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Delegations will find attached document SWD(2025) 80 final.

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COMMISSION STAFF WORKING DOCUMENT
Accompanying the documents

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

Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL 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

and specifying further steps

{COM(2025) 80} - {COM(2025) 81}

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1. Introduction

The European Union has set itself the legal objective of becoming a climate-neutral and climate resilient continent by 2050 as enshrined in Regulation (EU) 2021/1119 on the **European Climate Law.**[1] Furthermore, it has committed to deliver on the UN Sustainable Development Goals (SDGs) by 2030.[2] These binding goals were specified in the **Communications on the European Green Deal**[3] and **on A Strong Social Europe for Just Transition,**[4] in which the Commission set the ambition to upgrade Europe's social market economy to achieve a just transition to sustainability.

Acting on these goals is today more important than ever. According to researchers from the Potsdam Institute for Climate Impact Research, 20% of global GDP is expected to shrink by 2050 due to climate change, despite the current ambition of climate change mitigation measures and the damage may be even higher if the set emission reduction targets are not met.[5] The annual economic damage could reach EUR 35.6 trillion, six times the cost of limiting warming to 2°C.

The EU estimates that to meet the objectives of the European Green Deal and RepowerEU alone, additional investments of about **EUR 620 billion annually between 2023 and 2030** will be needed, which amounts to 3.7% of the EU's 2023 GDP. By far the greatest part of these investments will have to come from private funding.[6]

[1] Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law'), OJ L 243, 9.7.2021, p. 1.

[2] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Delivering on the UN's Sustainable Development Goals – A comprehensive approach, SWD(2020) 400, and Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Commission Communication on the Next steps for a sustainable European future – European action for sustainability, 22.11.2016
COM(2016) 739 final, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016DC0739

[3] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, The European Green Deal, COM/2019/640 final, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019DC0640.

[4] Communication form the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions, A Strong Social Europe for Just Transitions, COM(2020) 14 final, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0014.

[5] Kotz, M., Levermann, A. & Wenz, L. The economic commitment of climate change. Nature 628, 551–557 (2024). https://doi.org/10.1038/s41586-024-07219-0

[6] Communication from the Commission to the European Parliament and the Council, 2023 Strategic Foresight Report Sustainability and people's wellbeing at the heart of Europe's Open Strategic Autonomy, COM(2023) 376 final, available at https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM:2023:376:FIN.

Moreover, fighting climate change alone is not enough to address the crisis of nature loss and its devastating impacts. Over 50% of global GDP (USD 44 trillion) is at risk from nature loss.[7] However, there is hope: sustainable development could create USD 10 trillion in business opportunities, 395 million jobs by 2030, and lead to a more resilient future.[8]

As highlighted in his report on 'The Future of European Competitiveness', Mario Draghi emphasised that the transition to a low-carbon, resource-efficient, and circular economy will also be essential for securing the EU's long-term economic prosperity, resilience, and competitiveness.[9] However, to unlock the full potential of this transition, a cohesive and well-executed strategy will be crucial, including fostering the role of public and private finance in supporting the transition.

With the **Competitiveness Compass for the EU,** the Commission presented this strategy for the next five years.[10] The Compass identifies the policy changes that are needed for the EU to step up to the new realities and develop novel ways of working together to increase the speed and quality of decision-making. A pivotal point to achieve this will be the simplification of the regulatory environment and the reduction of burden. The Compass, therefore, sets the target of cutting administrative burden by at least 25% for all companies and at least 35% for small and medium-sized enterprises (SMEs) without undermining the respective policy goals.

This reflects the plan **for Europe's sustainable prosperity and competitiveness in the political guidelines for the 2024-2029 term,** as presented by President von der Leyen. The Single Market is among the plan's key dimensions.[11]

The **2023 SME relief package** first introduced the idea of simplifying the EU's regulatory framework for sustainability reporting and sustainable due diligence.[12] The package included concrete proposals for adjusting existing legislation to ensure that SMEs could benefit from user friendly tools and information and knowledge sharing to better navigate the EU's sustainable finance framework.

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[7] According to a report published by the World Economic Forum, over half of the global GDP, USD 44 trillion, is potentially threatened by nature loss, WEF, Biodiversity loss poses a fundamental risk to the global economy, available at: https://www.weforum.org/stories/2023/02/biodiversity-nature-loss-cop15 /.

[8] WEF, Biodiversity loss poses a fundamental risk to the global economy, available at: https://www.weforum.org/stories/2023/02/biodiversity-nature-loss-cop15 /.

[9] M. Draghi, The future of European competitiveness, 2024, available at: https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en#paragraph_47059.

[10] Communication from the Commission to the European Parliament, the European council, the Council, the European Economic and Social Committee and the Committee of the Regions, COM (2025) 30 final: A Competitiveness Compass for the EU.

[11] Europe's Choice, Political Guidelines for the next European Commission 2024-2029, available at: https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en.

[12] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - SME Relief Package, COM(2023) 535, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023DC0535.

Additionally, the Commission launched a **Call for evidence on the rationalisation of reporting requirements** to which almost 200 stakeholders responded.[13] Stakeholders mainly called for simplifying sustainability reporting, due diligence and the EU Taxonomy.[14] The findings already fed into targeted rationalisation measures of reporting requirements towards the 25% burden reduction goal, achieving about EUR 5 billion savings.

The need for simplification in the field of sustainability reporting and sustainable due diligence was further highlighted in the **Draghi report**, which underlined that excessive regulatory and administrative burden can hinder the competitiveness of EU companies compared to those from other blocs, which negatively affects sectoral productivity, raises barriers to entry for new companies, deters competition, and may lead to higher prices for consumers. According to the report, these frameworks entail a major compliance cost for companies in the EU.[15]

As a result, the Commission announced in its **Work programme for 2025**[16] a simplification Omnibus package on sustainable finance reporting and sustainability due diligence consisting of amendments to the Corporate Sustainability Reporting Directive 2022/2464[17] (CSRD), the Corporate Sustainability Due Diligence Directive 2024/1760[18] (CSDDD), the Taxonomy

[13] From 17 October to 1 December 2023, the Commission gathered feedback from 193 stakeholders on possible rationalization measures for reporting requirements. The main contributors came from business associations (84), companies (35), followed by public authorities (23) and non-governmental organisations (18). In terms of geographical coverage, the stakeholders came mainly came from Germany (53), Belgium (47), France (7), Lithuania (8), the Netherlands (6), Italy (5), and Austria (4). Feedback included also the call for the use of digitalisation and smoother data flows, the re-use of data and standards, availability of clear and timely guidance and to remove overlaps and inconsistencies in the legislations, available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13990-Administrative-burden-rationalisation-of-reporting-requirements_en.

[14] Similarly, the Fit for Future Platform suggested to remove redundant, duplicating, or obsolete obligations, inefficient frequency of timing, as well as inadequate methods of data collection accumulated over the years, while maintaining the underlying policy objectives of the legislation. See Fit for future Platform opinion: Automated sustainability reporting, AWP 2024, 17 October 2024, available at: https://commission.europa.eu/document/download/21c38d32-31a4-47ff-9cba-f7b91722bc1d_en?filename=fo_2024_1_automated_sustainability_reporting_en.pdf.

[15] M. Draghi, The future of European competitiveness, 2024, available at: https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en#paragraph_47059.

[16] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Commission work programme 2025, Moving forward together: A Bolder, Simpler, Faster Union, COM(2025) 45 final, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025DC0045

[17] 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, OJ L 322, 16.12.2022.

[18] 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, OJ L, 2024/1760, 5.7.2024.

Disclosures Delegated Act [19], Taxonomy Climate Delegated Act [20] and the Taxonomy Environmental Delegated Act[21]. Furthermore, the Commission will adopt a proposal to amend the Carbon Border Adjustment Mechanism (CBAM) as part of the same omnibus simplification package.[22]

The aim is to square the EU's ambition towards a sustainable transition with what companies can feasibly achieve to strengthen competitiveness and economic growth by enhancing the proportionality and cost effectiveness of such frameworks. The Work programme was accompanied by the Communication "A simpler and faster Europe", which set out the vision for the implementation and simplification agenda.[23]

This Staff Working Document (SWD) accompanies the simplification Omnibus package and includes: (1) an overview of the EU sustainability reporting and due diligence framework, (2) a reflection of the input and feedback received from stakeholders during the consultation process, (3) an explanation of the simplification measures implemented to streamline the regulatory framework, while maintaining the objectives of the legislation and minimizing unnecessary complexity, and (4) a quantification of the expected savings resulting from the simplification efforts. This SWD presents the rationale and benefits behind the simplification and burden reduction measures introduced in the proposed legislation.

[19] Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, OJ L 443, 10.12.2021, p. 9.

[20] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, OJ L 442, 9.12.2021, p. 1–349.

[21] Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities.

[22] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, OJ L 442, 9.12.2021, p. 1–349.

[23] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, A simpler and faster Europe: Communication on implementation and simplification, 2024-2029, 11.2.2025 COM(2025) 47 final.

2. The EU sustainability reporting and due diligence framework

The EU's sustainable finance agenda aims to support companies and the financial sector in directing private funding into sustainable investment projects and technologies.

In the last five years, the EU has made considerable progress in implementing the agenda, including through the sustainability reporting requirements set out, among others, in the CSRD and the Taxonomy Regulation.[24] Additionally, the CSDDD and other rules lay down due diligence related provisions[25] covering behavioural requirements, in particular with regard to the identification, prevention, and addressing of negative externalities in a company's own operations or in the related activities of its business partners.

2.1. The Corporate Sustainability Reporting Directive (CSRD)

To respond to the increased demand for corporate sustainability information and provide more transparency to stakeholders, the Corporate Sustainability Reporting Directive (CSRD) modernises and strengthens the rules concerning the disclosure of sustainability information by undertakings. The CSRD requires that large undertakings and listed SMEs disclose information necessary to understand the undertaking's impacts on sustainability matters (i.e. environmental, social and governance), and information necessary to understand how sustainability matters affect the undertaking's development, performance and position.

The current provisions of the CSRD phase-in reporting requirements for different categories of undertakings, see Subsection 3.1.2. (f)).

The reporting requirements that undertakings should disclose to report against the CSRD are specified in European Sustainability Reporting Standards[26] (ESRS), which were developed in draft form by EFRAG and adopted by the Commission via Delegated Regulation 2023/2772.[27] The reporting of undertakings is subject to an assurance requirement and must be published together with the related assurance report.

The CSRD does not regulate voluntary sustainability disclosures by SMEs outside of the scope of the CSRD. However, many non-listed SMEs are subject to information requests from large undertakings and financial institutions within their value chains. Therefore, at the request of

[24] 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, OJ L 198, 22.6.2020, p. 13–43.

[25] 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, OJ L, 2024/1760, 5.7.2024.

[26] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards, OJ L, 2023/2772, 22.12.2023.

[27] EFRAG was previously called the European Financial Reporting Advisory Group, but its official name is now just EFRAG. It is an independent private multistakeholder body, majority funded by the EU.

the Commission, EFRAG has developed a simplified voluntary standard for SMEs that are not in the scope of the CSRD.[28] The voluntary SME standard (VSME), also requested by organisations representing SMEs, will provide an efficient tool for smaller companies to respond to requests for sustainability information. It aims to reduce the need for those SMEs to respond to separate requests for information from individual financial institutions, large undertakings and other stakeholders.

Various stakeholders, especially smaller companies in scope and those that have not previously reported sustainability information, have highlighted that they are facing challenges in implementing the ESRS. Several measures to facilitate the implementation of the new framework have already been taken, as this is a priority for the Commission. These measures align with the Commission's objective to reduce the reporting burden on EU companies and ensure the existing legal framework is applied in the simplest, fairest and most efficient way. Specifically:

- the Commission has adjusted the monetary thresholds in the Accounting Directive, setting the size of companies in line with inflation. This has reduced the number of undertakings subject to the CSRD by about 14%.[29] The Commission also proposed to postpone the deadline for the first set of sector-specific reporting standards by two years to mid-2026 and the European Parliament and Council agreed to this proposal.[30] This gives undertakings more time to focus on the correct application of the first set of sector-agnostic standards adopted in 2023.
- the Commission has asked EFRAG to prioritise the development of practical guidance to support undertakings in implementing the ESRS. EFRAG has published guidance on value-chain reporting[31], on the materiality assessment process[32] and a list of ESRS datapoints[33] in a user-friendly format. In addition, EFRAG has established an online Q&A platform for technical clarifications.[34] The Commission published a first set of

[28] EFRAG developed the draft simplified voluntary SME standard and submitted it to the Commission in December 2024.
[29] Directive (EU) 2023/2775 of 17 October 2023 amending Directive 2013/34/EU of the European Parliament and of the Council as regards the adjustments of the size criteria for micro, small, medium-sized and large undertakings or groups.
[30] Directive (EU) 2024/1306 of the European Parliament and of the Council of 29 April 2024 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, OJ L 2024/1306, 8.5.2024.
[31] EFRAG, Value Chain Implementation Guidance, available at: https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/EFRAG%20IG%202%20Value%20Chain_final.pdf.
[32] EFRAG, Materiality Assessment Implementation Guidance, available at: https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/IG%201%20Materiality%20Assessment_final.pdf.
[33] EFRAG, List of ESRS datapoints, available at: https://efrag.sharefile.com/share/view/s363afe552f8a4f3b99de63a12c2f8865/foa75419-44c9-4081-85a5-43217a6e8732.
[34] EFRAG, ESRS Q&A Platform, available at: https://www.efrag.org/en/esrs-qa-platform.

questions and answers on the CSRD.[35] To reduce the need for undertakings to seek external legal or consultancy advice.

- at the Commission's request, the Committee of European Audit Oversight Bodies has developed non-binding guidelines to help statutory auditors and other assurance services providers in the absence of an EU standard that should be adopted by 2026.[36]
- the Commission has organised various stakeholder meetings and events to get feedback on the implementation challenges faced by undertakings when applying the ESRS. In May and November 2024, the Commission held two stakeholder fora, attended by over 400 participants in person and more than 3,000 virtually. The fora provided undertakings with information to support them in their implementation of the ESRS. A number of Member States also presented a set of national support initiatives at these events.[37]
- Additionally, Member States are receiving support through several implementation support initiatives designed to facilitate compliance, enhance transparency, and support businesses in efficiently meeting their sustainability reporting obligations. Specifically, in the framework of the 2025 Technical Support Instrument round, the Commission intends to launch a flagship multi-country project entitled "*Improving Sustainability Reporting for Businesses*."

2.2. The Corporate Sustainability Due Diligence Directive (CSDDD)

The Corporate Sustainability Due Diligence Directive (CSDDD) sets out a corporate due diligence duty to identify and prevent potential, and to bring to an end or at least minimise actual adverse human rights and environmental impacts. This duty covers a company's own operations, the operations of its subsidiaries and its chains of activities.

Due diligence under the CSDDD covers all direct and indirect business partners in the upstream part of the value chain and, to some extent, also in the downstream part. However, the Directive sets out a risk-based approach by allowing companies to focus on those impacts that are most likely or most severe, and requires appropriate measures, understood as measures that are reasonably available and proportionate to the circumstances. Where a company has caused or jointly caused an actual adverse impact, the CSDDD requires remediation. As part of their due diligence measures, companies are expected to integrate sustainability due diligence into their

[35] Commission Notice on the interpretation of certain legal provisions in Directive 2013/34/EU (Accounting Directive), Directive 2006/43/EC (Audit Directive), Regulation (EU) No 537/2014 (Audit Regulation), Directive 2004/109/EC (Transparency Directive), Delegated Regulation (EU) 2023/2772 (first set of European Sustainability Reporting Standards, first ESRS delegated act), and Regulation (EU) 2019/2088 (Sustainable Finance Disclosures Regulation, SFDR) as regards sustainability reporting, OJ C, C/2024/6792, 13.11.2024.

