposal intends to remove the obligation to terminate business relationships as a last-resort remedy and instead, termination is replaced by suspension as the harshest measure a company must take with a non-compliant supplier[120].

Legal analysis on the specific proposed amendments

The Commission reasons that the original value-chain obligation was *"very complex and extensive[121]"* in practice (even though the CSDDD has not been enforced yet), and that focusing on direct suppliers would alleviate a significant burden. By limiting the scope, the proposal targets due diligence efforts *"where adverse impacts are most likely to occur and are most severe".* This is presented as an efficiency measure as companies can concentrate resources on the most impactful relationships (Tier 1). The Commission explicitly states that *"targeting the*

[118] Ibid.
[119] European Commission (n83), Section 5, 2025 & Staff Working Document
[120] Ibid.
[121] Ibid., Section 5

obligations with respect to indirect business partners in the value chain" only to certain cases makes the CSDDD more proportionate.[122]
From a legal coherence standpoint, the Commission argues that the amendment expands the harmonisation effect of the CSDDD. Recital (20 & 21) of the Omnibus Proposal states that divergent national due diligence laws were a concern, and that by clearly delineating the duty (Tier 1 only), the EU ensures Member States do not impose broader enforcements that fragment the single market. Indeed, Article 4(1) of the adopted CSDDD already prevented Member States from going beyond certain core requirements and the proposal seem to extend this maximum harmonisation to the scope of due diligence, to *"avoid a fragmented regulatory landscape"*[123]. This promotes legal certainty for companies operating across the EU as they know the outer limit of their supply chain responsibility is set uniformly at Tier 1.

It must be noted, however, that this limitation could affect the effectiveness of safeguarding human rights and the environment in deep value chains. Harmful events occurring at Tier 2 and beyond might go unnoticed or unaddressed if companies only proactively monitor Tier 1[124]. The Commission's answer to this is the "plausible information" trigger which grants ,if credible information (from NGOs, media, complaints, etc.) indicates a problem downstream, the company must investigate further[125]. The legal standard of "plausible information" (defined as objectively reasonable indications of likely harm) tries to ensure that known abuses in lower tiers cannot be ignored.
In the same vein, the shift from termination of supplier contracts to temporary suspension underscores the new focus on maintaining companies ties while addressing issues, instead of cutting company ties which could harm both sides.

In summary, the Tier-1 restriction is a clear case of streamlining obligations for proportionality reasons. It enhances legal coherence across the single market but raises questions about maintaining the CSDDD's ambition. Tier 1 focus (with duty to go deeper upon "plausible information) reflects an attempt to uphold the CSDDD's objectives while substantially cutting compliance scope. The Commission insists this does *"not undermine the objectives of the Directive and the EU's sustainability framework"*[126] , moreover, it claims to increase efficiency in achieving those goals by concentrating efforts.

[122] Ibid.
[123] Ibid.
[124] Ibid.
[125] Ibid.
[126] Ibid.

4.3.3 Changes to periodical monitoring

Under the current CSDDD, companies must review their due diligence policy and approach, at least once every 12 months (annual monitoring)[127]. The Omnibus proposal intends to ease the requirement for companies to periodically monitor the effectiveness of their due diligence measures by extending this interval to once every five years[128]. This means companies' formal reassessment of its due diligence system, where evaluating whether adverse risks are being effectively identified and addressed, would be required less frequently.

Legal analysis on the specific proposed amendments

This change is justified by the Commission as a burden reduction that does not fundamentally harm the CSDDD's aims. Reducing the frequency of mandated monitoring is another proportionality adjustment, as it cuts down on administrative workload and costs. Notably, the Commission includes this measure among those *"designed to make the Directive more proportionate"*.[129]

From a legal perspective on the functioning and reasoning behind the CSDDD, it could be questioned if a five-year interval still meets the CSDDD's obligation of ongoing due diligence as its core duty (to identify, prevent, mitigate impacts) is continuous.

The monitoring requirement, however, is about the formal evaluation of the companies' adherence to impacts. In theory, companies remain obligated to respond to issues in real time, but they will not be required to produce an internal report or update on their entire due diligence system every single year. Provided companies maintain active risk management, a longer review cycle might not reduce actual protection.

The principle of legal certainty is not directly at issue here, but effectiveness is, ensuring the CSDDD's purpose (timely mitigation of harm) is achieved. The Commission appears confident that this amendment will *"strengthen…efficiency in achieving [the Directive's] goals"* by freeing companies from excessive formalism[130]. As a safeguard, the general obligation remains continuous, only the formal policy review is delayed.

In summary, moving to a five-year review is a clear effort to simplify compliance. It aligns with the Budapest Declaration to cut reporting obligations by 25 percent. So long as enforcement authorities and companies treat the five-year review as a minimum and not a reason to become complacent in between, this amendment can be seen as legally coherent with the directive's risk-based approach (which already allows companies to prioritise most severe risks first). The

[127] European Commission (n88), Article 15
[128] European Commission (n83), Section 5, 2025
[129] Ibid.
[130] Ibid.

change exemplifies proportionality by scaling regulatory requirements to what is deemed strictly necessary.

