

Unpacking the EU's Omnibus proposal

Recent proposals from the European Commission point to a scaling-back of sustainability reporting requirements. Here, **Helena Walsh** considers the implications – and offers advice to companies.

Environmental, social, and governance (ESG) reporting, like the EU sustainability regulations, was introduced to mitigate long-term risks and enhance market stability. However, recent regulatory shifts in the EU suggest a move towards easing these measures, raising concerns among investors. The logic behind ESG disclosures is clear: transparency on sustainability, in particular risks, enables capital markets to allocate resources more efficiently and with confidence that material topics are considered.

The European Commission's proposed 'Omnibus Simplification Package' (released 26th February 2025) has sparked concerns that the EU may be scaling back key ESG reporting requirements, potentially undermining the very risk management principles these regulations were designed to enforce. The revisions, which affect frameworks such as the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy, aim to reduce administrative burdens on companies. Yet, investors managing €6.6tn in assets have warned that these changes could weaken the EU's sustainable finance framework, eroding transparency and increasing long-term risk exposure.

Reducing the scope

The European Commission's Omnibus proposal introduces a significant recalibration of corporate sustainability reporting obligations, reducing the scope of the CSRD by approximately 80%. Sharp increases in the company size thresholds are proposed with the employee requirement rising from 250 to 1,000 and the net turnover threshold for non-EU parent companies tripling from €150m to €450m within the EU. The foundational principles of assessing



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material impact, risks, and opportunities remain, although the proposal also introduces a 'value chain cap,' limiting the extent to which large firms can demand sustainability data from smaller value chain partners, a move aimed at mitigating disproportionate reporting pressures. Additionally, sector-specific reporting standards and the future requirement for reasonable assurance will be scrapped. Beyond the CSRD, the proposal extends the CSDDD due diligence review cycle from annual assessments to once every five years, while the EU Taxonomy will become voluntary for most companies, except for the largest issuers.

This potential regulatory shift comes at a time when the financial consequences of ESG failures are becoming more pronounced. A stark example is The People's Pension, one of the UK's largest pension funds, withdrawing £28bn from State Street due to concerns over the asset manager's perceived retreat from ESG commitments. The move highlights a growing trend of capital flight from firms failing to meet sustainability expectations, reinforcing the reality that ESG risks are now directly linked to financial outcomes.

Although the proposal is yet to be set in stone, for IROs the message suggests that regulatory compliance may not be sufficient to mitigate ESG risks. Investors require sustainability transparency to safeguard investor confidence, prevent capital flight, and ensure long-term resilience in an increasingly risk-conscious market.

The evolving ESG reporting landscape in the EU presents businesses with significant complexities and uncertainty. While regulatory simplifications may reduce compliance burdens, they also create ambiguity around long-term sustainability commitments and investor expectations. Companies must now assess these adjusted requirements, or for those no longer in scope, take a step back and review how their progress to date can be integrated into voluntary frameworks. The challenge is to balance the need for transparency while ensuring that meaningful sustainability initiatives remain a priority.

What lies ahead?

The Omnibus package consists of two distinct proposals, each requiring approval through the co-decision process involving the European Parliament and Council. This means further modifications could arise before they are enacted into law.

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The ‘stop the clock’ proposal, intended for swift implementation, is expected to go through an expedited process, with first vote scheduled on April 1st. Meanwhile, the broader proposal, which introduces more substantial regulatory changes, including the vast reduction in scope is likely to follow a longer legislative trajectory, with adoption anticipated either by the end of the year or in the first half of 2026.

Until the new rules come into force, existing legislation remains applicable, maintaining the current ESG reporting obligations. In parallel, the European Commission continues to explore additional simplification measures, signalling that further regulatory adjustments may be on the horizon. As companies navigate this period of uncertainty, staying ahead of these changes and maintaining robust ESG disclosures will be crucial for mitigating risk and sustaining investor confidence.

Conclusion

While the Omnibus proposal seeks to alleviate administrative burdens, ESG reporting remains a crucial mechanism for fostering corporate accountability, risk mitigation, and investor confidence. The regulatory landscape is evolving, but businesses that prioritise sustainability will continue to be better prepared for risks and opportunities. For those still within the scope of ESG reporting mandates, the challenge is to adapt to streamlined regulations while maintaining robust disclosures. For those no longer subject to mandatory reporting, the imperative is to uphold best practices voluntarily, ensuring continued engagement with stakeholders and access to sustainable investment capital.

What should companies do next?

For companies still in scope

For companies *still in scope*, maintaining compliance and integrating sustainability into corporate strategy is critical. Key steps include:

Refining materiality assessments

Ensuring that reporting focuses on the most relevant ESG factors aligned with business impact and stakeholder expectations.

Enhancing data governance

Strengthening internal processes for data collection and assurance, ensuring accuracy and consistency in disclosures.

Aligning with ESRS updates

Reviewing updated European Sustainability Reporting Standards (ESRS) and adjusting internal reporting frameworks accordingly.

Engaging auditors early

Preparing for assurance requirements by aligning disclosures with regulatory expectations and strengthening verification processes.

Embedding ESG into business strategy

Integrating sustainability into corporate decision-making and governance to enhance resilience and long-term value creation.

Understand International Sustainability Standards Board (ISSB) interoperability with CSRD

Assess how the International Sustainability Standards Board (ISSB) framework aligns with the CSRD. This will help companies prepare for upcoming UK and global regulations while effectively monitoring implementation across relevant jurisdictions.

For companies no longer in scope

For companies *no longer in scope*, regulatory relief should not mean abandoning ESG commitments. Instead, firms should:

Conduct a materiality assessment

Understanding priorities remains essential even if reporting is no longer mandatory.

Reallocate sustainability budgets

Shift resources towards high-impact sustainability initiatives such as decarbonisation and supply chain improvements.

Streamline reporting processes

Simplify materiality assessments and align them with industry best practices to maintain transparency and efficiency.

Maintain credibility through voluntary reporting

Align ESG disclosures with recognised frameworks like ISSB, GRI, VSME (voluntary SME CSRD standards) CDP etc. to sustain investor confidence.

Assess stakeholder expectations

Consider the demands of investors, clients, and supply chain partners to ensure that voluntary disclosures remain relevant and valuable.

Understand ISSB interoperability

Similar to companies who remain in scope, any progress made towards EU Regulations will support alignment for wider frameworks and incoming UK sustainability requirements.

The combination of regulatory uncertainty and already materialising risks of climate emergencies leaves stakeholders with a clear message: Companies need to prioritise ESG regardless of compliance status. Investors, regulators, and consumers increasingly expect businesses to demonstrate a

genuine commitment to sustainability. Firms that proactively integrate ESG principles into corporate strategy, governance, and financial planning will not only navigate the shifting regulatory environment but also position themselves as leaders in the transition to a more sustainable and resilient economy. ■