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YPOG Briefing:
The rollercoaster ride of the “Omnibus Sustainability Package” – clarity at last? Implications for the VC/PE industry

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After much speculation, the Commission has last week presented the first “Omnibus package” to standardize and simplify multiple European sustainability reporting regimes. After the Commission has been vocal for the cause of reducing red tape, this is one of first measures it has submitted to the legislative process.

Commission President Ursula von der Leyen first announced that the Commission wanted to use an Omnibus package to reduce the bureaucracy associated with the CSRD, CS3D and Taxonomy Regulation and to reduce the reporting burden, but without touching the core of the regulations on November 8, 2024. This “Budapest Declaration on the New Deal for European Competitiveness” spoke of the introduction of a “revolutionary simplification process” that would provide for a clear, simple and intelligent regulatory framework for companies and drastically reduce the administrative, regulatory and reporting burden, particularly for SMEs.

These very vague announcements caused legal uncertainty and were followed by numerous different interpretations and reactions from various stakeholders. The Commission’s announcement that it would publish the Omnibus Sustainability Package on February 26, 2025, was therefore associated with the hope of clarity. On February 23, 2025, a version of the Omnibus Sustainability Package was leaked, which has now proved to be very close to the final version.

The Omnibus Sustainability Package and an additional Q&A has been published on time, provides some clarity and seems to strengthen those voices that had called for de-regulation rather than only simplification.

Content of the Omnibus Proposal and implications for the VC/PE industry

Different to what had been speculated, the Omnibus Sustainability Package does not touch the Sustainable Finance Disclosure Regulation (SFDR). It affects several other key legislative frameworks, most notably the **Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD),** and the **EU Taxonomy Regulation**. Below you can find a detailed breakdown of the introduced amendments as well as the implications for the VC/PE industry.

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Corporate Sustainability Reporting Directive (CSRD)

Scope Adjustment

The new proposal would limit the CSRD's scope of application to companies with more than 1,000 employees and either a net turnover above EUR 50 million or a balance sheet above EUR 25 million. The Commission estimates that this change will exempt 80% of the companies that had previously been covered. Currently, the CSRD applies to "large undertakings", i.e. companies that exceed at least two of the following three criteria: (i) 250 employees during the financial year, (ii) EUR 50 million net turnover, or (iii) EUR 25 million balance sheet total; as well as SMEs with securities listed on the EU regulated markets, generally aligning the scope of application to the CSDDD.

Adopting these proposed amendments would effectively result in good number of VC- and PE-financed companies falling outside the scope of mandatory reporting for good, as the threshold of 1,000 employees is likely only met by late-stage startups or large-cap PE-backed companies. Nevertheless, these companies may have to provide sustainability-related information to their investors, which the investors need for their SFDR disclosures and other reporting regimes. The proposal does, unfortunately, not address any interaction between SFDR and CSRD. It will likely become harder for asset managers and investors to obtain relevant information from their portfolio companies, which they are obligated to report. It remains to be seen what changes SFDR 2.0 will bring. It is expected that the Commission will publish an initial proposal for SFDR 2.0 in Q4 2025.

Postponement of Implementation

Further, the package proposes postponing CSRD implementation for large undertakings that were originally scheduled to fulfil their CSRD reporting obligations from 2026 onwards, with their first reports covering the financial year 2025 (second wave). By delaying the applicability by two years, the Omnibus proposal would grant these companies additional time to adapt, making the financial year 2027 their first reporting period.

However, undertakings already subject to CSRD reporting under the first wave (financial year 2024, reporting from 2025 onwards) are not explicitly covered by these proposed amendments and must comply with the original timeline.

The Commission justifies this postponement by acknowledging that both companies and national authorities face significant challenges in meeting the initial deadlines, particularly due to delays in finalizing the European Sustainability Reporting Standards (ESRS). The additional time is intended to ensure a smoother transition while maintaining the long-term sustainability objectives of the CSRD.

