



# The simplification revolution and the Omnibus: what's next for EU sustainability reporting and disclosure?

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More competitiveness, more coherence and less administrative burden – these are key political priorities for the new European Commission (the **Commission**) which took office last December. One of the earliest moves under the Commission's new mandate will be to publish details of an “*omnibus*” package, anticipated on 26 February 2025. It is intended to “*reduce in one step*” the reporting burdens across multiple EU laws, for example the Taxonomy Regulation, the Corporate Sustainability Reporting Directive (**CSRD**) and the Corporate Sustainability Due Diligence Directive (**CS3D**).

This briefing explains the key drivers for the omnibus legislation, the reactions it has drawn from within and outside the EU, and the great unknowns and critical questions that remain for businesses.

## Key drivers for the omnibus legislation

A clear, simple and smart regulatory framework is touted by the EU's leaders as one of the core engines to boost EU competitiveness. The European Council has warned that unless decisive action is taken to drastically slash administrative, regulatory and reporting burdens, businesses' growth will continue to be stymied. Currently, *"regulation is seen by more than 60% of EU companies as an obstacle to investment, with 55% of SMEs flagging regulatory obstacles and the administrative burden as their greatest challenge"*.<sup>1</sup>

The Commission recognises that the challenges of regulatory compliance are compounded by overlaps and inconsistencies across the legislative landscape. In particular, the EU's sustainability reporting and due diligence framework is seen as a *"major source of regulatory burden, magnified by a lack of guidance to facilitate the application of complex rules and to clarify the interaction between various pieces of legislation"*.<sup>2</sup>

Other factors that add to administrative burdens and compliance costs are the *"gold plating"* of EU law at national level (i.e. when Member States introduce requirements that exceed EU law requirements) and the *"trickle-down effect"* (i.e. the transfer of sustainability reporting burdens from large companies to actors in their value chain), which can lead to risks of over-compliance and over-reporting.

Outside of the EU, prior to European Commission President von der Leyen's public mention of the omnibus legislation in November 2024, several U.S. lawmakers already stated that *"the [CS3D's] extraterritorial scope amounts to a serious breach of U.S. sovereignty and a direct threat to the global competitiveness of American companies"*.<sup>3</sup> The omnibus legislation could be designed to fend off potential retaliatory action from the U.S. and other third countries where businesses are impacted by the extraterritorial effect of applicable EU laws.

Presently, a key unknown is the extent to which the omnibus legislation will change the substance and applicability of the laws. President von der Leyen emphasised in November 2024 that *"the content of the laws is good, we want to maintain it and we will maintain it. But the way we get there, the questions we're asking, the data points we're collecting... is too much, often redundant and often overlapping"*. This sentiment is consistent with the Commission's call for evidence in Q4 2023 which aimed to identify reporting requirements in EU legislation that can be eliminated or rationalized *"without undermining the policy objectives"*.

However, the prospect of an omnibus legislation has prompted a range of reactions, with many seeking to influence its direction of travel.

## Who is jumping on the omnibus?

The Commission has indicated an intent to take a consultative approach, which would entail focusing its stress testing and simplification on priority areas identified as burdensome by stakeholders, in addition to prioritizing sectors where the EU is particularly exposed to international competition. While awaiting a clear announcement from the Commission, speculation about what the omnibus legislation may focus on has been fuelled by the surfacing (or resurfacing) of ideas for further regulatory change, including: (i) narrowing the scope of companies affected and reducing extra-territorial effect; (ii) postponing the CSRD application deadlines; (iii) scrapping or pausing the development of new reporting standards; and (iv) reducing the number of data points required, e.g. removing the Green Asset Ratio under the Taxonomy Regulation. Other well-known concerns include challenges with international interoperability, unclear definitions (e.g. the Do No Significant Harm principle), complex methodologies (e.g. transition activities), and lack of harmonization in timelines for related reporting requirements.

Groups of EU businesses have called for the Commission to adhere to the current timeline for legal implementation and spoken out against watering down the rules, noting that changes to the reporting framework would create legal uncertainty and undo the progress that has been achieved with the European Green Deal. While the official narrative

<sup>1</sup> Draghi report and EIB report to the Commission on Investment Barriers 2023.

<sup>2</sup> Draghi report.

