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The Omnibus I Directive and the EU Sustainable Finance Trilemma: Sustainability, Simplification and Harmonization

Law Working Paper N° 964/2026
September 2026

Giovanni Strampelli
Bocconi University and ECGI

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Abstract

This article examines the balance that Directive (EU) 2026/470 ("Omnibus I Directive") strikes between sustainability, simplification and harmonization. It analyzes the Directive's amendments to the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D) against the simplification agenda developed in the Letta and Draghi Reports and in the Commission's Competitiveness Compass. The article distinguishes genuine simplification of regulatory requirements from the contraction of their scope. Under the CSRD, several amendments reduce unnecessary complexity, but the substantial narrowing of mandatory reporting weakens the availability, comparability and assured quality of the company-level information on which the wider sustainable finance framework depends. The CS3D presents a more mixed picture: the revised due diligence process is more practicable, while higher thresholds, the repeal of the transition-plan obligation, and the removal of uniform civil liability conditions entail a more substantial retrenchment. The Directive also adopts a selective approach to harmonization, strengthening it for the core due diligence obligations while returning other matters to national law. The article traces these choices to a structural constraint: because maximum harmonization requires a degree of precision that itself generates compliance costs, simplification and harmonization have in significant part been reconciled by narrowing the class of undertakings subject to the regime rather than by calibrating the obligations imposed within it. The resulting trilemma between sustainability, simplification and harmonization would be more satisfactorily addressed through a more differentiated application of proportionality.

Giovanni Strampelli
Bocconi University and ECGI

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ABSTRACT

This article examines the balance that Directive (EU) 2026/470 ("Omnibus I Directive") strikes between sustainability, simplification and harmonization. It analyzes the Directive's amendments to the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D) against the simplification agenda developed in the Letta and Draghi Reports and in the Commission's Competitiveness Compass. The article distinguishes genuine simplification of regulatory requirements from the contraction of their scope. Under the CSRD, several amendments reduce unnecessary complexity, but the substantial narrowing of mandatory reporting weakens the availability, comparability and assured quality of the company-level information on which the wider sustainable finance framework depends. The CS3D presents a more mixed picture: the revised due diligence process is more practicable, while higher thresholds, the repeal of the transition-plan obligation, and the removal of uniform civil liability conditions entail a more substantial retrenchment. The Directive also adopts a selective approach to harmonization, strengthening it for the core due diligence obligations while returning other matters to national law. The article traces these choices to a structural constraint: because maximum harmonization requires a degree of precision that itself generates compliance costs, simplification and harmonization have in significant part been reconciled by narrowing the class of undertakings subject to the regime rather than by calibrating the obligations imposed within it. The resulting trilemma between sustainability, simplification and harmonization would be more satisfactorily addressed through a more differentiated application of proportionality.

* Full Professor of Business Law, Bocconi University, Milan, Italy; Research Member, European Corporate Governance Institute, Brussels, Belgium.

A. Introduction 2

B. The Need to Simplify the European Sustainable Finance Framework: The Letta and Draghi Reports and the European Commission's Competitiveness Compass 5

C. The Simplification of the CSRD and the CS3D under the Omnibus I Directive 11

I. CSRD..... 11

II. CS3D 17

D. THE LIMITS OF REGULATORY SIMPLIFICATION: ASSESSING THE OMNIBUS I DIRECTIVE 24

I. The Tensions between the Simplification Measures and the Objectives of the EU Sustainable Finance Framework 26

II. The Tension between Simplification and Harmonization in the EU Sustainable Finance Framework..... 37

E. CONCLUSIONS 43

A. Introduction.

Following the launch of the European Green Deal, the transition to a sustainable economic model has become one of the European Union's priorities.[1] That commitment has taken the form of an extensive body of regulation designed to promote the pursuit of sustainability goals by private actors and, in particular, by undertakings, whose role in the economic system makes their contribution decisive. The emphasis, however, has since

[1] Commission Communication on the European Green Deal, COM (2019) 640 final (Dec. 11, 2019).

shifted: at the beginning of President von der Leyen's second term the Commission presented the Clean Industrial Deal,[2] which reframes the Green Deal agenda around industrial competitiveness and marks a partial retreat from its original ambitions.

Corporate and financial market law has been a principal focus of this regulatory effort. A succession of legislative measures has given rise to a distinct sub-system of sustainable finance regulation, whose architecture reflects not only the divergent positions of the Member States and the compromises needed to accommodate them, but also the sequential adoption of instruments — from the SFDR and the Taxonomy Regulation to the CSRD and the CS3D — that were conceived at different times and according to different regulatory logics, and whose operation depends on an extensive body of second-level technical standards. The resulting framework is markedly complex, and has significantly increased the compliance burden borne by the European companies falling within its scope. [3]

The potential competitive disadvantage for European undertakings arising from so intricate a regulatory framework has prompted the EU legislature to reconsider it radically. That reconsideration was prepared by two reports that have shaped the current European agenda: the report on the single market prepared by Enrico Letta at the request of the European Council,[4] and the report on European competitiveness prepared by Mario Draghi at the request of the Commission.[5] In outlining strategies for the future of European competitiveness and for the integration of the market for capital, both reports — while reaffirming the centrality of the sustainable transition — stressed the need to simplify the regulatory framework for sustainable finance, with particular regard to small and medium-sized enterprises, and to enhance its harmonization.

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[2] Commission Communication on the Clean Industrial Deal: A Joint Roadmap for Competitiveness and Decarbonisation, COM (2025) 85 final (Feb. 26, 2025).

[3] ASSONIME, EUROPEAN OMNIBUS ACT ON SUSTAINABILITY: OBSERVATIONS AND PROPOSALS 3 (2025), https://www.assonime.it/attivita-editoriale/position-papers/Pagine/Position-Papers-1_2025.aspx (noting that the transposition of the CSRD has also led to fragmentation in the single market, as 17 Member States (including Germany, the Netherlands, Spain, Poland, Portugal and Austria), despite infringement proceedings having been opened against them, have not yet transposed the CSRD, resulting in a competitive disadvantage for undertakings resident in countries that have transposed the Directive).

[4] ENRICO LETTA, MUCH MORE THAN A MARKET: SPEED, SECURITY, SOLIDARITY (2024), https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf.

[5] MARIO DRAGHI, THE FUTURE OF EUROPEAN COMPETITIVENESS (2024), https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en.

Those recommendations were taken up along two converging lines. The first is the simplification program set out in the Competitiveness Compass communication by which the Commission translated the Draghi Report into its own five-year work program, committing itself to reduce administrative burdens by at least 25% for all undertakings and by 35% for SMEs, and announcing to that end a series of simplification omnibus packages, the first of which was to address sustainability reporting, due diligence and the Taxonomy.[6] The second is the Savings and Investments Union, directly inspired by the Letta Report and aimed at mobilizing private capital so as to make Europe a leading destination for investment in industrial decarbonization and clean technologies. [7]

The first of the announced packages (Omnibus Package I), adopted by the Commission on February 26, 2025, comprised two proposals for a directive amending the directives on sustainability disclosure (Directive (EU) 2022/2464, Corporate Sustainability Reporting Directive – CSRD) and on due diligence (Directive (EU) 2024/1760, Corporate Sustainability Due Diligence Directive – CS3D). The first proposal, postponing the application of certain requirements, was swiftly enacted as the Directive (EU) 2025/794 of April 14, 2025. The second, substantive proposal (COM(2025) 81 final) has now become Directive (EU) 2026/470 of February 24, 2026 (hereinafter, the "Omnibus I Directive").[8]

Against this background, the article proceeds as follows. Section B reconstructs the rationale of the simplification agenda, tracing the shift in the Commission's priorities from the Green Deal to the Competitiveness Compass and assessing the diagnosis on which that shift rests. Section C examines the amendments made to the CSRD and the CS3D by the Omnibus I Directive, with particular regard to the narrowing of their scope of application and to the redefinition of their substantive requirements, noting where the enacted text departs — invariably in the direction of further contraction — from the Commission's proposal. Section D turns to the assessment of that outcome: Section D.I

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[6] Commission Communication on a Competitiveness Compass for the EU, COM (2025) 30 final (Jan. 29, 2025).

[7] Commission Communication on the Clean Industrial Deal, *supra* note 2, at 11.

[8] Parliament and Council Directive 2026/470, Amending Directives 2006/43/EC, 2013/34/EU, 2022/2464/EU and 2024/1760/EU as Regards Certain Corporate Sustainability Reporting Requirements and Certain Corporate Sustainability Due Diligence Requirements, 2026 O.J. (L 2026/470). The Directive entered into force on March 18, 2026 (Art. 6). Member States must transpose Arts. 1, 2 and 3 by March 19, 2027 and Art. 4, containing the amendments to the CS3D, by July 26, 2028 (Art. 5(1)).

asks whether the simplifications so achieved remain consistent with the objectives that the sustainable finance framework was designed to pursue, while Section D.II addresses the tension — largely overlooked in the debate — between simplification and harmonization, and argues that the retreat from uniform European rules risks displacing compliance costs rather than reducing them. Section E concludes.

B. The Need to Simplify the European Sustainable Finance Framework: The Letta and Draghi Reports and the European Commission's Competitiveness Compass.

As already mentioned, European sustainable finance regulation — the foundations of which were laid by the Commission's Communication "The European Green Deal" of December 11, 2019 — has increasingly come to be viewed by the Commission as requiring simplification, in order to reconcile more effectively the objectives of the sustainable transition with the need to preserve and enhance the competitiveness of European undertakings. The case for simplifying this framework has become still more compelling in the evolving geopolitical context. International trade is today subject to mounting protectionist pressures, [9] and several of the jurisdictions with which the Union competes — the United States in particular, since the beginning of the second Trump administration — have deprioritized sustainability objectives in order to prevent the associated costs from weighing on the competitiveness of their own undertakings. [10]

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[9] EUROPEAN PARLIAMENT, EURO AREA RISKS AMID US PROTECTIONISM (2025), https://www.europarl.europa.eu/cmsdata/293862/Bocconi_March%202025%20-%20FINAL.pdf.

[10] Two developments are particularly indicative of this reorientation. At the international level, Exec. Order No. 14,162, *Putting America First in International Environmental Agreements* (Jan. 20, 2025), directed the withdrawal of the United States from the Paris Agreement: since Art. 28 of the Agreement makes withdrawal effective one year after receipt of the notification by the depositary, it took effect on January 27, 2026, and on January 7, 2026 the administration announced that the United States would also withdraw from the United Nations Framework Convention on Climate Change itself. As regards corporate disclosure in particular, the climate-related disclosure rules adopted by the SEC on March 6, 2024 were stayed on April 4, 2024 pending the consolidated litigation before the Eighth Circuit; on March 27, 2025 the Commission voted to abandon their defense; and, after the Eighth Circuit held the petitions in abeyance on September 12, 2025 pending either reconsideration through notice-and-comment rulemaking or a renewed defense, the Commission proposed on May 29, 2026 to rescind the rules in their entirety, on the ground that they exceed its statutory authority and are in any event inconsistent with a registrant-specific, materiality-based approach to disclosure. On the political and ideological roots of the ESG backlash, *see* Henrik Skaug Sætra, *The ESG Backlash: Politics, Ideology, and the Future of Sustainable Business*, in

Against this background, it is helpful to begin with a brief overview of the recommendations set out in the Letta and Draghi reports. Both reports prioritize regulatory simplification, while reaffirming the importance of achieving the objectives of the sustainable transition for the future of the Union. The two reports, however, assign simplification a different function, and the difference is worth noting at the outset. Letta approaches the question from the standpoint of completing the single market and reducing its fragmentation, so that simplification appears there as an instrument of harmonization. Draghi starts instead from the competitiveness gap and treats simplification as an autonomous objective, pointing to the CSRD and the CS3D as paradigmatic instances of excessive regulatory burden.

Enrico Letta's report aims to identify strategies for developing and strengthening the European single market to reinforce its role in promoting and financing the green and digital transition. According to the report, this commitment reflects a long-term vision for the sustainable and equitable transformation of European society and the economy. However, it is also a prerequisite for an effective capital markets union. As the report states, "effective integration of financial markets in Europe will not be achieved until European citizens and policymakers recognize that such integration is not only beneficial for finance itself, but also fundamental to achieving otherwise unattainable overall objectives, such as a fair, green and digital transition." [11] Based on this premise, the report proposes abandoning the term "Capital Markets Union" in favor of "Savings and Investments Union," to emphasize that the creation of a single European market is directly related to financing that transition. [12]

Within this broader strategy of mobilizing investment for the green and digital transition, the Letta Report's legal proposals devote particular attention to small and

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RESPONSIBLE FIRMS: CSR, ESG, AND GLOBAL SUSTAINABILITY 161 (J.J. Choi & J. Kim eds., Int'l Fin. Rev. Vol. 23, 2024), https://ssrn.com/abstract=4782018.

[11] LETTA, *supra* note 4, at 11 *et seq. See also* Commission Communication on a Savings and Investments Union: A Strategy to Promote Citizens' Wealth and Economic Competitiveness in the EU, COM (2025) 124 final (Mar. 19, 2025).