Simplification of Reporting Standards

For the companies that remain in scope the number of required data points under the ESRS are to be reduced by 30%, making reports more manageable for companies. Further, the Commission wants to clarify ESRS provisions deemed unclear, improve consistency with other pieces of legislation and prioritise quantitative over narrative information. While the concrete data points that are to be dropped need to be compared to the ones that have been kept, reducing individual prescriptive data points should decrease the burden for in-scope companies.

The Omnibus draft also refrains from introducing sector-specific standards in order to avoid further increasing the number of mandatory data points.

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'Voluntary' Reporting for SMEs / 'Value chain cap'

Companies not in scope of the CSRD may decide to report on sustainability voluntarily. The Commission will adopt a voluntary reporting standard, based on the already existing VSME standard for SMEs developed by EFRAG. The objective of the VSME standard is to provide SMEs with a widely recognised tool through which they can provide sustainability information when included in the value chain of in-scope companies.

According to the Commission, the VSME standard is supposed to act as a shield or 'value chain cap', by limiting the information that companies or banks falling into the scope of the CSRD can request from companies in their value chains with fewer than 1,000 employees. While the omnibus proposal allows SMEs to decline requests for CSRD data from larger companies, the option to decline (*i.e.*, the value chain cap) seems to apply only to the extent that information included in the scope of the VSME must still be reported. Hence, for companies included in such value chains, the reporting would not be voluntarily, but only greatly reduced to the extent of the VSME standard.

Nevertheless, the proposal should counter the so-called trickle-down effect whereby companies that are not covered by law would have in effect still have to apply the CSRD to provide their larger business partners with the information the latter need for their own reporting. From a PE/VC perspective this should make it easier for portfolio companies to do business also with larger business partners without adding excessive reporting processes which should reduce barriers to market entry and expansion.

Corporate Sustainability Due Diligence Directive (CSDDD)

Narrowing of Due Diligence Scope

While under the current CSDDD companies were required to monitor sustainability risks along their entire supply chain, the proposal reduces this obligation to conduct an in-depth-assessment only to the operations of direct suppliers ("tier 1 suppliers"). However, where the company has plausible information suggesting that adverse impacts have arisen or may arise at the level of indirect suppliers, an in-depth assessment of adverse impacts would also be re-quired at the level of an indirect supplier. This aligns with the requirements of the German Sup-ply Chain Act (LKSG) already in force, which obliges companies with more than 1,000 employees in Germany to monitor their supply chains for human rights violations. The due diligence obligations under the LKSG are also limited to direct suppliers if there are no actual indications suggesting a possible violation further down the chain.

The adjustment will substantially reduce the burden for in-scope companies and create synergies with national supply chain due diligence obligations already implemented by many German companies. However, at the same time, this considerably narrows the scope of what will be looked at in a world of long supply chains, noting that some of the most vulnerable stakeholders usually are at the end of the supply chain. This shift could lead businesses to rely more on complaints-based mechanisms rather than proactive supply chain monitoring.

Reducing Trickle-Down Effect / 'Value Chain Cap'

In parallel to the limitation of the 'value chain cap' under CSRD, the direct business partners of the largest companies are also relieved of onerous data requirements under CSDDD. The Omnibus draft limits the information that in-scope companies may request from their SME and small midcap business partners (*i.e.*, companies with not more than 500 employees) to the information specified

in the voluntary VSME standard. This limitation applies, unless the requesting companies need additional information to carry out the mapping (for instance on impacts not covered by the VSME standards) and cannot obtain that information in any other reasonable way.

This is welcomed as it reduces the administrative burden and should make the ESG-reporting for SMEs easier.

Lower Frequency of Risk Assessments

The obligation to conduct risk assessments is to be reduced from an annual requirement to once every five years, easing the burden on businesses, while clarifying that a company needs to assess the implementation of its due diligence measures and update them whenever there are reasonable grounds to believe that the measures are no longer adequate or effective.

The Commission believes that sustainability risks typically do not change on an annual basis. A five-year review cycle could be a more appropriate approach, balancing due diligence obligations without imposing unnecessary bureaucratic efforts.