[36] The Commission also published draft guidelines on Member States' national support initiatives for consultation on 25 June 2024 and will provide clarifications as regards the work that needs to be performed by assurance providers in the context of a limited assurance engagement on sustainability information.

[37] ESRS implementation support initiatives at Member State level, available at: https://finance.ec.europa.eu/document/download/23692f87-9484-4eef-ae40-205b34618e93_en?filename=finance-events-240516-report-ESRS_en.pdf.

policies and risk management systems, use contractual assurances and cascading, make investments and provide support for their SME business partners, where relevant. Furthermore, companies are expected to engage with a broad range of stakeholder groups at specific steps of the due diligence process and set up a notification mechanism and a complaints procedure. Monitoring the effectiveness of the measures taken and reassessing the actual and potential impacts is required on an annual basis and whenever new significant risks arise.

In addition to human rights and environmental due diligence, the CSDDD also requires companies to adopt and put into effect, on a best effort basis, a transition plan for climate change mitigation. The Directive sets out minimum content requirements for this plan, including:

- aligning the business model and strategy of the company with the 1.5ºC global warming objective of the Paris Agreement and with the EU's intermediate and 2050 climate neutrality objectives;
- setting climate-related targets, including, where appropriate, absolute greenhouse gas (GHG) emission reduction targets for 2030 and for every 5 years thereafter up until 2050, which must be based on conclusive scientific evidence;
- describing actions, investments and fundings that support the implementation of the transition plan.

Under the Directive a company has to communicate to the public about its due diligence policies and efforts annually. Moreover, it has to publish its climate transition plan and, subsequently, an annual update of it with a progress report. However, an undertaking that reports sustainability information, including a transition plan, under the CSRD (which is likely to be the case for all EU companies within the scope of the CSDDD) is deemed to have complied with the CSDDD obligation in this regard.

According to the current rules, Member States should transpose the CSDDD by 26 July 2026. The Directive only covers very large companies: those that have more than 1000 employees and a net worldwide turnover of more than EUR 450 million (for EU companies) or generated more than EUR 450 million turnover in the EU (for non-EU companies), or are ultimate parent companies of groups that reach these thresholds on a consolidated basis.[38] Entry into application is envisaged in three phases, as follows:

- as from 26 July 2027, the rules would start applying only to the largest EU companies, i.e. those that have more than 5000 employees and report a net annual (worldwide) turnover of more than EUR 1.5 billion, as well as to non-EU companies that generate more than EUR 1.5 billion net turnover in the EU;

[38] The Directive also covers franchisor and licensor companies or their ultimate parent companies with a network of a comparable size.

- as from 26 July 2028, EU companies with more than 3000 employees and more than EUR 900 million net turnover, as well as non-EU companies generating such net turnover in the EU would need to comply with the new framework; and
- as from 26 July 2029, all other companies falling under the general scope would have to start applying the (national rules transposing the) Directive.

After the phased implementation, the CSDDD is estimated to apply to approximately 6000 large EU companies and 900 non-EU companies.[39]

The Directive includes several safeguards for SMEs. For instance, large companies must adapt their purchasing practices, avoid unfair contract clauses and cover the cost of third-party verification for SME business partners. They also need to provide proportionate support and invest in their value chain to help SMEs comply with the requirements.

It should be recalled that similar requirements regarding sustainable value chains and due diligence have been developed for specific risks, commodities or sectors in other EU legal instruments. For instance, the Conflict Minerals Regulation[40] requires EU importers of gold, tungsten, tin, and tantalum to ensure they import these minerals and metals from responsible sources and meet international responsible sourcing standards, set by the Organisation for Economic Co-operation and Development (OECD). The Deforestation Regulation[41] requires operators and traders to ensure that their products are deforestation-free. The Battery Regulation[42] sets due diligence rules for operators who must verify the source of raw materials used for batteries placed on the market. The Regulation on prohibiting products made with forced labour on the Union market[43] includes provisions related to business efforts to identify, prevent, and address forced labour in their operations and supply chains, without creating additional due diligence obligations for economic operators.

[39] Estimates for EU companies are based on extracts from the Orbis database of Moody's Analytics (formerly Bureau van Dijk) and the figure for non-EU companies is calculated using an model construed for this purpose by the Commission, as explained in the Commission Staff Working Document on the Follow-up to the second opinion of the Regulatory Scrutiny Board accompanying the proposal for the CSDDD, SWD/2022/39, p.13, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2022%3A0039%3AFIN

[40] Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas, OJ L 130, 19.5.2017, p. 1–20.

[41] Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010; OJ L 150, 9.6.2023, p. 206–247.

[42] Regulation (EU) 2023/1542 of the European Parliament and of the Council of 12 July 2023 concerning batteries and waste batteries, amending Directive 2008/98/EC and Regulation (EU) 2019/1020 and repealing Directive 2006/66/EC, OJ L 191, 28.7.2023, p. 1–117.

[43] Regulation (EU) 2024/3015 of the European Parliament and of the Council of 27 November 2024 on prohibiting products made with forced labour on the Union market and amending Directive (EU) 2019/1937 (OJ L, 2024/3015, 12.12.2024).

The CSDDD complements these specific laws. It also translates into mandatory requirements the existing international voluntary frameworks on responsible business conduct.[44] In addition, the CSDDD seeks to prevent further fragmentation of the single market as certain Member States have started to adopt their own supply chain or sustainability due diligence laws.

Previously, the EU had focused on preventing human rights abuses, harmful emissions and environmental harm within its own borders. For adverse impacts happening outside the EU, it relied on its external action, including diplomatic efforts and trade policy (e.g. the General System of Preferences or sustainability chapters in free trade agreements). Corporate due diligence legislation engages the business sector (large EU companies and non-EU companies with significant turnover in the EU) in addressing their harmful impacts, including those caused in third countries in the company's value chain where negative externalities have been produced.

In terms of economic effects, this paradigm shift may have an impact on the EU's relative competitiveness. So far, geopolitical actors outside the EU have mostly not (yet) taken this approach and continue allowing their companies to operate without being held accountable for the harm they cause to the environment, the climate, or local communities, although larger companies in particular might carry out due diligence on a voluntary basis in line with the international standards.

However, in the mid to longer term, exercising environmental and human rights due diligence across the entire value chain and lifecycle of products and services may bring substantial potential benefits to companies, including in the form of efficiency gains. It helps them better manage their dependencies and risks related to supply chains and sustainability that could result in reputational damage, sudden collapses of supply chains, deteriorating operating environments, production halts, regulatory and legal actions. Economic evidence shows that integrating sustainability factors into business operations improves financial performance, innovation and firm value.[45]

The CSDDD contains various elements that aim to keep the regulatory burden of businesses proportionate both for the companies directly under its scope and for their SME business partners that are indirectly impacted:

- the Directive's scope covers only very large companies;
- the Directive includes various limitations and safeguards to avoid unnecessary burdens. For example, the Directive takes a risk-based approach and companies in scope are

[44] Notably the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises, which is elaborated further in the Due Diligence Guidance for Responsible Business Conduct and in sectoral guidance documents.

[45] See for instance Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. https://doi.org/10.1080/20430795.2015.1118917, and Whelan, T., Atz, U., Van Holt, T., and Clark, C. (2021). ESG AND FINANCIAL PERFORMANCE: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020, https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM_ESG-Paper_2021%20Rev_0.pdf.

allowed to prioritise addressing the impacts according to their likelihood and severity. Costs can be shared via industry and multi-stakeholder initiatives and reduced by using modern (e.g. digital) technologies; and

- to facilitate the implementation efforts and reduce the compliance burden on companies, the Commission will issue a large set of guidelines and set up a single helpdesk to provide support to companies in scope (also involving, where relevant, national bodies), in line with the Directive's requirements.

Regarding enforcement, the EU network of supervisory authorities is there to coordinate oversight practices to enhance the uniform application of the Directive, which supports a level playing field and can further reduce complexities and compliance costs for companies.

2.3. The EU Taxonomy

The EU Taxonomy provides a classification system of environmentally sustainable economic activities. It helps address the risk of greenwashing and supports investors in directing their capital towards the activities needed for the green transition.

The EU Taxonomy can also serve as a tool for financial and non-financial undertakings to plan and communicate on their business strategies, transition planning, as well as their investing and lending activities for the transition to a low-carbon economy. This is in particular important as corporates and financial sector actors will face growing challenges due to the critical emergence of stranded assets resulting from climate change and environmental degradation. As certain assets are increasingly likely to be deemed outdated, highly polluting or vulnerable to the physical effects of climate change, they will risk unanticipated or premature write-downs, downward re-valuations, or conversions to liabilities. Economic activities that qualify under the EU Taxonomy can avoid this by increasing corporations bargaining power or attractiveness when negotiating credits or issuing green bonds whose proceeds are allocated to EU Taxonomy aligned projects.

By virtue of Article 8 of the Taxonomy Regulation undertakings reporting under the CSRD also publish information about the eligibility and alignment of their economic activities with technical screening criteria laid down in the **Taxonomy Climate and Environmental Delegated Acts.** The **Taxonomy Disclosures Delegated Act** sets out the reporting obligations laid down in Article 8 of the EU Taxonomy. It specifies key performance indicators for financial and non-financial undertakings. While non-financial undertakings have to report on the Taxonomy-alignment of their turnover, capital and operational expenditure (turnover, CapEx and OpEx KPIs), financial undertakings report on the percentage of their investments and their assets under management that are aligned with the EU Taxonomy, or in case of (re-)insurance undertakings also an underwriting Key Performance Indicator (KPI). As regards credit institutions, the key metric in this assessment is the Green Asset Ratio (GAR), which

measures the proportion of Taxonomy-aligned assets to total covered assets in a credit institution's current (GAR stock) and future portfolio (GAR flow).

To avoid undue burdens on SMEs to demonstrate Taxonomy-alignment to their credit institutions, loans to SMEs were excluded from the GAR, regardless of their environmental credentials, as per the Taxonomy Disclosures Delegated Act. However, as companies often compile information from other operators in their value chain, SMEs have increasingly been asked to check their Taxonomy-alignment.

In 2021, the **Taxonomy Climate Delegated Act** introduced technical screening criteria for 101 economic activities that could make a substantial contribution to climate change mitigation or adaptation. For climate change mitigation, economic activities represent over two thirds of the EU's GHG emissions. The scope of activities was further increased in 2023 through the **Taxonomy Environmental Delegated Act** that defined criteria for economic activities falling under the other four environmental objectives of the EU Taxonomy.[46] As of today, the scope of economic activities that are eligible under the EU Taxonomy has reached a total of 151, spanning over 16 different sectors.[47]

To support stakeholders in their implementation efforts, the Commission has been providing regular guidance on the interpretation and application of certain criteria and disclosures. So far, it has published six Commission notices[48]. Furthermore, the Commission has launched a series of online tools and guides on the **EU Taxonomy Navigator website** to help users navigate the criteria and fill their reporting templates. These should save stakeholders time and resources when assessing and reporting their Taxonomy alignment.[49]

The results of the first two years of Taxonomy alignment disclosures show that Taxonomy-aligned turnover grew by 25% between financial years 2022 and 2023, reaching a total of EUR 760 billion in 2023.[50] The sectors that reported the highest share of Taxonomy-aligned turnover in financial year 2023 were manufacturing (36%), electricity supply (33%) and construction (9%). For the 2023 financial year, 2180 companies disclosed a total of EUR 1527 billion of capital expenditure, of which EUR 848 billion (56%) was Taxonomy eligible CapEx, and EUR

[46] The six environmental objectives of the EU Taxonomy are: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems respectively.

[47] This number includes the total of economic activities in the EU Taxonomy Climate Delegated Act of 2021, Complementary Climate Delegated Act of 2022, the amendments to the Taxonomy Climate Delegated Act and the EU Taxonomy Environmental Delegated Act of 2023. The number takes into account overlaps between environmental objectives, i.e. an activity that makes a substantial contribution to more than one environmental objective is counted only once. The net number of activities included in the Taxonomy (not taking into account overlaps) is 242.

[48] See Commission Notices C/2022/6937, C/2023/6747, C/2023/6756, C/2023/3719, C/2023/305 and C/2024/7494. See EU Taxonomy Navigator for a full list of Commission notices, available at: https://ec.europa.eu/sustainable-finance-taxonomy/.

[49] EU Taxonomy Navigator, available at: https://ec.europa.eu/sustainable-finance-taxonomy/.

[50] The data has been extracted from Bloomberg and Orbis databases.

250 billion (16%) was Taxonomy aligned CapEx. This represents a 34% increase of Taxonomy-aligned CapEx from financial year 2022 to 2023.

Financial undertakings started to disclose their Taxonomy-alignment figures in 2024. The results show that credit institutions have reported on average low numbers for the GAR (stock) and GAR (flow).[51]

Corporates or financial institutions may decide on a voluntary basis to issue bonds that partially or fully allocate proceeds to Taxonomy-aligned projects by using the European Green Bonds Standard (EuGBS), with 85% allocation of proceeds to Taxonomy-aligned projects. Also, financial products that promote or pursue a certain level of sustainability may report any potential Taxonomy-alignment under Articles 8 or 9 of the Sustainable Finance Disclosure Regulation 2019/2088[45] (SFDR).

Additionally, there are a range of voluntary initiatives that use elements of the EU Taxonomy such as the Green Economy Transition Approach (GET) 2021-2025 of the European Bank for Reconstruction and Development, which considers the EU Taxonomy as a relevant methodology in designing their financial instruments.

Finally, in light of global taxonomy developments, the EU has been a driving force in promoting principles to strengthen the taxonomies' international interoperability with the aim of increasing a voluntary use of the EU Taxonomy and reducing administrative burden related to its international application. As such, it has actively engaged with its partners, notably in the G20 Sustainable Finance Working Group and the International Platform on Sustainable Finance. The EU Taxonomy also remains a model from which many jurisdictions take inspiration when developing and refining their taxonomies.

3. Main issues at stake and the ways to address them

The EU sustainability framework has shown a positive impact for the green transition, long-term competitiveness and resilience of supply chains. By channelling an increasing amount of capital towards green innovations and technologies, it can boost the competitiveness of Europe's industry and secure our open strategic autonomy. Nonetheless, it has also introduced compliance challenges, at least in the short to medium term.

[51] For instance, the EY Taxonomy Barometer shows that in 2024, credit institutions have reported for their current Taxonomy-aligned assets relative to their total covered assets an average 1.77% for GAR (stock) based on turnover and 2.01% for GAR (stock) on CapEx. For the inflow of new Taxonomy aligned assets relative to total covered assets, the report shows that banks have reported on average a 1.90% for GAR (flow) based on turnover and 3.02% for GAR (flow) based on CapEx. EY (2024): Taxonomy Barometer, pp. 14-15, available at: https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/assurance/documents/ey-gl-eu-taxonomy-barometer-09-2024.pdf.

Compliance with the new legal requirements requires businesses to invest time, resources, and skills. It includes dealing with different sets of rules that for instance vary in scope, definitions, criteria, obligations, timelines, as well as enforcement and supervision mechanisms.

The ECB, in its Occasional paper 367 of January 2025, explained that the rapid and sequential introduction of parallel disclosure obligations has created a complex regulatory framework that may deter, rather than incentivise, the provision of sustainable finance.[52] The European Supervisory Authorities shared this view, highlighting that although the supervision of sustainable finance has risen the framework's complexity has posed challenges in data quality, usability and consistency.[53] This prevents financial institutions from fully addressing greenwashing risks[54] and delineating the sustainability profile of their products, as well as communicating about it clearly.[55]

Stakeholders from the industry sector, including a number of the main EU and national business associations, further suggest that they are asked to comply with varying obligations of comparable stringency under different rules. Where reporting is at stake, they claim that they are faced with complex requirements and that they would benefit from more clarity and consistency across the different sustainability reporting rules. The access to robust and reliable data and a potential trickle-down effect on companies outside the formal scope of such rules are also reported as a source of administrative burden.

