OMNIBUS DIRECTIVE PRIORITIES AND CHALLENGES

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Making simplification work: Avoiding trickle-down and protecting SMEs

The Omnibus I package marks a welcome starting point for streamlining sustainability reporting obligations. However, unless accompanied by effective measures preventing an unintended trickle-down effect, the expected reduction in reporting burdens may fall short. This will also require targeted adjustments in financial sector regulation and supporting measures across all legislative levels. Simplification must not remain an isolated initiative—it must be implemented as a coherent and systemic effort across the EU's regulatory framework.

The Commission's ambition to simplify the EU regulatory acquis is both timely and necessary. To be fully effective, simplification should be pursued consistently across all legislative levels: regulations and directives (Level 1), implementing and delegated acts (Level 2), and supervisory guidance and methodologies (Level 3). Further "decluttering" of the legislative framework should be addressed in a structured and collaborative process involving the Commission, Member States, supervisory authorities and industry stakeholders.

A clear example of the need for such a comprehensive approach is the trickle-down effect of ESG reporting. While Omnibus I rightly aims to streamline sustainability disclosures under the Corporate Sustainability Reporting Directive (CSRD), sectoral financial regulations risk reintroducing complexity through the back door.

Financial market regulations—such as CRR/CRD, Solvency II, and SFDR—impose sustainability-related obligations that are distinct from, but sometimes aligned with, the CSRD. Financial institutions subject to these frameworks must collect ESG data from clients, borrowers or investee companies. If the sectoral rules are not updated in line with the Omnibus objectives, these institutions may continue to request extensive ESG data even from entities that are no longer (or never were) within the scope of the CSRD.

This trickle-down effect undermines the purpose of Omnibus I. It burdens small and mid-sized companies indirectly, via supply chains or financing relationships, and perpetuates complexity instead of reducing it. Simplifications envisaged by Omnibus I must not be impeded by parallel sectoral requirements where such requirements are not necessary for effective risk management.

To address this, it is of paramount importance that the financial sector's sustainability rules are reviewed and aligned with the broader simplification agenda. A comprehensive analysis of the financial market regulation framework—especially at Level 2 and 3—would be a valuable next step to identify and mitigate unintended trickle-down effects. This includes reviewing technical standards, ESA guidelines, and supervisory expectations.

Sustainability simplification means coherent, proportionate rules that prevent trickle-down burdens.

An important element in achieving effective simplification is the ongoing review of the European Sustainability Reporting Standards (ESRS). In her March 2025 letter, Commissioner Albuquerque tasked EFRAG with revise the ESRS to enhance proportionality and usability. This review provides a crucial opportunity to improve interoperability across reporting frameworks, eliminate redundancies, and focus on decision-relevant information.

A particular priority should be the reduction in the number of mandatory data points. Excessive disclosure requirements dilute relevance, increase costs, and undermine usability. A sharper, more targeted standard will benefit both preparers and users of sustainability information.

Equally important is the protection of SMEs from indirect reporting pressure. The voluntary standard for non-listed SMEs (VSME standard) developed by EFRAG is a promising tool for this purpose. It should serve as a "value chain cap"—a clearly defined boundary for what type of ESG information large companies and financial institutions may request from SMEs. The VSME standard should be implemented first and foremost as a protection of SMEs and may, for SMEs voluntary deciding to report on their sustainability performance, also serve as a flexible, proportionate reporting framework—not a backdoor obligation.

Simplification does not mean deregulation. It means designing regulation and conducting supervision that work in practice: coherent, proportionate and effective. It means reducing unnecessary complexity while maintaining ambition and ensuring transparency. If we want to achieve the full benefits of the Omnibus I package, we must ensure that its spirit is implemented across the regulatory landscape—horizontal and sectoral. Only then will simplification become meaningful and lasting.

SUZANNE LLOYD
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Vision to reality: jurisdictions adopt ISSB sustainability disclosure standard

Two years since the launch of the first ISSB Standards, the creation of a global baseline of sustainability disclosures has gained significant momentum. Our mission is to enable investors worldwide to access better quality, globally comparable information for more informed investment and capital allocation decisions, ultimately supporting companies in attracting capital.

Global adoption of ISSB Standards

As of June 2025, 36 jurisdictions have adopted ISSB Standards or are in the process of finalising steps to introduce them into their regulatory frameworks. These jurisdictions represent approximately 60% of global GDP. That is significant progress in a short period of time.