The extension is definitively to be welcomed, as a yearly review seemed over the top for many supply chains. However, this fixed five-year period seems on the rather lengthy end, taking into account how fast the business environment changes. Five years back COVID just hit Europe – seems like a distant past, doesn't it?

Delayed Implementation

The CSDDD's application date for the first wave should be postponed to mid-2028 (from mid-2027), granting companies additional preparation time. The first guidelines on how to fulfil the due diligence obligations are to be published by the Commission in July 2026.

Clarification on Civil Liability

The rules on corporate liability for breaches in the supply chain are being revised. While the original version of the CSDDD provided for civil liability for companies, this will now largely be dropped. In the future, companies will only be liable in exceptional cases, in particular if they ignore specific indications of breaches or deliberately circumvent their due diligence obligations.

The civil liability for companies in the event of breaches in the supply chain will be dropped. Instead, it is at the discretion of the member states to implement corresponding liability regulations. Member States would also no longer be required to allow non-governmental organisations and unions to bring representative actions on behalf of victims.

This is a helpful clarification as the potential liability for sustainability-related issues was one of the major points under discussion thus far. It will, however, likely be debated whether this standard may incentivize "don't ask – don't tell" behaviour when dealing with countries where sustainability-related issues are common.

Deletion of Review Clause on Inclusion of Financial Industry

Last but not least, from the perspective of the financial industry as a whole, the removal of the review clause for a future inclusion of the financial sector in the CSDDD is to be welcomed. The financial industry is already covered by the SFDR which is tailored to the specifics of their business model. The inclusion would have potentially led to problems for financial institutions (banks, insurance companies, investors) in particular, as they generally have very complex and indirect value chains.

EU Taxonomy Regulation

Scope Limitation

Under the new proposal, only the largest companies (more than 1,000 employees and a turnover above EUR 450) would be required to report under EU Taxonomy, while smaller firms would be allowed to report voluntarily. Previously, the EU Taxonomy reporting obligation applied to all large companies covered by the CSRD.

The Commission assumes that smaller companies have struggled with the complexity of taxonomy-based reporting. By limiting the scope, the focus would be placed on companies with the greatest environmental impact. Unfortunately, the relationship between the EU Taxonomy and the SFDR was not reviewed. The Commission should ensure that the requirements of the Taxonomy promote rather than restrict 'sustainable investment'.

Partial Taxonomy Alignment Allowed

Companies are to receive the option to report activities that are partially aligned with the EU Taxonomy, supporting a gradual transition toward sustainable operations.

According to the Commission, many companies are in a transition phase and may not yet fully meet the taxonomy criteria. Allowing the reporting of partially aligned activities would encourage businesses to gradually adapt to sustainable economic practices.

This addresses one of the key issues that is also discussed in relation to the SFDR, *i.e.* transition cases where many market participants believe is the most scope for reduction of environmental impacts. Opening up the Taxonomy-reporting for such cases raises hopes that this sphere will also be addressed in the upcoming revision of the SFDR.

Consultation on DNSH Criteria

The Commission is also asking for feedback on two options for simplifying the most complex "do no significant harm" criteria for pollution prevention and control related to the use and presence of chemicals that apply horizontally to all economic sectors under the EU Taxonomy. In the public consultation, stakeholders are invited to provide feedback to the options within the next four weeks.

Conclusion

These proposed regulatory adjustments are designed to reduce compliance costs and simplify sustainability reporting while maintaining the EU's climate and environmental objectives. In particular early-stage VC companies and small-cap PE enterprises will enjoy reduced reporting burdens. The focus on the VSME standard is to be welcomed in principle, as sustainability reporting would benefit greatly from more standardised best practices.