On the top of the many consultation activities carried out by the Commission and reported above and in details in the next section, the Commission organised a **Reality Check on Sustainability Reporting** and a **Roundtable on Simplification** in early February with representatives of industry and civil society. Overall, stakeholders expressed support for the overarching objectives of the CSRD, the CSDDD and the EU Taxonomy, but highlighted a need for simplification and harmonisation in their implementation. While most suggested pausing the application of existing legislation to focus on simplification, some saw merits in maintaining the rules and achieve simplification by means of implementation guidelines. Representatives of civil society pointed out that companies that have already made efforts to comply should not be put at a disadvantage. They highlighted the demand for ESG products

[52] ECB Occasional Paper Series 367, Investing in Europe's green future Green investment needs, outlook and obstacles to funding the gap, available at: https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op367~16f0cba571.en.pdf?3adc49c9eaf43bb95bf51eb5c4df36d3.

[53] EIOPA, Advice to the European Commission on greenwashing risks and the supervision of sustainable finance policies, EIOPA-BoS-24-159, 04 June 2024, p. 5, 37 and 42, available at: https://www.eiopa.europa.eu/document/download/c5d52866-1c3f-4913-9e20-5a5f40135efa_en?filename=Final%20Report%20-%20EIOPA%20advice%20to%20the%20European%20Commission%20on%20greenwashing.pdf.

[54] EBA, Greenwashing monitoring and supervision final report, EBA/REP/2024/09, available at: https://www.eba.europa.eu/sites/default/files/2024-05/a12e5087-8fd2-451f-8005-6d45dc838ffd/Report%20on%20greenwashing%20monitoring%20and%20supervision.pdf.

[55] ESMA, Opinion Sustainable Investments: Facilitating the investor journey, ESMA36-1079078717-2587, 24 July 2024, p.17, available at: https://www.esma.europa.eu/sites/default/files/2024-07/ESMA36-1079078717-2587_Opinion_on_the_functioning_of_the_Sustainable_Finance_Framework.pdf.

and disclosure from end-investors and customers. Representatives from a wide range of sectors like energy, construction, finance, and manufacturing voiced concerns over perceived extensive and costly reporting requirements, as well as redundant and complex obligations. They recommended to further consider interoperability of European standards with international ones, as well as to limit value chain requirements. SMEs pointed out that the lighter reporting regime for them should not be undermined by more extensive requests along the supply chain or by financial institutions. Stakeholders also called for clear guidance for assurance processes or harmonised definitions. Several stakeholders questioned the EU Taxonomy's effectiveness, suggesting its reporting be made entirely voluntary or that the DNSH criteria be removed or significantly simplified, while others pointed to the EU's responsibility as a front-runner in sustainable finance, being the first of many jurisdictions globally that issued a Taxonomy.

Some business associations and non-governmental organisations call on the Commission to strive for a balance between simplification and preserving the integrity and ambition of the sustainable finance legislation in order to continue to serve the core EU goals on the European Green Deal. Some stakeholders argued against penalizing early adopters and sustainability leaders who have already invested in meeting the requirements.

The Commission proposes, as a part of the Omnibus simplification package, amendments of certain requirements set out in:

- the CSRD;
- the CSDDD; and
- the Taxonomy Disclosures Delegated Act, and the Climate and Environmental Delegated Acts.

The following Sub-sections outline the main issues presented on these legal acts. The feedback was gathered through various stakeholder consultations organised by the Commission, as well as from positions shared by EU bodies, Member States and financial and non-financial organisations, including the main business associations.

The sub-sections also provide for an overview of the proposed amendments to the legal texts to address these issues and to streamline and ease compliance with the new sustainable finance framework. These sub-sections also present associated estimated cost savings for companies.

3.1. Issues presented on the CSRD/ESRS and proposed amendments or next steps

3.1.1. Stakeholder views

The Commission has organised consultations and events to gather the views of stakeholders and civil society regarding the application of the sustainability reporting requirements in the CSRD and the ESRS. As a result of these outreaches, the Commission received extensive

feedback from financial and non-financial sector stakeholders requesting a simplification of the sustainability disclosure requirements in the CSRD and the ESRS, a well as providing concrete solutions on how to achieve this. The main feedback was provided during the Call for Evidence and the Simplification Roundtable events, mentioned above. The feedback from those events has been analysed in depth and is summarised below.

a) Adjusting the scope of the CSRD and limiting trickle-down effects on SMEs and smaller companies in the value chain

Many businesses and industry associations have suggested that the Commission revises the CSRD to reduce the scope to large undertakings. Some suggested revising the scope of the CSRD so that the threshold is consistent with that of the CSDDD (1000 employees and EUR 450 million turnover). For others this means revising scope to undertakings with more than 500 employees and that value chain reporting be limited to counterparties in the first tier of the value chain. As regards limiting the value chain, companies note that it is difficult to report on enterprises without direct customer or supplier relationships.

Other business and industry groups have suggested introducing new categories of small, large and very large midcap companies specifically for CSRD purposes to introduce a more proportionate regime for smaller companies. They suggest that these categories could be defined based on employee or other size criteria. By way of example, stakeholders in the insurance industry explain that under the current Accounting Directive size criteria (turnover > EUR 50 million, balance sheet > EUR 25 million, employees > 250), 99.71% of insurers in a referenced Member State, including small regional insurers, are disproportionately classified as "large". These suggestions have been partly inspired by the Draghi Report [56], and stakeholders have asked the Commission to introduce a new "small mid-cap" category, allowing simplified CSRD reporting and reduced audit intensity for this new category of company. This is in line with the Letta report, which underlined that recognising mid-caps distinctly from large corporations in EU law will enable more suitable rules, fostering their growth and equitable participation in the single market, especially during crises.[57] Stakeholders have also suggested that new categories of companies should be allowed to use a less demanding set of sustainability reporting standards, which can be gradually phased-in if deemed necessary.

Other stakeholders do not suggest revising the scope of the CSRD but ask to simplify the sustainability disclosure requirements in the ESRS for undertakings with fewer than 750 or 500

[56] The Draghi report mentions that EU rules impose a proportionally higher burden on SMEs and small mid-cap companies (SMCs) than on larger companies, and that the EU lacks a framework to assess these costs. The report recommends that the Commission extend current mitigation measures for SMEs to include small mid-cap companies, thereby enhancing proportionality in EU legislation for these businesses. It also observes that the EU lacks a commonly agreed definition of small mid-caps and readily available statistical data. M. Draghi, The future of European competitiveness, 2024, available at: https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en#paragraph_47059.

[57] E. Letta, Much more than a market, 2024, available at: https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf, p.107.

employees and either a EUR 50 million turnover or EUR 25 million on the balance sheet. To this end, they suggest that the Commission should adopt the ESRS for Listed SMEs (ESRS LSME) as the "reference standard" for the largest listed and non-listed undertakings in the scope of the directive and adopt a simplified version of the LSME standard for the smallest of these companies.

b) Reviewing the European Sustainability Reporting standards

Many business representatives stated that some of the sustainability disclosure requirements in the ESRS are overly complex or redundant, and called for a revision of the ESRS to reduce the number and complexity of the disclosure requirements. They suggested that reporting certain indicators in the ESRS offers little additional value for the decision-making process of the company as regards its sustainability strategy and that this information is also of little relevance to investors, financial institutions and other stakeholders.

A number of stakeholders asked the Commission to simplify and provide clarity on the application of the double materiality principle as regards the materiality assessment to be carried out under the ESRS. Furthermore, stakeholders stressed that the complexity of the double materiality assessment may lead companies to considering non-strategic topics as material, thereby defeating its purpose. They advocated that additional guidance should emphasise that the double materiality assessment is strategic, and shifting the focus from inherent to residual risk or/and impact.

Some stakeholders stressed that any potential review of the ESRS should be based on the experience of their first application in practice. Any review or revision of the ESRS should take into account feedback from companies regarding their first experiences in applying the ESRS. Stakeholders further called on EFRAG to prioritise refining definitions and interpretations to ensure a consistent application of the general ESRS across all sectors, allowing companies time for implementation. Financial sector stakeholders in particular asked that EFRAG clarify a practical and proportionate approach for assessing materiality in the financial sector value chain.

Several stakeholders recognise the efforts of the Commission and EFRAG in ensuring a very high degree of interoperability between the ESRS and international standards, such as the International Sustainability Standards Board (ISSB) and Global Reporting Initiative (GRI) standards but they also recommend further improving the interoperability of European standards with international ones. Certain stakeholders highlighted the importance of "true interoperability" and not only "referencing" some of the disclosures contained in the ESRS to others contained in the ISSB standards. To ensure 'true' interoperability, ESRS sector standards would need to be drafted to be interoperable "by design" with ISSB standards from the outset of standard-setting, rather than as a retrofitting effort. ISSB's Sustainability Accounting Standards Board (SASB) standards were recommended by these stakeholders as the main reference in drafting sectorial ESRS concerning financial materiality.

c) Reviewing the development of sector-specific standards

Some stakeholders requested that the Commission freezes work on sector-specific standards until the existing sector-agnostic ESRS standards have been simplified and fully implemented. Other stakeholders suggested that, instead of adding to the sector-agnostic requirements, sector-specific standards should first and foremost be designed to help apply the sector-agnostic ESRS, by highlighting the information that is presumed to be relevant and material for a given sector. Stakeholders also emphasised that sector-specific ESRS should take into account, to the greatest extent possible, existing global standards and classifications.

Many stakeholders argued that the requirement for the Commission to adopt sector-specific reporting standards be deleted from the CSRD entirely. They highlighted that existing sustainability disclosure frameworks, such as SASB, already provide guidance for sector-specific issues, and these have been incorporated into the ISSB's International Financial Reporting Standard S2 (IFRS) standard.

d) Postponing CSRD reporting requirements

Some stakeholders suggested pausing the application of the reporting requirements under the CSRD in order to focus on simplification. They argued that a postponement of the reporting requirements of the CSRD would give the Commission the opportunity to simplify the framework while allowing companies more time to prepare for any impending changes.

Other stakeholders saw strong merits in maintaining the rules and argued for the importance of legal certainty and regulatory stability for companies. They also highlighted that implementation guidelines should be used to clarify and simplify certain parts of the sustainability reporting framework, instead of a postponement or change to the existing rules. Further feedback recommended a phased introduction of compliance with the reporting requirements, allowing companies to adjust without compromising on strategic priorities.

e) Streamlining auditing requirements

Many stakeholders noted that uncertainty surrounding the limited assurance requirement, particularly concerning the extent of the auditor's role in providing sustainability assurance and checking the results of the double materiality assessment, are creating a situation of over-compliance and increased burden. Stakeholders noted that despite the limited assurance requirement, the external audit of sustainability data is costly and complex due to underdeveloped market skills compared to financial audits. In this context, certain stakeholders called for a suspension of the limited assurance requirement. Certain stakeholders also called for the reasonable assurance requirement to be postponed for an additional three years to allow market practices to mature.

Stakeholders also urged the Commission to quickly adopt guidelines and/or standards for limited assurance in order to clarify the requirements. Other stakeholders requested to make

audit requirements proportionate to the nature of the data, in particular regarding qualitative data that are likely to remain unchanged during more than one reporting period.

Some stakeholders suggested to delay the obligation for auditing sustainability data by one year for large undertakings with fewer than 750 employees, while others called on the Commission to remove the requirement for limited assurance of sustainability reporting completely. Some stakeholders suggested keeping the limited assurance requirement in the CSRD intact, while removing the empowerment for the Commission to move to a standard of reasonable assurance in the future.

f) Improving the links with other EU legislation

As regards links with related EU legislation, some stakeholders asked that interlinkages with other legislation, such as the SFDR, should be subject to the Commission's simplification efforts as well. Stakeholders suggested that when companies report comprehensively according to the CSRD the necessary sustainability information is available to meet the information needs of investors and banks, and that other legislation concerning the EU Green Deal, particularly as regards reporting, sustainability and due diligence, should refer to this. Stakeholders also called on the Commission to ensure that information is reported only once to ensure that disclosure requirements which are already covered by other EU legislation are not duplicated in the ESRS, and that consistent definitions are used across legislations, such as those for value chain, double materiality, and independence of directors.

g) Developing more guidance and communication material

Stakeholders requested that the Commission and EFRAG increase their efforts as regards the provision of guidance and interpretation materials on the application of the ESRS. Stakeholders also asked the Commission to introduce flexibility and to recognise reasonable effort in data collection, for example by not requiring the publication of estimates when data is not available. Stakeholders also requested that the Commission and EFRAG should aim at simplifying how the requirements are communicated to companies via guidance and interpretation materials. It was also suggested that the Commission provide resources and guidance to support businesses in maintaining compliance while remaining competitive.

As regards the reporting of climate transition plans, some stakeholders propose to improve legal certainty by amending the CSRD to define the concept of "compatibility" between each company's climate objectives and the ambition of limiting global warming to 1.5ºC.

Other stakeholders asked that the issuance of new implementation guidance or Q&As by EFRAG be limited until the initial years of ESRS implementation have provided a clearer understanding of which disclosure requirements require further attention. Stakeholders also recommended that all standards should undergo field testing before their mandatory application. Any new standards or amendments to existing standards should only take effect after a period of 24 to 36 months following their publication. Standards should also be reviewed and

digitalisation requirements adapted to incorporate advancing technologies, such as artificial intelligence. Certain stakeholders have also noted that the late release of European Commission FAQs and EFRAG Q&A guidelines creates uncertainty, adversely affects year-end reporting and increases company costs. They recommend that the Commission and EFRAG implement an annual blackout period by June 30th, after which no new guidelines should be released.

3.1.2. Proposed amendments and next steps

In light of the proposed simplification agenda and to address the main issues identified by stakeholder feedback, the Commission proposes amendments to certain provisions of the CSRD and Directive 2013/34/EU. The proposed amendments are guided by the key objectives of administrative burden reduction, regulatory simplification and enhancing European competitiveness, as well as ensuring cost-effective delivery of the policy objectives of the European Green Deal and the Sustainable Finance Strategy.

h) Reduction in scope of undertakings subject to the sustainability reporting requirements under Directive 2013/34/EU

To respond to concerns from some stakeholders regarding the burden on smaller large companies in the scope of the CSRD and to extend greater proportionality to these companies, whilst allowing them to boost their competitiveness and participate in the transition to a sustainable economy, the Commission proposes that the new threshold to define the scope of Directive 2013/34/EU should be large undertakings with more than 1000 employees. This is in contrast to the current situation, where the threshold for undertakings to fall within scope of the CSRD is large undertakings as defined in Article 3, paragraph 4, of that Directive and listed SMEs.

The proposed criteria will result in a significant reduction of undertakings in the scope of the CSRD (about 80%) and also aligns more closely with the scope of the CSDDD, ensuring greater coherence between these two pieces of legislation. Undertakings subject to both the CSRD and the CSDDD are not required by the CSDDD to report any additional information to what they are required to report under the CSRD. The proposed modifications will not take out of the CSRD scope any undertakings that are subject to the CSDDD, meaning that this consistency between the two pieces of legislation is maintained.

To ensure that market demand for sustainability information from smaller large companies may still be met, the Commission proposes that undertakings not subject to mandatory sustainability reporting requirements may choose to report voluntarily on the basis of simplified reporting standards, which will be provided by the Commission. The Commission proposes that these proportionate and simplified standards for voluntary use would be based on the VSME standard developed by EFRAG.