[12] LETTA, *supra* note 4, at 29 ("The imperative to meet the European Union's ambitious green targets cannot be overstated, as the future of the EU hinges on this commitment. The consequences of failing to act are multifaceted, encompassing environmental, economic, and geopolitical dimensions. Therefore, it is crucial to stress that without a unified financial framework that encourages the flow of investments into sustainable and innovative sectors of the real economy, the ambitions for a green, digital, and fair transition are unattainable.").

medium-sized enterprises, which play a central role in the Union economy: they employ around two thirds of the EU workforce and account for just over half of its value added.[13]

In order to facilitate the Europeanization of smaller undertakings and enable them to contribute more fully to the green and digital transition, the Report proposes greater legal harmonization through a European Code of Business Law.[14] The Code would provide undertakings with a so-called 28th regime, including a new simplified European company form available, where appropriate, as an alternative to national legal forms.

The proposal was taken up by the European Commission which made it one of the priorities of the Competitiveness Compass:[15] after a call for evidence launched on July 9, 2025 and a legislative-initiative resolution of the European Parliament of January 20, 2026, the Commission tabled on March 18, 2026 its proposal for a regulation establishing an EU Inc. corporate legal framework (COM(2026) 321 final),[16] now under examination in Parliament and Council with a view to a political agreement by the end of 2026. [17]

The proposal to introduce the 28th regime forms part of a broader plan for the revision of European legislation set out in the Letta Report, which identifies regulatory

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[13] LETTA, *supra* note 4, at 107. The figures are confirmed by the structural business statistics: in 2023 SMEs represented 99.8% of the enterprises active in the EU business economy — some 33.0 million — and generated 51.4% of its value added, while almost two thirds (63.5%) of the business economy workforce were employed by an SME. *See* Eurostat, *Structural Business Statistics Overview* (2025), https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Structural_business_statistics_overview. It should be borne in mind that these data refer to the business economy, and thus exclude agriculture, forestry and fishing as well as the largely non-market service sectors.

[14] Despite the label used, the proposal extends beyond company law and capital markets, and aims to establish a comprehensive legal regime covering, according to LETTA, *supra* note 4, at 108, matters ranging from company, securities and insolvency law to banking, financial market, intellectual property, employment and tax law.

[15] Commission Communication on a Competitiveness Compass for the EU, *supra* note 6, at 4-8.

[16] Commission Proposal for a Regulation of the European Parliament and of the Council on an EU Inc. Corporate Legal Framework, COM (2026) 321 final (Mar. 18, 2026) (procedure 2026/0074(COD)). The proposal was preceded by the call for evidence launched on July 9, 2025 and by the European Parliament's legislative-initiative resolution of January 20, 2026 (procedure 2025/2079(INL)). The proposal is currently before the Committee on Legal Affairs, whose rapporteur presented his draft report on June 29, 2026; a political agreement is envisaged by the end of 2026.

[17] The proposed 28th regime is not without precedent in Union company law. Its antecedents fall into two distinct categories. The first comprises initiatives that failed to secure adoption, notably the European Private Company (SPE) and the single-member private limited liability company (SUP), both of which were ultimately withdrawn. The second consists of supranational legal forms that were successfully enacted but have achieved only limited or uneven take-up, notably the Societas Europaea (SE) and the European Cooperative Society (SCE). *See* Stefanie Jung, *European Legal Forms — Underlying Systematic and Principles*, 17 EUR. CO. & FIN. L. REV. 478 (2020).

complexity as one of the principal obstacles to the completion of the single market: [18] such over-regulation, the report observes, "places significant additional costs on businesses, proving unsustainable for SMEs and inadvertently favouring non-European companies that are not bound by the same stringent rules."[19] On the same ground, the report recommends tackling the phenomenon of gold-plating, which generates disparities between Member States and hampers the Europeanization of smaller undertakings in particular. [20] In terms of European legislative technique, the remedy it proposes is a strategy of maximum harmonization, with a preference for regulations over directives.[21]

The same concerns underlie the report prepared by Mario Draghi, though within a broader analysis of the strategies available for the future of European competitiveness. Considerable attention is also devoted here to the complexity of the European regulatory framework, which is identified as one of the principal obstacles to the competitiveness of EU undertakings vis-à-vis their foreign competitors, in that it raises operating costs and erects barriers to entry for new entrants, thereby discouraging competition. What the report calls the "regulatory flow" — the volume of new provisions adopted over a given

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[18] More generally, on regulatory complexity as a property of the subject matter regulated rather than as a mere defect of drafting technique — a perspective that helps to explain why simplification achieved by removing rules does not necessarily reduce the overall burden — *see* Steven L. Schwarcz, *Regulating Complexity in Financial Markets*, 87 WASH. U. L. REV. 211 (2009), and Dan Awrey, *Complexity, Innovation and the Regulation of Modern Financial Markets*, 2 HARV. BUS. L. REV. 235 (2012).

[19] *See* LETTA, *supra* note 4, at 120.

[20] *See* LETTA, *supra* note 4, at 120 *et seq.* In the terminology of the EU's better regulation agenda, "gold-plating" denotes the practice whereby Member States, in transposing a directive, add requirements going beyond those the directive prescribes, so that divergences between national laws are reproduced at the implementation stage precisely where harmonization was intended to remove them. The same concern runs through the Draghi Report, and it has since been taken up by the Commission in the Competitiveness Compass, which announces a forceful approach to full harmonization and enforcement as the response to fragmentation and gold-plating (*see infra* Sect. D.II, where the premises of this recommendation are examined). *See* Commission Staff Working Document on Better Regulation Guidelines, SWD (2021) 305 final (Nov. 3, 2021), and European Commission, *Better Regulation Toolbox* (2023), https://commission.europa.eu/law/law-making-process/better-regulation/better-regulation-guidelines-and-toolbox_en; *see also* Commission Communication on Better Regulation: Joining Forces to Make Better Laws, COM (2021) 219 final (Apr. 29, 2021) (placing the reduction of the burdens generated at the transposition stage among the objectives of the "one in, one out" approach).

[21] *See* LETTA, *supra* note 4, at 121 ("Regulations are the cornerstone for achieving such harmonization across the Single Market. It posits that EU Institutions should unequivocally prioritize the use of Regulations in the formulation of Single Market binding rules").

period — is singled out as one of the factors that make the European environment less favorable to doing business than that of the United States.[22]

The Draghi Report likewise calls for a radical simplification of the regulatory framework, through the elimination of gold-plating and stronger harmonization, and for a more systematic application of the principle of proportionality, so that regulatory requirements are calibrated to the size and capacity of the undertakings concerned.[23] On the choice of instrument, however, its formulation is markedly more open than Letta's: rather than expressing a preference for regulations, it recommends selecting "the best legislative instrument (regulation, directive, decision, recommendation, delegated act or implementing act) that meets the identified objectives, reducing regulatory compliance, transposition and reporting costs as much as possible."[24] As regards size, the report does not consider the simplifications currently available to SMEs to be sufficient, and recommends instead the adoption of appropriate mitigation measures in accordance with the principle of proportionality.[25]

The Draghi report identifies the sustainability reporting and due diligence obligations imposed by the CSRD and the CS3D as paradigmatic examples of an excessive regulatory burden.[26] These obligations are exacerbated by the lack of clear guidance on the application of complex provisions and the interaction between the

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[22] DRAGHI, *supra* note 5, at 73 *et seq.* The report quantifies the phenomenon for the period 2019–2024 at some 13,000 acts, broken down into 515 ordinary legislative acts, 2,431 other legislative acts, 954 delegated acts, 5,713 implementing acts and 3,442 acts of other kinds. For a critical assessment of the Better Regulation Agenda, within which this diagnosis is situated *see however* Alberto Alemanno, *How Much Better Is Better Regulation?*, 6 EUR. J. RISK REGUL. 344 (2015).

[23] DRAGHI, *supra* note 5, at 73 *et seq.* The recommendation deserves emphasis, since it does not contemplate the exclusion of undertakings from the scope of the rules but their differentiated treatment within it: what the report asks for is a calibration of the requirements against the size of the undertakings concerned, in accordance with the principle of proportionality. As will be seen (*see infra* Sect. D.I and E), the Omnibus I Directive has taken the opposite course, achieving the reduction of burdens through the contraction of the scope of application rather than through the modulation of its content.

[24] DRAGHI, *supra* note 5, at 322 (Part B). However, it should be noted that the notion of gold-plating presupposes, by definition, an instrument admitting of transposition. Its invocation in support of a preference for regulations is therefore not conclusive, since a maximum harmonization directive excludes gold-plating no less effectively: *see infra* Sect. D.II.

[25] DRAGHI, *supra* note 5, at 69.

[26] DRAGHI, *supra* note 5, at 318 (Part B).The report offers two distinct measures of the burden, which should not be conflated. The first is a cost estimate, put at EUR 150,000 for unlisted and EUR 1 million for listed undertakings. The second concerns the volume of the reporting obligations posed by the CSRD: the original set of ESRS comprised 1,052 data points, of which 783 are mandatory — 622 of these being subject to a materiality assessment — and 269 voluntary.

relevant legislative instruments. [27] Until appropriate amendments have been made to the two directives, the report therefore recommends postponing their implementation, particularly with regard to SMEs. [28]

The Commission adopted the recommendations of the Draghi Report in its Communication "A Competitiveness Compass for the EU" and, as already mentioned, incorporated them into the Omnibus I package on February 26, 2025.[29] The first component, which was limited to deferral, was enacted as Directive (EU) 2025/794 of April 14, 2025, also known as the "stop-the-clock" Directive.[30] This directive postponed the application of the CSRD to certain categories of undertakings and extended the deadline for transposing the CS3D by one year. The second component was a proposal for a directive (COM(2025) 81 final), which sought to make more structural amendments to the two directives by clarifying their subjective and objective scope, refining the definition of key concepts, and ensuring greater consistency between the various European instruments involved. This proposal became the Omnibus I Directive through the legislative process mentioned above, and its content is examined in the following section. [31]

The Omnibus I package therefore gives priority to the competitiveness and resilience of European undertakings, with a corresponding contraction of the sustainable

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[27] According to the report, the difficulty stems from several converging factors: unclear definitions and requirements, as in the case of the "do no significant harm" principle under the Taxonomy Regulation and of its alignment with the corresponding assessment applicable to EU budget expenditure; burdensome and potentially overlapping methodologies for accounting for emissions across the Ecodesign for Sustainable Products Regulation (Parliament and Council Regulation 2024/1781), the Emissions Trading System and the Product Environmental Footprint methodology; and non-harmonized timelines for distinct but related reporting requirements. The report further warned that additions to this framework, and in particular the sector-specific reporting standards contemplated by the CSRD, would increase compliance costs — a concern to which the Omnibus I Directive has responded by abandoning those standards altogether, the Commission retaining only the power to issue sector-specific guidance (*see infra* Sect. C).

[28] DRAGHI, *supra* note 5, at 325 (part. B). *See also* European Council, *Budapest Declaration on the New European Competitiveness Deal* (Nov. 8, 2024), https://www.consilium.europa.eu/en/press/press-releases/2024/11/08/the-budapest-declaration/; Commission Communication on a Competitiveness Compass for the EU, *supra* note 6.

[29] The Omnibus I package adopted by the Commission on February 26, 2025 contains the proposal for a directive COM (2025) 81 final and proposal COM (2025) 80 final.

[30] Parliament and Council Directive 2025/794, Amending Directives 2022/2464/EU and 2024/1760/EU as Regards the Dates from Which Member States Are to Apply Certain Corporate Sustainability Reporting and Due Diligence Requirements, 2025 O.J. (L 2025/794).

[31] Directive 2026/470, recital 2 (amendments being adopted "whilst maintaining the policy objectives" set out in the European Green Deal and the Sustainable Finance Action Plan).

finance framework. In this respect, although it draws on both the Letta and Draghi Reports, it follows Draghi more closely: simplification is treated primarily as an autonomous competitiveness objective, rather than as a means of advancing the integration of the single market.

C. The Simplification of the CSRD and the CS3D under the Omnibus I Directive.

The simplification agenda developed in the Letta and Draghi Reports provides the broader policy background to the amendments made to the CSRD and the CS3D by the Omnibus I Directive. By substantially narrowing the scope of the two directives and reshaping their substantive and procedural requirements, those amendments mark a significant retrenchment in the regulatory architecture developed under the European Green Deal, even though the Directive formally reaffirms the objectives of that policy framework. The scale of the changes envisaged by the Commission prompted intense institutional debate, and the legislative process proved politically contested. The text finally adopted departs from the Commission's proposal in several material respects: in some instances it further narrows the regime, while in others it modifies or partially tempers the approach originally proposed. This section therefore examines the enacted provisions, noting, where relevant, how they differ from the Commission's proposal.

