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Approval of the Omnibus I

Major revision of EU sustainability reporting and due diligence rules

EU | Legal Flash | December 2025

KEY ASPECTS

- On December 16, 2025, the European Parliament approved the Omnibus I reform by amending, among others, the Corporate Sustainability Reporting Directive ("**CSRD**") and the Corporate Sustainability Due Diligence Directive ("**CS3D**").
- In this document we summarize:
  - The key aspects of the directive implementing this reform (the "**Simplification Directive**"), which will enter into force 20 days after its publication in the OJEU and that Member States will have to transpose into national law within 12 months therein.
  - The impact of the Simplification Directive on Spanish and Portuguese companies.

Background

In February 2025, the European Commission proposed a simplification of EU sustainability reporting and due diligence requirements. This proposal comprised two omnibus directives:

- The Stop-the Clock Directive aimed at postponing the application of certain sustainability reporting and due diligence obligations as further described below.

- The other focused on simplifying sustainability reporting obligations by amending Directive (2022/2464/EU) ("**CSRD**")**,** due diligence obligations by amending Directive 2024/1760/EU ("**CS3D**"), accounting requirements by amending Directive 2013/34/EU and auditing requirements by amending Directive 2006/43/EC.

The first of these proposals resulted in the approval in April 2025 of the **Stop-the-Clock Directive** (2025/794/EU), which postponed:

- the phased-in application of the CSRD by two years for second- and third-wave companies. Consequently, large companies to which CSRD would have applied starting in 2026 would only have to report under CSRD starting in 2028, and similarly listed SMEs that were required to report under CSRD in 2027 would only do so in 2029.

  The reporting obligations for first-wave companies (i.e. large public-interest entities ("**PIEs**") with more than 500 employees), which were required to submit sustainability reports under the CSRD, in relation to the 2024 financial year in 2025, were not postponed, by the Stop-the-Clock Directive. However, for the first-wave companies a gradual implementation of the ESRS disclosure standards is planned for financial years beginning on or after January 1, 2025. For more details, see Legal Flash | Omnibus I: Quick Fix of the ESRS.

- the requirement of Member States to transpose the CS3D into national law by July 26, 2027, and delayed its application for the largest companies (i.e. companies with over 5,000 employees and more than €1,500 million in turnover) by one year, to July 26, 2028. The timeline for the other two waves of companies remained unchanged.

The second proposal, which focused on simplifying sustainability reporting and due diligence requirements, was negotiated by the European institutions throughout 2025 and culminated in the European Parliament Plenary's approval of a final text on December 16. The Council is expected to formally approve this text (the "**Simplification Directive**") in January 2026.

This Legal Flash outlines the key aspects of the Simplification Directive, which will enter into force 20 days after its publication in the OJEU. Member States will then have 12 months from its publication date to transpose it into national law.

Corporate Sustainability Information

1. What are the main changes introduced by the Simplification Directive with regards sustainability reporting?

(a) Reduced scope: Effective from January 1, 2027, the CSRD will only mandate sustainability reporting for companies of the largest size and impact. Other companies may voluntarily report using simplified standards to be approved by the Commission.

(b) Limited assurance: The assurance opinion on sustainability information will require a limited assurance engagement. This means the auditor must confirm that they have not found any evidence to suggest the information is materially misstated. The Commission is required to adopt a delegated act detailing this before July 1, 2027.

(c) Restricting the sourcing of information down the value chain: The information that companies within scope of the CSRD can request of companies that are part of their value chain, to prepare their sustainability reports, is limited.

(d) Review clause: A review clause is introduced, to assess the Simplification Directive´s impact on EU competitiveness and its alignment with the European Green Deal. The review will evaluate the use of voluntary standards by April 30, 2029, and by April 30, 2031 a potential extension of the CSRD´s, considering practical experience and the principle of proportionality.

2. Who will be required to submit their sustainability report under the CSRD starting from the financial year beginning on or after January 1, 2027?