The proposed amendments to the scope of the CSRD intend to alleviate the reporting burden on companies, whilst also maintaining the policy objectives of the CSRD. These objectives can be realised by exempting undertakings with fewer than 1000 employees from the mandatory sustainability reporting requirements, while simultaneously offering them a simplified standard for voluntary reporting. The undertakings that remain in scope (large undertakings with more than 1000 employees) will still be required to report against the first set of the ESRS, although these standards themselves will be revised and simplified (point d below). This means that undertakings with generally the highest sustainability impacts and largest proportion of turnover in the scope of the CSRD will still be required to report against the comprehensive first set of the ESRS.

i) Trickle-down effect

The Commission Communication on 'A Competitiveness Compass for the EU' specifies that one of the aims pursued by the Omnibus simplification package will be to address the trickle-down effect to prevent smaller undertakings along the supply chains from being subjected in practice to excessive reporting requests. Additionally, the Commission committed in the 'SME Relief Package' to explore new solutions to facilitate SME's access to sustainable/transition finance.

The CSRD requires listed SMEs to report sustainability information and gives them the option to use a set of simplified sustainability reporting standards for this purpose. EFRAG is working on a draft simplified standard for Listed SMEs (LSME) to report against. However, at the request of the Commission, EFRAG has submitted a sustainability reporting standard for voluntary use by SMEs that are not in scope of the reporting requirements (VSME standard). The objective of the VSME standard is to help address the so-called trickle-down effect by providing SMEs with a simple, widely recognised tool through which they can provide sustainability information to banks, large undertakings and other stakeholders that may demand such information. In accordance with the Omnibus proposal, the Commission will adopt the draft VSME standard as a Delegated Act.

The CSRD requires undertakings to report value-chain information to the extent necessary for understanding their sustainability-related impacts, risks and opportunities. To limit the trickle-down effect on SMEs, the CSRD establishes a so-called value-chain cap, which states that the ESRS may not contain reporting requirements that would require undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed under the proportionate standard for listed SMEs (LSME). Given the objective of limiting trickle-down effects on SMEs, the Commission proposes that the voluntary SME standard (VSME) act as a value chain cap for undertakings under the scope of the CSRD, instead of the current LSME standard. In the context of the omnibus proposal, the VSME standard will act as a cap on the first set of ESRS as well as a cap on the reporting undertakings themselves, defining the legal limit of the information that undertakings under the scope of the CSRD can request from companies not in scope.

Additional protection from trickle-down effects on smaller large companies will also be ensured as the Commission proposes that the VSME standard will not only act as the value chain cap for SMEs, but it will also protect all undertakings with less than 1000 employees from excessive sustainability information requests. Undertakings which respect the value chain cap will be deemed to be compliant with the obligations to report value chain information under the first set of the ESRS.

To further strengthen the value-chain cap, the Commission proposes that auditors and assurance providers must take into consideration the VSME standard as the value chain cap for all undertakings not subject to mandatory sustainability reporting requirements under the CSRD when carrying out an assurance engagement. This will help to ensure that auditors and assurance providers understand that undertakings reporting against the ESRS do not need to request information from undertakings in their value chains which are not subject to the CSRD that goes beyond the VSME standard to fulfil their reporting obligations.

j) Link to the EU Taxonomy for voluntary and partial reporting by certain undertakings

Articles 19a and 29a of Directive 2013/34/EU (Accounting Directive) require undertakings in scope of that Directive to report sustainability information, including on their eligibility and alignment with the EU Taxonomy, to be published as part of the management report. To align with the change of scope of the Accounting Directive (as outlined in Section 3.1.2. (a) in this Staff Working Document), as well as to respond to concerns of stakeholders regarding the difficulty to meet the technical screening criteria of the EU Taxonomy Climate and Environmental Delegated Acts, additional provisions were inserted into the Accounting Directive, as described below.

Voluntary Taxonomy reporting for certain undertakings: the insertion of Articles 19b and Art. 29aa into the Accounting Directive aims to reduce the reporting burden of large undertakings and parent undertakings of large groups which on their balance sheet do not exceed a net turnover of EUR 450 million and that do not have economic activities that align with the EU Taxonomy, or may consider that the costs of the reporting outweigh the benefits, and therefore do not wish to report. These undertakings may eliminate any compliance costs with the respective Taxonomy reporting rules. Undertakings that choose to report that their activities are Taxonomy-aligned are expected to disclose their turnover and CapEx KPIs and may choose to disclose their OpEx KPIs.

Reporting of partial Taxonomy-alignment for certain undertakings: the introduction of Articles 19b and 29aa into the Accounting Directive allows undertakings which do not exceed a net turnover of EUR 450 million to demonstrate their progress towards sustainability targets and receive recognition for existing efforts. This applies to large undertakings or parent undertakings of a large group that claim that their activities are associated with economic activities which fulfil only certain requirements of Articles 3 and 9 of the Taxonomy Regulation. By doing so, these undertakings can enhance their financing for transition

opportunities, showcasing their commitment to sustainability and progress towards meeting Taxonomy alignment. Undertakings should include in their management report information on how and to what extent their activities are associated with economic activities that are partially Taxonomy aligned. For these activities, the undertaking is expected to disclose their turnover and CapEx KPIs and may choose to disclose their OpEx KPIs. The information on partial alignment of economic activities with the EU Taxonomy may be a useful indication to investors, financial markets or policymakers and other third parties about the current environmental performance of the activities concerned.

A corresponding change has equally been introduced in the draft amendments to the Taxonomy Disclosures Delegated Act for large undertakings subject to Article 19a of the Accounting Directive, whose net turnover exceeds EUR 450 million, as outlined in Sub-section 3.3.2.a.

The proposal also mandates the Commission to develop delegated acts to ensure standardisation in terms of the content and presentation of the respective information.

k) Sector-specific standards

The CSRD states that the Commission shall adopt sector-specific reporting standards to complement the sector-agnostic ESRS adopted in July 2023. While sector-specific standards are intended to foster comparability between companies operating in specific sectors, and to provide additional guidance to undertakings about material sustainability matters in a given sector, many companies and business associations have expressed concerns that the sector-specific standards would result in an increased amount of disclosure requirements and additional reporting burden.

In light of these concerns and to alleviate reporting burden on undertakings in the CSRD, the Commission proposes to delete the empowerment for the Commission to adopt sector-specific standards. The Commission considers it important that undertakings be able to properly implement the first set of sector-agnostic ESRS, including the provision which requires the disclosure of entity-specific information. Should undertakings require additional guidance to report on sustainability matters common to the sector in which they operate, they may have recourse to existing international sustainability reporting standards and sectoral sustainability reporting initiatives.

l) Revision of the ESRS

As part of the simplification effort which the Commission has committed to in the Competitiveness Compass and to enhance the coherence of the sustainable finance framework and respond to stakeholder concerns, the Commission will revise the first set of the ESRS. The Commission will aim to adopt the revised ESRS Delegated Act as soon as possible, and at the latest six months after the entry into force of the proposed amendments to the CSRD reporting framework (point f below).

This revision of the ESRS is expected to, amongst other things, substantially reduce the number of ESRS datapoints by removing those deemed least important for general purpose sustainability reporting, without undermining interoperability with global reporting standards. The revision will clarify provisions that are deemed to be unclear. It will seek to improve consistency with other pieces of EU legislation where the modifications to the ESRS are the most appropriate means of achieving that. It will provide clearer instructions on how to apply the materiality principle, to ensure that undertakings only report material information and to reduce the risk that assurance service providers inadvertently encourage undertakings to report information that is not necessary or to dedicate excessive resources to the materiality assessment process. To the extent possible the revision of the ESRS should simplify the structure and presentation of the standards. It will further enhance the already very high degree of interoperability with global sustainability reporting standards. It should also make any other modifications that may be considered necessary considering the experience of the first application of the ESRS.

The proposed revision of the ESRS will reduce burden for all undertakings subject to the reporting requirements and at the same time contributes to alleviating the trickle-down effect on SMEs and smaller large companies that are not in the CSRD scope.

m) Audit and assurance of sustainability reporting

The CSRD requires that undertakings must publish their sustainability information together with the opinion of a statutory auditor or, if the Member States allows an independent assurance service provider. The CSRD currently requires limited assurance of sustainability reporting in the first instance and envisages that this could in the future become a requirement for reasonable assurance under certain conditions. To limit the burden on undertakings associated with acquiring audit and assurance engagements on their sustainability reporting, the Commission proposes that the possibility of moving from a requirement for limited assurance to a requirement for reasonable assurance is removed from the CSRD. This will prevent an increase in costs of assurance for undertakings in scope and give greater predictability to companies in scope on their future reporting costs.

The CSRD also requires the Commission to adopt standards for sustainability assurance by means of delegated acts. Under the new proposal, instead of an obligation for the Commission to adopt standards for sustainability assurance by 2026, the Commission will issue targeted assurance guidelines by 2026. This will allow the Commission to more quickly address emerging issues in the field of sustainability assurance that may be generating unnecessary burden on undertakings that are subject to the reporting requirements.

Additionally, the Commission has proposed that audit and assurance providers take into consideration the VSME standard as the value chain cap when carrying out an assurance engagement. This will help to clarify the parameters of data collection and limited assurance provision for the purposes of reporting value-chain information under ESRS.

Finally, revisions to the first set of the ESRS will, amongst other things, clarify disclosure requirements and the application of the materiality assessment process. This will provide additional clarity to undertakings and audit and assurance providers regarding the boundaries of the information which is required to comply with the ESRS.

n) Postponement of reporting requirements

The current provisions of the CSRD phase-in reporting requirements for different categories of undertakings as follows:

- wave 1 includes large public interest entities with more than 500 employees, which must report for the first time in 2025 for financial year 2024;
- wave 2 includes all other large undertakings, which must report for the first time in 2026 for financial year 2025;
- wave 3 includes SMEs with securities listed on EU regulated markets, which must report in 2027 for financial year 2026, with the possibility to opt out for a further two years.

The Commission proposes to postpone by two years the entry into application of reporting requirements for wave 2 and wave 3 companies, in order to avoid that undertakings come into scope and then fall out of scope again, having already incurred certain costs.

3.1.3. Estimated cost savings

Of the proposed measures described above, this section presents quantitative evidence of the impact of the reduction of the CSRD scope and the future ESRS simplification.

The proposed measures to reduce the scope of the CSRD and simplify the required reporting for undertakings remaining in scope will generate significant cost savings. In preparation of the proposal, and to assess the impact of different options and their burden reduction impact, the Commission services generated an estimation of the current reporting population (total CSRD) and estimations of the updated population with respect to different scope adjustment variants.

The calculations are based on data obtained from Orbis, the commercial data provider of financial and business information. The legal definition of the CSRD is difficult to map exactly against the data available in Orbis, which causes the numbers herein to be based on certain assumptions.[58] Beyond that, while Orbis is a leading provider of financial and business

[58] Using the relevant size criteria as defined in the Accounting Directive Article 29 and Article 19, the estimated CSRD population includes undertakings that meet those criteria either at entity or group level. This includes: large EU undertakings; EU SMEs that are listed on EU regulated markets; large non-EU undertakings that are listed on EU regulated markets; non-EU SMEs that are listed on EU regulated markets; large EU undertakings (non-LLCs) that have above 500 employees that are i) listed on an EU regulated market; and/or ii) credit institutions; and/or iii) insurance companies; and large non-EU undertakings (non-LLCs) that have above 500 employees and are

information, standard limitations apply to the completeness and quality of the data available. In practical terms, this means the estimates provided below reflect a best effort approximation of the actual numbers; providing a fully accurate count of the current CSRD population is generally considered impossible, also considering that national implementation can differ from the scope of the CSRD requirement.

The CSRD allows, with some exceptions, an undertaking that is a subsidiary of another undertaking not to report if its parent reports on a consolidated basis for the group as a whole. Two sets of estimates are therefore provided: the lower bound estimates assume that all subsidiaries that may do so use this exemption. The upper bound estimates reflect the total number of undertakings that are legally in scope without considering the effects of the subsidiary exemption.

Based on this approach, as summarised in Table 1, the CSRD reporting population has been estimated to be in the range of 30 673 undertakings (lower bound, assuming all relevant subsidiaries make use of the exemption and do not report, leaving the reporting to the ultimate parent) and 76 556 undertakings (upper bound, assuming all relevant subsidiaries report and do not make use of the subsidiary exemption).

Assuming that 30% of subsidiaries report and do not make use of the exemption, the number of undertakings that publish a sustainability statement in accordance with the CSRD/the ESRS would be about 45 000. This number is similar to the estimated number of CSRD companies in the 2022 cost-benefit assessment accompanying the first set of the ESRS, as prepared by CEPS and Milieu for EFRAG, which informed the Commission services assessment in the adoption process of the ESRS.[59]

Turning to the burden reduction impact of the proposed changes (see Table 1), based on the dataset of undertakings currently in scope, it was estimated that 18 - 25% of undertakings remain in full scope of the CSRD (i.e. they are undertakings that are large according to the current Accounting Directive size criteria and in addition have more than 1000 employees). Between 22 984 undertakings (lower bound) and 62 849 undertakings (upper bound) would be

listed on EU regulated markets. The calculations focus on the CSRD requirements and do not account for any national implementation differences.

The current CSRD population is calculated as all companies that meet the relevant size criteria to be subjected to reporting in either of the three years 2021, 2022, and 2023 (i.e. a company is large if in any of those years it is large). This is partly done to fill data gaps on financial information, and also to give a more stable indication of the numbers. Many different simulations were conducted to assess different options for the revised scope and size thresholds. Those simulations are based on counting all companies that meet the size thresholds in the most recent year for which data is completely available (no earlier than 2021).

[59] The study reported just over 49 000 firms in scope, but this was based on size thresholds before the revisions of the Accounting Directive that increased those thresholds. The study also estimated the total incremental cost of CSRD reporting to be EUR 1.9 billion per year, in addition to audit costs for limited assurance amounting to EUR 2.6 - 3.9 billion per year, plus higher one-off costs for setting up the reporting. EFRAG, Cost-benefit analysis of the First Set of draft ESRS prepared by CEPS and Milieu, 2022, available at: https://cdn.ceps.eu/wp-content/uploads/2022/11/Cost-benefit-analysis-of-the-First-Set-of-draft-European-Sustainability-Reporting-Standards.pdf.

fully exempted from CSRD reporting (because they have less than 1000 employees). **This corresponds to a 75 - 82% reduction in the number of undertakings in scope of the CSRD.** Again, assuming that 30% of subsidiaries report and not make use of the subsidiary exemption, some 35 000 out of the 45 000 companies would be exempted from CSRD reporting, and 10 000 remain in scope. That is, some 80% of companies would be descoped (after some rounding). Those estimates are used in the subsequent estimations of total cost savings.

Table 1: *Number of undertakings benefiting from reduced scope*

	Lower bound		**Upper bound**	
	(exemption used, subsidiaries do not report)		(exemption not used, subsidiaries report)	
	# of undertakings in scope	**% of current scope**	**# of undertakings in scope**	**% of current scope**
Current CSRD scope	30 673	100%	76 556	100%
Proposed new scope				
Remaining in full scope (large, >1000 employees)	7 689	25%	13 707	18%
Fully exempted from CSRD reporting	22 984	75%	62 849	82%

Source: DG FISMA calculations based on Orbis.

The costs of CSRD reporting, and hence the cost savings to be realised from the proposed measures, are more difficult to estimate, as also discussed in previous studies. Also, what matters for the assessment of the regulatory burden are the incremental costs that can be attributed to the rules (and not counting the costs that firms would incur anyway as part of good business practice and their own commitments on sustainability), but these incremental costs are particularly difficult to assess. Some stakeholders have noted that they incur higher costs than the average cost estimates used below, which are taken from earlier assessments used by the Commission services. The variation in costs between undertakings is indeed large, depending on their size and activities. The costs (and corresponding cost savings) for many undertakings will be significant, but the earlier estimates are reused here for consistency and comparability and, importantly, to be conservative and avoid overestimating the benefits (i.e. cost savings) of the proposed measures.

