

CSRD: The European Commission Proposes Significant Deregulation

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On 26 February 2025, the European Commission announced proposals for significant deregulation of certain EU ESG laws, including the Corporate Sustainability Reporting Directive (CSRD). These proposals, if they become law, would result in many companies no longer being subject to the CSRD and a two-year delay of CSRD reporting for those companies that would still be in-scope.

This article provides an overview of the key proposed changes and outlines the likely implications for companies.

Background

The CSRD became law in 2023, introducing a new obligation for many EU-incorporated companies to include extensive ESG-related disclosures in their annual report. The objective of the CSRD is to enable investors and other stakeholders to have access to sustainability information regarding EU companies and companies doing business in the EU.

The reporting obligations under the CSRD (as currently in force) are scheduled to come into effect in waves. The first wave of reporting applies to large public interest entities (companies with securities listed on an EU regulated market, banks and insurance companies) with more than 500 employees. These 'wave I' companies are obliged to report under the CSRD in respect of their 2024 financial year (and many of these companies have already published their first report or are in the final phases of preparing to do so). All other large EU companies ('wave II' companies) are due to report under the CSRD in respect of their 2025 financial year. Certain listed SMEs ('wave III' companies) are due to report for their 2026 financial year. The final group of companies ('wave IV' companies) are certain non-EU parent companies that have an EU subsidiary or branch and significant turnover in the EU. A report is required for these non-EU companies in respect of their 2028 financial year onwards. The vast majority of companies that are subject to the CSRD fall into wave II and are due to report in respect of their 2025 financial year.

Companies across the EU have now been preparing for the CSRD for some time. The obligations of the CSRD are widely considered to be onerous, with preparations requiring considerable resources and management time.

In November 2024, at a press conference in Budapest, the President of the European Commission, Ursula von der Leyen announced proposals to reduce "red tape" and mentioned, in particular, the possibility of revisiting the CSRD. At the end of January 2025, the European Commission unveiled a "**Competitive Compass**" policy aimed at promoting the EU's competitiveness. This policy, among other things, proposed simplifying regulations and reducing the cost of administration by introducing a series of 'omnibus packages' to amend existing regulations.

Proposed amendments to the CSRD

On 26 February, the Commission announced its **omnibus proposals** to simplify certain EU ESG laws, including the CSRD. While the proposals have been described by the Commission as ‘simplification’ rather than ‘deregulation’ efforts, the effect of the proposals, if adopted, would be to significantly scale-back CSRD reporting obligations.

The Commission’s proposals envisage changing the CSRD as follows:

- **Scope of Application:** The scope of application of the CSRD would be significantly changed, by taking all EU companies / groups with less than 1,000 employees and listed SMEs out of scope. If the Commission’s proposals become law, a company would be in-scope for CSRD reporting if the company (including when consolidated with any subsidiaries) has more than 1,000 employees on average and either (i) turnover in excess of €50m or (ii) a balance sheet total (ie, total assets) in excess of €25m. If adopted, this change would reduce the number of companies that are subject to the CSRD by 80%.
- **Two-year delay:** For those companies that will still be in-scope for the CSRD, it is expected that there would be a two year delay for the start of reporting for all EU companies, other than those that are already due to report for their 2024 financial year (ie, public interest entities) who would be required to continue reporting. This means that for companies that were due to report for their 2025 financial year, their CSRD reporting obligations would be delayed to 2027, with the first report published in 2028. The obligations for reporting for non-EU companies (ie, ‘wave IV’ companies) that are due to commence reporting for financial year 2028 would not be delayed under the Commission’s proposal.
- **Non-EU ultimate parent companies and branches:** The CSRD as currently in force requires a CSRD report to be prepared for any non-EU company that has either (a) a large EU subsidiary or (b) a branch with turnover of €40m, where the non-EU parent company has turnover in excess of €150m in the EU. The first report for these ‘wave IV’ companies is due for the 2028 financial year. The Commission is now proposing to increase this overall EU turnover threshold from €150m to €450m and the branch threshold from €40m to €50m. This would mean that a report would be required for a non-EU company for its 2028 financial year if the company has turnover in excess of €450m in the EU and either (a) an EU subsidiary that has two of the following three (including when consolidated with any of its own subsidiaries): turnover in excess of €50m; balance sheet total in excess of €25m; and / or 250 employees; or (b) a branch in the EU with turnover in excess of €50m. The 1,000 employee threshold would not apply in this context.
- **Value-chain cap:** To reduce the ‘trickle-down’ effects of the CSRD, the Commission is proposing blocking in-scope companies (ie, that have more than 1,000 employees) from seeking certain information from other companies in their value chain that are not in-scope (ie, companies that have less than 1,000 employees) – this is referred to as the ‘value-chain cap’. The Commission proposes introducing a new set of voluntary reporting standards; companies that do not meet the thresholds for mandatory reporting can choose to report under these voluntary standards. These voluntary reporting standards would be less onerous than the standards that apply to in-scope companies. The Commission’s proposed new ‘value-chain cap’ would block in-scope