To provide transparency to stakeholders about jurisdictional adoption, in June this year we published documents providing details about 33 of these jurisdictions across the world:[1]

- 17 profiles of jurisdictions that have already finalised their sustainability reporting approaches;[2] and
- 16 additional snapshots that give a high-level overview of jurisdictions that are still finalising their decisions.[3]

These documents explain each jurisdiction's approach to sustainability reporting, including the extent of alignment with ISSB Standards. These materials give our stakeholders a dedicated place to go for information about the uptake of our Standards.

Showing the current and targeted approach for each jurisdiction, the profiles set out both current requirements and future goals. For example, some jurisdictions may initially require disclosures from an initial set of companies with that population expanding over time.

Of the 17 profiles published, 14 jurisdictions have a stated target of full adoption of ISSB Standards, meaning they plan to require disclosures comparable with the ISSB's global baseline for both climate and other sustainability risks and opportunities. The remaining three jurisdictions have a different targeted scope, with two targeting climate-aligned disclosures only and one requiring only banks to apply the standards.

The widespread adoption underscores the support for a global baseline of sustainability-related disclosures for capital markets.

Interoperability with EU requirements

The EU has been a pioneer in advancing sustainability reporting, with EFRAG and the European Commission working to achieve EU policy objectives while aligning with global standards. From inception, the ISSB has collaborated closely with EFRAG and the European Commission seeking a high degree of alignment between our respective requirements. This is critical to achieve cost-effective reporting for companies and globally comparable information for investors given many companies will be subject to both ESRS and ISSB requirements.

The EU's Omnibus process, aimed at simplifying the first set of ESRS and reducing the number of data points required, presents a unique opportunity to further enhance interoperability. We continue to work with our European partners as they finalise their revised requirements to identify opportunities for further alignment, ensuring that information investors need is provided and clearly identifiable.

Jurisdictions representing 60% of global GDP are on the journey to adopt or use ISSB Standards.

The ISSB's building-block approach enables jurisdictions like the EU to add disclosure requirements on top of the ISSB's policy-neutral global baseline, to achieve their policy objectives while meeting investors' needs and facilitating cost-effective, efficient reporting for companies.

Conclusion

The momentum around the global baseline has delivered significant progress towards enhanced transparency and accountability in global capital markets. As the ISSB continues to engage with stakeholders, including in the EU, the path towards a global solution for sustainability disclosures becomes clearer. This collaborative effort will ultimately result in better-informed capital allocation decisions.

1. *We have not yet developed a profile or snapshot on the EU, given the ongoing Omnibus discussion.*
2. *Australia, Bangladesh, Brazil, Chile, Ghana, Hong Kong SAR, Jordan, Kenya, Malaysia, Mexico, Nigeria, Pakistan, Sri Lanka, Chinese Taipei, Tanzania, Türkiye and Zambia.*
3. *Bolivia, Canada, China, Costa Rica, El Salvador, Indonesia, Japan, Philippines, Rwanda, Singapore, South Korea, Switzerland, Thailand, Uganda, UK and Zimbabwe.*

MARTINA TAMBUCCI

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Desirable simplification or just less transparency and less responsibility?

The Omnibus package first intervenes on the Corporate Sustainability Reporting Directive (CSRD), reducing the number of companies in scope due to raising of the minimum employee threshold for mandatory reporting on environmental, social and governance matters. The reporting pursuant to the Taxonomy Regulation (Article 8) is also substantially reduced in scope as result of its mandatory application only to companies with at least 1,000 employees and an annual turnover over €450 million, which will continue to be bound only by an obligation to report on their sustainability efforts. Finally, as regards the Corporate Sustainability Due Diligence Directive (CS3D), a simplification of the due diligence obligations is envisaged (like the limitation of adverse impact mapping exercise only to direct business partner and not along the entire value chain) with a final date of entry into force fixed to 2028 and consequent postponement of all related duties of apical responsibility to pursue ESG goals.

Companies will be required to employ "reasonable efforts" (rather than "best efforts") in designing transition plans that must 'contribute' (rather than "be compatible with") the goals of the Paris Accords (rather than commit to achieving the target of 1.5°C). On top of all, adoption of such plans by enterprises will be optional (rather than mandatory) until 2031, according to the Council's general approach.

Meanwhile EFRAG is conducting a thorough revision of the ESRS standards, following a few main directions: simplification of the principle of double materiality, improved readability and reduced granularity of information, improved comprehensibility, clarity and accessibility of standards, increased interoperability with international standards.

