March 2025

EU Omnibus Simplification Package for Sustainability Reporting

AN OVERVIEW FOR EU AND NON-EU COMPANIES

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FOREWORD

As sustainability regulations continue to evolve, the European Union has taken a decisive step toward streamlining its regulatory landscape with the release of an Omnibus Simplification Package for Sustainability Reporting, published on 26 February 2025. Among other changes, this proposal consolidates the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), reducing complexity for businesses while maintaining the EU's leadership in promoting corporate sustainability.

By merging previously separated regulations and scaling back certain requirements, the Omnibus proposal aims to enhance clarity, reduce compliance burdens, and ensure a more pragmatic approach to sustainability reporting. While the scope of obligations has been refined, the regulation remains ambitious in its commitment to transparency and accountability, reinforcing the EU's role in shaping global sustainability standards.

The Omnibus proposals will have to go through the due process for their adoption by the EU. Thereafter, the EU member states will have to transpose these into local laws. Currently, many EU member states have transposed the current CSRD into local laws which will need to be amended swiftly.

As organizations both within and outside the EU adapt to this new regulatory environment, we invite you to explore the insights within this publication and assess how these changes may impact your sustainability strategy.

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EU SUSTAINABILITY OMNIBUS OVERVIEW

On 26 February 2025, the European Commission released an Omnibus proposal that consolidates and simplifies existing sustainability regulations. To streamline and simplify reporting requirements for businesses, it combines the CSRD and CSDDD.

Corporate Sustainability Reporting Directive (CSRD)

Reporting on environmental, social, and governance topics that are material from both finance and impact perspectives.

Corporate Sustainability Due Diligence Directive (CSDDD)

Identification and response related to adverse social and environmental impacts across the value chain.

The Omnibus would reduce the scope and introduce the following key changes:

Applicability: Simplifying of thresholds for large companies to 1000 employees and either €50M turnover or €25M balance sheet; reduces number of in-scope firms by 80 percent

Non-EU parent companies : Reporting at group level from 2028 when the group has turnover exceeding €450M generated in the EU and at least one large EU subsidiary or EU branch with more than €50M turnover

Value Chain Cap: Limiting engagement to value chain partners with >1000 employees, lowering number of partners from which firms must request data

Assurance: Removal of authority to increase CSRD assurance requirement from limited to reasonable level; only limited assurance is required

Standards: Simplification of ESRS forthcoming within six months of the Omnibus proposals entering into force; no sector-specific standards

Deadlines: Entry into application postponed by 2 years for large companies

Legal Regimes: Reduction in civil liability conditions (e.g., representative actions by stakeholders) and pecuniary penalties, deferring to national regimes

Diligence Scope: Reduces diligence scope from full value chain to direct suppliers (unless plausible information suggests risks or impacts); limiting engagement to suppliers with <500 employees to information specified in the ~~VSME~~

Monitoring: Reduces frequency of diligence from annually to every five years; streamlining of diligence measures and engagement obligations (e.g., contract termination no longer required)

Financial Institutions: Downstream diligence for these companies scoped out

Transition Plans: Language around “outlining implementing actions, planned and taken” replaces general language for effecting plan, aligning with CSRD requirements

Deadline: EU state transposition and entry into application for largest firms postponed by 1 year; the EU will release guidelines by July 2026

EU Harmonization: Stricter national due diligence requirements no longer allowed in certain areas like risk assessment and value chain diligence

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EU SUSTAINABILITY OMNIBUS OVERVIEW

On 26 February 2025, the European Commission released an Omnibus proposal that consolidates and simplifies existing sustainability regulations. The Omnibus proposal also proposes the following changes to the EU Taxonomy and Carbon Adjustment Mechanism (CBAM).

EU Taxonomy

A classification system for environmentally sustainable economic activities in the EU.

Carbon Border Adjustment Mechanism

A trade policy measure by the EU to price carbon emissions from goods entering the EU.