Using the average cost estimates for large non-listed firms, as reported in the CEPS and Milieu study for EFRAG,[60] the total incremental reporting cost savings for exempted undertakings (see Table 1) would be about EUR 1.2 billion per year. In addition, these undertakings would save total audit costs around EUR 2 billion per year. There will also be the savings of one-off costs to set up and implement the reporting and assurance processes, which using the same source of average cost data would amount to EUR 1.6 billion.

[60] The average cost estimates used are EUR 33 640 (EUR 56 350) for annual incremental reporting (audit) costs, and EUR 30 200 (EUR 16 900) for the one-off reporting (audit) costs.

In addition to the proposed changes in the scope of the CSRD, further cost savings would arise for undertakings that remain in full scope if reporting under the ESRS were simplified for those undertakings. For example, assuming a reduction in data points in the future ESRS that translates into a 25% reduction in costs, and assuming average reporting costs for this group that are somewhat higher than for the exempted companies, this would translate into further reporting cost savings of EUR 0.2 billion per year. Additional audit cost savings from such simplified reporting could amount to EUR 0.3 billion using the same approach.[61]

Thus, based on these estimations, total recurring cost savings of the changes in CSRD scope and future ESRS modifications could be about EUR 1.3 billion per year for incremental CSRD reporting costs and EUR 2.3 billion per year for audit costs (or EUR 3.6 billion in total).

Beyond the cost savings regarding CSRD/ESRS reporting, there would be the cost savings that the CSRD scope changes would bring to taxonomy reporting (because the scope of undertakings required to report on their taxonomy alignment is defined by the CSRD scope). Undertakings with less than 1 000 employees would be exempted from taxonomy reporting as a result of the reduction in the scope of the CSRD. As per above, some 35 000 undertakings (of the 45 000 undertakings under the current CSRD scope) would be exempted by the proposed CSRD scope reduction and hence from the requirement to report on their taxonomy alignment. In addition, undertakings with more than 1 000 employees but less than EUR 450 turnover would benefit from voluntary taxonomy reporting – i.e. there is no regulatory requirement for them to report and the regulatory burden can be avoided. Estimations show that this applies to some 3 000 undertakings. In the subsequent calculations, it is assumed that these undertakings do not report voluntarily and hence save costs.

The costs of taxonomy reporting have previously been estimated, in particular in the impact assessment accompanying the Disclosures Delegated Act.[62] Subject to significant uncertainty, the average incremental recurring costs were estimated at EUR 20 000 – 50 000 per year, plus one-off costs of EUR 40 000 – 125 000 per undertaking.[63] Input received from stakeholders since this assessment suggests that the Taxonomy-related costs may well be higher than the estimates reported here, also on average. However, the approach taken in this estimation is to

[61] Average recurring reporting (audit) costs are assumed to be a bit higher for this group of companies and set at EUR 65 000 (EUR 120 000) per year to ensure consistency with other results reported earlier. These are conservative estimates to ensure consistency with earlier results, as cost savings in this group of firms (i.e. more than 1000 employees) could be higher.

[62] Commission Staff Working Document Impact Assessment Report Accompanying the document Commission Delegated Regulation (EU) .../... supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, SWD/2021/0152 final, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021SC0152&qid=1739185453213 SWD/2021/0152 final, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021SC0152&qid=1739185453213.

[63] For the subsequent calculations, we use the mid-point. I.e. EUR 35 000 for recurring reporting costs and EUR 82 500 for one-off costs.

ensure consistency and comparability with the earlier assessment and to be conservative and avoid overestimating the benefit (cost savings). Costs vary significantly between firms, depending also on the complexity of the undertaking's activities, with some companies incurring significantly higher costs but also some companies facing no or little costs as they have no Taxonomy-eligible activities.

Applying these average cost estimates to the estimated number of undertakings that would be exempted from taxonomy reporting under the new scope translates into total recurrent cost savings of about EUR 0.8 billion per year.[64] In addition to recurring cost savings, there would also be one-off cost savings for those undertakings that are not yet reporting or have not yet prepared to report under the EU Taxonomy. Assuming that half of the undertakings with taxonomy-eligible activities that are proposed to be exempted from the reporting scope have not yet incurred the implementation costs, this would amount to total one-off cost savings of EUR 0.9 billion. Note that other Taxonomy-related cost savings are estimated in Section 3.3.3.

Overall, the combined cost savings resulting from the proposed changes to the CSRD scope (including the exemptions this would bring for Taxonomy reporting), plus the modifications of the future ESRS, have been estimated to amount to EUR 4.4 billion per year.

3.2. Issues presented on the CSDDD and proposed amendments or next steps

Various suggestions for clarifying and simplifying the due diligence obligations have emerged through stakeholders' recent position papers and consultations, including the **Reality Check Roundtable on Sustainability Reporting** and the **Roundtable on Simplification** that took place on 5 and 6 February 2025, respectively. The Commission has analysed the feedback received, bearing in mind the objectives of the CSDDD to mitigate human and environmental harm in business value chains and make companies contribute to climate change mitigation efforts.

[64] This is calculated by taking the mid-point estimate of the average costs per firm and apply this to the number of companies that would be exempted under the new scope. Section 3.1.3 discussed the ranges (lower and upper bound) and then focused on the estimate obtained by assuming that 30% of subsidiaries report and do not make use of the exemption. So as in section 3.1.3, of the about 45 000 companies currently in scope, some 35 000 are estimated to be exempted from CSRD scope (i.e. 80%, after some rounding), and an additional 3 000 companies would benefit from voluntary reporting (i.e. 38 000 in total). As in the previous impact assessment accompanying the DA, it is furthermore assumed that taxonomy reporting costs (and hence cost savings) would only accrue for companies that actually have taxonomy eligible activities, and that this applies to 60% of the companies (i.e. we assuming that cost savings accrue to 60% of the 38 000 companies that would be exempted). Again, these estimations are done to ensure consistency with previous results and to be conservative so as to not overestimate the benefits (i.e. cost savings) of the proposed changes.

3.2.1. Stakeholder views

In line with the significant interest from a very broad range of stakeholders that accompanied through recent years the development of the CSDDD proposal and the legislative negotiations that led to the adoption of the Directive in 2024, the announcement of the Commission's intention to reduce businesses' burden and in particular to launch an Omnibus initiative to simplify sustainability legislation generated significant public interest and numerous interventions by stakeholders. These took the form of public statements, position papers and policy proposals expressing different views on the CSDDD – some calling for postponement, specific changes or thorough reassessment, others, on the contrary, for preserving the legal text and focusing on supporting implementation.

In November 2024, 25 business associations signed a joint statement, welcoming the Commission's intention regarding administrative burden relief and simplification, and **calling for a postponement** of the CSDDD, a comprehensive competitiveness assessment, and the **timely issuing of guidelines** and other supportive measures by the Commission.[65] Subsequently, several stakeholders – including, in particular, some industry associations representing the entire spectrum of businesses[66] and companies – have called for **amending the CSDDD**. These stakeholders have put forward several proposals to ensure that businesses can adapt effectively and meet the obligations with reduced burden. They point to excessive requirements, making due diligence too complex and imposing legal risks on companies, raised concerns regarding the scope of CSDDD and its effects on investment in the EU, and called for mitigation of excessive civil liability risks.

A number of companies have also **opposed reopening the legal text**, stressing, that companies have already invested in preparing for the new requirements.[67] Impact investor associations also opposed reopening the CSDDD. In their view, this would risk creating regulatory uncertainty and ultimately jeopardising the goal to reorient capital in support of the EU's sustainability objectives.

Civil society, including human rights and environmental organisations, and trade unions have also called against the reopening of the CSDDD and asked instead for further interpretative xmeasures and guidance.[68]

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[65] Joint statement of 5 November 2024, available e.g. at: https://www.businesseurope.eu/sites/buseur/files/media/position_papers/legal/2024-11-05_joint_trade_association_statement_towards_eu_due_diligence_that_works_for_all_0.pdf.

[66] Including for instance the German business associations BDI, the Italian Confindustria, the French Medef, and others, also including international ones.

[67] Including for instance, the multi-stakeholder Ethical Trading Initiative and Global Network Initiative, and 28 Finnish companies and CSOs signing an open letter on 5 February 2025, available at: https://finnwatch.org/images/Lausunnot/Kansalaisjarjestojen_ja_yritysten_yhteinen_kannanotto_Euroopan_komissiolle_omnibus-hankkeesta.pdf.

[68] See open letter signed by 150 stakeholders, available at: https://media.business-humanrights.org/media/documents/05.02.25_CSO_input_EC_Roundtable_Consultation_on_Simplification.pdf

Moreover, a number of researchers have also argued against reopening the Directive, rejecting the argument that that the CSDDD harms competitiveness.[69]

The following points outline the changes proposed by various stakeholders, and the next sub-section list the retained options, indicating the considerations behind each of them and summarising the expected impacts, in particular on the burden of companies.

o) Delaying application of the CSDDD

A number of stakeholders, including 25 business associations, called on the Commission to postpone the implementation of the CSDDD by two years. They argue that this would allow businesses more preparation time and give the Commission time to launch a comprehensive competitiveness assessment and provide implementation guidance before application.

This view was not shared by other stakeholders, who called for maintaining the application calendar and issuing timely guidelines.

p) Extending the scope of maximum harmonisation to more CSDDD provisions

Extending the scope of the maximum harmonization provision included in Article 4 CSDDD was proposed by a number of business associations with a view to guarantee a fully uniform transposition in Member States.

Other stakeholders shared the concerns as regards different application levels and 'gold plating' across Member States, proposing to turn the CSDDD into a Regulation.

q) Limiting the value chain covered by due diligence to tier 1 (direct) business partners

Given the complexity of global supply chains, some business associations proposed to limit due diligence requirements to tier 1, unless there is "reasonable knowledge" of violations at other levels of the supply chain. Some stakeholders also asked the Commission to limit business partners subject to due diligence solely to direct partners.

SMEs have advocated for limiting the trickle-down effect on business partners, for instance by creating a "value chain cut-off" and establishing a presumption of compliance with environmental and human rights standards in the EU.

and a multi-stakeholder joint statement signed by 170 stakeholders, available at: https://corporatejustice.org/publications/joint-statement-on-omnibus/.

[69] See open letter "Deregulation Will Not Help Europe Build Its Strategic Autonomy", dated 5 February 2025, available at: https://www.euractiv.fr/section/economie/opinion/la-deregulation-naidera-pas-leurope-a-batir-son-autonomie-strategique/.

r) Deletion of last resort rules on suspension and termination of business relationships

Certain business associations also advocated for deleting the obligations to suspend or terminate business relations in case of severe adverse impacts that the company has not been able to improve through due diligence, claiming for instance dependencies on certain inputs/suppliers or lack of leverage.

s) Simplifying the definition of "stakeholders" and stakeholder engagement

A few stakeholders noted that the stakeholder engagement process could be simplified through changes in the consultation process and by narrowing the definition of "stakeholders".

t) Deletion of the minimum cap for financial penalties

Some business associations also proposed removing turnover-based financial penalties and objected to the minimum fines cap of 5% of global turnover, considering it as too high.

u) Deletion of civil liability provisions

Some stakeholders also called for a deletion or modification of the civil liability provisions in Article 29 CSDDD, suggesting instead to rely on national law.

v) Limiting access to justice to the directly affected victims

Some national business associations proposed to limit access to justice to the directly affected victims, removing the possibility for victims to authorise NGOs to represent them in damages cases (representative action), which they saw as creating a risk of excessive litigation.

w) Deleting the review clause regarding financial services

A few business associations asked for removing the review clause requiring the Commission to assess the need for a possible inclusion of financial services in due diligence, with a tailored regime, and the impact of such an approach.

x) Streamlining transition plans for climate change mitigation and eliminating inconsistencies across relevant pieces of EU law

Some business associations and individual companies have asked for aligning transition plan requirements under the CSDDD and other EU sustainability rules, namely the CSRD, for removing any inconsistencies in definitions and further clarifying certain concepts. Others, in particular from the oil and gas industry, called for the deletion of Article 22 CSDDD on combatting climate change. Some credit institutions asked for more flexibility in working with clients that do not meet the transition plan requirements. Some stakeholders asked for relaxing the requirements regarding the implementation duty of the transition plan and strengthening its

best effort nature so that companies are not made responsible for factors that are out of their control.

3.2.2. Proposed amendments

Taking into account the feedback received from stakeholders, the Commission proposes amendments to certain provisions of the CSDDD as outlined in the following points.

a) Postponing the transposition and application of the Directive (Article 37 CSDDD) and accelerating the adoption of Commission guidelines (Article 19(3) CSDDD)

The Commission proposes to delay, by one year, the transposition deadline for Member States (from July 2026 to July 2027) and the date of application of the CSDDD for the first wave of companies that would start to apply the rules (from July 2027 to July 2028). At the same time, the Commission is advancing to July 2026 the adoption of the general guidelines which it is required to adopt under the Directive and will be working on the rest of the guidelines so that they become available in the shortest possible timeframe.

The CSDDD provides for a broad set of implementing guidelines with specific deadlines for adoption. These guidelines are not meant to interpret the rules but rather to help with their application by companies. However, having the general guidelines in place well before the rules start applying would allow companies to draw on a set of corporate best practices in the most cost-efficient ways in which due diligence can be implemented. Therefore, the simultaneous postponement of the date of application and the acceleration of the adoption of the Commission general guidelines aim to give sufficient time for all companies to familiarise themselves with these guidelines and to prepare for the implementation of the CSDDD.

Delaying application of the CSDDD with a view to allow companies to develop their risk management systems in light of the general guidelines will substantially reduce uncertainty for companies. In particular, it will reduce legal costs as companies may otherwise need to turn to a legal counsel or advisory services to implement the CSDDD properly. By offering companies a single set of best practice guidance, the guidelines will reduce possible fragmentation in implementation in different parts of the industry, which also contributes to legal certainty and reduces operational costs.

b) Extending the scope of maximum harmonisation to more CSDDD provisions (Article 4 CSDDD)

Maximum harmonisation prevents Member States from introducing provisions within the field covered by the Directive that would go beyond its requirements. The idea was already debated during the legislative process, which concluded on the introduction of Article 4 regarding a partial maximum harmonisation clause. This clause covers some of the core due diligence

obligations regarding identification, prevention and mitigation of adverse impacts, with a clause to review the level of harmonisation by 2030.

The amendments proposed extend the scope of maximum harmonisation to several additional provisions of the Directive that regulate the core aspects of the due diligence process. These include, in particular, the identification duty, the duties to address adverse impacts that have been or should have been and the duty to provide a complaints procedure and a notification mechanism.

However, the proposed amendments also recognise that there are legal limits of what can be harmonised fully in a cross-sectoral framework directive. This is in particular because the CSDDD deals with social and environmental protection and sets out a general process to implement companies' duty of care with regard to adverse impacts linked to business activities, while specific products, processes and situations are already today regulated in more detail or differently at EU or national level. While ensuring a level playing field in the single market is an objective of the Directive, extending maximum harmonisation further than what is now proposed would involve risk. It could undermine human rights (including labour rights) and environmental standards, including existing ones and those that may be developed in the future to address emerging risks linked to new products and services or, for instance, to strengthen labour rights. Where Member States consider it necessary to address such risks or raise standards to regulate how the duty of care applies in specific circumstances, they should not be prevented from doing so, in particular in areas where the Union has limited competences.