The Simplification Directive has significantly reduced the number of companies to which CSRD applies starting on or after January 1, 2027. It is estimated that around 90% of the companies initially affected by the CSRD would now be out of scope.

The following table indicates the companies that will continue to be in scope of CSRD from January 1, 2027:

	No. of employees	Net turnover	Subjection criterion
EU companies/issuers (individual level)	≥ 1000 on average during financial year	≥ €450M	Exceed both thresholds for two consecutive financial years.
EU Group (consolidated basis)	≥ 1000 on average during financial year	≥ €450M	Exceed both thresholds for two consecutive financial years.
Third-country companies with significant activity in the EU		≥ €450M and has a subsidiary or branch that, in the previous year, exceeds €200M.	Exceed the €450M threshold for two consecutive financial years, and the €200M threshold in the preceding financial year.

These general criteria also apply to credit institutions and insurers.

These thresholds will be reviewed every five years.

Due to the increase in thresholds, following the implementation of the Simplification Directive:

(a) Listed SMEs are not in scope of the CSRD, and the mandate to develop specific reporting standards for them has been repealed.

(b) Certain first-wave companies which are already preparing a sustainability report under the CSRD, may no longer be required to do so from January 1, 2027.

Pursuant to the Simplification Directive, Member States may, by passing a national law, exempt those companies that fall within the scope of CSRD for the 2025 and 2026 financial years, but will no longer be in scope starting from 2027, from preparing a CSRD compliant sustainability report

Furthermore, the Simplification Directive introduces measures for more flexible consolidated reporting as follows:

(a) *Financial holdings* defined as "financial holding undertakings" in art. 2.15 of the Accounting Directive (2013/34/EU) that are not involved, directly or indirectly, in managing their subsidiaries may opt out of consolidated reporting if their subsidiaries have separate business models and operations.

(b) Parent companies of EU groups that have undergone M&A operations may postpone their consolidated sustainability reporting obligations to the following year. This is permitted, due to the complexity of reflecting group changes from acquisitions, mergers, or divestments within the same year, provided the company reports on any "significant events" affecting the group.

3. How will CSRD out of scope companies disclose their sustainability information?

Companies out of the scope of the CSRD may voluntarily report according to standards that the Commission will adopt via a delegated act within four months of the Simplification Directive's entry into force.

These voluntary standards will be based on Commission Recommendation 2025/1710/EU, which promotes the adoption of EFRAG's VSME standard. For more detail, see Legal Flash | Voluntary sustainability reporting standard for SMEs.

4. What is the scope of assurance for sustainability information?

The Simplification Directive removes the possibility of a future transition towards a reasonable assurance engagement (an audit providing a high level of confidence that information is free for material misstatements) of sustainability information. Instead, assurance for sustainability information will remain limited in scope. By July 1, 2027, the Commission will approve a delegated act that will detail the specifics.

In addition, the Simplification Directive simplifies the requirements for entities providing assurance services.

5. What changes have been made to the reporting requirements?

Value chain information

(a) Limits on requests for information in the value chain. To reduce the indirect impact of the CSRD on SMEs, companies mandated to report under the CSRD cannot request information from companies in their value chain with less or 1,000 employees on average. Companies can rely on the relevant company`s valuation as to its employee count, unless they know or should have known such valuation to be incorrect.

This limitation applies only to CSRD sustainability reporting. It does not affect voluntary sharing of sector-specific data, existing contracts, or other due diligence and risk management processes.

Companies must not request more information from their value chain than that specified in future voluntary standards. If they do, they must inform the requested companies that they can refuse to provide it.

(b) Transitional period. During the first three years of being subject to the CSRD, if a company cannot access all the information in its value chain, it can explain its efforts and future plans to compile it. After this three-year period, the company must provide the required information, using either data obtained directly from its value chain or appropriate estimates.

(c) Sensitive Information. Companies are not required to disclose information in their sustainability reports if it: (i) may be seriously prejudicial to their commercial position; (ii)qualifies as a trade secret under Directive 2016/943/EU; (iii) is classified information; or (iv) must be protected from unauthorized access or disclosure under other EU or national laws.