As had been expected, but criticized, the SFDR is not taken into account in the proposal albeit there being a fundamental interaction between the SFDR, the CSRD and other sustainability reporting obligations. Holding companies used by financial market participants continue to be subject to reporting obligations under both regimes. Furthermore, the SFDR is the key regulation for ensuring that the necessary private capital investment of around EUR 750 to EUR 800 billion annually is channelled into the Green Deal. The SFDR may be less effective without a corresponding entity-level reporting obligation with many companies falling out of scope. While reporting data is obviously not creating impact, it is necessary for investors to understand a company's impacts, risks and

opportunities for aligning an investment with the Green Deal. It will likely become harder for asset managers and investors to gain the necessary data from portfolio companies.

Some of the most far-reaching proposals that floated around did not make it into the proposal. In particular, the double materiality has not been touched. Put simply, double materiality means considering the impact of sustainability risks on a company ("*outside-in*") and considering the company's negative impacts on sustainability factors ("*inside-out*"). This test is seen a cornerstone of CSRD and sustainability reporting.

Furthermore, certain calls from the industry have not been heard. Invest Europe had called for a further restriction of the audit requirement to key topics, such as climate change and business conduct, and for making the audit voluntary for the remainder. Focusing on the universally relevant topics would make the reporting framework more manageable and ensure a basis for comparability. The same is true for the industry's concerns with the audit processes and costs, which are only partially addressed by the postponement.

Unfortunately, the proposal does not address the fact that numerous large undertakings, which were to report for the first time in 2026 for the FY 2025, have already made preparations and established processes to collect the relevant data from 2025.

"Post-Omnibus"? A Few Thoughts…

The EU – and Germany in particular – aims to take on a pioneering role in the transition to sustainability by strategically promoting and developing start-ups and business models in this field. In this context, the question arises as to whether the proposal for the European Green Deal truly offers strategic value. Investors rely on reliable data to align their investment decisions with the transition objectives. While the reporting obligations under the CSRD undoubtedly entail a significant administrative burden, the concept of double materiality, which limits the scope of required data, seems to have been overlooked in the public debate at times.

Integrating sustainability into a company's core operations can create long-term competitive advantages, such as improved risk management, attracting environmentally conscious consumers, and proactively adapting to future regulatory requirements. Regulations and disclosure requirements could therefore not be seen merely as compliance measures but rather as a foundation for deeper transformation, with the focus placed on actual impact.

Fund managers will be able to continue setting up impact investment strategies irrespective of the changes. While the regulations and reporting frameworks amended by the proposal play a key role in ensuring transparency and setting industry benchmarks, they are not enough to drive substantial change on their own. Genuine sustainability is defined by measurable progress, such as lowering CO_2 emissions or investing in regenerative initiatives that yield concrete environmental and social benefits. Hence, such strategies are needed more than ever. It remains to be seen whether the political headwinds will affect the market of impact investing. Given the potential of supporting European resilience, independence and autonomy as well as providing for a technological edge in future-oriented technologies, we hope Europe will remain on track.

What's next?

The omnibus proposal marks the beginning of the legislative process. It will now be submitted to the European Parliament and the Council for consideration and adoption. Given that the ordinary

legislative procedure can take up to 18 months, the Commission has asked the co-legislators to prioritize certain aspects of the proposal, particularly the amendments to the CSRD. Specifically, the Commission has called for a fast-track procedure to address the proposed postponement of disclosure requirements under the CSRD and the transposition deadline under the CSDDD. In parallel, a public consultation on the proposed amendments in the EU Taxonomy via Delegated Act is open until March 26, 2025, allowing stakeholders to provide feedback on the planned simplifications.

This approach is intended to provide legal certainty for affected businesses at short notice to adjust their implementation measures. Under the fast-track process, the Parliament and the Council are expected to act on the proposed simplifications without reopening other parts of the legislative acts. These provisions enable quicker decision-making but also raise concerns about the depth of scrutiny and democratic accountability. Critics argue that the Commission's approach undermines the role of the co-legislators, as it bypasses the usual scrutiny and impact assessments required for evidence-based policymaking. Fast-tracked legislation have in the past been adopted in months compared to the usual time frame of one to two years for EU legislation.

The Commission expects that final negotiations on the remainder of the proposal will take place in late 2025 or early 2026 before the new rules are published in the EU Official Journal and come into effect.