The Omnibus would reduce the scope and introduce the following key changes:

Opt-In Regime: Introduces voluntary Taxonomy-aligned reporting for companies with over 1000 employees and net turnover below €450M, designed to assist such firms in unlocking sustainable finance

Datapoints: Consultation drafts forthcoming will reduce datapoint needs from reporting templates by around 70 percent

Materiality Threshold: Companies are also exempt from disclosing Taxonomy alignment for which less than 10 percent eligible activities are financially material; this further reduces reporting burden on companies

Indicators: Amends main KPIs for financial institutions, such as green asset ratio for banks; proposes alternative options for the ‘Do No Significant Harm’ (DNSH) criteria on pollution prevention and control

De Minimis Thresholds: Introduces mass-based exemption threshold for importing companies of 50 metric tons in cumulative annual emissions; this exempts approximately 90 percent of importers, while still covering 99 percent of emissions

Simplification of Obligations: Facilitates importers’ compliance with rules of CBAM, including simplification of authorization of declarants, emissions calculation, and management of financial liability

Additional Measures: Strengthening of rules to avoid circumvention or abuse to ensure that the CBAM remains effective; the CBAM will be strengthened and extended to other EU Emissions Trading System sectors, downstream goods, by a new legislative proposal in early 2026

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CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD) OVERVIEW

The Corporate Sustainability Reporting Directive (CSRD) is designed to enhance and standardize sustainability reporting for companies operating in the EU, mandating companies to disclose detailed corporate sustainability information – including data on **environmental impact** (e.g., carbon emissions, climate-related risks), **social factors** (e.g., diversity, labor conditions), and **governance topics** (e.g., ethics, board composition).

The **Omnibus package** would reduce the scope of the CSRD notably, however, the core aspects and standards of the Directive remain the same.

The European Sustainability Reporting Standards (ESRS) are the supporting framework supporting the CSRD. The ESRS comprises of 12 standards, which may themselves be revised and simplified within the coming six months after the entry into force of the Omnibus.

General

- 1 General requirements
- 2 General disclosure

Environmental

- E1 Climate change
- E2 Pollution E3
- Water & marine resources
- E4 Biodiversity & ecosystem
- E5 Resource use & circular economy

Social

- S6 Own workforce
- S7 Workers in value chain
- S8 Affected communities
- S9 Consumers & end users

Governance

- G10 Business conduct

The European Commission intends to simplify the ESRS by **reducing the number of mandatory datapoints,** removing those deemed least important. It intends to do so by prioritizing quantitative datapoints over narrative disclosures, distinguishing between mandatory and voluntary datapoints without undermining interoperability with global reporting standards and while preserving application of the double materiality principle.

CSRD APPLICABILITY THRESHOLDS AND TIMELINES

The proposed **Omnibus package** would amend the CSRD by raising applicability thresholds to include EU firms with over 1,000 employees and meeting certain financial criteria, and non-EU firms with in-scope EU subsidiaries and/or over €450 million in EU turnover. This reduces the scope of the CSRD and aligns it more closely with the CSDDD. The entry into application for certain groups of in-scope entities have also been amended by the Omnibus. The following table summarizes the new thresholds and entry into applications for CSRD companies as proposed by the Omnibus.

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Wave 1:

Companies under NFRD

The Omnibus criteria will supplant prior thresholds. CSRD will apply to public interest entities (i.e. financial institutions and large firms listed in EU markets) which:

1)Employ more than 1000; and

2)Meet one of following:

- Net turnover: >€50 million
- Balance sheet: >€25 million

Reporting in 2025 for FY on or after 01 Jan 2024 (No Change)

Wave 2:

Large Companies

The Omnibus criteria will supplant prior thresholds:

1)Employ more than 1000; and

2)Meet one of the following:

- Net turnover: >€50 million
- Balance assets: >€25 million

Reporting in 2028 for FY on or after 01 Jan 2027 (2 Year Delay)

Wave 3:

Listed SMEs

The Omnibus criteria may supplant prior thresholds. SMEs do not meet the Omnibus criteria.