Use of common disclosure standards (ESRS)

The development of sector-specific ESRS has been ruled out. For general ESRS, the Commission must adopt a delegated act for their simplification within six months of the Simplification Directive's entry into force, based on the technical report published by EFRAG on December 3, 2025.

Using the taxonomy

All companies subject to the CSRD will have to use the EU taxonomy in their reports. The Simplification Directive increases the threshold that determines the scope of application to €450 million in net turnover.

6. What is the online portal that the Commission plans to launch?

The Commission will launch a dedicated online portal providing practical information, guides, and templates to assist companies with mandatory and voluntary sustainability reporting. The Commission will also present a report on technological solutions and standardized formats to facilitate the exchange of data between companies.

The obligation to mark-up sustainability reports to facilitate electronic reading and comparability will not enter into force until the European Commission approves the relevant delegated act.

Due diligence

1. What are the main changes made by the Simplification Directive?

(a) Significant reduction in the scope of application of CS3D. The new in scope thresholds are three times higher than the current ones, as a result it is expected that CS3D will impact approximately 1,600 companies instead of 7,000.

(b) Postponement of the transposition into national law and implementation of CS3D. CS3D obligations will come into force for all companies on July 26, 2029.

(c) Changes in the focus and scope of the due diligence exercise. The "risk-based approach" is consolidated and clarified, as opposed to an "entity-based approach”. Companies must identify, based on "reasonably available information", areas where adverse impacts are most likely to exist or may be more severe, and then assess in depth these higher-risk areas.

Information requests within the chain of activities and the obligation to engage with stakeholders are limited by criteria of necessity, reasonableness, and risk-based priority.

(d) Climate transition plans. The obligation to adopt and implement a climate transition plan is removed. However, if such a plan exists, it must be disclosed in the sustainability report.

(e) Liability regime and sanctions. The EU's harmonized liability system is removed, and the right to access judicial remedies in each Member State is maintained. Penalties are capped at 3% of the company in breach of net worldwide turnover.

(f) Harmonization. To prevent gold plating, Member States are prohibited from imposing general due diligence obligations other than those provided for in the CS3D.

(g) Review clause. By July 26, 2031, the Commission must submit a report assessing, among other things, the CS3D`s scope, the definition of “chain of activities", the potential need for a more sectoral approach, the adjustment of climate-related rules, and the overall effectiveness of the regulations in addressing adverse impacts.

2. Which companies will still be affected by CS3D?

The Simplification Directive has significantly reduced the number of companies in scope of CS3D. The initial impact of CS3D has been reduced with the reform from affecting approximately 7000 companies to approximately 1600.

	No. of employees	Net turnover	Subjection criterion
EU companies (or ultimate parent company of a business group)	> 5000 on average	> € 1.5 billion	▪ Exceed both thresholds for two consecutive financial years. ▪ Turnover is calculated worldwide.
Non-EU companies operating on the EU market		> € 1.5 billion	▪ Exceed both thresholds for two consecutive years. ▪ Turnover is calculated worldwide.
Companies, both EU and non-EU, operating through franchises or third-party licences		Annual *royalties*: > € 75 million + Net turnover: > € 275 million	▪ EU companies: exceed both thresholds in the last business year and turnover is calculated worldwide. ▪ Non-EU companies: the thresholds are calculated at EU level, and the reference year is the year prior to the last business year.

The Commission shall submit an evaluation report on the practical implementation of CS3D by July 26, 2031 and, *inter alia*, shall decide on the effectiveness of these thresholds.

3. When will CS3D come into effect?

Member States must transpose CS3D into national law by July 26, 2028 (one year later than initially envisaged) and the directive will start applying to companies on July 26, 2029.

4. What changes have been made to the due diligence approach and scope?

Originally, CS3D's due diligence procedure affected the entire chain of activities: (a) "upstream" to direct and indirect business partners (regardless of their size) and (b) "downstream" to direct business partners and distribution, transport, and storage activities (except those subject to export control by a Member State). Waste management activities were excluded.