4.3.4 Changes to transition plans

The original CSDDD introduced an obligation for companies to develop, and *put into effect",* detailed climate transition plans, mandating alignment of their operations and strategies with the target of limiting global warming to 1.5°C as per the Paris Agreement (as mentioned in Section 3.3). Transition plans constitute a cornerstone of the CSDDD, encapsulating the EU's ambition to align corporate governance with the Paris Agreement and the EGD.[131]

The Omnibus proposal modifies this obligation significantly by altering the language in Article 1 of the original CSDDD, now articulated as Article 4. Specifically, the proposal suggests revising the articles' language by replacing the explicit requirement for a climate transition plan for mitigation, with a more flexible obligation to "include implementation actions planned and taken," thereby removing the explicit wording "put into effect".[132]

Legal analysis on the specific proposed amendments

The shift from "put into effect" to "include implementation actions planned and taken" constitutes more than a technical clarification. It changes the normative character of the obligation from a prescriptive, action-oriented duty to a disclosure-based requirement. It could be argued that the wording of the article is becoming more lenient on "complying and reporting", rather than "action" (as clarified in Chapter 3). The original wording implied a positive obligation to act, while the new wording transforms the provision into a "reporting" obligation solely, with the practical implication that a company may oblige to the requirement by disclosing minimal actions (or planned, but unrealised intentions), without necessarily being legally required to implement them.

The CSRD and the accompanying ESRS require companies to disclose their climate transition plans, including targets, actions, and progress towards achieving them. The amendment to the CSDDD could create inconsistencies between the two directives.

If the CSDDD no longer mandates the implementation of transition plans, companies may face conflicting obligations under the CSRD, which expects detailed disclosures on implemented actions. This inconsistency could lead to confusion and reduce the overall effectiveness of the EU's sustainability reporting framework. However, as it already has been noted, the ESRS in the

[131] European Commission (n88), 2024
[132] European Commission (n83), Section 5, 2025

CSRD are subject to a revision, which leaves this question of compatibility and potential confliction unanswered as of now.

In summary, the amendment to Article 4 of the CSDDD, as proposed by the Omnibus Package, rephrases the obligation from a substantive duty of implementation and acting to a reporting obligation. This transformation reflects a strategic shift towards regulatory simplification, arguably undermining the enforceability and potentially compromises the CSDDD's alignment with both the overarching objectives in EDG and the Paris Agreement and the CSRD transition plan reporting requirement.

4.4 Proposed amendments to the EU Taxonomy Regulation

The proposed amendments with regards of the EUTAXR is, in contrast to the aforementioned amendments to the CSRD and CSDD, subject to a single legislative procedure. As introduced in the prior section, this section will follow the same granular legal analysis of the most prominent proposed amendments.

The Commission's proposal introduces three key amendments to the EUTAXR (alongside parallel tweaks to the CSRD and the CSDDD).

4.4.1 Changes to scope

Article 8 of the EUTAXR requires that companies falling under the non-financial reporting obligations (formerly the NFRD, now expanded by the CSRD) to include key performance indicators (KPIs) in their annual reports on the proportion of turnover, CapEx, and OpEx aligned with the TSC (as outlined in Section 3.4). This provision integrated the EUTAXR into the corporate reporting framework, as the CSRD mandated that companies report sustainability information and, by extension, their Taxonomy-aligned economic activities.

The Omnibus proposal now limits the obligation to only those large companies with >1,000 employees on average and a turnover above €450 million.[133]

Legal analysis on the specific proposed amendments

The Commission justifies the scope cut as a proportionality correction, targeting reporting where it is most impactful and relieving smaller companies of undue burden.

Indeed, feedback from the private sector indicated that imposing complex sustainability reporting on mid-size companies could be excessively burdensome and costly for them[134]. This alignment correlates with the adjusted scope in CSRD (as analysed in Section 4.3.2).

[133] Ibid.

[134] European Commission (n83), Staff Working Document, 2025

The EUTAXR's utility depends on broad, comparable data as the Platform on Sustainable Finance has cautioned *"reducing the scope…results in the loss of specific Taxonomy data"* and *"reduces the effectiveness of the Taxonomy generally in the market[135]"*.

In effect, the transparency and EU-wide comparability that the EUTAXR was meant to ensure may be weakened, if only companies subjected to report under the CSRD is obligated to disclose alignment with the EUTAXR. The proportionality of the scope cut is therefore contested, on one hand it relieves burdens on companies, however, it may be disproportionate in relation to the legislation's environmental objectives, depriving investors, and stakeholders of information necessary to drive sustainable outcomes.

In summary, the changes to the scope of the EUTAXR are proportionate with the changes to the scope of CSRD in terms of employees. However, it does raise a question in terms of a broader proportionality issue, which will be introduced in Chapter 5 and 6. Regarding the financial requirements (€450 million turnover as per the EUTAXR and €50 million turnover or €25 million in balance), there is an obvious gap which will be introduced in the following section.

4.4.2 Proposal of Voluntary and Partial Reporting (Opt-in Disclosure)

As mentioned in Section 4.5.1, the proposed scope of the EUTAXR covers companies with >1,000 employees on average and a turnover above €450 million. While aligning the indicator for employees (i.e > 1,000) with the CSRD, the turnover threshold differs from the CSRD threshold (€50 million turnover or €25 million in balances).