The proposed amendments aim to increase the level playing field in the EU by ensuring that companies face fewer additional procedural rules (gold-plating) and less variations of the rules in the different Member States. In addition, the amendments could further reduce the overall compliance costs of company groups that are active in several Member States, although it is difficult to estimate by how much at the current stage of transposition.

c) Limiting the chain of activities covered by due diligence obligations in the normal course to tier 1 (direct) business partners, with exceptions

The proposal limits due diligence obligations to direct (tier 1) business partners in the 'chain of activities' in a way that relieves companies from the obligation to pro-actively assess actual or potential adverse impacts at the level of indirect business partners (i.e. those beyond the first tier) in the absence of specific circumstances. The proposal requires them to do an assessment beyond tier 1 only where they have plausible information suggesting that there are actual or potential adverse impacts in the chain beyond tier 1.

A strict limitation to tier 1 would have a detrimental effect on the effectiveness of due diligence since the main risks to human rights and the environment most often occur farther upstream (and downstream) in the value chain (for instance upstream at the stage of raw material

sourcing or at initial manufacturing stages, or downstream at the transport stage).[70] Such limitation would also significantly reduce the positive impacts on resilience, competitive advantages from better value chain engagement, addressing real impacts, reducing reputational risks, achieving synergies and efficiencies in the value chain through human rights and environment-friendly production processes and investments. A full limitation to tier 1 would also lead to a risk of circumvention, with a negative effect on the level playing field in the single market, and which would require additional supervisory efforts to assess whether business relationships are structured in an abusive manner or with the aim to circumvent due diligence obligations. The proposal aims to correct this. An outright limitation could also increase the burden of many European SMEs as they are often first-tier value chain suppliers of the companies in scope of the Directive, while they may be low-risk themselves and would therefore not bear too much burden under the risk-based approach of the CSDDD as currently in force. Furthermore, under the current CSDDD, large companies are required to provide investment and support for SME value chain partners going through the sustainability transition where necessary. Limitation to tier 1 reduces such support to a significant extent.

The proposed approach therefore makes tier-1 due diligence the rule, but with necessary exceptions. Following the initial value chain mapping, in-scope companies will only have to carry out an in-depth assessment with respect to direct partners. However, such an in-depth assessment is also required where the company has plausible information on adverse impacts at the level of indirect partners. In case that assessment confirms the existence of an adverse impact, a proper due diligence needs to be carried out. As value chain partners are often SMEs, they will then also benefit from investments andcapacity building from the in-scope company, which the Directive requires it to provide, where necessary, in a targeted and proportionate way.

Focusing the due diligence obligations on direct business partners significantly reduces the material scope and the possible burden for companies in scope as well as the trickle-down effect on business partners, in particular SMEs and small mid-caps both in the EU and beyond. At the same time, the actual burden reduction is likely to be more limited than the nominal one, as we expect that companies that already carry out due diligence beyond tier 1 voluntarily, in line with the UN and OECD voluntary frameworks on which the CSDDD builds, will continue to do so.[71] In addition, many companies already have social and/or environmental information gathering and risk management processes in place that extend beyond tier 1, as a consequence of sustainability reporting but also because they are needed to comply for instance with health

[70] See e.g. the ILO Report on Ending child labour, forced labour and human trafficking in global supply chains, 2019, and OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, both referred to in the Impact Assessment accompanying the CSDDD proposal, Annex 13 (p. 189).

[71] See references in the Impact Assessment accompanying the CSDDD proposal, Annex 4, Commission Staff Working Document Impact Assessment Report on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, 23.2.2022 SWD(2022) 42 final, p. 42-44.

and safety requirements of products, or with social and environmental law.[72] These systems would need to be operated even if the general sustainability due diligence obligations did not extend beyond direct business partners.

Another countervailing factor may be that companies might be less able to carry out a structured risk analysis and proper risk management, as their actions may be more driven by media reports and information gathered through complaints. Also, where the company does not have specific information about adverse impacts at the level of indirect relationships, it will have to rely more on contractual cascading. This may increase the trickle-down effect on SMEs compared to the CSDDD as in force, in particular on low-risk EU SMEs which are often direct contractors. To mitigate this effect, the proposal provides that the in-scope company should also comply with the rules on SME support (although not the rules on investments and capacity building which may still leave the SME worse off).

d) Limiting information requests *vis-à-vis* SME and SMC business partners for mapping adverse impacts ('SME shield') (Article 8 CSDDD)

In the context of mapping the value chain for the purposes of identifying adverse impacts, large companies under the scope of the Directive should limit the information they request from their SME and SMC (small midcap companies with not more than 500 employees) direct business partners to the information specified in the voluntary sustainability reporting standards (VSME standard) referred to in Article 29a of the CSRD, unless they need additional information to carry out the mapping and they cannot obtain that information in any other reasonable way.

This element of the proposal is expected to limit the trickle-down effect of the CSDDD on SMEs and SMCs with respect to the stage of impact identification, i.e. to reduce the indirect compliance costs of such value chain business partners.

e) Deleting the obligation of the last resort measure to terminate the business relationship (Article 10(6) and Article 11(7) CSDDD)

The Directive as in force requires companies to disengage and terminate a business relationship as a last resort, after all other due diligence steps have been exhausted and failed, and if the impact is severe. The proposed amendments remove the obligation to terminate the business relationship but do not remove the obligation to suspend it. This is likely to reduce burdens in those cases where the adverse impact is ultimately eliminated, as the contractual relationship remains intact during suspension and the company therefore would not have to look for alternative suppliers, while still leaving substantial leverage in the hands of companies to obtain the necessary improvements in business practices from their partners.

[72]See references in the Impact Assessment accompanying the CSDDD proposal, Annex 4, Commission Staff Working Document Impact Assessment Report on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, 23.2.2022 SWD(2022) 42 final, p. 63.

f) Simplifying the notion of 'stakeholder' (Article 3(1)(n) CSDDD) and limiting the stages of the due diligence process which require stakeholder engagement (Article 13 CSDDD)

First, the proposed amendments clarify the notion of 'stakeholder' by simplifying the definition and limiting it to workers, their representatives, and individuals and communities whose rights or interests are or could be "directly" affected by the products, services and operations of the company, its subsidiaries and its business partners. Secondly, the proposed amendments clarify that companies are only required to engage with "relevant" stakeholders at each specific stage of the due diligence process (which may be different e.g. at the initial assessment stage and when designing a remediation measure) and further limit the stages at which companies are required to engage with relevant stakeholders.

The broad definition in the CSDDD was counterbalanced by defining specific limited stages in the due diligence process when companies have to engage their stakeholders. The proposed clarifications set out a simplified and clearer set of rules and ensure that companies in scope do not feel obliged to consult with all conceivable stakeholder groups, including ones that are not relevant for the due diligence action at stake. In addition, they limit from the outset the types of stakeholders that need to be consulted in any event. While this reduces burdens, these benefits may be mitigated by companies losing some of the value of stakeholder engagement, which means the overall burden reduction is difficult to assess. Meaningful engagement with all relevant stakeholders not only contributes to more effective harm identification and mitigation, but also enables the company to build trust, enhance its reputation, and ultimately strengthen its long-term viability. For example, companies may find it useful to also consult NGOs that may have valuable information about adverse environmental impacts. The envisaged changes do not stand in the way of such wider outreach.

g) Reducing frequency of periodic assessments and possible updating of due diligence policy and measures (Article 15 CSDDD)

The proposal extends the frequency of the periodic assessments – when a company needs to evaluate the implementation, the adequacy and the effectiveness of its due diligence measures – and the frequency of updating, if necessary, its due diligence policy and appropriate measures from 1 to 5 years. At the same time, the proposal recognises that business relationships, and the related risks and impacts, may evolve over time (which could be the case when new business lines or production locations are opened, when new products or services are introduced, new business relationships are established or acquisitions take place, etc.), sometimes even within short timeframes. Also, the measures taken to address potential or actual impacts may prove to be inadequate or ineffective even before the next regular assessment. The company should update its assessment in such situations.

By prolonging the intervals between two regular periodic assessments and updates from 1 year to 5 years, the related average annually recurring costs (the majority of which will arise every

5 years) could be in theory reduced by up to 80%. If we take the combined effect of the Omnibus proposal into account, i.e. that the identification and monitoring process will be significantly reduced to cover mainly tier 1 impacts, with impacts at the level of indirect business relationships identified and measures monitored only on the basis of concrete information pointing to adverse impacts, the additional burden reduction stemming from moving from 1 to 5 years will be smaller in absolute terms. In addition, this element of the proposal will reduce burdens not just for in-scope companies but also for their business partners, often SMEs, which may receive (extensive) information requests as part of these monitoring exercises. At the same time, monitoring fulfils an important function of making sure that measures taken to address impacts actually work. Loosening this periodic control could increase the risk of fines (and liability under national law), so companies will in any case need to judge, on the basis of their risk mapping, whether a more intensive monitoring is in their interest. The requirement related to re-assessments on a needs' basis – which preserves a higher degree of alignment with the international frameworks – somewhat reduces this risk; it also lowers the automatic burden reduction effect to some extent but permits a monitoring regime more tailored to the circumstances of each company in scope. Furthermore, the extent of cost savings will also depend on whether the same impact identification and assessment needs arise for reporting purposes under the CSRD.

h) Deleting the 'put into effect' requirement of the climate plan and aligning it with the reporting regime

With a view to ensure more legal clarity and alignment of the CSDDD with the sustainability reporting regime, the proposal introduces a modification by eliminating the requirement to 'put into effect' the transition plan for climate change mitigation. In line with the CSRD requirements, the proposal makes clear that the plan should include implementation actions, beyond key actions to reach the climate targets. This change will provide further clarity for businesses.

i) Deleting the 5% of turnover as a minimum cap for pecuniary penalties (Article 27(4) CSDDD)

The proposed amendments take a new approach to ensure a level playing field in the EU with respect to pecuniary penalties that supervisory authorities may impose for infringing the due diligence obligations. Instead of setting an absolute lower limit for any fines cap (i.e., a maximum amount for any fine) – in case a Member State opts for such a limit – in transposition laws, it establishes a general principle according to which Member States must not set a cap that would prevent supervisory authorities from imposing penalties in accordance with the factors and principles set out in Article 27(1) and (2) of the Directive. In addition, with a view to ensure a level playing field in line with the harmonisation objective, the Commission will develop, in collaboration with the Member States, guidelines on imposing fines.

This change is not expected to have any direct impact on companies' administrative burden. It still brings benefits to businesses as it helps ensure a level playing field in the EU market by reinforcing a harmonised approach across the EU in supervisory practices regarding fines. It also gives greater legal security to businesses which are exposed to high potential fines in a new compliance field.

j) Removing EU-level civil liability and deleting certain access to justice facilitations (Article 29 CSDDD)

The proposed amendments remove the specific, EU-wide liability regime as set out in Article 29(1) CSDDD as well as the requirement for Member States to allow for victims to be represented by civil society associations before courts.

The harmonized liability regime in Article 29(1) CSDDD had been introduced considering that some companies had already been brought to court based on existing national liability laws for their failure to address human rights and environmental violations in their value chains. The CSDDD introduced a number of limitations on the application of civil liability (e.g. fault requirement, no liability for adverse impacts caused only by business partners,). The proposed deletion of this EU-wide regime responds to the calls to leave the regulation of the specific liability conditions, including as regards causality and fault, for national law and thus limit liability risks. It leaves companies under the applicable liability regimes of the Member States. This will reduce risks for companies within national jurisdictions that have more limitative liability regimes in terms of the applicable conditions than those set out in Article 29(1) CSDDD. But the overall risk reduction will depend on the possible increase of liability risks in other jurisdictions with conditions more favourable to the victim (e.g., strict liability without a fault requirement).

Access to justice provisions is meant to facilitate effective access to justice in practice, especially in situations where the victim may be in a very disadvantaged position (far away, facing complex legal issues, not having expertise, etc.). The Directive requires Member States to allow for the representation of the victim by a trade union or non-governmental human rights or environmental organisation in accordance with national law. The proposed removal of this requirement may reduce the burden of companies as they may be subject to court actions from fewer claimants. On the other hand, court cases may also become more fragmented, with different victims suing companies individually rather than through bundled procedures. It is, therefore, difficult to estimate the burden reduction impact.

Furthermore, the requirement for Member States to ensure that the liability rules are of overriding mandatory application in cases where the law applicable to claims to that effect is not the national law of the Member State is deleted. This deletion does not mean that Member States would not be able to require mandatory application at national level. It is difficult to estimate the overall impact of this provision.

k) Deleting the review clause regarding financial services and the investment activities of regulated financial undertakings (Article 36(1) CSDDD)

A review clause in Article 36(1) CSDDD requires the Commission to submit – no later than 26 July 2026 – a report to the European Parliament and to the Council on the necessity for additional sustainability due diligence rules tailored to regulated financial undertakings with respect to the provision of financial services and investment activities. The report should include the options for such due diligence requirements as well as their impacts, and should be accompanied by a legislative proposal, if appropriate. This review clause was introduced by the co-legislators together with the exemption of the downstream value chains of financial sector companies from the due diligence regime, given the financial sector's specificities, recognising that the financial sector can play a pivotal role in supporting and underpinning the sustainability transition of the real economy. The Draghi report also emphasises the role of private finance in supporting the transition.

However, as the deadline set does not leave any time to take into account the experience with the newly established, general due diligence framework, it is proposed to delete the review clause. In any case, the Commission retains the right of initiative to propose dedicated due diligence rules for the financial sector, if and when appropriate, following better regulation principles.

There is no expected change in regulatory burden from removing the review clause on finance but there is a likely gain in legal security for financial firms taking investment decisions building long-term links with companies.

3.2.3. Estimated cost savings

Compliance costs under the CSDDD as currently in force (baseline):

The **substantive compliance costs** that businesses under the personal scope of the CSDDD would face comprise, first of all, **procedural costs:** the costs of setting up and operating due diligence processes and procedures (including, among others, the cost of initial data gathering, analyses and verification needed for mapping and impact identification, and the cost of subsequent tracking of developments and effectiveness). The impact assessment only calculated these costs and did not estimate the **transition costs**, which constitute the other main component of substantive compliance costs, as these are rather to be understood as the **investments needed** to comply with the duty of harm mitigation and to transition the company and its value chains to operating sustainably (which could involve reorganising value chains, developing production processes, facilities, innovative products and services, etc.). Such investments can become profitable in the long term, but often also already in the short to medium run (and sooner or later companies would face part of these expenditures even in the absence of the CSDDD). With respect to **reporting** to the public, which imply **administrative costs**, the impact assessment did not calculate any incremental costs under the CSDDD for EU

companies as it took into account that EU companies under the scope would already be publishing sustainability information in accordance with the CSRD.

The table below presents estimations for the **total average, annually recurring compliance (procedural) costs** and **initial one-off costs** (which would typically spread across several years) for the personal scope of the **Directive as adopted and currently in force (baseline scenario)**[73]: **approximately EUR 320 million annual** and **EUR 90 million initial costs**. These figures are based, first of all, on the **average firm-level cost** calculated in the Impact Assessment accompanying the CSDDD proposal for very large companies[74]. However, those figures **overestimate** the actual total costs for the following reasons:

- The impact assessment used firm-level figures that reflect the cost of "full" due diligence obligations, while the Directive was adopted with a **risk-based approach**. This reduced the compliance costs substantially as the company can prioritise impacts and focus first on the most important ones and thus also spread costs over a longer period. Accordingly, the so called "targeted" due diligence figures from the impact assessment could be more realistic to use for the average costs: resulting in **25%** reduction of the costs.