The final text maintains the extension of due diligence throughout the chain of activities and clarifies the risk-based approach outlined in Article 8 of the CS3D. It is no longer required to map all operations (own, subsidiaries, and chain of activities) to identify adverse impacts in the chain of activities. Instead, CS3D now requires a scoping exercise to identify general areas where adverse human rights and environmental impacts are most likely to occur or be more severe. This scoping exercise is followed by an in-depth assessment of adverse impacts identified in those areas. In a first phase, companies must identify, based on "reasonably available information", the areas where adverse impacts are most likely to occur. In a second phase, limited to those areas identified in the first phase, companies must carry out an in-depth assessment to obtain accurate and reliable information on the nature, extent, causes, severity, and probability of the adverse impacts identified. This enables prioritization and the adoption of appropriate measures. Where multiple adverse impacts present equal probability or severity, companies may prioritize evaluating those areas involving direct business partners.

To carry out this assessment, companies will be able to draw on sources such as independent reports, digital solutions, industry initiatives, whistleblowing or stakeholder mechanisms or channels. They will only request information from their business partners when necessary and, if the partner has fewer than 5,000 employees, only when it is not reasonably possible to obtain the information by other means.

Where information can be obtained from multiple partners, requests should be prioritized to the partner where adverse impacts are most likely to occur.

5. Has the obligation to engage with stakeholders changed?

Yes. The definition of "stakeholders" has been modified to exclude environmental and human rights groups, consumers, institutions, and civil organizations. Additionally, the scope of the duty to consult has been reduced:

(a) Only the relevant "stakeholders" will need to be consulted.

(b) Consultation will not be necessary when suspending business relationships or developing indicators to facilitate the due diligence procedure.

6. What changes have been made to last resort measures?

The Simplification Directive has amended the last resort measures available when it is not possible to prevent or mitigate an adverse impact. Previously, a company could temporarily suspend or terminate the business relationship. The new text removes the obligation to terminate and establishes temporary suspension as the last resort measure.

If preventive or corrective measures fail, companies must:

(a) Refrain from entering new business relationships or expanding existing ones with the business partner linked to the adverse impact.

(b) Temporarily suspend the business relationship, if legally possible, after assessing whether the damages from the suspension would outweigh those of the adverse impact. If the effects of the suspension are manifestly more serious than those of the adverse impact, the company will not have to carry it out but will have to justify its decision to the supervisory authority.

(c) Adopt and implement enhanced corrective action plans. If there is a reasonable expectation that the plan will succeed, the mere fact of continuing to engage with the business partner shall not expose the company to penalties or liability.

7. What change has been made with respect to periodic monitoring exercises?

The original CS3D established that companies must evaluate, at least once a year, their operations, and those of their subsidiaries and partners in their chain of activities to monitor the effectiveness of the measures adopted against adverse impacts.

The Simplification Directive extends the interval for these assessments from one to five years unless there are changes or circumstances that require a review.

8. What about climate transition plans?

Companies will no longer be required to adopt and implement a climate transition plan.

However, it is important to note the following:

(a) The CSRD maintains the obligation for companies to report whether they have a climate transition plan and how it fits into their business strategy.

(b) The obligation for climate transition planning is also present in other EU and national legislation (e.g., the Industrial Emissions Directive, which regulates transformation plans, and the Emissions Trading System Directive, which requires climate neutrality plans). Therefore, the change is a simplification measure to avoid regulatory overlap, rather than an elimination of such plans.

9. Has the provision for a EU-wide civil liability mechanism been removed?

Yes, the EU liability regime provided for in Article 29 of the CS3D has been removed.

Each Member State must ensure access to judicial remedies and full compensation for damage caused to a natural or legal person in accordance with its domestic legal system. Overcompensation (e.g., punitive damages) is not permitted.

The requirement for Member States to apply their own civil liability rules when the applicable law would otherwise be that of a third country, has been eliminated.

10. How has the sanctioning regime been modified?

The minimum fine of 5% of net worldwide turnover from the previous year is removed and replaced with a harmonized ceiling for sanctions at 3% of global turnover.