To mitigate the informational gap created by the narrowed scope, and to introduce more flexibility, the Omnibus proposal establishes a voluntary and partial reporting options through new Articles 19b and 29aa of the Accounting Directive[136]. These provisions create an "opt-in" sustainability reporting framework for certain companies and allow reporting on partial Taxonomy alignment. In essence, the proposal will distinguish between three tiers of companies:

In-scope undertakings (>1,000 employees, turnover > €450 million):

Large companies with more than 1,000 employees and €450 million in turnover (remain mandatorily subjected to CSRD's full sustainability reporting requirements (per Articles 19a/29a) and hence EUTAXR Article 8 disclosures[137].

[135] EU Platform on Sustainable Finance, *Platform response to the draft taxonomy delegated act consultation,* March 2025

[136] European Commission (n83), Section 5, 2025

[137] Ibid.

Opt-in undertakings (>1,000 employees, turnover < €450 million):

Large companies with over 1,000 employees *but* not more than €450 million net turnover will be exempt from Article 8 EUTAXR disclosures by default, and will only have to report Taxonomy KPIs if they choose to opt in by declaring that their activities are Taxonomy-aligned or partially aligned. Article 19b (for single companies) and 29aa (for groups) amends this flexible option. If a company opts in, it only needs to disclose its Taxonomy-aligned turnover, and CapEx, with OpEx disclosure being voluntary. Moreover, these companies are permitted to report activities that meet some Taxonomy criteria without meeting all, which effectively will be claimed as partial alignment.[138]

Out-of-scope undertakings (<1,000 employees, turnover < €450 million):

All companies outside the mandatory scope have no legal obligation to publish a sustainability report. To address the potential demand for their ESG data (from business partners or investors), the Commission plans to develop voluntary reporting standards for them (as analysed in section 4.3.6) via EFRAG.[139]

Legal analysis on the specific proposed amendments

Together, these measures mark a shift from a strictly mandatory requirements toward a hybrid model, introducing flexibility in whether and how certain companies report sustainability information. The idea is to encourage a *"gradual environmental transition[140]"* by recognising progress toward full alignment.

The opt-in and partial-reporting approach is grounded in proportionality as it seeks a modified solution for companies that are large in workforce but potentially not in revenue, as for those, full EUTAXR compliance costs may be disproportionate.

This guards companies with low or no alignment (and lower turnover) from the efforts of detailed KPI disclosure, which arguably is a proportionate outcome since the utility of forcing disclosure of "zero percent alignment" or minimal alignment could be low relative to the compliance cost. On the other hand, if companies believes it has environmentally sustainable activities worth reporting (and reputationally beneficial to disclose), it can opt in and show investors its "green" CapEx and revenues. This *choice-based* mechanism is designed to ensure the regulation *"does not go beyond what is necessary[141]"* for companies in the exempted category. Therefore, the burden is only taken on (by companies) voluntarily when it is meaningful. It also reflects the proportionality concept of graduated obligations (heavier

[138] Ibid.
[139] Ibid.
[140] Ibid., Section 1
[141] Ibid., Recital 30

requirements for the biggest companies, lighter ones for smaller or less-resourced companies). The new hybrid can be seen as an attempt to introduce flexibility without completely abandoning transparency.
However, it is worry that a voluntary system may undermine the effectiveness and comparability of disclosures, raising proportionality concerns of another kind. From the investor perspective, allowing companies to opt out of reporting unless they have good news (EUTAXR alignment) may "blindsight" and bias the information obtained toward positive disclosures, instead of reflecting the companies' actual sustainable activities. Companies with poor sustainability performance have little incentive to opt in, so the absence of a report or KPI might implicitly signal a negative, but far less clearly than a mandated disclosure would.

In summary, the voluntary/partial reporting proposition has mixed implications for coherence. On one side, it tries to balance coherence between reporting and real economy impacts. By permitting partial alignment disclosures, the EUTAXR framework is being adapted to better accommodate transition activities. This aligns the EUTAXR with the dynamic reality of corporate transition plans, making it a more flexible tool to support gradual decarbonisation (which is coherent with the objectives in EGD). On the other side, coherence within the reporting framework itself could suffer. A fundamental goal of the CSRD/EUTAXR interrelationship was to create a comprehensive, uniform sustainability reporting framework where all companies report against common standards, and thereby, enabling comparability. Introducing opt-ins and voluntary alignment creates a more fragmented picture, as some companies will provide a full CSRD report with all ESRS topics and EUTAXR KPIs, while others will provide none, and (maybe) some Taxonomy-aligned disclosures if they opt in. This could confuse investors and complicate the coherence.

4.4.3 Simplifying the DNSH Criteria

The EUTAXR's current design demands that for an economic activity to be deemed sustainable, it must pass the TSC for substantial contribution to an environmental objective and simultaneously not significantly harm any other objective (DNSH).
Companies must gather evidence that, for instance, a climate mitigation activity (say renewable energy) does not significantly harm biodiversity, water, pollution, etc., often by meeting several quantitative or qualitative thresholds defined in delegated acts.
The Commission intends to use its delegated act to revise the EUTAXR DNSH-criteria in 2025. The Commission's Staff Working Document outlines several targeted amendments to how the

DNSH-criteria are applied under the EUTAXR. The proposals seek to simplify and streamline the DNSH requirements and TCS, while preserving the EUTAXR's environmental integrity. The Staff Working document also contains a *de minimis* threshold proposal under which companies only need to conduct full Taxonomy alignment (including fulfilling DNSH-criteria) for activities that are material to their overall turnover, CapEx, or Opex. The *de minimis* threshold means that if less than 10 percent of companies' turnover or CapEx is derived from the specific activity, the company could omit detailed alignment reporting for that activity.[142]