I. CSRD.

As regards the CSRD, the Omnibus I Directive substantially narrows its scope of application, a change estimated to remove around 90% of previously covered undertakings from the mandatory reporting regime.[32] Under the amended Article 19a(1) of Directive 2013/34/EU, sustainability reporting is required only of undertakings which, on their balance-sheet dates, exceed both a net turnover of EUR 450 million and an average of 1,000 employees during the financial year. The same thresholds apply, on a

[32] *See* Directive 2026/470, recitals 15–16, Art. 2(4)(c), (7) (deleting Arts. 19a(6)–(7) and 29c of Parliament and Council Directive 2013/34, On the Annual Financial Statements, Consolidated Financial Statements and Related Reports of Certain Types of Undertakings, 2013 O.J. (L 182) 19).

consolidated basis, to parent undertakings under Article 29a(1). The principal scope test is therefore now quantitative: neither classification as a large undertaking nor the admission of securities to trading is sufficient in itself to trigger the reporting obligation. Listed SMEs are consequently excluded from the mandatory regime, and both the reporting standards previously envisaged for them and the corresponding two-year opt-out have been deleted.[33] Conversely, unlisted undertakings that otherwise fall within the scope of Directive 2013/34/EU remain subject to reporting where they exceed both thresholds. The same narrowing of scope applies to insurance undertakings and credit institutions: under the amended Article 1(3), they are subject to the reporting requirements, irrespective of their legal form, only where they too exceed both thresholds.

The reduction in scope also affects undertakings that were already subject to the reporting obligation and published their first sustainability reports in 2025. Their exit from the mandatory regime, however, is neither immediate nor necessarily uniform across the Member States. Under Article 5(2) of Directive (EU) 2022/2464, as amended, the rules applicable to the first wave of reporting undertakings and issuers continue to apply to financial years beginning between January 1, 2024 and December 31, 2026. Undertakings and issuers that do not meet the new thresholds will therefore fall outside the mandatory regime for financial years beginning on or after January 1, 2027. Member States may, however, accelerate their exit by exempting undertakings and issuers that do not exceed either the new turnover or employee threshold from the reporting obligations for financial years beginning between January 1, 2025 and December 31, 2026. Recitals 31 and 33 require any such derogation to be implemented in a manner consistent with the principle of legal certainty.

The Directive also limits the indirect reach of the CSRD through a strengthened and broadened "value-chain cap" to limit the "trickle-down effect."[34] Under the amended

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[33] *See* Directive 2026/470, recital 8 and Art. 2(1)(a).

[34] *See* European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, *Feedback on Sustainability Reporting Standards: Additional Explanatory Information Regarding the Value-Chain Cap* (May 6, 2026) (clarifying that the value-chain cap limits the information that reporting undertakings may require protected undertakings to provide, without preventing them from requesting additional information, provided that they identify the information exceeding the cap and inform the protected undertaking of its statutory right to decline). The Commission further emphasizes that the voluntary standards remain entirely voluntary and that reporting undertakings should request only the information actually necessary for their CSRD reporting obligations. See also Deirdre Ahern, *The Sustainability Reporting Ripple: Direct and Indirect Implications of the EU Corporate Sustainability*

Article 19a(3) of Directive 2013/34/EU, the protection no longer applies only to SMEs, but to any undertaking in the value chain of a reporting undertaking that did not exceed an average of 1,000 employees during the preceding financial year, defined by the Directive as a "protected undertaking." The substantive limit on the information that may be requested from such undertakings is defined by reference to the sustainability reporting standards for voluntary use provided for in Article 29ca of Directive 2013/34/EU, while Article 29b(4) of that Directive lays down the corresponding constraint on the standard-setter. In its original form, the latter provision stated that the European Sustainability Reporting Standards (ESRS) could not require reporting undertakings to obtain from SMEs in their value chains information exceeding that which listed SMEs would themselves have been required to disclose under the standards applicable to them. The exclusion of listed SMEs from the mandatory sustainability reporting regime rendered that benchmark obsolete, and Article 29c—together with the empowerment to adopt reporting standards for listed SMEs—has accordingly been deleted. The amended Article 29b(4) now provides that the ESRS may not require reporting undertakings to obtain from value-chain undertakings that do not exceed an average of 1,000 employees during the financial year information exceeding that specified in the voluntary standards referred to in the new Article 29ca.

More significantly, the value-chain cap is no longer confined to the constraint imposed on the standard-setter by Article 29b(4) of Directive 2013/34/EU, but is supplemented by rules directly governing the relationship between reporting and protected undertakings. Under Articles 19a(3) and 29a(3) of that Directive, protected undertakings have a statutory right to decline to provide information exceeding that specified in the voluntary standards. Correspondingly, when establishing contractual or other arrangements for the purpose of complying with their sustainability reporting obligations, reporting undertakings may not require protected undertakings to provide information exceeding that limit. Any contractual provision to the contrary is not binding, without affecting the binding force of the remainder of the contract. Where a reporting undertaking nevertheless requests information exceeding the limit, it must inform the

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Reporting Directive for SME Actors, in THE PRISM OF SUSTAINABILITY 115, 141–45 (Alessio Bartolacelli ed., 2025) (discussing the indirect "trickle-down" effects of CSRD reporting requirements on SMEs in reporting undertakings' value chains and the resulting proportionality concerns).

protected undertaking both of the information that exceeds the voluntary standards and of its statutory right to decline to provide it.[35] This requirement avoids placing on protected undertakings the burden of determining for themselves whether the protection applies. A reporting undertaking that reports the necessary value-chain information without obtaining from protected undertakings information exceeding the voluntary standards is deemed to have complied with its value-chain reporting obligation. Finally, Article 34(2a) of Directive 2013/34/EU requires the assurance opinion to be prepared in a manner that fully respects the right of protected undertakings to decline to provide information exceeding the voluntary standards.

For undertakings that do not exceed an average of 1,000 employees during the preceding financial year, Article 29ca of Directive 2013/34/EU empowers the Commission to establish, by delegated act and by July 19, 2026, sustainability reporting standards for voluntary use. The standards serve a twofold purpose: facilitating voluntary sustainability reporting by those undertakings and determining the limit on the information that may be required from them when they form part of the value chain of a reporting undertaking. Under Article 29ca(2), the standards must be based on Recommendation (EU) 2025/1710 of July 30, 2025, in its original version, and must be proportionate and relevant to the capacities and characteristics of the undertakings for which they are designed, as well as to the scale and complexity of their activities. They must also, to the extent possible, specify the structure to be used for presenting the information. As further indicated in recital 22 of Directive (EU) 2026/470, the standards should employ simplified language and give effect to the "think small first" principle through a modular structure allowing flexibility and progression in reporting. The Commission adopted the relevant delegated regulation on July 3, 2026,[36] supplementing Directive 2013/34/EU by establishing sustainability reporting standards for voluntary use

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[35] The value-chain cap is, however, limited in scope. Under Arts. 19a(3) and 29a(3) of Directive 2013/34 it does not prevent protected undertakings from sharing information voluntarily, including information commonly exchanged within a particular sector. Nor does it affect contractual obligations, or obligations arising under Union or national law, to provide information that does not exceed the voluntary-standard limit. Moreover, those provisions expressly preserve information requests made for purposes other than sustainability reporting under Directive 2013/34, including requests made to comply with Union due diligence requirements or for the reporting undertaking's own risk-management purposes.

[36] Commission Delegated Regulation C (2026) 5011 final, supplementing Directive 2013/34 by establishing sustainability reporting standards for voluntary use by undertakings protected by the value chain cap (July 3, 2026).

by undertakings protected by the value-chain cap. At the time of writing, the delegated act is subject to scrutiny by the European Parliament and the Council. It will apply after the scrutiny period has expired, provided that neither institution objects, and following its publication in the Official Journal. Pending its application, undertakings may continue to report voluntarily in accordance with Recommendation (EU) 2025/1710, on which the new standards are based.

Therefore, the exclusion from the mandatory scope does not mean an end to reporting by the relevant undertakings. Recital 7 of Directive (EU) 2026/470 confirms that undertakings falling below the new thresholds remain free to report sustainability information voluntarily and that the standards for voluntary use are intended to facilitate that choice significantly. According to recital 23, those standards should, among other objectives, meet the data needs of financial institutions and investors and thereby facilitate undertakings' access to finance. The underlying premise appears to be that a proportionate and standardized reporting framework may make voluntary disclosure worthwhile for undertakings that expect to benefit from improved access to finance or from differentiating themselves through their sustainability performance. The legislature has, however, treated the effectiveness of that framework as a matter requiring periodic assessment. Under Article 29ca(3) of Directive 2013/34/EU, the Commission must review the voluntary standards at least every four years from the date of their application and, where necessary, amend them to reflect relevant developments in sustainability reporting; recital 23 further indicates that they should be amended where the objectives assigned to them are not achieved.

The radical narrowing of the CSRD's scope is accompanied by a significant simplification of sustainability reporting content. First, the power granted by Article 29b(1) of Directive 2013/34/EU to adopt mandatory, sector-specific reporting standards has been removed in order to prevent an additional increase in the number of prescribed data points. As indicated in recital 20 of Directive (EU) 2026/470, instead of adopting mandatory sector-specific reporting standards, the Commission may issue non-binding sector-specific guidance to illustrate and facilitate the application of the ESRS within particular sectors. [37] This guidance may include instructions on conducting the double

[37] Recital 20 specifies that any such guidance is to be based on consultations with relevant stakeholders and may, where appropriate, take account of relevant international standards. It should be noted that the shift

materiality assessment. Second, the Commission has finalized the revision of the first set of ESRS, as outlined in recital 18 of Directive (EU) 2026/470.[38] The revised standards, adopted on July 3, 2026 and due to take effect for financial years commencing on or after January 1, 2027, but which can be applied voluntarily for financial years beginning in 2026, are expected to reduce the number of mandatory data points by over 60%, the total number of data points by over 70%, and reporting costs by over 30% per undertaking.[39]

The objective of reducing the burdens associated with sustainability reporting is also pursued through changes to the assurance regime. The requirement previously laid down in Article 26a(3) of Directive 2006/43/EC that the Commission adopt reasonable assurance standards by October 1, 2028, following an assessment of their feasibility for auditors and undertakings, has been deleted, expressly in order to avoid an increase in assurance costs for undertakings. Limited assurance therefore ceases to be a transitional stage toward a Union-mandated reasonable assurance regime and remains the only level of assurance expressly contemplated by the current EU framework. [40] Under the amended Article 26a(3), the deadline for the Commission to adopt limited assurance standards has, in turn, been postponed from October 1, 2026 to July 1, 2027. In developing those standards, the Commission is expected, in accordance with recital 4 of Directive (EU) 2026/470, to take account of undertakings' concerns regarding the work performed by assurance providers and of the need for flexibility in addressing specific risks and critical issues.

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from standards to guidance is not merely one of intensity: guidance is not adopted by delegated act and is therefore subject neither to the scrutiny of the European Parliament and the Council nor to the consultation requirements laid down in Art. 49(3b).

[38] Commission Delegated Regulation C (2026) 5010 final, amending Commission Delegated Regulation 2023/2772 and replacing its Annexes I and II (July 3, 2026).

[39] The estimate presupposes a proportionality between the number of items to be reported and the cost of reporting which the structure of the regime does not support. The reduction operates on the data points to be disclosed once a matter has been found material; it leaves untouched the process by which materiality is determined, which recital 18 undertakes to clarify rather than to remove and which remains governed by ESRS 1. The same holds for the fixed costs of data collection systems, value chain mapping and assurance procedures, all of which are largely insensitive to the number of items reported.

[40] *See* Explanatory Memorandum to the Commission Proposal for a Directive Amending Directives 2006/43/EC, 2013/34/EU, 2022/2464/EU and 2024/1760/EU as Regards Certain Corporate Sustainability Reporting and Due Diligence Requirements, at n.15, COM (2025) 81 final (Feb. 26, 2025) (explaining that a limited assurance engagement requires significantly less work than a reasonable assurance engagement). Limited assurance normally results in a negatively framed conclusion that the assurance provider has identified no matter indicating that the reported information is materially misstated; reasonable assurance results in a positively framed opinion assessing the subject matter against previously defined criteria.

II. CS3D.

The Omnibus I Directive also introduces significant simplifications to the CS3D, whose transposition deadline and initial application timetable had already been postponed by Directive (EU) 2025/794.[41] As stated in recital 37 of Directive (EU) 2026/470, the Union legislature considered the wide-ranging nature of the due diligence obligations, together with the regulatory burden identified in the Draghi Report, to justify confining the regime to the very largest companies.[42] Accordingly, the amended Article 2 of Directive (EU) 2024/1760 substantially narrows its scope. Under Article 2(1)(a) of Directive (EU) 2024/1760, an EU company is covered only where it had more than 5,000 employees on average and a net worldwide turnover exceeding EUR 1.5 billion; those conditions are cumulative. The same thresholds apply at group level to ultimate parent companies under Article 2(1)(b) of that Directive. Under Article 2(2)(a) and (b) of Directive (EU) 2024/1760, third-country companies and ultimate parent companies are covered where they generate net turnover exceeding EUR 1.5 billion in the Union; no employee threshold applies to them, as was already the case under the original Directive. Finally, Articles 2(1)(c) and 2(2)(c) of Directive (EU) 2024/1760 raise the thresholds applicable to qualifying franchising or licensing arrangements in the Union to more than EUR 75 million in royalties and more than EUR 275 million in net turnover. The latter threshold refers to worldwide turnover for EU companies and to turnover generated in the Union for third-country companies.

