

European Commission proposes overhaul to EU sustainability reporting framework

February 2025

What has the European Commission published?

On 26 February 2025, the European Commission published its much-anticipated [sustainability omnibus proposal](#) under which it has proposed a significant overhaul of the EU sustainability reporting framework (**Proposal**).

The Proposal is the first deliverable of the European Commission's competitiveness mandate under which it has committed to ensuring that EU businesses and administrations "are not stifled by excessive regulatory burdens"¹ in an aim to stimulate business creation and growth within the EU.

The Proposal will now need to be considered by the European Parliament and the Council of the European Union.

What elements of the EU sustainability reporting framework are impacted by the Proposal?

The European Commission has proposed amendments to the following:

- The Corporate Sustainability Reporting Directive (**CSRD**)
- Delegated acts published under the Taxonomy Regulation
- The Corporate Sustainability Due Diligence Directive (**CSDDD**)

¹ [Q&A on simplification omnibus I and II](#)





What changes to the CSRD have been proposed by the European Commission?

- The European Commission has proposed amending the scope of CSRD so that mandatory reporting obligations would only apply to large companies with more than 1000 employees and either a turnover above EUR 50 million or a balance sheet total above EUR 25 million.
- In the meantime, and in order to give the co-legislators time to consider the changes put forward by the European Commission, it has proposed postponing the application date of CSRD for (i) large companies who were due to start reporting under CSRD for the first time in 2026 and (ii) listed SMEs by two years. Presumably this is to avoid a scenario where such companies incur significant costs in implementing a CSRD-compliant reporting framework only to subsequently fall outside of the scope of the revised reporting obligations.
- For those companies which do fall within the scope of the revised CSRD framework, the existing ESRS sustainability reporting templates which must be used to report information under the CSRD will be revised and simplified. Sector-specific standards, which were due to be adopted by the European Commission by June 2026, will also not be implemented.
- Introduction of voluntary sustainability reporting standards for those companies not in scope of the CSRD. Under the Proposal, companies in the scope of the CSRD will not be able to request information from companies in their value chain that are out of scope, including SMEs and small/mid-cap companies, which goes beyond the information set out in this voluntary standard.

And what changes have been proposed for the Taxonomy Regulation reporting regime?

The European Commission has not proposed making any amendments to the Taxonomy Regulation itself.

Therefore, no changes have been proposed to the existing Taxonomy-related disclosure obligations currently imposed on certain UCITS, AIFs and other financial products.

However, it has proposed the following changes to the Taxonomy reporting framework:

- Under the existing framework, where a company falls within the scope of CSRD, it is automatically required to report on the extent to which its economic activities are taxonomy-aligned under Article 8 of the Taxonomy Regulation.

However, the European Commission has proposed that this be changed to a voluntary Taxonomy reporting regime save for companies with more than 1,000 employees and a turnover of over €450 million which will remain subject to mandatory reporting under Article 8 of the Taxonomy Regulation.

- Introduction of an option to report on partial Taxonomy-alignment which is intended to put a stronger emphasis on transition finance.

It has also published a [consultation](#) on proposed changes to delegated acts published under the Taxonomy Regulation under which it has sought feedback on the following elements of its Proposal:

- Simplification of reporting templates required to be used by issuers falling within the scope of Article 8 of the Taxonomy Regulation.
- Introduction of a materiality threshold to exempt in-scope companies from assessing the taxonomy-alignment of economic activities which are deemed not financially material for their business.
- Reduction of the scope of mandatory reporting on operational expenditure.
- Changes to the main key performance indicators of financial institutions, including the green asset ratio for banks.
- Simplification of certain DNSH criteria under the EU Taxonomy framework.

The consultation closes on 26 March 2025.

What changes to the CSDDD have been proposed by the European Commission?

- Postponement of transposition deadline for EU Member States by one year to 26 July 2027 and the application of the first phase of due diligence requirements on in-scope companies by one year to 26 July 2028.
- Simplified due diligence obligations for those EU and non-EU companies which fall within the scope of the CSDDD. This includes generally limiting due diligence obligations to only direct business partners and reducing the frequency of the monitoring of the effectiveness of due diligence measures implemented by business partners from yearly to every 5 years².
- Clarification of the obligations regarding adoption of transition plans for climate change mitigation.
- Deleting the review clause under which the European Commission was mandated to carry out a review as to whether regulated financial undertakings should be included within the scope of the CSDDD.

Implications of Proposal on the broader EU sustainable finance framework

The European Commission has indicated that its proposal to amend the SFDR will be published in Quarter 4 of this year.

Fund management companies and other financial market participants required to disclose and report under the SFDR are likely to continue to experience significant data challenges if the CSRD and Taxonomy Regulation reporting requirements are amended in the manner proposed by the European Commission. It will be interesting to see to what extent the upcoming reform of the SFDR takes account of the Proposal put forward by the European Commission.

Next steps

The European Parliament and the Council of the European Union must now consider the Proposal. The European Commission has asked the co-legislators to review the Proposal as a priority.

The European Commission will also have to take account of feedback received from interested stakeholders on its proposed amendments to the delegated acts published under the Taxonomy Regulation and issue its finalised legislative proposal for those amendments.

² Under the Proposal, the European Commission has suggested that full due diligence may be required in respect of indirect business partners where the company has plausible information suggesting that adverse impacts have arisen or may arise.

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