Legal analysis on the specific proposed amendments

The DNSH revision could be seen as a measure to ensure proportionality. By waiving DNSH criteria for immaterial risks and smaller activities, the proposal aligns compliance requirements with actual environmental impact. This follows the very principle of proportionality (*lighter touches for smaller effects)*. The Commission's rationale is that the EUTAXR's objectives (environmental protection and investor clarity) can be met without burdening companies with analyses of rigorous and burdensome collection of details, thereby avoiding disproportionate costs. Moreover, eliminating duplicative or exceedingly granular criteria removes excess "administrative" reporting that did not have any sustainability benefits. Such measures strengthen the argument that the amended EUTAXR will better balance benefits and burdens, reducing the risk of disproportionality.

The introduction of *de minimis* thresholds and simplifications in the EUTAXR is meant to complement the CSRD's forthcoming simplified reporting standards. Adding to that, the EUTAXR's TSCs will be reviewed to "*better reflect documentation that can be used to show compliance*" and to ensure they do not create inconsistent or unnecessary obligations[143]. This coherence prevents companies from facing one set of priorities under CSRD (materiality-driven disclosure) and a contradictory set under the EUTAXR (highly prescriptive criteria regardless of materiality).

However, these changes also introduce new enforcement considerations and potential interpretation issues. It is important to issue guidance to ensure that companies correctly interpret and apply the more flexible DNSH provisions. Similarly, the 10 percent *de minimis* threshold for activities could invite *gaming or misclassification*. Companies might be tempted to segment projects or recategorise revenue streams to slip under the threshold and avoid scrutiny. The forthcoming assessment and the final legal text should define the threshold in a way that prevents abuse.

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[142] European Commission (n83), Staff Working Document, 2025

[143] Ibid.

4.5 Summarized impact of the Omnibus Proposal

The Omnibus Package encapsulates the EU's evolving approach to sustainability regulation, marking a significant simplification of the ambitious legal framework established over the past decade.

Prompted by the Draghi Report and subsequent Budapest Declaration, the Omnibus Package emerged as a strategic response to concerns about regulatory complexity and competitiveness. The Commission's *Competitiveness Compass* agenda articulated the need for simplification, aiming to reduce reporting burdens by up to 35 percent , notably benefiting SMEs. These potential changes, still subject to approval by the Parliament and the Council, illustrate the dynamic and contested nature of this policy area.

In terms of the CSRD, the Omnibus Proposal significantly "streamlines" the content of the directive. This streamlining is considered to enhance effectiveness, focusing resources on fewer but potentially more meaningful reports. However, concerns remain that crucial sustainability information from a broader set of companies might be lost, diminishing overall transparency and accountability. It also could be argued that reducing the CSRD's reach, particularly after positioning the EU as a global sustainability leader, signals mixed intent internationally, potentially perceived as "deregulating" commitment rather than fine-tuning.

In terms of the CSDDD, the Omnibus proposal similarly intends to narrow down and streamline the content of the directive. By limiting mandatory due diligence primarily to direct suppliers, extending monitoring frequency from annually to once every five years, and relaxing climate transition plan requirements, the Commission aims to balance regulatory burdens with practical compliance capabilities. While these measures promise substantial administrative relief, they also raise critical questions regarding effectiveness and potential dilution of corporate accountability throughout complex global supply chains.

In terms of the EUTAXR, the Omnibus Proposal introduces significant flexibility by reducing the scope of mandatory reporting, allowing voluntary reporting for companies below the turnover threshold of €450 million. The Commission estimates these measures could yield annual compliance savings of approximately €0.8 billion[144].

Ultimately, the Omnibus Proposal embodies a delicate regulatory trade-off between short-term competitiveness and long-term sustainability ambition. Proponents emphasise enhanced

[144] European Commission (n83), Staff Working Document, 2025

regulatory coherence, reduced administrative burdens, and improved compliance quality among reporting companies[145]. However, the analysis also highlights significant risks of reduced transparency, and coherence and weakened accountability. Whether the Omnibus Proposal achieves an optimal balance between effectiveness, proportionality, and ambition remains dependent on its practical implementation, and the degree to which voluntary reporting can fill the now missing gaps. As such, the proposal exemplifies the tension within the EU between regulatory pragmatism and ambitious sustainability goals, challenging the EU to maintain global leadership in corporate sustainable finance, while also ensuring a dynamic economy and handling political realities.

[145] Ibid.