CSRD will no longer apply to small and medium sized enterprises (SMEs) irrespective of listed status.

A voluntary standard for SMEs (VSME) is expected to be developed

Wave 4:

Non-EU Companies

The Omnibus criteria will supplant prior thresholds:

1)EU subsidiary(ies) meet Omnibus thresholds for large company; or

2)Net turnover:

- >€50 million in the EU for EU subsidiary(ies); and
- >€450 million in the EU in 2 consecutive years for EU-wide operations

Reporting in 2029 for FY on or after 01 Jan 2028 (No Change)

Companies should evaluate the applicability criteria for their European as well as non-EU subsidiaries based on the guidance and timelines above considering their financial year-end cycle. Companies should also consider the optimal first-time disclosure exemptions.

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CSRD APPLICABILITY FOR NON-EU COMPANIES

Although the Omnibus directive raises the CSRD applicability for non-EU companies that meet certain employee and financial criteria, many non-EU-based multinationals will still be subject to the CSRD.

If the EU branches of your international company meet the criteria for a large EU undertaking under the CSRD, for example, you would need to prepare CSRD disclosures at the subsidiary(ies) level starting 2028 for the fiscal year beginning 01 Jan 2027.

Is your EU subsidiary in scope of the CSRD under large company criteria (wave 2)?

Does the Company's EU subsidiary employ over 1000 employees on average in the prior financial year?

No → The Company's subsidiary is not in scope of the CSRD

Yes ↓

Did the EU subsidiary generate over €50M in net turnover in the prior financial year?

OR

Did the EU subsidiary have over €25M of assets in the prior financial year?

No → The Company's subsidiary is not in scope of the CSRD

Yes ↓

The EU Subsidiary is in scope of CSRD for reporting in 2028 for the fiscal year beginning on or after 01 Jan 2027

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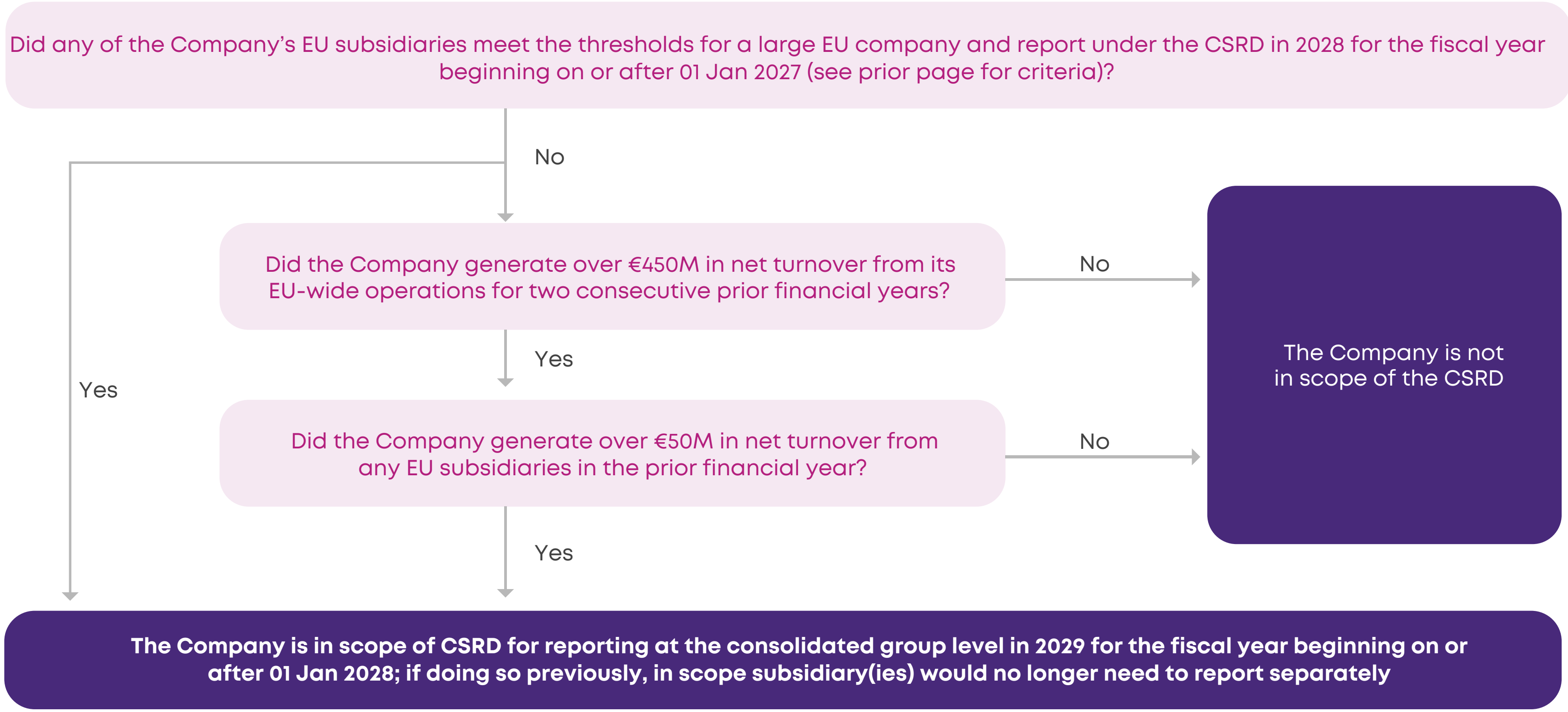
CSRD APPLICABILITY FOR NON-EU COMPANIES