The Commission, in cooperation with the Member States, will issue guidance on how to calculate these penalties.

11. Does the Directive introduce a full harmonization clause to prevent "gold plating"?

Yes, to prevent fragmented regulation in the EU, the Simplification Directive prohibits Member States from introducing due diligence obligations that deviate from those set out in Articles 6, 8, 9, 10(1)-(5), 11(1)-(6), and 14-16.

Specifically, national rules governing "the due diligence process in general" or "an entire sector" are prohibited, but stricter or specific rules for specific products, services or situations are allowed.

Impact of the reform in Spain and Portugal

Both in Spain and in Portugal, we are seeing greater regulatory uncertainty on sustainability than in other Member States. In addition to the ongoing review of EU regulations, companies of the Iberian Peninsula face the effects of the delay in transposing the CSRD and the *Stop-the-Clock Directive*.

Spain

Faced with this situation, many of the first-wave companies (including listed companies) have followed the joint recommendation of the Spanish Securities and Exchange Commission ("CNMV") and the Spanish Accounting and Auditing Institute ("ICAC") and prepared their 2024 sustainability report in 2025 in accordance with the CSRD, with certain adjustments to comply with current Spanish regulations under Law 11/2018.

Recently, the CNMV and the ICAC have issued new recommendations to guide companies in the preparation of the 2025 sustainability report that they will have to present in 2026. For more detail, see Legal Flash | New CNMV-ICAC Press Release and advances in Omnibus I.

Portugal

In December 2024, the Portuguese Securities Market Commission ("CMVM") issued a communication on the application of the CSRD in which, among other things, and "*Despite the CSRD still being in the process of transposition, the CMVM recommends that the companies subject to its supervision, to which the new duty would apply from 1 January 2025, make their best efforts to observe the requirements set out in the CSRD.*"

Conclusion

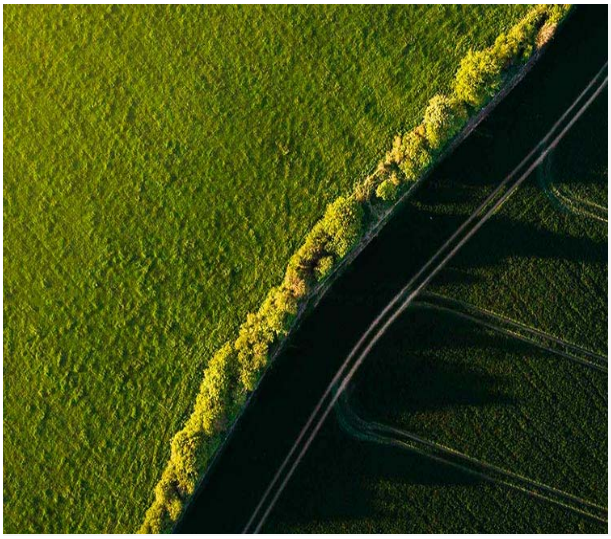
The Simplification Directive raises critical questions for companies that will fall outside the scope of the CSRD:

(a) The Simplification Directive allows Spain and Portugal to exempt these companies from reporting for 2025 and 2026 under the CSRD. However, is this exemption necessary, given that they are not yet legally obliged to do so due to the delay in CSRD transposition?

(b) Is it appropriate to follow the recommendations of the ICAC and the CNMV in Spain, or the CMVM communication in Portugal, if a company does not expect to meet the new thresholds introduced by the Simplification Directive?

(c) Does it make sense for Spanish and Portuguese companies to prepare sustainability information solely in accordance with current national legislation, which has often been surpassed by market practices?

In this context, it is advisable for Spanish and Portuguese companies to conduct an analysis that goes beyond mere regulatory compliance to evaluate both risks and opportunities from a reputational and financing perspective. Beyond legal reporting and due diligence obligations, how companies manage and communicate their environmental, social, and governance performance can influence their ability to secure contracts, attract investment, and obtain financing.



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