5. Sustainable Finance post-Omnibus

5.1 The future legislative work

Looking back, the Commission has repeatedly affirmed that every simplification initiative must remain fully consistent with the overarching objectives of the EGD and the Paris Agreement[146]. The Omnibus proposal follows that line, signalling a shift from rapid rule-expansion to targeted refinement aimed at legal certainty, proportionality, coherence and administrative streamlining. 2025 will therefore be decisive. While the substantive Omnibus amendments are drafted by the Commission and negotiated by the Council and the Parliament, their work ahead also depends on EFRAG, which under the Commission's April 2025 mandate will revise the ESRS with the objective to "alleviate unnecessary administrative burdens while still meeting the core policy objectives of the European Green Deal."[147] EFRAG's Work Plan includes adjusting data points while maintaining interoperability with international standards. This, in fact, is a crucial part of the Omnibus Package's aim to strike a balance for the future effectiveness of the CSRD, where simplification should not undermine transparency, coherence and proportionality.[148]

A complementary pillar is the new ESG Ratings Regulation (ESGRR), in force since 2 January 2025 and applicable from 2 July 2026.[149] It establishes uniform authorisation and transparency regulations for ESG-rating providers. ESGRR includes an adoption of delegated acts to develop the Regulatory Technical Standards (RTS) to specify methodology and disclosure-related obligations, and to ensure full consistency with the revised ESRS and CSRD.[150] These RTS will developed by European Securities and Markets Authority (ESMA)[151] and will be closely watched by investors and issuers, as they will hint the ESGRR's approach in terms of choosing the performance and methodology of ESG-ratings and its coherence with the area post-Omnibus.

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[146] European Commission (n45), 2019
[147] EFRAG, ESRS Revision – Work Plan & Timeline (25 Apr 2025)
[148] Ibid.
[149] European Commission, *Regulation (EU) 2024/3005 of the European Parliament and of the Council of 27 November 2024 on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, and amending Regulations (EU) 2019/2088 and (EU) 2023/2859*, 2024
[150] ESMA, Consultation Paper on Draft RTS under the ESG-Ratings Regulation (22 Apr 2025)
[151] European Commission (n153), Article 2, 6 and Recital 45

Another sector to look out for in accordance with the Omnibus package is the financial sector. Bank intermediation remains crucial in redirecting capital toward sustainable activities and reinforcing corporate transparency. The latest Capital Requirements Directive (CRD VI)[152] and the parallel amendments to the Capital Requirements Regulation (CRR)[153] integrate sustainability factors into supervision and risk management in the financial institutions.[154][155] Article 87a of CRD VI instructs the European Banking Authority (EBA) to issue guidelines on ESG-risk management and scenario analysis[156]. *The Final EBA Guidelines on the Management of ESG Risks,* published 9 January 2025, require institutions to embed environmental exposure, ESG-KPIs and transition plans in credit-risk processes.[157]Those KPIs are designed to mirror the ESRS metrics under the CSRD, while the transition plan requirement is explicitly tied to the CSRD/CSDDD framework (both currently under Omnibus amendment).[158]

Collectively, the revised ESRS, the ESG-Ratings Regulation and the EBA ESG-risk Guidelines form the first wave of complementary instruments and guidelines post-Omnibus, that still seeks to align private financial flows with the EU's 2030 and 2050 climate targets. Enhanced comparability of ratings, lighter decision-useful reporting, and risk-sensitive banking guidelines should, in theory, facilitate capital flows to Paris-aligned projects while safeguarding financial stability. However, the real test will be whether voluntary uptake (where reporting has become optional) and supervisory follow-through (guidelines and RTS) are sufficient to maintain the market incentive.

5.2 Alignment with EU Green Deal and the Paris Agreement

A key question is whether the Omnibus Package's proposed amendments are compatible with the EU's climate and environmental commitments under the EGD and the Paris Agreement. As pointed out in Chapter 4, the Omnibus Package introduces several simplifications which potentially could weaken the mechanisms of the overarching EU Green Deal. By exempting approximately 80 percent of companies currently obligated to report under CSRD, the proposal poses the possibility of reducing the amount of data (ESRS) that companies will deliver. As

[152] European Commision, Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, 2024
[153] European Commission, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance
[154] Ibid.
[155] European Commission (n156), 2024
[156] Ibid., Article 87a
[157] EBA, *Final Guidelines on the Management of ESG Risks*, 9 Jan 2025
[158] Ibid.

outlined before, the need for transparency has been one of the key incentives and by exempting a large number of companies from reporting under the CSRD, transparency gaps could influence the disclosure on climate risks, carbon footprints etc., which is needed to measure the trajectory towards fulfilling the objectives of the EGD and the Paris Agreement. Adding to that, the revision of the ESRS could potentially go hand in hand with the disclosures, as it is set to be reduced substantially. However, it is important to acknowledge that the proposal places emphasis on reducing narrative disclosure and maintaining central quantitative disclosures. The climate and environmental commitments in the overarching frameworks are mainly deferred from quantitative disclosures, which hopefully implies that the future ESRS will interrelated with these disclosures.

Similarly, in terms of the CSDDD, reducing the due diligence scope to direct suppliers (as mentioned in Section 4.4.2) could potentially leave human rights issues in entire value chains unaddressed, which might undermine the EU's commitment to human rights issues. However, the proposal has put a 'safeguard' in place demanding that issues outside of Tier 1-suppliers (i.e. *direct suppliers)* should be reacted upon if there is 'plausible information'.

On the other hand, and in line with the first proposed issue in this chapter, the narrowing of the scope could have its advantages. Firstly, it targets the largest companies (i.e > 1,000 employees) which are responsible for a disproportionate share of the carbon emissions. Arguably the CSRD will therefore still encapsulate the bulk of the necessary disclosure, in light of the EGD and the Paris Agreement objectives. It is also important to note that the exempted companies still have an option to voluntarily report on the CSRD (as mentioned in Section 4.3.6). However, voluntarily reporting still leaves questions in terms of the number of companies willing to do so. Secondly, by narrowing the scope (and exempting companies < 1,000 employees), it relieves administrative burdens and costs upon companies which could prove to become an advantage. But in order to become an advantage, companies must use the opportunity to redirect their focus to the most crucial aspects of their own sustainable agendas, and the EU must act on implemented measures to incentivise companies to redirect their flow of capital in a sustainable manner. Otherwise, there is a possibility that the framework will diminish into a refined NFRD alike framework.