In addition, the Omnibus I Directive restructures the identification and assessment duty under Article 8 of Directive (EU) 2024/1760 around a two-stage model. Under the amended Article 8(2) of that Directive, companies must first carry out a scoping exercise, based solely on information reasonably available to them, in order to identify the general

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[41] Member States must transpose the provisions amending the CS3D by July 26, 2028 and apply them from July 26, 2029. However, the reporting obligation under Art. 16 applies to financial years beginning on or after January 1, 2030.

[42] It is particularly significant that French President Macron and German Chancellor Merz have called for the complete abolition of the CS3D, considering the simplifications provided for in proposal COM (2025) 81 final to be insufficient. *See* Giorgio Leali, Paul de Villepin & James Fernyhough, *Macron and Merz Call to Abolish EU Law on Ethical Supply Chains*, POLITICO (May 20, 2025), https://www.politico.eu/article/macron-merz-supply-chain-green-ethical.

areas—across their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners—in which adverse impacts are most likely to occur and to be most severe. They must then carry out an in-depth assessment only in the areas so identified. The previous mapping language is thus replaced by a more general, risk-based scoping exercise which, as recital 39 of Directive (EU) 2026/470 clarifies, does not require companies systematically to identify adverse impacts at the level of each individual entity.

The restrictive effect of the word "solely" in Article 8(2) of Directive (EU) 2024/1760 is made explicit in recital 39 of Directive (EU) 2026/470: since the scoping exercise must be based exclusively on information reasonably available to the company, it will, as a general rule, be carried out without requesting information from business partners. Companies nevertheless retain a measure of flexibility in determining what information may reasonably be regarded as available to them. Both direct and indirect business partners remain within the scope of the exercise. In that respect, the final text departs from the Commission's proposal, which would, as a general rule, have confined the identification and assessment duty under Article 8 of Directive (EU) 2024/1760 to the company's own operations, those of its subsidiaries and those of its direct business partners, while extending it to indirect business partners where plausible information indicated the existence of an adverse impact. The departure is nevertheless qualified: where adverse impacts are identified as equally likely to occur or equally severe in several areas, Article 8(2a)(c) of Directive (EU) 2024/1760 allows companies to prioritize the assessment of areas involving direct business partners.

The burden imposed on business partners is further contained by the rules governing information requests during the in-depth assessment. As recital 41 of Directive (EU) 2026/470 explains, the new Article 8(2a) of the CS3D is intended to limit the trickle-down effect on other companies, including SMEs and small mid-cap companies. Under Article 8(2a)(a) of the CS3D, companies may request information from business partners only where it is necessary. An additional limitation applies where the business partner has fewer than 5,000 employees: in that case, the information may be requested only if it cannot reasonably be obtained by other means, including from information already held by the company or from other sources. Where the necessary information can be obtained from different business partners, Article 8(2a)(b) of the CS3D requires companies, where

reasonable, to prioritize requesting it directly from the business partner or partners in whose operations the adverse impacts are most likely to occur.

The monitoring obligation is also relaxed. Under the amended Article 15 of the CS3D, the maximum interval between periodic assessments of the implementation, adequacy and effectiveness of due diligence measures is extended from one year to five years. Assessments must nevertheless be carried out without undue delay following a significant change and whenever there are reasonable grounds to believe that the measures are no longer adequate or effective, or that new risks have arisen or may arise.

Particularly significant from the perspective of the competitiveness of EU companies are the amendments to the provisions of the CS3D capable of generating substantial legal and operational exposure. Under the amended Articles 10(6) and 11(7) of the CS3D, the obligation to terminate a business relationship as a last-resort measure has been deleted. Where a potential adverse impact cannot be prevented or adequately mitigated, or an actual adverse impact cannot be brought to an end or its extent adequately minimized, the company must instead refrain from entering into new, or extending existing, relations with the business partner concerned; suspend the business relationship in respect of the relevant activities, where the law governing that relationship so permits; and adopt and implement, without undue delay, an enhanced prevention action plan or an enhanced corrective action plan, as appropriate, provided that there is a reasonable expectation that the plan will succeed.

The removal of the termination requirement is particularly important where a company depends on significant business partners that cannot readily be replaced, since termination could have had serious consequences for its operations. Even suspension is not required where the company reasonably expects that its adverse consequences would be manifestly more severe than the adverse impact that could not be adequately prevented, mitigated, brought to an end or minimized. In that event, the company must be able to report to the competent supervisory authority the duly justified reasons for its decision. Finally, for as long as there is a reasonable expectation that the enhanced action plan will succeed, the mere fact that the company continues to engage with the business partner does not expose it to penalties under Article 27 or to liability under Article 29 of the CS3D.

Another significant amendment to the CS3D concerns climate transition plans. Article 22 of the CS3D, which required companies to adopt—and, in its original wording, to put into effect—a transition plan for climate change mitigation, has been deleted in its entirety. As stated in recital 47 of Directive (EU) 2026/470, those provisions were considered disproportionate, particularly because of the administrative burden imposed on companies and supervisory authorities, and liable to create legal uncertainty. The repeal extends beyond Article 22 itself. The Commission's obligation under Article 19(2)(b) of the CS3D to issue guidelines on transition plans and the corresponding element of the review clause in Article 36(2)(e) have also been deleted. The repeal should not, however, be understood as affecting the separate reporting framework established by the CSRD: while the deletion of Article 22 removes the substantive obligation imposed by the CS3D, it does not in itself eliminate any applicable sustainability reporting requirements concerning climate transition plans under Directive 2013/34/EU and the ESRS.

Undertakings remaining within the scope of Articles 19a and 29a of that Directive must therefore continue to disclose their transition plans, including an explanation of how their business model is compatible with the objective of limiting global warming to 1.5 °C.[43] In addition, the disclosure requirement concerning the transition plan for climate change mitigation in ESRS E1 (Climate Change) survives the revision adopted by Delegated Regulation of July 3, 2026 amending Delegated Regulation (EU) 2023/2772, which is, at the date of writing, subject to the scrutiny of the European Parliament and of the Council. The standard continues to require an explanation of how the undertaking's business model and strategy are compatible with the transition to a sustainable economy, with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of climate neutrality by 2050 laid down in Regulation (EU) 2021/1119. Two features of the revised requirement are of particular relevance here. First, an undertaking

[43] Art. 19a(2)(a)(iii) of Directive 2013/34 requires the reporting undertaking to disclose its plans, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement, and to state whether and how those plans are integrated into the strategy adopted. The corresponding requirement for consolidated reporting is laid down in Art. 29a(2)(a)(iii). *See* David Ramos Muñoz, *The Corporate Sustainability Due Diligence Directive (CSDDD): Everything, Everywhere, All at Once?* 10–12 (EUSFiL Rsch. Working Paper Series No. 1, 2025) (discussing the relationship between the CSRD transition-plan disclosure requirements and the original CSDDD obligation to adopt and put into effect a climate transition plan).

whose targets are not aligned with a 1.5 °C pathway is required to disclose that fact, whereas the corresponding disclosure could previously be omitted; the revision thus operates, on this point, in the direction of a more demanding rather than a lighter obligation. Second, an undertaking that has not adopted a transition plan must state that it has not done so. The consequence is that the informational content of the repealed Article 22 of the CS3D persists in the reporting framework, with the difference that what the CSRD requires is a statement as to the existence and content of the plan, not its implementation.

The practical effect of repealing Article 22 is therefore narrower, and considerably more uncertain, than recital 47 suggests. The Directive removes the express duty to implement the transition plan while preserving the duty to publish it. That asymmetry is legally consequential. Once published, a transition plan may operate as a representation concerning future corporate conduct, but the legal consequences of that representation are no longer determined by the CS3D. They are instead left to national tort law, rules on misleading commercial communications, and the duties of care that national courts have begun to develop in climate-related litigation.

The judgment of the Hague Court of Appeal in Milieudefensie v Shell,[44] which affirmed a general duty of care to reduce emissions while declining to uphold the specific reduction target imposed at first instance, and the French proceedings concerning the representation of TotalEnergies' decarbonization trajectory,[45] illustrate the point: the enforceable content of a corporate climate commitment is increasingly determined ex post, by courts applying national law, rather than ex ante by a harmonized Union standard.

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[44] *Milieudefensie & Others v. Shell plc*, Gerechtshof Den Haag, ECLI:NL:GHDHA:2024:2099 (Nov. 12, 2024) (an English translation is available under ECLI:NL:GHDHA:2024:2100), *setting aside* Rechtbank Den Haag, ECLI:NL:RBDHA:2021:5337 (May 26, 2021).

[45] *Greenpeace France & Others v. TotalEnergies SE and TotalEnergies Électricité et Gaz France*, Tribunal judiciaire de Paris (Oct. 23, 2025). The Tribunal held that statements published on the company's French consumer website concerning its ambition to achieve carbon neutrality by 2050 and to become a major player in the energy transition constituted misleading commercial practices within the meaning of Arts. L.121-2 and L.121-3 of the French Consumer Code, which transpose Parliament and Council Directive 2005/29. Of particular relevance here is the Tribunal's rejection of the argument that such statements were merely aspirational: it held that they conveyed a present and concrete commitment, and that the use of the term "ambition" rather than "commitment" did not materially alter the message conveyed to the average consumer. The claims founded on ecological damage and on the duty of vigilance were dismissed for want of a demonstrated causal link. *See also* Catherine Malecki, *Sustainable Directors' Duties: European and French Perspectives in Light of the Omnibus I Simplification Package or the Dilemma of the Hare and the Tortoise*, 23 EUR. CO. & FIN. L. REV. 72, 90–91 (2026).

It has moreover been argued that the climate dimension of the due diligence obligation survives the repeal in any event, since the reference in the Annex to harmful emissions, as distinct from conventional air or water pollution, is capable of covering anthropogenic greenhouse gas emissions.[46]

The repeal of Article 22 therefore does not eliminate the legal significance of transition plans, but shifts its consequences outside the CS3D framework, in a manner closely analogous to the treatment of civil liability examined in Section D.II below. In both cases, a uniform Union rule is withdrawn, the underlying exposure persists, and its content is left to national legal systems and to the courts applying them. The reduction in regulatory burden is therefore clear at the level of the statutory text; whether it translates into a corresponding reduction in the legal risk borne by undertakings that remain within the Directive's scope is considerably less certain.

As just noted, a similar pattern emerges in the Omnibus I Directive's treatment of the much-debated Article 29 of the CS3D on civil liability. By deleting Article 29(1), the Directive removes the specific Union-wide conditions under which a company was to incur civil liability and leaves the determination of liability to the applicable national law. The amended Article 29(2) nevertheless requires Member States, where a company is held liable under national law for damage caused to a natural or legal person by a failure to comply with the due diligence requirements of the CS3D, to ensure that the injured party is entitled to full compensation, without overcompensation through punitive, multiple or other forms of damages. Recital 49 of Directive (EU) 2026/470 further emphasizes the need to ensure effective access to justice and an effective remedy for victims of adverse impacts. At the same time, the Directive deletes Article 29(3)(d), which required Member States to permit certain representative actions, and Article 29(7), which required the national provisions transposing the civil liability regime to be treated as overriding mandatory provisions where the law applicable to the claim was not that of a Member State.

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[46] *See* C. Çalık, *From Statute to Courtroom: Are Climate Transition Plans Still Binding After Omnibus?*, OXFORD BUS. L. BLOG (July 30, 2026), https://blogs.law.ox.ac.uk/oblb/blog-post/2026/07/statute-courtroom-are-climate-transition-plans-still-binding-after-omnibus. See also Pedro Aránguez-Díaz, *The Financial Sector in the Corporate Sustainability Due Diligence Directive After the Omnibus: Advancing the EU Sustainable Finance Framework*, in SUSTAINABLE SUPPLY CHAINS AND CORPORATE ACCOUNTABILITY: GOVERNANCE, DUE DILIGENCE AND DISPUTE RESOLUTION (Pilar Perales Viscasillas & David Ramos Muñoz eds., 2026) (manuscript at 19–22).

Those deletions do not, however, prevent Member States from retaining representative-action mechanisms under national law or from treating their implementing provisions as overriding mandatory rules. In parallel, the amended Article 27(4) of the CS3D introduces a uniform maximum limit for pecuniary penalties of 3% of the company's net worldwide turnover in the financial year preceding the decision imposing the fine or, in the case of an ultimate parent company, of the net consolidated worldwide turnover calculated at group level. This replaces the previous requirement that the maximum limit be no lower than 5%. As the Commission acknowledged in COM(2025) 81 final, the removal of the uniform civil liability rules reduces harmonization, but was intended to preserve national liability regimes with which companies are already familiar, in accordance with the principle of subsidiarity, and to provide greater legal certainty concerning liability risks.