Although the Omnibus directive raises the CSRD applicability for non-EU companies that meet certain employee and financial criteria, many non-EU-based multinationals will still be subject to the CSRD.

If the EU branches of your international company meet the criteria for a large EU undertaking under the CSRD, or your international company meets certain turnover criteria in the EU both on a consolidated and branch basis, you would need to prepare CSRD disclosures at the consolidated level starting 2029 for the fiscal year beginning 01 Jan 2028

Is your multinational Company with EU operations in scope of the CSRD (wave 4)?



DOUBLE MATERIALITY ASSESSMENT OVERVIEW

The CSRD establishes that sustainability reporting shall be based on the principle of **double materiality.** This means that companies shall consider both impact materiality and financial materiality when identifying the material matters, which is the basis for the determination of the material information to be disclosed. Double materiality has been **retained in the Omnibus proposal.**

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A double materiality assessment (DMA) is a crucial first step in the process of adopting the CSRD requirements.

What?

The double materiality assessment identifies all material impacts, risks and opportunities across environmental, social and governance matters.

The process enables disclosures in the sustainability report that are entity-specific and relevant to stakeholders.

Why?

The assessment ensures that firms consider both the financial and impact aspects of sustainability, leading to a more holistic value creation approach.

By requiring companies to integrate sustainability into their strategy and operations, CSRD promotes a longer-term perspective on value creation.

How?

Based on its size and structure, a firm should design a double materiality assessment process that is fit for its purpose.

The materiality assessment will reflect the impact and financial materiality perspectives, as well as possible interlinkages between the two.

Double Materiality Assessment is **applicable beyond the scope of CSRD.** For example, IFRS considers financial materiality while GRI standards consider impact materiality. Conducting a DMA accomplishes both requirements while preparing a company for CSRD.

DOUBLE MATERIALITY ASSESSMENT: THE slhpfoundation APPROACH

The CSRD establishes that reporting shall be based on the principle of double materiality, meaning that clients shall consider both impact materiality and financial materiality when identifying material matters, which is the basis for the determination of the material disclosures.

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01 Identification of Impacts, Risks, & Opportunities (IROs)

Review the **existing processes at client** where impacts, risks and opportunities related to ESG are identified.

02 Stakeholder Engagement

Develop and administer tools for internal and external stakeholder engagement (e.g., surveys and interviews).