In summary, the alignment with the Green Deal and Paris Agreement can be viewed as partially intact but under pressure. The EU's high-level commitments remain unchanged, the climate neutrality goal and the 55 percent emissions reduction by 2030 still stand. However, by simplifying the framework, that were implemented to deliver on those objectives, the EU risks creating an implementation and transparency gap. It is crucial that large companies continue to act on their sustainable impacts and exempted companies (and investors) continue to redirect their flow of capital toward sustainable projects.

6. Reflections and Implications

In this chapter, the legal and policy tensions arising from the Omnibus proposal's approach will be examined and reflected upon. The EU's corporate sustainable framework is at a crossroad, as the original wave of instruments (CSRD, CSDDD, EU Taxonomy, etc.) sought to drive a paradigm shift in corporate behaviour and investor decision-making, while the Omnibus Package's amendments introduce a balancing push for regulatory simplification, raising important questions of proportionality, coherence, and effectiveness.

The principle of proportionality in EU legislation demands that regulation should not exceed what is necessary to achieve legitimate objectives. From the perspective of proportionality, the Omnibus Package can be seen as a correction to potential, political and legislative overreach, as the requirements may have been disproportionate for companies (and smaller companies, in particular). By simplifying and reducing sustainability reporting and due diligence to very large companies, the EU is arguably trying to enforce the most stringent responsibilities to companies with the greatest impact and capacity. This responds to notions (as analysed in Chapter 4) that the CSRD, CSDDD and EUTAXR are creating burdensome compliance duties for SMEs. Focusing on companies with >1, 000 employees could enhance proportionality, as it avoids high administrative costs for SMEs and concentrates regulatory effort where the public benefits (climate disclosure, human-rights safeguards) are highest[159]. This is in line with the Budapest Declaration statement on making regulatory framework "clear, simple and smart"[160].

However, excluding 80 percent of companies is itself a disproportionate response to the issue. Climate change and social impacts are not caused solely by very large companie,s and removing SME's and large companies from the CSRD might be seen as a disproportionate. It poses the question, is it *necessary* to exempt 80 percent of companies from reporting to achieve the objective of easing administrative burden, or would a more measured amendment (as simplifying requirements or using a phase-in option rather than total exemption) have achieced the same outcome?

In terms of legal coherence, introducing a "mid-course" amendment like the Omnibus Package poses practical risks. One concern is the apparent regulatory whiplash, as companies and stakeholders have spent the last few years complying or preparing to comply with the CSRD and the EUTAXR (and the future CSDDD requirements) and now are seeing their efforts being

[159] Directorate-General for Financial Stability, Financial Services and Capital Markets Union, *Commission simplifies rules on sustainability and EU investments, delivering over €6 billion in administrative relief*, 26 February 2025
[160] European Council (n2), 2024

paused or rendered. As noted in Chapter 3, a lot of companies were (and still are) preparing their first sustainability reports when the "Stop-the-Clock"-delay was introduced. These companies might feel penalised or in serious doubt of the legal certainty. This could create a disincentive for companies to be proactive when complying with legal instruments. Moreover, the delayed timeline (companies set to start reporting in 2028 instead of 2026) could damage the future implementation.
Another concern in terms of legal certainty and coherence could arise as the Omnibus Package scales back on mandatory obligations and instead opt for more voluntary compliance. If fewer companies opt in, the framework could lose credibility. This could then lead to companies being unsure whether to "trust" the positive outcome, they would gain when choosing to comply. As examined in Chapter 2, this has been one of the key issues that the EU have tried to address as prior voluntary reporting standards and frameworks did not deliver as intended. Summarised, a "domino effect" of uncertain companies would disrupt the legal coherence, consistency, and legal certainty of the framework. Another dimension in terms of credibility is EU's international leadership in Sustainable Finance. Earlier chapters noted that the EU positioned itself as a frontrunner with the CSRD and CSDDD, potentially setting global benchmarks. Scaling back could send mixed signals internationally.

The aspects introduced above illustrate that the Omnibus Package fundamentally is about trade-offs between simplification and ambition. The intent to cut red tape, reduce administrative costs and burden versus the need to address climate change and human rights issues with the urgency. The EU is attempting to recalibrate this exact trade-off scenario. This poses the consideration, whether EU is at risk of deregulating its sustainable finance agenda under the umbrella of simplification, or if the Omnibus Package is a measure to fine-tune the mechanism of the framework while preserving the objectives.

7. Conclusion

The analysis conducted in this thesis was established by examining the EU's transition from voluntary CSR initiatives to binding sustainability legislation. This evolution revealed a clear understanding on how voluntary guidance could raise awareness, but only legally enforceable obligations could deliver the behavioural change needed to meet the EU's overarching objectives of the EGD and the Paris Agreement. On this foundation, the CSRD, the CSDDD and the EUTAXR were introduced as complementary and reinforcing pillars. Together they aimed at making companies disclose, act, and invest in ways that align private sector economic activity with the EGD and the Paris Agreement.