The retreat from harmonization in the field of civil liability and transition plans is, however, accompanied by an expansion of maximum harmonization in relation to the due diligence process—a development of particular relevance to the analysis pursued in this article. In order to prevent fragmentation arising from divergent national rules and thereby secure a level playing field throughout the European Union, the amended Article 4(1) of the CS3D extends maximum harmonization to the provisions governing the core stages of the due diligence process—namely Articles 6, 8 and 9, Article 10(1) to (5), Article 11(1) to (6), and Articles 14 to 16. [47]

Member States are consequently prohibited from introducing divergent human rights and environmental due diligence obligations in the fields covered by those provisions, which concern, inter alia, the identification and prioritization of adverse impacts, the measures for addressing impacts that have been or should have been identified, complaints and notification mechanisms, monitoring and reporting. The

[47] Arts. 6, 8 and 9, Art. 10(1)–(5), Art. 11(1)–(6), and Arts. 14–16 of the CS3D concern, respectively, the integration of due diligence into corporate policies and risk-management systems; the identification, assessment and prioritization of adverse impacts; the prevention and mitigation of potential adverse impacts; the termination or minimization of actual adverse impacts; notification and complaints mechanisms; monitoring; and public reporting. Recital 38 of the Omnibus I Directive explains that the extension of maximum harmonization is intended to prevent Member States from going beyond the Directive in relation to the core aspects of the due diligence process and thereby to avoid legal uncertainty and unnecessary burdens resulting from regulatory fragmentation.

content of those obligations has, however, been simplified along the lines described above.

Under the amended Article 4(2), Member States remain free to introduce more stringent provisions in relation to aspects falling outside that harmonized core, as well as provisions that are more specific in terms of the objective or the field covered, including provisions regulating particular products, services or situations. Significantly, the last-resort measures laid down in Articles 10(6) and 11(7) fall outside the provisions subject to maximum harmonization. National law may therefore impose stricter requirements in that regard, potentially including the termination obligation removed at Union level. The resulting regime thus combines maximum harmonization of the central stages of the due diligence process with continuing scope for national variation in relation to last-resort measures and the detailed sanctioning consequences of non-compliance, subject to the common constraints laid down in Article 27 of the CS3D.

D. The Limits of Regulatory Simplification: Assessing the Omnibus I Directive.

The simplifications originally envisaged by the Commission in proposal COM(2025) 81 were, in general, acceptable: the level of complexity of the CSRD and the CS3D, and the implementation burdens flowing from it, were objectively excessive and, as such, liable to produce distorting effects. [48]

Such measures appeared all the more justified in the changed geopolitical context already described, in which the competitive disadvantage faced by undertakings established in the European Union as a result of the substantial compliance costs generated by sustainability regulation risked becoming still more acute, given the comparatively lower level of regulatory ambition in other jurisdictions.[49] Nor does the

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[48] *See generally* European Central Bank, *Investing in Europe's Green Future: Green Investment Needs, Outlook and Obstacles to Funding the Gap* 69 (ECB Occasional Paper Series No. 367, 2025), https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op367~16f0cba571.en.pdf (noting that "the demanding nature of the rules may in some instances generate unintended consequences, ultimately deterring, rather than incentivizing, the provision of sustainable finance"). *See also* Federico Riganti & Luca Vernero, *From Compliance to Substantive Sustainability: EU Climate Governance After the Omnibus Package 1–2* (EUSFiL Rsch. Working Paper Series No. 5, 2026) (emphasizing the analytical distinction between regulatory simplification and deregulation and the risk that simplification may erode substantive safeguards).

[49] *See* Luca Enriques, Matteo Gatti & Roy Shapira, *How the EU Sustainability Due Diligence Directive Could Reshape Corporate America*, 78 STAN. L. REV. 241, 292–95 (2026) (discussing the Omnibus reform

application of the CSRD and the CS3D to third-country undertakings with significant activities in the Union appear sufficient to offset that competitive disadvantage. Their scope has itself been narrowed: under the CSRD, the Union-turnover threshold for third-country groups has been raised to EUR 450 million, with a EUR 200 million threshold for the relevant subsidiary or branch, while under the CS3D the applicable Union-turnover threshold is EUR 1.5 billion. More broadly, the anticipated Brussels effect appears to have been weakened by the growing recourse to protectionist policies and the lower sustainability ambitions of several third countries, most notably the United States.[50]

Against this backdrop, the question is whether the Omnibus I Directive remains within the normative bounds of the simplification objective or instead crosses into over-simplification, thereby undermining the coherence and effectiveness of the EU sustainable finance framework.

The foregoing considerations bear on the Omnibus I Directive as a whole, but the amendments to the CSRD and the CS3D require separate assessment. The simplification of the CS3D attracted comparatively broad political support, reflecting widespread concern about the complexity, cost and legal uncertainty of the original regime. That support was not, however, unqualified: some commentators questioned whether particular amendments—especially the narrowing of scope and the weakening of certain substantive and remedial obligations—went beyond the removal of disproportionate burdens. The narrowing of the CSRD reporting regime proved still more controversial. Although the need for some simplification was widely acknowledged, numerous commentators argued that the measures adopted were insufficiently calibrated and therefore liable to produce undesirable effects.

On this basis, the simplification brought about by the Omnibus I Directive may be examined from two perspectives: on the one hand, the consistency of the measures

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and U.S. political pressure as developments capable of curtailing the Brussels effect of the CS3D). *See also* Phil Bartram & Simon Witney, *Will Trump 2.0 Kill Off the Brussels Effect?*, OXFORD BUS. L. BLOG (Mar. 20, 2025), https://blogs.law.ox.ac.uk/oblb/blog-post/2025/03/will-trump-20-kill-brussels-effect.

[50] The so-called Brussels Effect refers to the process by which EU laws and regulations extend beyond the Union through market mechanisms, thereby contributing to the globalization of standards established by the European Union. See Anu Bradford, *The Brussels Effect*, 107 NW. U. L. REV. 1, 1–2 (2012); ANU BRADFORD, THE BRUSSELS EFFECT: HOW THE EUROPEAN UNION RULES THE WORLD (2020). For a pre-Omnibus account emphasizing the transnational reach of the CSRD and CS3D and the European Union's emerging role as a global ESG standard-setter, *see* Jeff Schwartz, *Transnational ESG: The Impact of EU Sustainability Directives on US Law and Policy*, 5 J.L. & POL. ECON. 352, 353–54, 367–68 (2025).

adopted with the Commission's objective of striking a (difficult) compromise between preserving the competitiveness of undertakings and maintaining sustainability objectives; on the other, the relationship between simplification and harmonization of the EU sustainable finance framework.

I. The Tensions between the Simplification Measures and the Objectives of the EU Sustainable Finance Framework.

In order to assess whether the simplifications introduced by the Omnibus I Directive are consistent with the Commission's sustainable finance objectives, it is appropriate to begin with the narrowing of the scope of the CSRD and, to a lesser extent and more indirectly, of the CS3D. A central concern in both cases is reducing the regulatory burden on smaller undertakings, particularly SMEs, as recommended in the Letta Report and more explicitly in the Draghi Report. Under the CSRD, this goal is pursued directly by excluding listed SMEs from mandatory sustainability reporting and indirectly by implementing a value-chain cap. By contrast, SMEs were not originally within the scope of the CS3D; their protection is therefore primarily pursued by limiting the trickle-down effects of the due diligence obligations imposed on larger companies.

Under the Omnibus I Directive, the scope of both the CSRD and the CS3D is now predominantly determined by quantitative size thresholds. In the case of the CSRD, this replaces a regime that also considered the admission of securities to trading to be significant. However, the appropriateness of this approach must be assessed differently in relation to the two regimes.

With regard to CS3D, focusing the due diligence obligations on the largest companies seems to align with the rationale outlined in recital 37 of Directive (EU) 2026/470. These companies are considered to have the greatest influence over their value chains, the greatest impact on human rights and the environment, and the necessary resources to implement due diligence. Narrowing the scope also reduces the indirect burdens imposed on smaller business partners. This is further reinforced by Article 8(2a) of the CS3D, which states that information may be requested from a business partner only if it is necessary and, where the partner has fewer than 5,000 employees, only if the information cannot reasonably be obtained by other means.

On the other hand, the use of the size criterion in relation to the CSRD is problematic. The Commission's proposal was already criticized as excessive when it envisaged a reduction in scope of approximately 80%. The final reduction of around 90% goes even further and amounts to substantial deregulation, which could undermine the desired effects of the CSRD in terms of incentives for the sustainable transition and its financing. [51]

The significant narrowing of the scope of the CSRD affects the availability of ESG data for investors and banks, which are the main users of sustainability information to support their investment and financing decisions. For example, the narrowing reduces the overall availability of information on greenhouse gas emissions produced by undertakings, making it more difficult for investors and banks to understand and assess the financial risks associated with this sustainability factor, ultimately hindering the flow of financing to undertakings with a lower pollution burden. [52]

It may reasonably be expected that a reduction in the sustainability information disclosed by companies would increase investors' reliance on ESG ratings when making investment decisions. Such reliance would not, however, provide an adequate substitute for CSRD reporting. Although Regulation (EU) 2024/3005 strengthens the transparency, integrity and supervision of ESG rating activities, it does not eliminate the methodological heterogeneity underlying the well-documented divergence between ratings issued by different providers.[53] Moreover, ESG ratings themselves depend, at least

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[51] It should also be noted that the European Parliament's position is even more restrictive than that of the Commission: the draft report on proposal COM (2025) 81 final presented to Parliament on June 24, 2025 limits the application of the reporting obligation to undertakings with more than 3,000 employees and an annual turnover exceeding EUR 450 million, reducing the number of undertakings subject to the CSRD by approximately 90%. *See* Draft Report of the Committee on Legal Affairs on the Proposal for a Directive of the European Parliament and of the Council Amending Directives 2006/43/EC, 2013/34/EU, 2022/2464/EU and 2024/1760/EU as Regards Certain Corporate Sustainability Reporting and Due Diligence Requirements, COM (2025) 81, C10-0037/2025, 2025/0045(COD) (2025), https://www.europarl.europa.eu/doceo/document/JURI-PR-774282_EN.pdf. See also EUROPEAN BANKING INSTITUTE, REPORT ON SIMPLIFICATION OF EU FINANCIAL LAW 80–81 (2026) (distinguishing regulatory simplification from deregulation and emphasizing that simplification should preserve the core objectives and safeguards of the regulatory framework).

[52] Matteo Arrigoni, *Beyond Simplification: The Delicate Balance Between Competitiveness and Sustainability in the European Financial System*, DIALOGHI DI DIRITTO DELL'ECONOMIA, 2025, at 457, 459 *et seq.* (highlighting the additional risk that incomplete or limited information may, in fact, lead to a concentration of investments in a limited number of undertakings, essentially large ones).

[53] Florian Berg, Julian F. Kölbel & Roberto Rigobon, *Aggregate Confusion: The Divergence of ESG Ratings*, 26 REV. FIN. 1315 (2022); Filippo Annunziata & Michele Siri, *The EU Regulation on ESG Ratings: Fit for Purpose?* (Univ. of Genoa EUSFiL L. Rsch. Working Paper Series, Paper No. 2/2025,

in part, on sustainability information made available by rated companies; a reduction in primary corporate disclosures may therefore also weaken the informational basis on which those ratings are produced. Finally, ESG ratings aggregate information according to provider-specific objectives and methodologies and may assess a company's exposure to sustainability risks, its impacts on people and the environment, or both. They do not therefore necessarily reproduce the double-materiality perspective required by the CSRD and cannot perform the same function as standardized company-level reporting. Even if the relevance of impact materiality to investment decisions remains open to debate, ESG ratings cannot replace company-level disclosures designed to serve a broader and distinct informational function. [54]

In addition to the issue of the quantity of available information, the Omnibus I Directive raises concerns about the strength of its external verification. As noted above, the prospect of a mandatory transition to reasonable assurance has been abandoned—according to recital 5 of Directive (EU) 2026/470, solely in order to avoid an increase in assurance costs for undertakings—leaving limited assurance as the only level expressly contemplated by the current Union framework. The resulting cost saving is not without a trade-off: investors, credit institutions and other financial market participants will not benefit from the additional degree of confidence that reasonable assurance might have provided. Although this does not necessarily diminish the intrinsic reliability of the information disclosed, it limits the strength of the independent assurance supporting it and may correspondingly weaken confidence in the informational foundations of the EU sustainable finance framework.

Taken together, the reduction in mandatory disclosures and the lower level of assurance raise broader concerns about the effectiveness of the EU's sustainable finance framework. These concerns are not necessarily alleviated by the reliance on voluntary reporting in the Omnibus I Directive. It is doubtful that voluntary disclosure by the large

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2025) (unpublished manuscript), https://ssrn.com/abstract=5138977; Matteo Gargantini & Michele Siri, *Information Intermediaries and Sustainability: The Case of ESG Ratings and Benchmarks*, in THE CAMBRIDGE HANDBOOK OF EU SUSTAINABLE FINANCE: REGULATION, SUPERVISION AND GOVERNANCE 280 (Kern Alexander, Matteo Gargantini & Michele Siri eds., 2025).