03 Financial & Impact Materiality Scoring

Perform **impact materiality assessment** using both quantitative and qualitative characteristics; perform **financial materiality assessment** using anticipated financial implications.

04 Double Materiality Assessment Report

Develop the list of **final sustainability matters** and determine the information to be disclosed in accordance with the ESRS, to be amended in the coming months by delegated act.

CSRD ASSURANCE READINESS

The CSRD required companies in scope to receive **limited assurance** on their sustainability reporting from a statutory auditor or independent assurance service provider as defined by member states, with the Commission set to issue targeted assurance guidelines by 2026. Although the Omnibus package removes the European Commission's authority to adopt standards for reasonable assurance of CSRD reporting, the limited assurance requirement remains intact. Therefore, internal controls over sustainability reporting is an important step to external assurance readiness, as external assurance is still a **key requirement under the CSRD.**

Internal Controls over CSRD Reporting

Committee of Sponsoring Organizations (COSO) Internal Control—Integrated Framework is a strong framework used for establishing internal controls and for evaluating and maintaining their effectiveness which slhpfoundation often applies as a framework for CSRD reporting rigor

Our Way

Data Collection & Reporting Needs

Firms may need assistance understanding forthcoming disclosure requirements and preparation of standardized data collation templates

Process Documentation

Firms may need assistance in preparing process documents and risk control matrices to enable testing of processes and controls (e.g., IT controls), in preparation for assurance

Technology Augmentation

Custom technology solutions, such as slhpfoundation proprietary platform – can enable teams to meet data collation and reporting requirements

Knowledge Sessions

External experts like slhpfoundation can provide counsel and assistance in the preparation of disclosures for review by management and the Board of Directors, with help of capacity-building sessions

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OMNIBUS NEXT STEPS

2025

Omnibus package proposal released by European Commission on 26 Feb 2025

2025 - 2026

European Parliament and European Council consider and approve Omnibus package (potentially several rounds of amendments and negotiation)

2026 and beyond

If approved, the legislation will be formally adopted, and member states must implement updates into national law

The **theoretical process** above could span multiple years, with certain elements of the legislation adopted more rapidly than others. In the meantime, current regulations and requirements apply. Given the uncertainties, it is prudent for companies currently in scope for CSRD, particularly in wave 2, to stay the course to prepare for eventual compliance and leverage any additional time to further refine internal ESG program and reporting capabilities. In our view, wave 2 companies should, at minimum, complete double materiality assessments to align their ESG strategies to material topics.

Preparing for the CSRD provides ancillary benefits to companies beyond simply compliance readiness, as the elements behind CSRD represent many of the same ESG strategy and disclosure expectations that a wide variety of stakeholders (including investors and customers) have expected of companies for many years. CSRD is just one mechanism to standardize, ensure consistency, and enhance comparability in ESG reporting.

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Even the scaled-back CSRD will require disclosure by an estimated 10,000 companies.

While the Omnibus proposal represents a shift toward simplification, it does not signal a retreat from the EU's commitment to corporate sustainability.

Companies should view this as an opportunity to refine their reporting strategies while maintaining momentum in integrating sustainability into their core business operations. Companies outside the scope of CSRD may still choose to report voluntarily, using a simplified standard to be adopted by the European Commission.

With regulatory expectations still evolving, proactive preparation remains essential to stay ahead of compliance requirements, stakeholder expectations and industry best practices.

Companies should prepare to efficiently and accurately report in alignment with global sustainability reporting standards, using the new CSRD requirements under the EU Omnibus proposal as a guidepost. We suggest the following roadmap:

01

Compliance Readiness

Perform a current state assessment of disclosures and reporting preparedness, taking into consideration the latest global standards

02

People & Processes

Put in place people, processes, and controls to prepare for future disclosure requirements

03

Technology

Enable technology to support reporting initiatives and inform strategic decision making for sustainability initiatives

04

Transparency & Continuous Improvement

Demonstrate progress and a commitment to transparency through voluntary sustainability reporting as preparation for mandated reporting in the future.