Transparency and responsibility, the two key levers mainly employed by the Sustainable Finance Action Plan to achieve a high-impact development, are now substantially depowered by the Omnibus and some more is due to come, as co-legislators seem willing to further simplify the sustainable finance framework.

While it is not difficult to argue that Europe did not properly assess the drawback effects of its own rush forward in a camp where many other jurisdictions were not following, similarly not difficult is to say that, at a time when the geopolitical context has become considerably more complex and fragmented, it would be wise to conform to the baseline defined by the IFRS-ISSB for ESG reporting, as a back-stop to reforms and with a view to continue ensuring interoperability.

Unlike many commentators, no strong criticism or enthusiasm is expressed regarding this change of approach, for the reasons outlined below.

Reportedly the Omnibus package is just an initial attempt within the EU necessitated strategy of simplification and burden reduction to re-gain competitiveness. How will this transform into real competitive advantages for European entities is hard to predict at this stage.

The possible effects in terms of competitive gains can, at the very least, be observed from three different perspectives, each for each stakeholders group.

From the point of view of financial intermediaries, the reduction in the scope of sustainability reporting requirements will mean a return to a situation (similar to the one existing under the previous Non-Financial Reporting Directive), in which the burdens imposed by the Sustainable Finance Disclosure Regulation (SFDR) will overstate the information that can actually be found, at least until the latter is consistently revisited (a proposal by the EC is awaited for the last quarter of 2025).

Companies that have already invested in ensuring compliance will, in the short term, face costs associated with the uncertainty and instability of the applicable legal framework. In the medium to long-term they will probably save money, provided they are not exposed to future legal, reputational and financial risks that the previous Sustainable Finance disciplines intended to help curbing. The question remains whether this money will be transformed into benefits for their stakeholders in general (thus, not only for stock/bond holders, but for all citizens, if they continue to commit to the sustainability transition). Also, will this money turn into competitive advantages over their international peers?

How this will transform into real competitive advantages for European entities is hard to predict.

Finally, from the end investors' perspective, the growth of their interest into sustainable or ESG products – such as Article 8 or Article 9 SFDR investment funds – seems to have actually started slowing down ahead of the Omnibus. However, it is difficult to predict whether joint efforts to increase both the level of awareness of ESG issues and of financial literacy of individuals, in general, will maintain a critical level of demand for ESG products/services. If this is the case, it is essential to ensure such a demand will still be met within the perimeter of the Union and not turned abroad, otherwise producing a paradoxical effect with respect to the stated objectives of the Omnibus.

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Unlocking net zero: An enabling regulatory environment for transition finance

As the clock is ticking towards 2050, the path to net zero remains steepest in the so-called hard-to-abate sectors: heavy industry, power, shipping, aviation, chemicals, and agriculture. These sectors account for a substantial share of global greenhouse gases but they lack scalable, commercially viable decarbonisation technologies in the short term. The global financial system holds the key to bridging this transition but only if regulators build frameworks that support long-term and riskmanaged investment in these industries. For these sectors, transition finance is not a luxury but a necessity. However, current frameworks often undermine this goal by prioritising green outcomes over enabling transition.

Take the EU's Taxonomy and Corporate Sustainability Reporting Directive. Though well-intentioned, their jurisdiction-specific standards and fragmented disclosures tends to create confusion and legal uncertainty for global firms. Similar transition efforts might be even deemed sustainable in one jurisdiction but not in another, dampening cross-border capital flows to where they're most needed.

To be effective, transition finance should operate in a globally coherent regulatory environment. That means: one disclosure standard, a unified institutional transition plan structure and an aligned assessment framework for tracking progress. Bodies like the ISSB and GFANZ are helping to pave the way, but without full regulatory adoption and harmonisation across jurisdictions, efforts remain fractured.

The EU has recognised the complexity of its sustainable finance architecture and has signalled its intent to simplify and streamline the regulatory framework with the EU Omnibus Directive. This is a welcomed and commendable move. If this momentum can now pivot toward creating a more enabling environment that rewards credible transition strategies and recognises the economic importance of financing hard-to-abate sectors, then Europe will be well-positioned to maintain its global competitiveness while achieving its ambitious climate targets.