[54] Silvia Merler, *Streamlining or Hollowing Out? The Implications of the Omnibus Package for Sustainable Finance*, BRUEGEL FIRST GLANCE (Mar. 3, 2025), https://www.bruegel.org/first-glance/streamlining-or-hollowing-out-implications-omnibus-package-sustainable-finance.

number of undertakings excluded from the mandatory regime can adequately mitigate the potentially distortive effects of substantially narrowing the CSRD's mandatory scope. [55]

Admittedly, market-based incentives may encourage at least some undertakings excluded from the mandatory reporting regime to disclose sustainability information voluntarily. Pressure from investors with a particular interest in ESG performance may lead eligible undertakings to report in accordance with the voluntary standards established under Article 29ca of Directive 2013/34/EU. For some undertakings, a further incentive may arise from the integration of ESG considerations into their strategic and financial planning, particularly where those considerations are regarded as relevant to long-term development and the identification and management of risk.

It is doubtful, however, whether those incentives will ensure reporting on a sufficiently broad and consistent basis. Reliance on voluntary disclosure by a large number of undertakings may therefore sit uneasily with a central objective of the Savings and Investments Union, strongly emphasized in the Letta Report: channeling capital toward sustainable and innovative sectors of the real economy. By reducing the availability and comparability of sustainability information, such reliance may impair investors' ability to identify sustainable investment opportunities and thereby weaken the efficient allocation of capital to those activities. [56]

As the European Central Bank highlighted in its comments on COM(2025) 81 final,[57] voluntary reporting may give rise to a self-selection bias: undertakings with stronger sustainability performance may be more inclined to disclose, whereas those performing less well may choose not to do so. The latter may, in particular, fear that unfavorable disclosures could impair their ability to obtain financing. The resulting

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[55] On July 30, 2025, the Commission adopted an official recommendation for the use of the existing VSME standard. *See* Commission Recommendation on a Voluntary Sustainability Reporting Standard for Small and Medium-Sized Undertakings, C (2025) 4984 final (July 30, 2025), https://ec.europa.eu/finance/docs/law/250730-recommendation-vsme_en.pdf.

[56] In this regard, *see, e.g.,* the statements by the Vice-President of the ECB's Supervisory Board, Frank Elderson, who supports a "simplification in a nuanced way" of the rules on the disclosure of sustainability-related information, but warned that going too far could deprive banks of the information they need from undertakings to assess their exposure to climate change risks. *See* Martin Arnold, *EU Watchdogs Warn That Weakening Rules Risks Another Financial Crash*, FIN. TIMES (Mar. 24, 2025), https://www.ft.com/content/a4210c56-bd4c-4ca9-9cc7-36dba2dd3762.

[57] European Central Bank, Opinion of May 8, 2025 on Proposals for Amendments to Corporate Sustainability Reporting and Due Diligence Requirements (CON/2025/10), 2025 O.J. (C/2025/3667) 10.

information may therefore present a systematically distorted picture of the sustainability performance of undertakings excluded from the mandatory regime. Moreover, the adoption of a common voluntary standard does not fully resolve the problem of comparability, since differences in whether and to what extent undertakings report may continue to produce disclosures that vary in coverage and completeness.

The possibility that the simplification of the CSRD may prove inconsistent with the objectives of the Savings and Investments Union is made even more apparent when the central role played by corporate sustainability disclosures in the EU sustainable finance information system is taken into account. Information reported under the CSRD is a key source of company-level data on which financial market participants and advisers rely to comply with their sustainability-related disclosure obligations under Regulation (EU) 2019/2088 (the SFDR), as well as the requirements concerning clients' sustainability preferences under the MiFID II framework.[58] A substantial reduction in the availability of such information could therefore create significant data gaps, increase reliance on estimates, and undermine the consistency and effectiveness of the broader sustainable finance framework.

Focusing on the close interdependence between the sustainability reporting obligations imposed on undertakings by the CSRD and the SFDR obligations applicable to institutional investors and other financial market participants, an excessive contraction of the former could impair the effective operation of the latter. Without adequate and comparable sustainability information from investee undertakings, institutional investors and other financial market participants may find it considerably more difficult to comply with their entity-level and product-level disclosure obligations, including those concerning principal adverse impacts and financial products that promote environmental or social characteristics or pursue sustainable investment objectives.[59] The resulting data gaps may increase reliance on estimates and proxies and ultimately reduce the

[58] *See* Gaia Balp, *Financial Market Participants and the Scaling Down of Sustainability Reporting in the EU*, EUR. BUS. L. REV. (forthcoming 2026) (manuscript at 9 *et seq.*).

[59] *See* extensively on this point Balp, *supra* note 58, manuscript at 7 *et seq.*

completeness, comparability and reliability of the information made available to end investors.[60]

For example, under the current SFDR framework, reducing the number of undertakings required to disclose the Taxonomy alignment of their activities may make it more difficult for financial market participants to determine and report the Taxonomy alignment of their financial products.[61] By widening the differences between the reporting requirements under the CSRD and the SFDR, the Omnibus I Directive therefore runs counter to the prevailing view that full alignment between the two regulatory frameworks, which are interdependent parts of the same reporting ecosystem, would be desirable. However, this concern must be reconsidered in light of the fact that the Commission's proposal to revise the SFDR expressly seeks to adapt the obligations imposed on financial market participants in view of the reduced availability of company-level sustainability information resulting from the Omnibus I reform.[62] In particular, Taxonomy-related product disclosures would no longer be a general obligation, but would depend on the extent to which the financial product relies on the Taxonomy framework. The proposed revision therefore aims to align the CSRD and the SFDR by reducing and redesigning downstream disclosure obligations. This is not achieved by remedying the contraction of company-level information, but by scaling back the information required from financial

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[60] Merler, *supra* note 54 (observing that, in many cases, certain products could be considered less aligned with the Taxonomy due to the reduced information available and not to an actual change in the underlying portfolio, thus producing a distorting effect on end investors).

[61] *See* DEUTSCHES AKTIENINSTITUT, ALIGNING THE SFDR TO THE CSRD (2025), https://www.dai.de/fileadmin/user_upload/250530_Position_Paper_Impact_Assessment_SFDR_Review.pdf; EFAMA, EUROPEAN COMMISSION'S OMNIBUS SIMPLIFICATION PACKAGE 3 (2025), https://www.efama.org/newsroom/news/european-commission-s-omnibus-simplification-package ("If any divergence between the CSRD data points and the SFDR-related concepts remains, asset managers and other financial market participants (FMPs) will need to increase reliance on estimates to compensate for the loss of data, which hampers comparability and overall reliability of data. Furthermore, increasing reliance on estimates or approximate data involves high costs and greater dependency on large non-EU ESG data providers"); ASSONIME, *supra* note 3, at 5. *See also* EUROPEAN BANKING INSTITUTE, supra note 51, at 72–73 (describing the CSRD, SFDR, and Taxonomy Regulation as interconnected but not fully aligned and calling for a more integrated and interoperable approach to sustainable-finance disclosures).

[62] Commission Proposal for a Regulation of the European Parliament and of the Council Amending Regulation (EU) 2019/2088 on Sustainability-Related Disclosures in the Financial Services Sector (SFDR), Regulation (EU) No 1286/2014 on Key Information Documents for Packaged Retail and Insurance-Based Investment Products (PRIIPs), and Repealing Commission Delegated Regulation (EU) 2022/1288, COM (2025) 841 final (Nov. 20, 2025).

market participants, resulting in a lower informational ambition for the EU's sustainable finance framework overall.

At a different level of analysis, the foregoing considerations bring into sharper focus a more fundamental issue: the Omnibus I Directive does not resolve the ambiguity that has long characterized the CSRD as regards the objectives it is intended to pursue, since its disclosure requirements—together with the other legislative instruments forming the EU sustainable finance information framework—are designed not only to channel financial resources toward sustainable activities, but also to influence corporate conduct by encouraging reporting undertakings to align their strategies and operations with ESG objectives.[63]

This is clearly inferred from the wording of certain provisions of the CSRD which, in imposing disclosure requirements, have an obvious *nudging* function: consider, for example, the provisions requiring disclosure of the undertaking's plans to ensure that its business model and strategy are compatible with "the transition to a sustainable economy and with limiting global warming to 1.5°C in line with the Paris Agreement," or of "the time-bound targets related to sustainability issues," including, where appropriate, absolute greenhouse gas emission reduction targets for at least 2030 and 2050 (Articles 19a and 29a of Directive 2013/34/EU).

The regulatory model embodied in the CSRD therefore relies in part on market discipline and on a mechanism akin to "name and shame," under which undertakings whose sustainability policies are regarded as inadequate may suffer adverse reputational or financial consequences.[64] Although the use of disclosure as a means of influencing regulated conduct is well established, the CSRD combines that behavioral function with its informational and capital-allocation functions. This multifunctionality is a significant source of the complexity of the regulatory framework.

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[63] *See* David Ramos Muñoz, supra note 43, at 6–8 (observing that, although the CSRD formally operates through disclosure, its detailed reporting requirements may indirectly influence corporate conduct). *See also* Anna Genovese, *Rendiconto di sostenibilità e gestione sostenibile dell'impresa azionaria (anche di gruppo)* [Sustainability Reporting and the Sustainable Management of the Joint-Stock Company (Including at Group Level)], in LA TRASPARENZA SOCIETARIA PER LO SVILUPPO SOSTENIBILE [Corporate Transparency for Sustainable Development] 187 (Anna Genovese ed., 2025).

[64] George S. Georgiev, Disclosure as a Corporate Governance Tool: Channels and Challenges, in THE OXFORD HANDBOOK OF CORPORATE LAW AND GOVERNANCE 1 (Jeffrey N. Gordon & Wolf-Georg Ringe eds., 2d ed. 2025) (online publication).

The double-materiality principle exemplifies this multifunctionality. By requiring undertakings to report on the impact of sustainability matters on their financial position and prospects, as well as the impact of their activities on people and the environment, the CSRD goes beyond the narrowly defined informational needs of investors. The resulting exposure of corporate impacts, strategies and targets to public scrutiny also creates incentives for undertakings—and, indirectly, for those responsible for their management—to integrate sustainability considerations into corporate decision-making.

That choice also has implications for the international interoperability of sustainability reporting standards. The ISSB Standards are designed as a global baseline of investor-focused sustainability disclosures, whereas the ESRS incorporate the additional perspective of impact materiality. Although the two frameworks already display a high degree of alignment, particularly in relation to climate disclosures, undertakings applying both may still be required to address differences in materiality, scope and presentation. The joint ESRS–ISSB interoperability guidance developed by EFRAG and the IFRS Foundation provides useful practical assistance,[65] but does not remove the underlying differences between the two frameworks and it needs to be revised in the light of the amended version of the ESRS adopted by the Commission on July 3, 2026. It would be appropriate to provide for agreements aimed at recognizing the formal equivalence of the different sustainability reporting standards (thus allowing, for example, European undertakings operating in the US to apply only ESRS and vice versa, only IFRS Sustainability to US companies with activities in the EU), similar to what has happened with regard to financial disclosure.[66]

Greater substantive alignment should therefore remain an important component of the simplification agenda. Indeed, recital 18 of Directive (EU) 2026/470 envisages that the revision of the ESRS will take account, to the greatest extent possible, of interoperability with global sustainability reporting standards, while Article 29b(2) of Directive 2013/34/EU requires the standards to take account of global standard-setting initiatives and to avoid disproportionate burdens. Further convergence could reduce

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[65] EFRAG & IFRS Foundation, *ESRS–ISSB Standards Interoperability Guidance* (2024), https://www.efrag.org/en/sustainability-reporting/esrs-workstreams/interoperability.

[66] By Commission Regulation 1569/2007, the Commission established a mechanism for determining whether the accounting standards applied by third-country issuers are equivalent to IAS/IFRS as adopted in the Union.

duplication for undertakings subject to more than one reporting framework and improve the accessibility of information for international investors. Any future mechanism of equivalence or substituted compliance would, however, require a formal legislative basis and an assessment of whether the alternative standards provide information capable of fulfilling the distinct functions assigned to the CSRD. [67]

The existence of those differences does not, by itself, establish that double materiality should be abandoned. Information on how the undertaking affects sustainability matters is not a proxy for information on how those matters affect the undertaking, and the purposes it serves are not confined to the protection of investors. Such information may in time also prove financially material, but that is not the consideration on which the case for double materiality rests.

The stronger case for reform not completely addressed by the Omnibus I Directive lies in clarifying the boundary between the two materiality perspectives, reducing duplicative disclosures and ensuring that information required solely from an impact perspective remains proportionate to its regulatory purpose.