- These company-level costs do not account for the efficiency gains resulting from the **"group effect"**: the Directive, as adopted, allows for burden reductions by sharing resources and information within company groups and by parent companies taking over certain due diligence obligations from their subsidiaries. It seems reasonable to assume that about **40%** of the companies in scope will benefit from such burden reductions[75] (while assuming, to remain cautions, that none of the benefitting subsidiaries are among the top 300 EU companies[76]), and that their procedural costs (which is not shifted to their parent companies) will be reduced by at least **50%.**[77]

[73] The number of EU companies covered by the personal scope of the Directive as adopted is estimated to reach about 6 000, which is less than half of the scope of the initial Commission proposal (12 800), mainly due to the substantially higher size thresholds.

[74] EUR 52 200 recurrent and EUR 14 800 one-off costs for most of the large companies covered, and EUR 643 000 recurrent and EUR 190 000 one-off costs for the largest 300 companies that have more than EUR 5 billion turnover a year. Calculations avoided double counting of the costs that companies would already be facing to meet their reporting requirements under the CSDDD.

[75] 37% of large EU companies are subsidiaries of other EU companies and this ratio is higher in the case of larger companies (see CEPS' Study on the Non-Financial Reporting Directive, prepared for the European Commission to support the review of the NFRD, November 2020, p. 35). The Netherlands-based Centre for Research on Multinational Corporations, SOMO, has recently found that companies under the scope of the CSDDD belong to only about 3400 EU-based company groups (https://www.somo.nl/csddd-datahub-reveals-law-covers-fewer-than-3400-eu-based-corporate-groups/). Subsidiaries often belong to a group with dozens of other subsidiaries, and their value chains often overlap.

[76] For the top 300 companies, the impact assessment calculated with more than 10 times higher firm-level costs.

[77] Cost reductions at the subsidiary deriving from cost sharing will not increase the costs incurred by the parent company but the shifting of some tasks to the parent company will do so to some extent.

Direct incremental procedural compliance costs	Top 300 large EU companies	Subsidiaries of EU companies (40%)	Other EU companies in scope (60%)	Total
Number of companies:	300	2400	3300	6000
Per company costs adjusted to risk-based approach (-25%) and group effect (-50%, for subsidiaries):				
annual (in EUR)	480 000	19 500	39 000	-
one-off (in EUR)	140 000	5 500	11 000	-
Total for all companies under CSDDD as in force:				
annual (in EUR)	145 million	47 million	130 million	≈ **320 million**
one-off (in EUR)	43 million	13 million	37 million	≈ **90 million**

Costs savings under the proposal:

A number of elements of this proposal aim to reduce the regulatory burden of companies, **both the direct and the indirect compliance costs**. Based on the qualitative assessment of the expected costs savings in the previous sub-section, for the **companies in scope**, there are two main changes proposed that have the potential to substantially lower the implied substantive compliance costs:

- With the **reduction of due diligence obligations in the value chain beyond tier 1 (direct) business partners**, whereby full due diligence with respect to adverse impacts arising at the level of indirect business partners needs to be conducted only in cases where the company has plausible information about the existence or risks of such impacts, **the related one-off as well as the recurring costs can significantly decrease**, in particular due to the fact that supply chains often get complex beyond tier 1. It seems to be a reasonable assumption that the effect of this change on the one-off and average annual recurring costs will be double the effect of introducing the risk-based due diligence, i.e. the costs will be reduced by an additional **50%**.

- With the **decrease of the required** frequency of periodic assessments and monitoring from every year to every 5 years, the **related average annual costs** can in theory be **reduced by up to 80% (one-off costs will not decrease).** Collecting and assessing data on impacts and on the effectiveness of the due diligence measures taken constitute a major part of all regularly recurring costs and other on-going costs could also become proportionately lower. However, **in reality the reduction will be lower** than this percentage due to the requirement to do a partial ad hoc reassessment in certain cases, for instance whenever there are reasonable grounds to believe that new risks may arise or that the measures taken are no longer adequate. It seems to be reasonable to assume that costs savings would hypothetically be realized only during the first 1 or 2 years of the extended monitoring cycle, i.e. the annual incremental costs would be half to one-third of those under the CSDDD as currently in force – on average, we will calculate with **a 60% reduction**.

These two elements will decrease in particular the procedural costs (while transition costs, i.e. the costs of adjusting business practices to mitigate adverse impacts may also be affected). As explained in the previous sub-section, the cost savings owing to the less regular monitoring will be **lower** in absolute terms if this measure is **combined** with the reduction of the due diligence duties beyond tier 1.

The following table calculates with a combined effect of these two changes and shows (i) the new incremental compliance cost estimations under the CSDDD if amended according to this proposal, and (ii) the estimated aggregated costs savings attributable to the proposed amendments. Also accounting for the cumulative inflation (about 25%) since the collection of the data we relied on, the **total burden reduction** for companies under the scope amount to approximately **EUR 320 million annual cost savings** and **EUR 60 million initial costs savings**.

Direct incremental procedural compliance costs (in EUR)	**under the CSDDD as in force**	**under the CSDDD if amended**	**Total costs savings**
annual	400 million	80 million	**320 million**
one-off	115 million	55 million	**60 million**

Regarding **indirect costs** that will be incurred by business partners in the value chains, many of the direct and indirect suppliers of in-scope companies are SMEs, and the Directive already contains some safeguards to **prevent the shifting of the compliance burden** onto them. An additional important source of burden reduction for SMEs and SMCs is the **'SME shield'**, i.e. the limitation for in-scope companies regarding information requests. Furthermore, **cost sharing** through joint industry initiatives and multi-stakeholder initiatives, as well as through the **use of modern technologies**, will also reduce the indirect compliance costs. Finally, EU and national **support measures and funds** could be mobilised to diminish the burden implied indirectly by the due diligence obligations.

At any rate, the current proposal also **aims to reduce further the indirect costs that smaller companies** will bear. The largest reductions in such burdens will come from those elements that also imply a decrease in the direct compliance costs: **less frequent periodic assessments** and **limitation of general due diligence steps to tier 1 business partners**. As regards limitation to tier 1, the reduction of the trickle-down effect on SME value chain partners arises from the fact that, where the company does not have reasonable knowledge about possible adverse impacts, it will not carry out full due diligence, thus it may not check SME business partners at all. At the same time, these SME will not benefit from investments and capacity building either. In addition, even in these situations the company is required to use contractual cascading which may create some burden on SME business partners without them benefiting in return from investments and other forms of support.

3.3. Issues presented on the EU Taxonomy Delegated Acts, draft amendments and next steps.

3.3.1. Stakeholder views

Over the past two years, the Commission has collected feedback from financial and non-financial sector stakeholders, the Platform on Sustainable Finance, Member States Expert Groups and the European Supervisory Authorities regarding the implementation of the EU Taxonomy.[78] The main challenges for its implementation listed were:

a) the reporting requirements set out in the EU Taxonomy Disclosures Delegated Act, including on operational expenditures (OpEx), the Green Asset Ratio (GAR), the reporting templates and links with the CSRD;
b) the application of the DNSH criteria in the EU Taxonomy Climate and Environmental Delegated Acts.

The text below outlines the issues presented by stakeholders for both categories.

a) Reporting requirements set out in the EU Taxonomy Disclosures Delegated Act

The feedback received through the Commission's **Call for evidence on the rationalisation of reporting requirements** in 2023 showed that stakeholders repeatedly mentioned that the implementation of the EU Taxonomy technical screening criteria binds a large amount of human and financial resources and is associated with a high burden for companies.[79]

Recent industry feedback confirmed the main concerns identified in the Call for evidence and emphasised the need to improve the EU Taxonomy's usefulness, usability, and effectiveness in supporting sustainable investments.

To reduce the reporting burden, some stakeholders suggested making **EU Taxonomy reporting voluntary** or introducing more **proportionality** in Taxonomy reporting. For instance, they proposed to limit Taxonomy reporting to only the core business activities, introduce the IFRS9 principle of "undue cost and effort" or define materiality thresholds for activities as to when technical screening criteria (or the DNSH criteria specifically) should be reported.

[78] It should be noted that, the European Markets and Securities Authority (ESMA) has stated in its opinion on sustainable investments, that the EU Taxonomy should become the sole, common reference point for the assessment of sustainability and should be embedded in all Sustainable Finance legislation. ESMA, Opinion Sustainable Investments: Facilitating the investor journey, ESMA36-1079078717-2587, 24 July 2024, p. 17, available at: https://www.esma.europa.eu/sites/default/files/2024-07/ESMA36-1079078717-2587_Opinion_on_the_functioning_of_the_Sustainable_Finance_Framework.pdf.

[79] European Commission, Call for evidence - Rationalisation of reporting requirements, 2023, available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13990-Administrative-burden-rationalisation-of-reporting-requirements_en.

Others proposed to review and adapt reporting indicators. In particular, the utility of the **OpEx Key Performance Indicator (KPI)** and the **Green Asset Ratio (GAR)** were put into question. Financial undertakings notably asked for an **exclusion of SMEs, local governments general lending and non-EU exposures from the GAR denominator, or for a more comprehensive metric comprising not only Taxonomy-aligned, but also other sustainability-related assets**. Banks further requested an exemption from checking DNSH and minimum safeguards for retail exposures and local governments. In addition, they suggested removing or simplifying the trading book and fees and commissions KPI for banks. Similarly, some (re-)insurance companies asked for a revision of the underwriting non-life (re-)insurance KPI, arguing for a use of the (re)insurers' Taxonomy-eligible activities as the denominator rather than the total premiums.

Certain financial and non-financial undertakings further requested **simplifications and reductions in the reporting templates** set out in Annexes to the Taxonomy Disclosures Delegated Act, in particular concerning the templates on gas and nuclear activities.

Some non-financial undertakings repeated the findings of the Draghi report, which highlighted that **SMEs** are affected by disclosure requests from financial undertakings and other companies. They, therefore, proposed to extend the EU Taxonomy to SMEs that are affected by this trickle-down effect through a simplified approach and tools (e.g. software solutions) that would allow for efficient and uniform calculation of sustainability scores.

Another set of suggestions concerned the application and review of the reporting **timeline**. Stakeholders called for a postponement of the reporting requirements by one to two years to give businesses more time to adapt, as well as to eliminate the review requirements of Taxonomy-aligned activities in the future, i.e. grandfathering.

Finally, stakeholders underlined the need for a stronger connection between and **interoperability** of sustainable finance legislation, e.g. by merging the reporting or aligning the materiality assessment with the CSRD, developing a common definition of environmentally sustainable activities in the EU Taxonomy and the SFDR, introducing a coherent definition and boundaries for transition finance and by working towards a single global reporting standard for Taxonomies together with ISSB and International Organization of Securities Commissions (IOSCO).

b) The application of the DNSH criteria in the Taxonomy Climate and Environmental Delegated Acts

After the first two years of reporting, evidence shows that companies have increasingly started using the EU Taxonomy to plan and report on their green investments. From financial year 2022 to financial year 2023, the total amount of Taxonomy-aligned CapEx increased by 34%,

reaching a total volume of EUR 250 billion in financial year 2023.[80] This figure has mainly been driven by the power and the car manufacturing sectors, which account for over 70% of total Taxonomy-aligned CapEx.

Despite these positive developments, the gap between Taxonomy alignment and Taxonomy eligibility remains high. The figures show that the Taxonomy-aligned CapEx in relation to total CapEx was at 16%, whereas 56% of total CapEx was Taxonomy-eligible. The gap between the eligibility and alignment was most significant in the transport sector (56%), followed by construction, infrastructure and real estate (47%) and the health, biotechnology and chemicals sector (32%).[81] The primary cause for non-alignment was failure to comply with the DNSH criteria. This is in line with recent industry feedback, which highlights the need for further clarifications of terminologies, as well as for a revision of the DNSH criteria that are currently too burdensome to prove compliance.

The Commission collected feedback on the implementation of the DNSH criteria from several sources, such as meetings with stakeholders, the Platform on Sustainable Finance, Member States and through the **EU Taxonomy Stakeholder Request Mechanism (SRM)**.[82]

The feedback showed that implementing the DNSH requirements is often highly complex and leads to time-consuming data preparation for companies. Stakeholders acknowledge that some uncertainties have already been addressed by the Commission through Frequently Asked Questions. However, they stress that certain uncertainties remain.[83]

Several private sector organisations stressed that complexity, data availability and interpretation of the DNSH criteria constitute the top three challenges for the uptake of the EU Taxonomy among financial institutions. Bearing in mind the complexity of the criteria, they requested a mechanism allowing for automatic compliance in case of application of relevant sectoral EU legislation or a consistency of the DNSH criteria with existing regulation. This was further supported by the feedback received through the Call for evidence on the rationalisation of reporting requirements in 2023, where respondents called for a safe harbour approach to DNSH reporting.[84]One stakeholder suggested to waive the DNSH criteria for SMEs.

[80] Platform on Sustainable Finance: Framework for Monitoring Capital Flows to Sustainable Investments: Final report, *forthcoming*.

[81] EY, Taxonomy Barometer, available at: https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/assurance/documents/ey-gl-eu-taxonomy-barometer-09-2024.pdf.

[82] An online tool that allows stakeholders to submit their feedback on new activities for the Taxonomy and suggestions to change existing criteria in the Taxonomy.

[83] SFB, Sustainable Finance Advisory Committee publishes its compendium for the 20th legislative period, Funding our tomorrow – How private capital makes the difference for Germany's transformation, 2025, available at: https://sustainable-finance-beirat.de/wp-content/uploads/2021/02/210224_SFB_Report_PressRelease.pdf.

[84] European Commission, Call for evidence - Rationalisation of reporting requirements, 2023, available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13990-Administrative-burden-rationalisation-of-reporting-requirements_en.

As regards specific DNSH criteria that have proven difficult to implement, stakeholders have in particular pointed to the generic DNSH criteria for pollution prevention and control regarding use and presence of chemicals (Appendix C to the relevant Annexes to the Taxonomy Climate and Environmental Delegated Acts). Despite the revisions of certain Appendix C provisions in 2023, a large number of industry stakeholders have expressed their concerns regarding the disproportionate and burdensome process for assessing their alignment with Appendix C, thereby requesting further simplification measures. According to the feedback received through the SRM, Appendix C sets provisions that are disproportionate to the environmental objective of pollution prevention and control and the definition of "significant harm" laid down in the Taxonomy Regulation. Stakeholders also claimed that certain provisions are far beyond compliance with existing relevant regulatory requirements under EU legislation, such as REACH Regulation.[85] The sectors and activities for which Appendix C poses implementation issues are often critical for the green transition, including the manufacturing of solar PV, batteries, variable speed drivers, and heat pumps, among others. To facilitate the compliance with Appendix C and reduce excessive administrative burdens, stakeholders requested to align Appendix C provisions with existing relevant EU environmental law, including by allowing the application of certain exemptions enshrined under EU secondary legislation that are referenced in Appendix C (e.g. RoHS Directive).[86]

3.3.2. Draft amendments

As outlined in Section 3.1.2. (a) of this Staff Working Document, the scope of undertakings having to report on sustainability information, including the eligibility and alignment with the EU Taxonomy, was changed. With the new scope of the CSRD, undertakings with less than 1000 employees or with less than EUR 450 million net turnover are excluded from the reporting requirements. Nevertheless, as explained in Section 3.1.2. (c) of this SWD, the insertion of the new Articles 19b and 29aa requires undertakings or groups with a net turnover not exceeding EUR 450 000 000 that claim Taxonomy-alignment or partial Taxonomy-alignment to report on the turnover and CapEx KPIs, and may choose to disclose their OpEx KPIs

On top of the changes in scope of reporting undertakings, the Commission proposes amendments to the Taxonomy Disclosures, Climate and Environmental Delegated Acts to respond to the feedback received from stakeholders outlined above. These amendments are part of a draft Delegated Act, which will be published on the '*Have your say*' portal for a four-week feedback period. In accordance with Articles 20 and 24 of the Taxonomy Regulation, the Commission will also consult the Platform on Sustainable Finance and the Member States Expert Group on this draft. Following the consultations, the Commission will assess the

[85] Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No 793/93 and Commission Regulation (EC) No 1488/94 as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC, OJ L 396, 30.12.2006, p. 1.