companies from seeking information from companies in their value chain that do not meet the thresholds for mandatory reporting (eg, by having less than 1,000 employees), if that information would not be reportable under the less onerous voluntary reporting standards.

- **Less reporting datapoints:** Companies that are in-scope for the CSRD must report in accordance with standardised European Sustainability Reporting Standards (ESRS). Sector-agnostic ESRS (ie, that apply to all in-scope companies, irrespective of their sector / industry) were published in July 2023 and envisage up to 1,400 possible disclosable datapoints. The Commission's proposal commits to amending the ESRS to substantially reduce the number of mandatory disclosable datapoints. The Commission also suggests abandoning the plan to introduce further sector-specific ESRS (which are due to be published by 2026).
- **Assurance:** CSRD reports are currently required to be subject to limited assurance by an external assurance provider. Under the current law, the CSRD envisages escalating the assurance requirements to require reasonable assurance from 2028. The Commission's new proposal is to abandon this potential progression to reasonable assurance, meaning that CSRD reports would remain subject to limited assurance only.
- **Taxonomy disclosures:** All companies that are in-scope for the CSRD are required to include in that report disclosures regarding how and to what extent the companies' activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. The Commission is proposing introducing an 'opt-in' system, where companies that are in-scope for the CSRD (ie, with more than 1,000 employees) but have less than €450m of turnover and claim that their activities qualify as environmentally sustainable will have additional optionality with respect to making the relevant disclosures. The Commission has also proposed **simplifications** to the taxonomy reporting templates, reducing the number of disclosable datapoints by almost 70% and introducing a materiality threshold for disclosures.

Timing and implications

The Commission's proposals represent significant changes to the ESG regulatory landscape that would need to be approved by the EU institutions (including the European Parliament) before becoming law. The proposals could be revised and amended as they work their way through the legislative process.

While the Commission has committed to pursuing these changes to the CSRD, the average time from Commission proposal to a Directive being finalised has in the past been 9 to 15 months. Given the contentious nature of the proposed changes, there is no certainty that the legislative process will be quick. The final Directive has then to be transposed into the national laws of each EU country (including Ireland). Until this happens, the CSRD as currently in force remains the law.

As many EU companies are due to report in respect of their 2025 and 2026 financial year, the Commission has proposed the two-year delay described above in a separate, shorter Directive. The Commission envisages that this Directive could become law more quickly (eg, by the end of this year). This two-year delay would then allow for a window for the EU to finalise the more substantive proposals and for member states to implement new national laws, before most companies are required to start reporting for their 2027 financial year.

It is not clear that the EU's legislative machinery (and national governments) can work quickly enough to provide companies with the certainty they need to make decisions based on the proposals (eg, for companies / groups with less than 1,000 employees to decide whether to abandon preparations for the CSRD). While there is merit in companies considering a pause on their preparations for the CSRD, pending seeing how the omnibus proposals progress through the EU's legislative process (particularly the proposed two-year delay), many companies have approached CSRD preparations as part of a broader strategy for sustainable growth and may wish to continue with these efforts. The appropriate next steps will vary from company to company, depending on their employee footprint, their overall sustainability strategy and where they are in their CSRD-preparations.

Aside from the CSRD, on 26 February the Commission also proposed changes to the Corporate Sustainability Due Diligence Directive and the Carbon Border Adjustment Mechanism. We will issue a separate update regarding these developments.

If you have any queries in respect of the omnibus proposals or the CSRD more generally, please contact any of the authors or your usual Matheson contact.



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