A related, but distinct, source of complexity arises where CSRD disclosure requirements overlap with substantive conduct obligations imposed by the CS3D. In such cases, targeted simplification may be justified, particularly where a disclosure requirement serves primarily to encourage conduct that is already directly required under the CS3D. It would, however, be too broad to regard all such disclosures as redundant: the CSRD and the CS3D have different personal scopes and perform partly distinct functions, while disclosure may remain necessary to ensure transparency, comparability and accountability. The proposal advanced by a group of German scholars is therefore most persuasive if understood as calling for the removal of those disclosure requirements

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[67] *See* Art. 29b(2) of Directive 2013/34; Parliament and Council Directive 2022/2464, recitals 37, 38, 43, 2022 O.J. (L 322) 15; and Directive 2026/470, recital 18. Those provisions require the development and revision of the ESRS to take account of global standard-setting initiatives, promote interoperability and avoid unnecessary regulatory fragmentation, without abandoning the distinct objectives pursued by the Union reporting framework. On the practical difficulties associated with the interpretation and operationalization of double materiality, *see* Josef Baumüller & Karina Sopp, *Double Materiality and the Shift from Non-Financial to European Sustainability Reporting: Review, Outlook and Implications*, 23 J. APPLIED ACCT. RSCH. 8, 20–23 (2022); Francesco Enrico Mezzanotte, *Corporate Sustainability Reporting: Double Materiality, Impacts, and Legal Risk*, 23 J. CORP. L. STUD. 633, 648–55 (2023); and M. Dunfjäll, *Materiality in Transition: Challenges and Opportunities in Corporate Sustainability Reporting Under the CSRD*, 16 EUR. J. RISK REGUL. 927, 938–40 (2025).

that substantially duplicate specific CS3D obligations, while preserving those that retain an independent informational or monitoring function.[68]

The difficulty of striking a satisfactory balance between the informational and behavioral functions of sustainability reporting is further reflected in the Omnibus I Directive's redefinition of the scope of the CSRD. [69]

However, if the capital-allocation function is taken as the principal benchmark,[70] the use of size alone to determine the scope of the CSRD — and consequently the exclusion of listed SMEs — appears difficult to reconcile with the objective of channeling investment toward sustainable activities. Listed undertakings are not necessarily more attractive to investors in all respects, especially given the growing importance of private capital markets.[71] Nevertheless, their securities are more directly accessible to institutional and retail investors, and their admission to trading creates a particular need for standardized and comparable sustainability information. In this context, the assertion in the Explanatory Memorandum accompanying COM(2025) 81 final that eliminating the distinction between listed and unlisted companies is consistent with the goal of enhancing the attractiveness of EU regulated markets as a financing source is questionable. While reducing the reporting burden could lower the costs associated with admission to trading, excluding listed SMEs from mandatory sustainability reporting would simultaneously diminish the information available to investors seeking to allocate capital based on sustainability considerations.[72]

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[68] Joachim Hennrichs & Peter Hommelhoff, *Editorial: Areas of EU Sustainability Regulation Requiring Revision*, 22 EUR. CO. & FIN. L. REV. 1 (2025) ("[t]he unified framework should be conceptually based primarily on the obligations of conduct outlined in the CSDDD. Such a conceptual shift in policy would render excessive reporting requirements designed to achieve a 'nudging' effect redundant. On this basis, reporting obligations under the CSRD should be carefully reviewed for their continued necessity.").

[69] Andreas Rasche et al., *Scenarios for CSRD Scope Amendments: Advancing Reporting Scope While Reducing Further Burden* (July 14, 2025) (unpublished manuscript), https://ssrn.com/abstract=5350977.

[70] Commission Communication on a Strategy for Financing the Transition to a Sustainable Economy, COM (2021) 390 final (July 6, 2021); Commission Communication on an Action Plan: Financing Sustainable Growth, COM (2018) 97 final (Mar. 8, 2018).

[71] *See e.g.* Matt Levine, *Public-Private Markets Are the New Public Markets*, BLOOMBERG (Apr. 29, 2025), https://www.bloomberg.com/opinion/newsletters/2025-04-29/the-new-market-is-public-private.

[72] *See* European Central Bank, Opinion CON/2025/10, *supra* note 57 ("from the perspective of the SIU, removing the distinction between listed and non-listed undertakings could have positive effects. It is important that undertakings have access to adequate financing at different phases in their lifecycles, and public listing can play an important role, especially in later stages of growth."). However, this statement seems to have been made primarily with a view to not creating a clear difference between listed and unlisted undertakings in terms of the costs arising from the application of the CSRD ("[i]t should therefore be

The reliance on size alone is no less problematic when the analysis shifts from the capital-allocation function of the CSRD to its capacity to influence corporate conduct. A reporting regime intended to encourage more sustainable business practices and thereby reduce the adverse environmental and social impacts of economic activity can perform that function only in relation to undertakings falling within its scope. The substantial narrowing of that scope therefore weakens the regime's overall capacity to shape corporate behavior. As the ECB observed in its comments on COM(2025) 81 final, even the previous scope of the CSRD was estimated to cover only around 37% of the CO_2 emissions produced by undertakings in the Union, and the reduction proposed by the Commission was expected to lower that proportion considerably, potentially excluding significant emitters. Since the thresholds ultimately enacted are more restrictive than those proposed by the Commission, the share of emissions covered by mandatory sustainability reporting may be expected to fall further still.

That concern is reinforced by the particular weight assigned to the employee threshold within the new cumulative scope test. An undertaking that does not exceed an average of 1,000 employees falls outside the mandatory reporting regime irrespective of its turnover or the scale of its environmental and social impacts. The criterion may therefore exclude capital-intensive undertakings operating in highly polluting sectors merely because their activities are not labor-intensive.[73] More generally, the number of employees and the level of turnover do not necessarily reflect the scale of an undertaking's environmental or social impacts.[74] As the ECB observed in its comments on COM(2025) 81 final, SMEs collectively account for approximately 63% of the CO_2 and other greenhouse-gas emissions generated by undertakings in the Union. SMEs,

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ensured that the cost of complying with the CSRD requirements does not act as a disincentive for companies that are considering public listing").

[73] Balp, *supra* note 58, manuscript at 6 (noting that "for countries with a prevalence of SMEs, such as (Italy and) Austria, the exclusionary effects of raising the size threshold could be particularly significant and penalizing for the relevant markets, which would consequently be weakened").

[74] Conditioning the application of sustainability disclosure requirements on the number of employees may also create opportunistic incentives for undertakings, with potentially adverse effects on workers. In particular, the incentive to remain below the applicable threshold may encourage firms to reduce their directly employed workforce and rely instead on outsourcing, including outside the Union. *See* Rasche et al., supra note 69, at 8.

whether listed or unlisted, now fall outside the mandatory scope of the CSRD, notwithstanding their aggregate environmental significance.[75]

To fulfill the CSRD's behavioral objective of shaping corporate conduct and reducing the environmental and social externalities generated by economic activity, the scope of its mandatory requirements should ideally be calibrated according to the magnitude of the impacts produced. Where appropriate, the characteristics of the relevant sectors should also be taken into account. Admittedly, translating such an impact-based approach into clear, administrable legal thresholds would be challenging. However, this does not eliminate the fundamental imbalance: by focusing primarily on size, the Omnibus I Directive streamlines the regime while leaving the conflict between the informational and behavioral functions assigned to the CSRD unresolved.

The difficulty of defining an appropriate scope for mandatory sustainability reporting appears to be acknowledged by the Union legislature itself, which has not treated the new thresholds as a permanent solution. According to Article 6 of Directive (EU) 2022/2464, as amended, the Commission must publish a report by April 30, 2031 assessing whether and how to extend the scope of the relevant provisions, particularly to large undertakings that fall below the new thresholds, as well as to third-country undertakings that operate directly in the internal market. Furthermore, recital 34 of Directive (EU) 2026/470 indicates that this assessment must balance the need for sustainability data capable of mobilizing private investment toward the objectives of the European Green Deal, with the impact of sustainability reporting on the competitiveness of EU undertakings.

II. The Tension between Simplification and Harmonization in the EU Sustainable Finance Framework.

Beyond the tensions between the simplification measures and the objectives of the EU sustainable finance framework examined above, the Omnibus I Directive raises a broader question, extending well beyond sustainable finance: whether regulatory simplification can be reconciled with legislative harmonization in the construction of an

[75] European Central Bank, Opinion CON/2025/10, *supra* note 57, para. 3.1.4 & n.35.

integrated EU capital market. The argument developed in this section is that the two objectives can be reconciled, but only through a trade-off that the Directive leaves largely implicit. In significant part, the burdens generated by a detailed harmonized regime are contained by narrowing the category of undertakings to which that regime applies. The cost of reconciliation is therefore borne by the regime's scope of application and, consequently, by its capacity to advance the sustainability objectives for which it was established. The analysis proceeds in two stages. First, the Directive's alternating recourse to maximum harmonization and renationalization reveals no clear criterion for choosing between them. Second, that apparent inconsistency reflects a deeper structural constraint: the more detailed a regulatory regime must become in order to achieve maximum harmonization, the more difficult it is to apply that regime to a broad range of undertakings without imposing disproportionate burdens.

As noted above, both the Letta and Draghi Reports identified regulatory fragmentation as a major obstacle to the completion of the Single Market and called, albeit with different emphases, for greater harmonization of the Union regulatory framework. The Commission subsequently endorsed that approach in its Communication A Competitiveness Compass for the EU, stating that, "[t]o ensure a level playing field across the Single Market, as well as fight fragmentation and gold plating, the Commission will pursue a forceful approach to full harmonization and enforcement."[76] However, the content of the Omnibus I Directive shows that translating this intention into concrete action is highly complex, not least because the objective of fully harmonizing the rules may conflict with that of simplification.[77]

Emblematic in this sense is the amendment to Article 29 of the CS3D, which, as already mentioned, eliminates the specific harmonized liability regime laid down in the directive in order to leave the matter to the national provisions in force in the Member

[76] Commission Communication on a Competitiveness Compass for the EU, *supra* note 6, at 18. *See* LETTA, *supra* note 4, at 121, 125–26; DRAGHI, *supra* note 5, Part A, at 73 *et seq.*

[77] It is worth noting that, contrary to the recommendation made in the Letta Report, the choice of regulations rather than directives does not appear decisive. Despite the well-known differences between the two forms of Union legislation, maximum-harmonization directives may, notwithstanding the need for national transposition, achieve a degree of legislative uniformity broadly comparable to that secured by regulations.

States – thereby reducing, as the Commission itself expressly acknowledged, the degree of harmonization achieved.[78]

However, the extent of the reduction in harmonization should not be overstated, since the original Article 29 did not establish a comprehensive EU regime of civil liability. It only harmonized certain central liability conditions, stipulating that a company could be held liable if it intentionally or negligently failed to comply with Articles 10 or 11, resulting in damage to interests protected under national law. Other matters, including the assessment of damages, as well as significant aspects of causation, evidence and procedure, continued to be governed by national law. Furthermore, the applicable law continues to be determined by uniform conflict-of-laws rules. Article 4(1) of Regulation (EC) No 864/2007 (Rome II) generally designates the law of the country in which the damage occurs, subject to the exceptions laid down in paragraphs 2 and 3. [79] Article 7 allows a claimant, in cases of environmental damage, to rely instead on the law of the country in which the event that caused the damage occurred. Therefore, the amendment does not dismantle a wholly uniform liability regime. Nevertheless, it removes its central element: the EU-level rule linking an intentional or negligent breach of Articles 10 and 11 to compensable damage. This change is significant in practice, since companies can no longer determine from Article 29 alone when a breach of the harmonized due diligence obligations will result in civil liability. This now depends on the applicable national law.

The consequences for the companies concerned are asymmetrical. For a company whose operations and potential liability are concentrated predominantly in a single Member State, the change may amount to a genuine simplification, since its exposure will generally be assessed under a familiar body of law. The position may be different for the large cross-border groups that constitute a substantial part of the CS3D's remaining scope. Depending on the jurisdictional and conflict-of-laws rules applicable to each claim, such groups may have to assess and manage their exposure under several national

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[78] *See* Directive 2026/470, recital 49 and Art. 4(20) (amending Art. 29 of the CS3D). *See also* Explanatory Memorandum, *supra* note 40, at 8 (expressly acknowledging that the removal of uniform civil liability rules reduces harmonization, while presenting that choice as consistent with subsidiarity and existing national liability regimes).

[79] Parliament and Council Regulation 864/2007, On the Law Applicable to Non-Contractual Obligations (Rome II), Arts. 4(1)–(3) and 7, 2007 O.J. (L 199) 40.

liability regimes, without the benefit of the common conditions previously laid down in Article 29.

That uncertainty is compounded by the deletion of the requirement that the provisions implementing the civil liability regime be treated as overriding mandatory rules where the law applicable to the claim is that of a third country. Questions of jurisdiction may also increase the number of potentially relevant fora. Under Regulation (EU) No 1215/2012, proceedings may, depending on the circumstances, be brought in the courts of the defendant's domicile or of the place where the harmful event occurred; where several defendants are involved, Article 8(1) may permit them to be sued together in the courts of the domicile of one of them, provided that the claims are sufficiently closely connected. [80] Those rules do not confer an unrestricted choice of forum, but they may allow litigation concerning the same group to arise before different national courts.

The amendment may therefore lead not to the elimination of costs, but to their displacement—from assessing liability under common Union conditions to the continuing assessment and management of divergent national exposures—while also increasing the scope for forum shopping.