Acknowledging the aforementioned, the Omnibus Package represents an effort to balance and correct, by simplifying and streamlining, the EU's corporate sustainability framework. The intent of correction has been established: the Draghi Report, the Budapest Declaration amongst private sector feedback urged for legislative actions to relieve administrative burdens and cost to strengthen the competitiveness across the EU. The analysis showed that the original "tsunami" of ambitious legislation risked the overburdening and uncertainty of companies, in particular SMEs, by increased compliance costs and rigorous reporting requirements. By proposing postponing application dates, narrowing the scopes, revising the ESRS and eliminating the possibility of reasonable assurance, the Commission has made an effort to balance the architecture to ensure proportionality and legal certainty.

While the Commission's intentions of restoring proportionality and legal certainty do persist, the efficacy of these measures in achieving simplification remains questionable, in light of legal coherence. Narrowing the CSRD's scope to companies with > 1,000 employees will exclude 80 percent of companies in-scope of the original CSRD. Although the Commission argues that its proposition still will encapsulate most of the private sector's emissions, the loss of data derived from reporting under the CSRD will narrow the database on which investors rely on.
The proposed voluntary standard partially tries to accommodate just that. However, given the initiating examination of early soft law measures, it hints that uptake could be less than what the Commission might be aiming for. Thus, the Omnibus Package potentially weakens the efficacy of legal coherence and proportionality by excluding the majority of companies, while offering voluntary standards, which historically has questionable accomplishments.

A similar deduction could be derived from the CSDDD amendments. Limiting mandatory due diligence to Tier 1-suppliers simplifies legal obligations and reduces monitoring costs. However, the burden reduction rationale does seem extensive, at least in terms of proportionality. Adding to that, the proposed "plausible information" offers a safety valve, yet it disrupts the CSDDD' action-based approach by risking less granular inspection in companies value chains. The disrupting of its action-based approach is further underlined by the rephrasing of transition plan.

In terms of the EUTAXR, the Omnibus Package's proposed voluntary opt-in proposition is an attempt to incorporate flexibility in order to encourage companies out of scope to disclose sustainable activities, and thereby, to ensure the crucial element of transparency in the instrument. However, the proposition could hinder comparability, which also serves a key function of the instrument, as investors cannot be certain of the voluntary aligned activities due to the nature of requirements proposed. The proposed *de minimis* thresholds and streamlined DNSH tests could reduce the instruments complexity and proportionality, although it also might reduce the certainty and coherence of TSCs and environmental objectives in the corporate sustainability framework and the interrelated instruments.

In regard to the interrelated instruments, the thesis also considered pending and complementary instruments. The interoperability of EFRAG's revised ESRS, ESMA's forthcoming RTS for ESG ratings and the EBA's guidelines on ESG-risk management demonstrates that the Omnibus Package could have far-reaching implications. As these instruments and guidelines have been published, or introduces in similar timelines as the Omnibus Package, it is still uncertain whether, and how it will have consequences. At the very least, it creates a vacuum of uncertainty as the interoperability, in particular regarding EBA's guidelines, with the Omnibus Package' amendments are dependent on the following years legislatives procedures. If the reduced ESRS datapoints, proposed by amendments of the CSRD, succeeds in ensuring interoperability, it could still maintain and accomplish decision-useful metrics into credit assessment and investment advice. Thus, the effect of the Omnibus Package on a broader scale depends on the final adoptions and implementation.

As per the implications on the EU's high-level commitments in relation to the EGD and Paris Agreement, the conclusion is similarly two-fold. The Omnibus Package does not include any retraction from it, instead it states and ensures the amendments will be proportionate, and aligned with the objectives set out in the EDG and Paris agreement. By relying on these statements made by the Commission, the Omnibus Package would appear aligned with the high-level and overarching commitments. However, the reduction in scopes and the backtracking stance to implement more voluntary disclosures and commitments creates transparency gaps that could blindsight the monitoring of KPIs related to the EGD and the Paris Agreement. To exclude 80 percent of the prior scope, that initially was enforced to properly ensure and account for the private sectors contribution to these high-level commitments, seems optimistic at the very least.

Ultimately, the findings suggest that the Omnibus Package tries to recalibrate a framework that have been scrutinized as being substantially complex and rigorous. It is no understatement when referring to the wave of legislations, in accordance with the EGD, as a "tsunami". However, it does pose questions whether the balance, that the Commission has tried to recalibrate, has been tipped in the opposite direction. Worryingly, the amendments are many, and crucial pieces of the framework as well. To dismantle central provisions, such as transition plans, scopes, reporting standards and alignment with the EUTAXR, is metaphorically ripping the heart out of the instruments. What is left is a promise to restore short-term legal certainty and ensure the competitiveness across EU, while unburdening companies. However, this change of policy and strategy could prove its worth, if the recalibration brings less compliance "fatigue" and the voluntary uptake can be withheld by the improved awareness of sustainability across the EU, all while ensuring the coherence between pending and complementary instruments.