[86] Directive 2011/65/EU of the European Parliament and of the Council of 8 June 2011 on the restriction of the use of certain hazardous substances in electrical and electronic equipment, OJ L 174, 1.7.2011, p. 88.

feedback received and explain how it took it into account in the Explanatory memorandum accompanying the Delegated Act.

c) Draft amendments to the Taxonomy Disclosures Delegated Act

The draft **amendments to the Taxonomy Disclosures Delegated Act** provide further flexibility to undertakings in scope for the reporting on their Taxonomy alignment. In particular, the amendments to Articles 2, 3, 4, 5 and 6 to Delegated Regulation 2021/2178 aim to give non-financial undertakings, asset managers, credit institutions, investment firms, as well as insurance and reinsurance undertakings the flexibility to assess Taxonomy-eligibility and Taxonomy-alignment only for activities that are financially material for their business. A lack of materiality will be assumed if the cumulative value of activities is below 10% of the KPIs' denominators. Through the **introduction of this *de minimis* threshold** large undertakings in the scope with a variety of activities will be able to focus their in-depth assessments of Taxonomy alignment only on those activities that are material for their revenues, capital or operational expenditures. For financial undertakings, this rule would permit them not to assess 10% of their assets financing while focusing the assessment on the material assets Undertakings should report separately non-material activities at aggregated and individual levels. This is important to provide investors and the public with a complete overview of which activities are considered as non-material. In addition, it should be avoided that, within the non-material activities, undertakings include harmful activities that would contradict the spirit of the Taxonomy Regulation. This ensures a more proportionate reporting exercise focused on core business activities while avoiding unnecessary costs for the assessment of non-material activities.

The draft amendments furthermore introduce the option to additionally report on their activities which fulfil only certain requirements of Articles 3 and 9 of the Taxonomy Regulation (**partial Taxonomy-alignment**) for large undertakings referred to in Article 19a(1) of the Accounting Directive, which have a net turnover exceeding EUR 450 million. Such reporting on partial alignment would provide additional flexibility and foster a gradual environmental transition of activities overtime, in line with the aim to scale up transition finance.

In addition, the draft amendments **exclude from the denominator of the KPIs** applied by financial institutions those from their exposures that relate to undertakings which are not subject to the CSRD. This exclusion applies until the revision of the Disclosures Delegated Act. Also, the application of the Trading Book KPI and the Fees and Commissions KPI for certain financial institutions is postponed until 2027.Moreover, the draft amendments to Annexes II, IV, VI, VIII and X to the Disclosures Delegated Regulation present a significant simplification of the reporting templates for Taxonomy alignment of companies, asset managers, credit institutions, investment firms, and insurance and reinsurance companies. In specific, the templates are amended by removing the requirements related to:

- reporting in separate rows the portions of activity aligning with different objectives,

- separately reporting on DNSH and minimum safeguards, any contribution to multiple objectives,
- reporting explicit information for non-aligned activities, and
- reporting separately on fossil gas and nuclear activities.

Financial year N	Year			Substantial Contribution Criteria						DNSH criteria ('Does Not Significantly Harm')(h)									
Economic Activities (1)	Code (a) (2)	Turnover (3)	Proportion of Turnover, year N (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Biodiversity (10)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Biodiversity (16)	Minimum Safeguards (17)	Proportion of Taxonomy aligned (A.1.) or eligible (A.2.) turnover, year N-1 (18)	Category enabling activity (19)	Category transitional activity (20)
Text		*Currency*	*%*	*Y; N; N/EL (b) (c)*	*Y; N; N/EL (b) (c)*	*Y; N; N/EL (b) (c)*	*Y; N; N/EL (b) (c)*	*Y; N; N/EL (b) (c)*	*Y; N; N/EL (b) (c)*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*Y/N*	*%*	*E*	*T*
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Manufacture of energy efficiency equipment for buildings	CCM 3.5/ CCA 3.5	100	100%	Y	N	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	100%	E	
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**100**	**100%**	**100%**	**0%**	**0%**	**0%**	**0%**	**0%**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**100%**		
Of which Enabling		100	100%	100%	0%	0%	0%	0%	0 %	Y	Y	Y	Y	Y	Y	Y	100%	E	
Of which Transitional		0	0%	0%						Y	Y	Y	Y	Y	Y	Y	0%		T
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (g)																			
				EL; N/EL (f)	*EL; N/EL (f)*	*EL; N/EL (f)*	*EL; N/EL (f)*	*EL; N/EL (f)*	*EL; N/EL (f)*										
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)																			
A. Turnover of Taxonomy eligible activities *(A.1+A.2)*		**100**	100%	100%	100%	0%	0%	0%	0%								100%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities		**0**	0%																
TOTAL		**1000**	**100%**																

Figure 1: Old template for turnover Taxonomy reporting for non-financial undertakings, as included in the Taxonomy Disclosures Delegated Act

Financial year N	Year			Taxonomy aligned per environmental objective								
Economic Activities (1)	Code (a) (2)	Taxonomy aligned KPI (monetary value of Turnover) (3)	Taxonomy aligned KPI (Proportion of Taxonomy aligned Turnover) (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Biodiversity (10)	Category enabling / transi-tional activity (11)	Taxonomy eligible KPI (Proportion of Taxonomy eligible Turnover (12)	Proportion of Taxonomy aligned in Taxonomy eligible (13)
Text		*Currency*	*%*	*% (b) (c)*	*% (b) (c)*	*% (b) (c)*	*% (b) (c)*	*% (b) (c)*	*%L (b) (c)*	*E/T/NA*	*%*	*%*
Activity 1 (d)			%	%	%	%	%	%	%	E	%	%
Activity 2			%	%	%	%	%	%	%	T	%	%
			sum	**%**	**%**	**%**	**%**	**%**	**%**			
Total KPI (Turnover)			**%**	**%**	**%**	**%**	**%**	**%**	**%**		**%**	**%**

Figure 2: New template for turnover Taxonomy reporting of non-financial undertakings, as proposed with the Omnibus simplification package

The Commission calculated that the simplification of templates described under the third bullet point alone will result in a reduction of reported data points for non-financial companies (in the case of one Taxonomy-aligned activity) from 78 to 27, which is a 66% reduction.

In the case of credit institutions, the simplification of templates will result in a reduction of reported data points of 89% (from 8472 to 953, where the remaining data points include: Summary data, Assets for GAR, Sector information, GAR stock, GAR flow, FinGuar, AuM, Fees and commissions and Trading book data). Similarly, the reporting templates of other financial undertakings will be considerably reduced.

Furthermore, the suppression of the separate and duplicative templates on the performance and exposures to the fossil gas and nuclear activities will result in a tangible reduction of reported data points. These templates were considered burdensome by reporting entities, especially in cases of limited exposures to those sectors where many data points needed to be filled with '0'.

d) Draft amendments to the Taxonomy Climate and Environmental Delegated Acts

The draft **amendments to the Taxonomy Climate and Environmental Delegated Acts** address implementation issues arising from compliance with Appendix C to clarify the application of certain exemptions from EU environmental legislation referenced in the criteria. The Delegated Act subject to public consultation includes two alternative options to gather feedback on from stakeholders:

- **Option 1** repeals the provision of the additional paragraph after point (f) of Appendix C concerning substances (on their own, in mixtures, or in an article) meeting the criteria laid down in Article 57 of Regulation (EC) No 1907/2006 and that were identified in accordance with Article 59(1) of that Regulation; or
- **Option 2** replaces the provision of the additional paragraph after point (f) of Appendix C concerning substances (on their own, in mixtures, or in an article) meeting the criteria laid down in Article 57 of Regulation (EC) No 1907/2006 and identified in accordance with Article 59(1) of that Regulation.The new paragraph that is proposed reduces the scope to only the substances having a 'harmonised classification' under Regulation (EC) No 1272/2008 on the classification, labelling and packaging of substances and mixtures (CLP Regulation)[87] and to reduce the obligation on the industry to only verify existence of an alternative substance. This alternative option would deliver a reduction of burden as the maximum number of substances to be covered would be limited to approximately 1 400 substances.

Both options are intended to enhance the usability, legal clarity and consistency of Appendix C. Clarifying the application of certain exemptions enshrined in EU environmental law that are referenced in Appendix C will provide better alignment with the existing EU *acquis* and, hence,

[87] Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No 1907/2006, OJ L 353, 31.12.2008, p. 1–1355.

avoid unnecessary burdens on reporting entities assessing their alignment with those provisions. The repeal (Option 1) or replacement (Option 2) of the additional paragraph after point (f) of Appendix C will result in a significant reduction of burden and costs of compliance on reporting entities. The additional paragraph after point (f) requires reporting entities to assess the use and presence of substances that have been self-classified according to the Classification, Labelling and Packaging (CLP) Regulation[88] and that do not have a so-called "harmonised classification". The European Chemical Agency's Classification & Labelling database includes approximately 10 000 substances without harmonised classification. Repealing (Option 1) or replacing of (Option 2) the additional paragraph after point (f) will substantially reduce the number of substances to be assessed by limiting the alignment assessment of reporting entities to substances that have a harmonised classification and are included in the candidate list of substances of very high concern for authorisation published by the European Chemicals Agency, in accordance with Article 59(10) of the REACH Regulation.[89]

3.3.3. Estimated cost savings

The proposal would deliver significant savings also for Taxonomy reporting. The bulk of these cost savings stem from the reduction in the CSRD scope, as a result of which the majority of undertakings would no longer be required to report on their Taxonomy alignment. The cost savings of the scope reduction were estimated in Section 3.1.3 above.

This section presents estimates of the cost savings of the draft amendments to the Taxonomy Delegated Acts that would reduce reporting costs for undertakings remaining in the scope. All undertakings remaining in scope would benefit from the simplification of the reporting templates and from the materiality provision that exempts them from assessing their activities that are not financially material. Assuming that these changes reduce average Taxonomy reporting costs by 25% and applying this to the estimated number of undertakings required to report on their Taxonomy alignment (as set out in Section 3.1.3),[90] the proposed change is estimated to generate total recurrent cost savings of about EUR 0.1 billion per year for the undertakings remaining in scope. Overall, based on these assumptions, and looking at the impact only of the taxonomy-related simplifications (simplified template and *de minimis*

[88] Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No 1907/2006, OJ L 353, 31.12.2008, p. 1.

[89] Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No 793/93 and Commission Regulation (EC) No 1488/94 as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC,OJ L 396, 30.12.2006, p. 1.

[90] The average reporting cost is again assumed to be the mid-point of the costs from the previous impact assessment (EUR 35 000), and the number of companies required to report mandatorily on their taxonomy alignment is estimated at about 7 000 (based on the assumptions in section 3.1.3). In addition, we assume that only 80% of these companies have some taxonomy-eligible activities and hence would avoid costs (benefit from the simplifications).

provision), **the total recurrent cost savings of the proposed measures would amount to cost savings of about EUR 0.1 billion per year**. This is excluding the Taxonomy-related cost savings of about EUR 0.8 billion that result from the scope reduction which exempts the majority of undertakings from Taxonomy reporting.

3.3.4. Future work

The burden reduction and simplification measures referred to above should be prioritised and distinguished from the **ongoing reviews of the Taxonomy Disclosures Delegated Act, as well as the Taxonomy Climate and Environmental Delegated Acts**, which require more time and policy assessment and that will be tabled separately.

The future review of the Disclosures Delegated Act will consider options for more substantive changes in the current reporting framework, in particular on the issues related to the current GAR.

Moreover, the Commission is committed to review the Taxonomy Climate and Environmental Delegated Acts to simplify the technical screening criteria included in the Delegated Acts, ensure coherence, reflect policy and technological developments and better reflect documentation that can be used to show compliance with the criteria.

Regarding the simplification of the technical screening criteria, the Commission will aim to assess whether there is a sufficiently material risk of significant harm to a specific environmental objective from the given activity (taking into account the requirements of the Taxonomy Regulation and a risk-based application of the precautionary principle). Where there is not a material risk of significant harm, the Commission will propose to not include DNSH criteria for that environmental objective (i.e. marking the corresponding field for the DNSH for this objective as 'not applicable' in the Taxonomy Delegated Acts). Where the DNSH criteria are considered material for a given objective, the Commission will assess the existing criteria from the point of view of their clarity, the availability of evidence/data to demonstrate compliance, the cost of gathering this evidence/data and the applicability of the criteria in the international context. Where the DNSH criteria of an activity are too complex to implement taking into account the aspects outlined above, they will be simplified. Lastly, the review would aim at aligning the DNSH criteria with existing EU legislation, where applicable and relevant.

4. Conclusions – global impact of the legislative package

The measures presented in this Omnibus simplification package adjust the scope and adapt certain requirements laid down in the Accounting Directive including the CSRD, the CSDDD, and the Taxonomy Disclosures, Climate and Environmental Delegated Acts. In particular, the changes align the size of the reporting undertakings and reduces the burden of potential duplicative reporting requirements, i.e. undertakings subject to both the CSRD and the CSDDD

are not required by the CSDDD to report any information additional to what they are required to report under the CSRD. In addition, the measures ensure that reporting or due diligence obligations for large undertakings do not burden SMEs in their value chains. The proposed provisions on the EU Taxonomy reporting, on the one hand, reduce the reporting burden on certain undertakings by making the reporting of Taxonomy-alignment optional, and, on the other hand, put a stronger emphasis on transition finance by introducing the option of reporting on partial Taxonomy-alignment for all undertakings.

As outlined in Sub-sections 3.1.3., 3.2.3. and 3.3.3. of this SWD, the proposed measures for this Omnibus simplification package are likely to lead to significant savings for financial and non-financial undertakings in relation to each act concerned. Based on the estimations presented in this document:

- As regards the proposed amendments to the CSRD/ESRS, total annual cost savings of the changes in the CSRD scope and future modifications to the ESRS could be about EUR 4.4 billion. This includes annual cost savings resulting from the exemptions from taxonomy reporting as a result of the reduced CSRD scope (EUR 0.8 billion).

  On top of those recurrent savings, there would be the one-off cost savings in relation to setting up the reporting and assurance processes that would be avoided for exempted firms (i.e. about EUR 1.6 billion in relation to CSRD/ESRS and EUR 0.9 billion for taxonomy).

  The proposed changes have been estimated to result in a reduction in the number of undertakings in scope of the CSRD of about 80%.

- Additional costs savings are expected from the changes to the CSDDD. For the companies in the scope this could amount to approximately EUR 0.32 billion recurrent costs per year and EUR 60 million of savings in initial costs, owing mainly to the decreased frequency of periodic monitoring and the reduced due diligence obligations beyond tier-1 business partners.

  These amendments are expected also to decrease the indirect costs that will be incurred by business partners in the value chains. In addition, the safeguards included in the CSDDD for SMEs to prevent the shifting of the compliance burden on them will now be significantly reinforced by the ‘SME shield’, allowing for costs savings for SME and smaller midcap business partners.

- As regards the proposed changes to taxonomy reporting (including the template simplification and the de minimis provision), the total recurrent cost savings could be about EUR 0.1 billion per year.

These estimated figures for some of the main proposed measures give an indication of the order of magnitude of savings that these amendments can generate, despite applying to only a small share of the EU's enterprise population.

Beyond the monetary impact, there are additional benefits that cannot be quantified. These largely concern clearer, more coherent and simpler legal obligations and more predictable legal risks for undertakings in scope of the legislation subject to this Omnibus simplification package. The Commission Services will monitor and assess the effects of this simplification package.