The normative tension underlying that asymmetry becomes fully apparent when the treatment of civil liability under Article 29 of the CS3D is read alongside the extension of maximum harmonization under Article 4. The amended Article 29 removes the Union-wide conditions of liability and leaves their determination to the applicable national law, a choice justified in recital 49 of Directive (EU) 2026/470 by reference to the principle of subsidiarity. Article 4 moves in the opposite direction, bringing the core stages of the due diligence process within the scope of maximum harmonization. Recital 38 justifies that extension precisely by the need to avoid a fragmented regulatory landscape capable of generating legal uncertainty and unnecessary burdens for companies. Within the space of eleven recitals, national divergence is thus treated in contrasting ways: as a source of uncertainty and costs to be prevented in relation to substantive due diligence obligations,

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[80] Parliament and Council Regulation 1215/2012, On Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters (Recast), Arts. 4(1), 7(2) and 8(1), 2012 O.J. (L 351) 1. On the meaning of the "place where the harmful event occurred," *see Handelskwekerij GJ Bier BV v. Mines de Potasse d'Alsace SA*, Case 21/76, EU:C:1976:166, paras. 24–25. On the conditions governing jurisdiction over multiple defendants, *see Freeport plc v. Arnoldsson*, Case C-98/06, EU:C:2007:595, paras. 38–40, 47, 52, 54. *See also* Malecki, supra note 45, at 85–88 (arguing that the removal of the harmonized civil-liability conditions increases the risk of regulatory fragmentation and forum shopping).

but as an acceptable consequence of subsidiarity in relation to civil liability. The Directive does not explain why fragmentation is regarded as incompatible with simplification in the former context but acceptable in the latter, even though it may generate comparable uncertainty and costs for cross-border groups.

It should nevertheless be acknowledged that the maximum harmonization introduced by the amended Article 4(1) is less comprehensive than the preceding contrast might suggest. Article 4(2) preserves the power of Member States to adopt more stringent provisions in relation to matters falling outside the harmonized core, as well as due diligence rules that are more specific in their objective or field of application, including rules concerning particular products, services or situations. Moreover, the last-resort measures governed by Articles 10(6) and 11(7) are not included among the provisions subject to maximum harmonization. Member States may therefore retain or introduce stricter requirements in that area, potentially including an obligation to terminate a business relationship that the Directive itself no longer imposes.

That qualification does not, however, remove the underlying tension. It shows instead that the Directive does not establish a straightforward division between a fully harmonized core and a wholly renationalized "periphery." Article 4(1) limits national divergence in relation to certain general due diligence obligations, while Article 4(2) preserves varying degrees of national discretion for more specific rules and for matters falling outside the listed provisions; civil liability is, in turn, largely returned to national law. The Directive does not articulate a clear principle explaining why fragmentation is regarded as incompatible with simplification in some of those areas but acceptable in others. Its practical effect is to establish a simplified common baseline while allowing more demanding national requirements to survive or re-emerge in selected fields.

More generally, the Omnibus I Directive exposes a structural tension between the harmonization of Union legislation and the objective of regulatory simplification pursued in the interests of the competitiveness of EU undertakings. [81] In order to prevent divergent

[81] *See* LETTA, *supra* note 4, at 120–21, 125–26; DRAGHI, *supra* note 5, at 73 et seq.; Directive 2026/470, recitals 7, 37, which expressly connect the breadth and cost of the respective reporting and due diligence regimes with the decision to confine them to a narrower category of particularly large undertakings. On the different possible conceptions of full harmonization, *see* Vanessa Mak, *Full Harmonization in European Private Law: A Two-Track Concept*, 20 EUR. REV. PRIV. L. 213 (2012). *See also* EUROPEAN BANKING INSTITUTE, supra note 51, at 77 (observing that less granular, more principles-based regulation may reduce

national rules and the resulting fragmentation, a maximum-harmonization regime must define with sufficient precision the obligations from which Member States may not depart. That degree of precision may, however, produce a detailed and complex regulatory framework, increasing compliance costs that tend to weigh disproportionately on small and medium-sized undertakings. Where the pursuit of uniformity entails substantial regulatory burdens, the Union legislature may therefore be driven to confine the relevant obligations to a narrower category of undertakings, so as to avoid imposing disproportionate costs on smaller market participants. Harmonization and simplification may thus be reconciled only at the price of reducing the personal scope—and consequently the overall reach—of the regulatory regime.

This dynamic finds a partial parallel in the approach adopted when IAS/IFRS were introduced into EU law. [82] In view of the complexity of those standards, Article 4 of Regulation (EC) No 1606/2002 confined their mandatory application to the consolidated accounts of companies governed by the law of a Member State whose securities are admitted to trading on an EU regulated market. Article 5, by contrast, left Member States free to permit or require their application to the annual accounts of listed companies and to the annual or consolidated accounts of other companies. While limiting the number of companies directly subject to a complex harmonized regime, that solution left considerable scope for divergent national choices and thereby limited the degree of harmonization achieved at Union level. The approach adopted under Omnibus I may be understood as reflecting a similar trade-off between the complexity of harmonized requirements, the breadth of their mandatory scope and the preservation of national regulatory discretion.

The same structural trade-off is apparent not only in the CS3D, but also in the reform of the CSRD. Although the reporting requirements have themselves been simplified, the remaining regime was still considered sufficiently complex and

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compliance burdens and permit a broader scope of application, but may also increase fragmentation among Member States, requiring a balance between simplification, uniformity, and legal certainty).

[82] *See* Thorsten Sellhorn & Sylwia Gornik-Tomaszewski, *Implications of the "IAS Regulation" for Research into the International Differences in Accounting Systems*, 3 ACCT. IN EUR. 187 (2006); Christopher Nobes, *The Survival of International Differences Under IFRS: Toward a Research Agenda*, 36 ACCT. & BUS. RSCH. 233 (2006); Arno Forst, *IFRS Implementation in the European Union and the Survival of Accounting Families*, 30 ADVANCES IN ACCT. 187 (2014) (documenting significant differences in the exercise by Member States of the options permitted under Parliament and Council Regulation 1606/2002).

burdensome to justify a substantial narrowing of its mandatory scope. The resulting contraction in the uniform coverage of sustainability reporting cannot be fully offset by encouraging eligible undertakings excluded from the mandatory regime to report voluntarily under the simplified standards established pursuant to Article 29ca of Directive 2013/34/EU. As noted above, voluntary reporting remains subject to significant limitations, including the difficulty of generating adequate incentives to participate, the risk of self-selection bias and the reduced comparability of disclosures resulting from differences in whether, and to what extent, undertakings choose to report. [83]

In conclusion, the Omnibus I Directive does not so much resolve the tension between simplification and harmonization as redistribute it. While maximum harmonization is preserved for a simplified common core, national diversity is accepted in other areas, most notably in relation to civil liability and last-resort measures. At the same time, the burdens associated with the harmonized regimes are reduced by substantially narrowing the categories of undertakings to which they apply. Thus, simplification and harmonization are made compatible only through a contraction of regulatory reach. The cost of this is borne by the third element of the trilemma — sustainability — whose effective pursuit depends on the clarity and proportionality of applicable obligations and the range of undertakings and economic activities within the regulatory framework.

E. Conclusions.

The Omnibus I Directive addresses a genuine and widely held concern. The original CSRD and CS3D frameworks imposed complex obligations and generated uncertainty regarding their practical application, potentially resulting in disproportionate costs for some of the affected businesses and partners. The need for simplification is therefore undeniable. However, the more difficult question is whether the measures ultimately enacted will achieve this objective without impairing the effectiveness and coherence of the EU's sustainable finance framework, or reintroducing the regulatory fragmentation that the internal market agenda aims to overcome.

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[83] *See supra* Sect. D.I.

The answer differs between the CSRD and the CS3D. Several of the amendments to the CSRD constitute genuine simplification measures. These include the revision of the ESRS, the deletion of mandatory sector-specific standards, the introduction of the value-chain cap, and the creation of proportionate standards for voluntary reporting, all of which respond to identifiable sources of unnecessary complexity and excessive information requests. However, the substantial contraction of the Directive's mandatory scope is more difficult to justify. By excluding all listed SMEs and many large undertakings based solely on cumulative turnover and employee thresholds, the new regime reduces the availability, comparability and externally assured quality of company-level information on which investors, credit institutions, and other financial market participants rely. It also limits sustainability reporting's capacity to influence the conduct of undertakings whose environmental or social impacts may be significant despite them falling below the new thresholds.

A more proportionate approach would have drawn a clearer distinction between the simplification of applicable requirements and exclusion from the regime. Instead of confining the full CSRD framework to a narrow category of very large undertakings and relying on voluntary reporting for everything else, the Union legislature could have created differentiated mandatory regimes. Very large undertakings could remain subject to the full ESRS, while other large undertakings could apply a simplified set of standards calibrated according to their size, resources and impacts. Reporting by SMEs could generally remain voluntary, while listed SMEs could be subject to proportionate mandatory requirements reflecting the particular information needs associated with access to public capital markets. This graduated approach would maintain a broader and more consistent information base while giving concrete effect to the principle of proportionality set out in the Draghi Report.[84]

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[84] DRAGHI, *supra* note 5, at 69, which, in reality, does not suggest excluding undertakings from the scope of the CSRD, but rather taking greater account of the size of the undertakings affected by the regulation and resorting to appropriate complexity mitigation measures in accordance with the principle of proportionality, particularly for SMEs.. *See also* Alberto Alemanno, *The Legality of Omnibus Legislation Under EU Law: A Preliminary Analysis of Omnibus I Simplification Directive of CSRD and CSDD and Its Legal Consequences on the EU Legal Order* 15–16 (HEC Paris Rsch. Paper No. LAW-2025-1588, 2025), https://ssrn.com/abstract=5727822 (questioning, from the perspective of proportionality, the absence of an assessment of whether simplification of the ESRS could have reduced compliance burdens without narrowing the scope of the CSRD).

The CS3D assessment is more nuanced. Replacing an entity-by-entity mapping exercise with a risk-based scoping process, imposing restrictions on information requests addressed to smaller business partners, and relaxing the frequency of periodic monitoring are all consistent with the aim of making due diligence more practical. Likewise, the deletion of the mandatory termination requirement may prevent companies from being compelled to withdraw from commercially important relationships, the termination of which would have even more serious adverse consequences. These measures simplify the operation of the due diligence process without necessarily removing its essential risk-based structure.

Other amendments to the CS3D go further. For example, raising the general thresholds to more than 5,000 employees and EUR 1.5 billion in worldwide turnover confines the regime to a very limited class of companies. Deleting the obligation to adopt a climate transition plan removes an important component of the original Directive's substance, while eliminating the Union-wide conditions of civil liability weakens the uniformity of the remedial framework. While the latter choice may simplify matters for companies whose operations and potential liability are concentrated in one Member State, it may have the opposite effect for cross-border groups, which would have to assess and manage exposure under several national liability regimes. Instead of being eliminated, the resulting costs may be displaced from compliance with a common Union framework to the management of fragmented national risks.

The Omnibus I Directive's approach to harmonization is correspondingly selective. Article 4 of the CS3D extends maximum harmonization to the central stages of the due diligence process on the basis that different national obligations would create uncertainty and unnecessary burdens. By contrast, Article 29 returns the conditions of civil liability to national law in the name of subsidiarity, despite the uncertainty and costs that such diversity may generate for cross-border groups. Therefore, the Directive does not simply favor simplification over harmonization. Rather, it employs harmonization and national autonomy in different — and not always easily reconcilable — ways: harmonization is strengthened where it prevents Member States from imposing different general due diligence obligations, but reduced where it preserves common conditions of civil liability.

Thus, the reforms reveal a genuine trilemma between sustainability, simplification and harmonization. Simplification can support both sustainability and market integration by removing duplicative disclosures, clarifying uncertain duties and preventing disproportionate demands from being passed down value chains. However, it becomes problematic when it is primarily achieved through the exclusion of regulated undertakings, the removal of substantive obligations, or the renationalization of matters, as divergent national rules may recreate the very complexity that the reform is intended to reduce. The Omnibus I Directive contains examples of both types of simplification, so it cannot be characterized as merely a technical streamlining exercise or a uniform retreat from sustainable finance regulation.

In conclusion, it is worth noting that the provisions set out in the Omnibus I Directive are not intended to be definitive. Amended Article 6 of Directive (EU) 2022/2464 stipulates that the Commission must report by April 30, 2031 on whether and how to extend the scope of the CSRD, potentially including large undertakings that fall below the new thresholds. The Commission must also consider whether such an extension should be accompanied by a simplified reporting regime. Amended Article 36 of the CS3D stipulates that the Commission must report by July 26, 2031 on whether the turnover and employee thresholds should be revised, and on whether companies exceeding the former thresholds, as well as those operating in high-risk sectors, should fall within its remit. Therefore, both of the Directive's principal choices concerning scope are expressly open to reconsideration.

However, these review clauses do not remedy the shortcomings of the current settlement. They provide an opportunity to move beyond an essentially quantitative conception of simplification toward a more differentiated application of proportionality. The long-term success of the Omnibus I reform will therefore depend on whether that reassessment can preserve an adequate body of corporate sustainability information, ensure effective due diligence, and establish a more coherent relationship between Union harmonization and national regulatory autonomy, while continuing to reduce disproportionate compliance burdens. The Omnibus I Directive has achieved substantial simplification, but it has not yet struck a satisfactory balance between sustainability, simplification and harmonization.

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