In summary, the evolution of corporate sustainability frameworks and high-level commitments has led to the three instrumental but complex pillars (CSRD, CSDDD and EUTAXR), while the Omnibus Package now tries to recalibrate the frameworks in order to ensure competitiveness while unburdening companies. The recalibration is welcomed but its content arguably introduces unproportionate measures and leaves uncertainty in terms of the contribution to the EU's high-level commitments and the instruments future voluntary uptake. The Omnibus Package can be seen as trade-off between ambition and reality with its success dependent on legal coherence and companies' willingness to contribute towards a better tomorrow.

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9. Annex

Annex 1 – Overview of amendments to Corporate Sustainability Reporting Directive

Legislation	Element	Previous requirements	Proposed changes
CSRD (Corporate Sustainability Reporting Directive)	New (higher) threshold for being covered by the CSRD	250 employees, EUR 50m in turnover, EUR 25m balance sheet total)	1,000 employees and EUR 50m in revenue or EUR 25m in balance sheet total
	Number of enterprises covered	>50.000	<7,000 (80% fewer companies included)
	Reporting deadlines	2024: Large listed companies with 500+ employees 2025: Accounting class C-large 2026: Listed SMEs	2-year postponement of the CSRD for accounting class C-large (previously covered 2025) and listed SVMs (previously covered 2026)
	New proposed voluntary standard		Proposal for the preparation of a voluntary standard for companies that are no longer covered by the CSRD
	Inclusion of value chain in reporting		Proposal for a voluntary standard to function as a 'value chain cap'
	Third-party statement requirements	Third-party statement with limited assurance - with the possibility of accessing a reasonable degree of assurance by 2028	Transition to a reasonable degree of assurance is removed - now only limited assurance
	Double materiality requirements	Required	Remains unchanged
	ESRS Data Points	> 1,100 data points	Revision of ESRS standards – Potential 70% reduction of data points
	ESRS Industry-Specific Standards	Requirements for the introduction of industry-specific standards	Claims are removed

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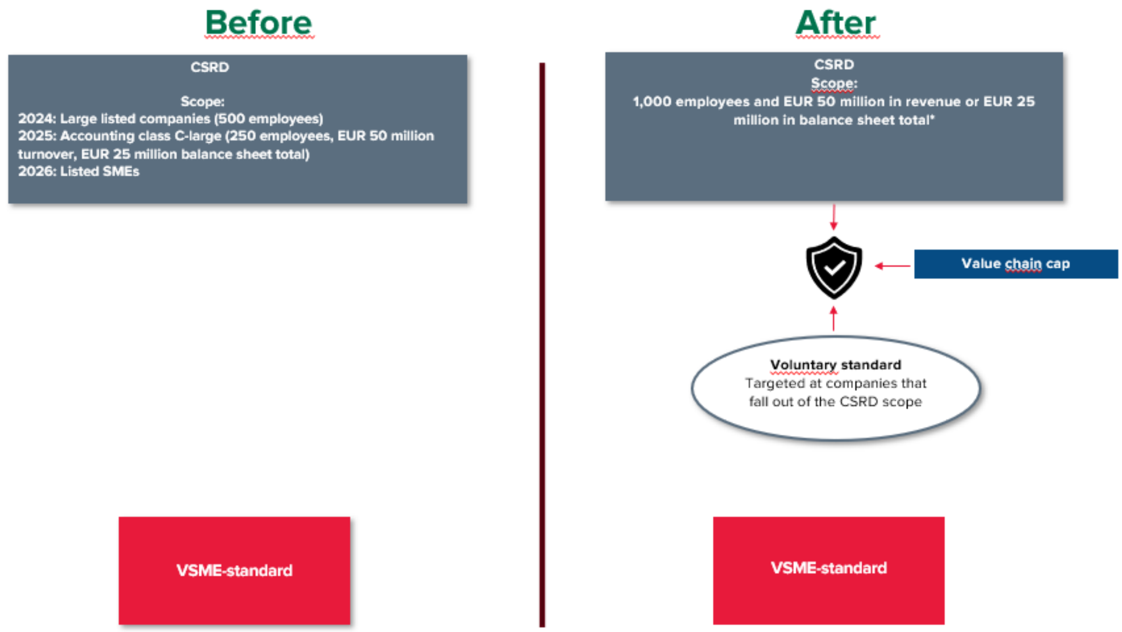
Annex 2 – Overview of amendments to Corporate Sustainability Due Diligence Directive

Legislation	Element	Previous requirements	Proposed changes
CSDDD (Corporate Sustainability Due Diligence Directive)	Scope	The entire value chain is covered	Defining the value chain to include only direct suppliers (Tier 1)
	Deadline for implementation	26. July 2027	One-year postponement - 26 July 2028
	Monitoring suppliers	Supplier monitoring must take place annually	Supplier monitoring must take place every 5 years
	Transition plans	Requirements for the adoption and implementation of transition plans	Proposal to remove the implementation requirement
	Termination of contracts	Company obliged to terminate contract with suppliers if non-compliant	Claims are removed
	Civil liability	Possibility of civil liability in the event of non-compliance	Claims are removed
	Downstream Due Diligence	Considerations for financial institutions' due diligence requirements	Claims are removed
	Fines	The maximum fine of min. 5% of global turnover	Requirements removed with proposal for more 'proportionate sanctions'
	Harmonisation	Minimum harmonisation - Member States can introduce stricter requirements	Member States' options are limited - cannot introduce stricter requirements on: 1) Risk assessment, 2) Value chain due diligence, 3) Sanctions

Annex 3 – The value chain cap



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