Council of the European Union

Brussels, 16 June 2025
(OR. en)

10292/25

LIMITE

SIMPL 53
ANTICI 61
ECOFIN 788
EF 198
DRS 58
COMPET 559
FIN 678
COH 104
CODEC 810

Interinstitutional File:
2025/0045 (COD)

PUBLIC

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee
No. prev. doc.:	9875/25 + ADD 1 + COR 1
Subject:	Meeting of the Council (General Affairs) on 24 June 2025: Preparation Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements - Preparation for a general approach

I. BACKGROUND

1. In October 2024, with the aim of enhancing the Union's competitiveness and achieving the full potential of the Single Market, the European Council called 'on all EU institutions, Member States and stakeholders, as a matter of priority, to take work forward, notably in response to the challenges identified in the reports by Enrico Letta ("Much more than a market") and Mario Draghi ('The future of European competitiveness')"[1]. The Budapest declaration of 8 November 2024 subsequently called for "launching a simplification revolution ensuring a clear, simple

[1] ST 25/24, point 31.

and smart regulatory framework for businesses and drastically reducing administrative, regulatory and reporting burdens, in particular for SMEs”[2].

2. On 26 February 2025, as a follow-up to the EU Leaders’ call, the Commission put forward two ‘Omnibus’ packages, aiming to simplify existing legislation in the fields of sustainability and investment respectively. The first Omnibus package notably contained the proposal on the ‘stop-the-clock’ mechanism, postponing the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements. At the same time, the Commission put forward the ‘content’ proposal aiming at simplifying the framework of corporate sustainability reporting and due diligence requirements by reducing reporting and related administrative burdens as well as limiting the trickle down of obligations on smaller companies.

3. On 20 March 2025, the European Council urged the co-legislators to take work forward on the Omnibus simplification packages “as a matter of priority and with a high level of ambition, with a view to finalising them as soon as possible in 2025”, highlighting that the ‘stop-the-clock’ mechanism on sustainability reporting and due diligence should be adopted “without delay and at the latest by June 2025”. Following a swift procedure applied with the utmost priority by both co-legislators, the ‘stop-the-clock’ text was adopted by the Council on 14 April 2025 and published on 16 April 2025 as Directive (EU) 2025/794.

II. STATE OF PLAY

4. Following the guidance provided by the Permanent Representatives Committee on 28 May, work by the Antici Group on Simplification (AGS) continued, on 4 and 13 June, to prepare the Presidency compromise text [3].

5. Following discussions on 13 June, the Presidency compromise text examined at that meeting has been adjusted to take account of delegations’ concerns, as set out in the revised compromise text in the Addendum to this note. Additions to the fourth Presidency compromise proposal are indicated in **bold and underlined,** deletions are marked as ~~strike-through~~.

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2 SN 53/24.

3 Fourth Presidency compromise text set out in doc. 9875/25 + COR 1 and ADD1.

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Key issues for discussion

The Presidency proposals on which agreement is sought are set out below.

<u>**Corporate Sustainability Reporting Directive (CSRD)**</u>

Scope

6. The <u>Commission</u> proposal reduces by about 80% the number of undertakings subject to sustainability reporting obligations by increasing the employee threshold to 1 000 and removing listed SMEs from the scope. Based on the guidance received and further discussions, the <u>Presidency</u> proposes to add the net turnover threshold of over EUR 450 million, to further alleviate the reporting burden on undertakings and ensure consistency by aligning the scope with the Taxonomy Regulation.

<u>**Corporate Sustainability Due Diligence Directive (CS3D)**</u>

Scope (Article 2 of Directive (EU) 2024/1760)

7. While the scope of the CS3D was not covered by the <u>Commission</u> Omnibus proposal, the <u>Presidency</u> sees a merit in exploring the possibility of increasing the thresholds to 5000 employees and EUR 1.5 billion net turnover, respectively.

8. In the Presidency's view, such largest companies are able to have the biggest influence on their value chain and, at the same time, are best equipped to absorb the costs and burdens of due diligence processes.

Identification and assessment of actual and potential adverse impacts (Article 8)

9. To reduce the burden on companies falling within the scope of the CS3D, the Commission proposes to limit the identification requirements, as a general rule, to company's own operations, those of its subsidiaries and those of its direct business partners ('tier 1'). Under the Commission's proposal, it is only when a company has plausible information indicating adverse impacts at the level of an indirect business partner that the company needs to conduct an in-depth assessment at that level.

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10. Following the outcome of the discussions in the AGS, the Presidency proposal is based on the ‘risk-based approach’, with the identification and assessment of actual and potential adverse impacts focused on areas where these impacts are most likely to occur.

11. To provide for a significant burden relief, the Presidency proposes to maintain the limitation of the relevant obligations to the tier 1. The Presidency proposal also explicitly specifies that in-scope companies are supposed to base their efforts on reasonably available information.

12. At the same time, to ensure an adequate protection of the policy objectives of the CS3D, the Presidency proposal ensures that the identification and assessment obligations are extended in case of objective and verifiable information suggesting adverse impacts beyond the tier 1. Furthermore, to respond to delegations’ concerns, the Presidency proposed to add a review clause related to a possible extension of the identification and assessment obligations beyond the tier 1.

Combating climate change: transition plan for climate change mitigation (Article 22)

13. The Commission proposal simplifies the provisions on transition plans for climate change mitigation by aligning them textually with the provisions of the CSRD. Moreover, the CS3D requirement to put into effect these plans is replaced by a clarification that the obligation of companies to adopt a transition plan includes outlining implementing actions (planned and taken).

14. As a result of the discussions in the AGS, the Presidency proposed further amendments to better balance the simplification ambition and the EU’s climate goals. Specifically, under the Presidency proposal, to reduce burdens and achieve the relevant policy objectives in a more proportionate way, the ‘best efforts’ behavioural standard for companies is replaced with ‘reasonable efforts’. To bring greater clarity, it is provided that transition plans for climate change mitigation aim to ensure that companies’ business model and strategy ‘contribute to’, rather than ‘are compatible with’, inter alia the transition to a sustainable economy and limiting of global warming in line with the Paris Agreement. The Commission should issue guidelines on transition plans including practical guidance on sectoral pathways to adequately assist companies in designing their plans and supervisory authorities in supervising plans’ adoption and design.

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15. To further reduce burdens and provide companies with sufficient time for adequate preparations, the Presidency proposal postpones the obligation to adopt transition plans by two years.

Civil liability (Article 29)

16. The Commission proposal removes the EU harmonised liability regime provided for in Article 29(1) of the CS3D, but maintains the requirements for effective access to justice, including by applying the right to full compensation (which excludes overcompensation) to all cases where a company is held liable for a failure to comply with the due diligence requirements under this Directive, in accordance with national law, and where such failure caused damage.

17. Furthermore, the proposal removes the requirement for Member States to ensure that their liability rules are of overriding mandatory application in cases where the applicable law is not the national law of the Member States (under private international law, the applicable law in case of human rights violations is that of the place where the damage occurred).

18. The Presidency proposes to keep the Commission's proposal.

Transposition (Article 5)

19. The Presidency proposes to postpone the transposition deadline by one year, to 26 July 2028. As discussed in the context of the 'stop-the-clock' proposal, in the Presidency's view, companies should be given sufficient time to set up relevant due diligence processes.

III. CONCLUSION

20. Against this background, the Permanent Representatives Committee is invited to:

- examine the text in the Annex,
- decide on the key issues highlighted above, and
- forward it to the Council (General Affairs) with a view to adopting the General Approach at its meeting on 24 June 2025.

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