Japan offers a compelling example of policy innovation in transition finance. Under its Green Transformation (GX) strategy, the government has launched ¥20 trillion (~US $144 billion) in sovereign GX transition bonds to mobilize over ¥150 trillion in public-private investments by 2033 targeting sectors like steel, power, shipping, and chemicals. Japan's Ministry of Economy, Trade and Industry, Ministry of the Environment, and Financial Services Agency, together with global financial institutions, have established a Public–Private Transition Finance Taskforce. In 2023, this group published a paper on “Addressing the Challenges of Financed Emissions”, proposing pragmatic ways to assess transition plans, account for financed emissions linked to transition efforts, and enable banks to support high-emitting sectors without being penalised for their current carbon footprint. The combination of policy direction, public capital and regulatory clarity creates the conditions necessary for transition finance to thrive and offers a blueprint for others.

Providing data through disclosures is not likely to be enough. Financial institutions should feel confident to deploy capital in sectors where traditional returns don't yet justify risk. Overly rigid taxonomy rules or prudential measures that penalise carbon-intensive lending risk to only exacerbate that risk aversion. Instead, regulators should: embed interim performance thresholds and credible transition pathways in taxonomies, encourage supervisors to develop capital frameworks recognising plausible transition paths, support public-private blended finance to share first-loss risk and improve bankability. We need disclosure to inform financing but we also need bankability and smart risk management. Ultimately, transitioning hard-to-abate sectors is not just a technical challenge—it's a societal choice. Taxonomies and sustainability disclosures are essential tools, but they cannot deliver net zero alone. That goal will likely only be achieved if private capital is mobilized at scale in the real economy.

A globally coherent regulatory environment is needed for effective transition finance.

Europe now has an opportunity to do the same by evolving its regulatory architecture toward pragmatic, enabling frameworks that support credible, ambitious, and industry-specific transition journeys. With aligned international standards, shared expectations around transition plans, and strong public-private collaboration, transition finance can finally fulfil its purpose: to turn decarbonization into an investable proposition for every part of the global economy. Because net zero is a shared destination and getting there requires that no sector, no region, and no economy can be left behind.

DELPHINE DIRAT
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Omnibus: Reduced obligations, unchanged expectations

As the Omnibus directive remains under negotiation, it is expected to substantially reduce the number of companies required to report under the Corporate Sustainability Reporting Directive (CSRD). While this regulatory shift aims to ease burdens, it does not change the reality on the ground: many investors still rely heavily on ESG data to guide decisions, manage risks, and comply with their own obligations.

In this evolving context, there is a clear opportunity to strengthen the EU sustainable finance framework by improving its usability. Both the EU taxonomy and the European Sustainability Reporting Standards (ESRS) can be refined to deliver more actionable, comparable, and decision-useful data. Streamlining technical criteria, reducing complexity, and clarifying expectations will help bring more companies on board, enhance data quality, and ensure that sustainable finance remains both credible and impactful without being overly burdensome.

Fewer companies subject to CSRD reporting: A shift in scope with varying effects across Europe

Current proposals under the Omnibus directive would significantly reduce the number of companies subject to CSRD. Based on LSEG's analysis, this contraction in scope will primarily affect private companies, which represented the majority of entities initially brought into the CSRD framework.

The effects of this adjustment are likely to differ from one Member State to another. In some countries, especially those with a high proportion of smaller companies, relatively few firms would remain in scope. This would lead to a lower volume of sustainability data coming from certain markets, while others continue to report more broadly, shaping a diverse reporting landscape across the EU.

Investor demand for ESG data remains strong

Despite these changes, one fact remains unchanged: ESG data continues to be key to many investors' decisions. Whether for managing risks, identifying opportunities, or fulfilling their own sustainability-related obligations, many investors rely heavily on access to robust, decision-useful ESG information.

Thus, companies scoped out of CSRD may still face requests from investors to continue disclosing key information. In particular, data on transition plans, green capital expenditures, and core social indicators remain in high demand for many in the investor community.

Whilst the simplification efforts under consideration in the Omnibus directive is welcome, it is likely ESG disclosures will continue on a voluntary basis. However, to support investors' needs, this information must be as comparable and robust as possible, aligning closely with existing standards.

Similarly, high-quality ESG ratings and scores depend fundamentally on the quality of the underlying data. Without credible disclosures from companies, the reliability of ESG assessments declines. Ensuring data quality at the source is therefore important to the integrity of the broader sustainable finance ecosystem and the ability to make cross-region or cross-industry comparisons. As the quality of estimated data is variable, regulating estimated ESG data can help improve transparency but will have limited impact if it is not supported by reliable and consistent disclosures from companies.

Without credible disclosures from companies, the reliability of ESG assessments declines.

Rethinking the EU taxonomy and reporting standards: A strategic opportunity

When it comes to the European taxonomy, a pragmatic reassessment is needed. Our latest analysis shows that less than 1% of the investable universe is currently aligned with the taxonomy, which may be an indicator of challenges with the existing framework.

To enhance usability and interoperability, a review of the 322 technical screening criteria and the 203 "Do No Significant Harm" criteria is beneficial. The announced streamlining exercise could eliminate redundancies, reduce subjectivity, and clarify ambiguous elements that currently allow for diverging interpretations. Many criteria are overly complex or fragmented, making implementation burdensome for companies.

The same opportunity exists for the ESRS. Greater interoperability with global standards like International Sustainability Standards Board (ISSB) would reduce reporting burdens and enable cross-border investors to better understand European disclosures.

Making both frameworks more accessible and functional is important to fulfil their intended purpose as a driver of sustainable investment across the economy.

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The case for coherent sustainability reporting landscape: why the CSRD must lead

It would be a missed opportunity to approach the debate on simplifying European sustainability reporting solely through the technical lens of reducing scope or data points. It is rather an opportunity to, on the one hand, refocus the Corporate Sustainability Reporting Disclosure (CSRD) on its core purpose: a structured and operable corporate reporting framework with a focus on climate — and, on the other hand, to reconsider the role and necessity of both the Taxonomy and the Sustainable Finance Disclosure Reporting (SFDR) to achieve a much coherent and useful set of adjacent tools.

Firstly, let's seize this opportunity to clarify what is the real objective of corporate Sustainability reporting. Indeed, from the outset, the CSRD has rested on an unstable balance, mainly between two ambitions:

i. to enable each company to report based on a standardized framework;
ii. to serve as a European universal database on environmental impacts.

The proposals to raise the applicability thresholds (e.g., 1,000 employees by the Commission and Council, or 3,000 as proposed by the Parliament's rapporteur) *de facto* signal the end of universality. The first objective, thus focusing on the quality, comparability and decision-usefulness of corporate reporting, should accordingly be reaffirmed as being the key one. Moreover, simplifying means: positioning the CSRD as the structuring foundation of the climate and sustainability reporting, provided its content is adjusted to avoid a mere compliance exercise disconnected from business and operational realities.

Secondly, this revision must be carried out with both preparers and users following a logic of "trust the system". In the same way as users trust external auditors to secure the quality of financial information, sustainability reporting should focus on factual information that provides a fair representation of how the reporting entity handles its material Sustainability matters, not more. Furthermore, the climate transition plan, as per the European Sustainability Reporting Standards, should be more clearly acknowledged as the central tool of the transition , rather than this topic being scattered across other texts (i.e., the CSDDD and to some extent the proposed Sustainability Risk Plan RTS under Solvency II).

Lastly, a consolidated CSRD must go hand-in-hand with the repositioning of adjacent instruments which, in the absence of proper coordination, currently create redundancy and unnecessary complexity making the information unclear and confusing. On that idea, the Taxonomy and the SFDR should be reconsidered within a hierarchical — not parallel — framework to allow a clear and coherent distribution of roles across the texts over the current logic of siloed coexistence:

i. The Taxonomy was diverted from its original purpose as a classification tool and has evolved into a misaligned reporting obligation. The mandatory KPIs — especially for insurers — are ineffectively calibrated, not reflective of the actual contribution to the transition, and of very limited practical use. Ideally, the Taxonomy should be repositioned to a voluntary classification function — not leaving it a structuring reporting tool.
ii. The SFDR relies heavily on the widespread availability of CSRD data. With the proposed reduction in scope, this data foundation becomes partial. The SFDR must therefore be reviewed accordingly — potentially by reducing the granularity requirements or recognising alternative data sources. Furthermore, the SFDR being also based on the Taxonomy, it does not allow to properly consider for the transition needed for society. The European Commission must also factor in the political timeline of the Omnibus I package to inform the upcoming revision process.

Reconsidering the use and necessity of the Taxonomy and SFDR thus does not mean weakening them but rather aligning with what should be the main reporting tool: the CSRD. This realignment is the only way to ensure a coherent and functional framework.

The revision must be carried out with preparers and users following a logic of "trust the system".

To conclude, simplification can and should be achieved without watering down EU's initial ambitions. It should be part of a comprehensive and systemic approach focused on effectiveness as well as value for users – ultimately to the society. This can be driven by the legislator to some extent, but most of it needs to be effectively achieved by gaining the market's adherence to the overall objectives.