<sup>3</sup> Barr, Hagerty Sound Alarm on Europe's Regulator Encroachment' (press release, 27 September 2024).

frames the simplification revolution as an imperative for European competitiveness, some businesses consider that the sustainability reporting rules provide “essential tools to ensure European companies are prepared for ESG risks and can thrive in a competitive global economy”.<sup>4</sup> Additionally, in a multi-stakeholder statement dated 12 December 2024, more than 90 signatories (representing civil society, businesses, banks and investors) asserted that “the strategic work on standardising corporate sustainability disclosures in the EU is being wrongly portrayed as a threat to competitiveness, [which] seems to serve a full deregulatory agenda, not a simplification initiative”.<sup>5</sup>

## Great unknowns of the omnibus legislation

At the time of writing, actual details of the scope and substance of the omnibus package remain scant.

Numerous questions remain, among which are:

- **When will the omnibus legislation take effect?** As noted above, the Commission’s legislative proposal may be published on 26 February 2025. The legislative procedure, which additionally involves the European Council and European Parliament, will need to run its course before the omnibus legislation can be finalized and take effect. The length of the legislative procedure will depend on multiple factors including the complexity of the proposed amendments and the unity of political will (the relatively isolated amendments to the EU Deforestation Regulation entered into force on 26 December 2024, within three months of the Commission’s proposal).
- **Will high standards and high ambitions be maintained?** Commissioner Valdis Dombrovskis recently remarked that “simplification does not mean deregulation”. However, that has not stopped speculation across the industry as to whether the omnibus legislation will lower the EU’s social and environmental standards. In addition, reporters and users of sustainability data have concerns about how the omnibus legislation might impact on the availability of comparable, high-quality sustainability data to enable investors to assess firms’ sustainability profiles and inform capital allocation decisions for a timely and ambitious economy-wide transition.
- **Will the omnibus legislation, or a later stage of the simplification revolution, cover other laws?** Apart from the CSRD, CS3D and Taxonomy Regulation, the Draghi report identified several other laws that make the EU’s sustainability reporting and due diligence framework a major regulatory burden, e.g. the sustainable finance disclosure regulation (SFDR), the eco-design for sustainable products regulation, the industrial emissions directive, the emissions trading system, and the regulation on the registration, evaluation, authorization and restriction of chemicals (REACH). MEP Axel Voss also named other EU laws where overlaps are posing a challenge, including the batteries regulation, the conflict minerals regulation, the carbon border adjustment mechanism, the forced labour ban and the deforestation regulation.
- **Is the omnibus legislation the best way forward?** The multi-stakeholder letter from over 90 organisations (referenced above) identified alternative avenues to achieve simplification and effective implementation, including: more practical guidance and implementation support from the Commission and the European Financial Reporting Advisory Group (EFRAG); and pragmatic implementation of reporting requirements that help companies focus on what is truly material. Digitalizing reporting procedures and simplifying formats can also contribute to reducing compliance burdens.
- **Will the omnibus legislation achieve tangible simplification?** The previous Commission acknowledged that “the streamlining of reporting requirements is a long-term effort that will require focus for the foreseeable future”.<sup>6</sup> The Commission has some history in seeking to simplify EU laws, and its efforts have

<sup>4</sup> ‘Amundi, EDF Join Firms Asking EU Not to Water Down ESG Rules’ (BNN Bloomberg, 8 January 2025).

<sup>5</sup> ‘Smart implementation of EU sustainability reporting standards: make complying with rules easy’ (multi-stakeholder statement, December 2024).

<sup>6</sup> Commission work programme 2024 (17 October 2023).

been criticized for having limited impact. President von der Leyen has stressed that “it will be different this time” (speech on 8 November 2024).

The Commission’s publication of its omnibus package is highly anticipated. In the meantime, as reporting under the Taxonomy Regulation and wave one of CSRD reporting continue to push ahead, businesses will do well to build in flexibility to remain adaptable to evolving requirements. Businesses should be alive to the areas of sustainability reporting that are particularly burdensome, complex and duplicative and finetune a pragmatic, streamlined approach to compliance.

Should you have questions on the topic of sustainability reporting and disclosure, please get in touch with the authors or your global key contacts at A&O Shearman.

## AUTHORS

**Matthew Townsend**  
*Partner, London*

Tel +44 20 3088 3174  
[matthew.townsend@aoshearman.com](mailto:matthew.townsend@aoshearman.com)

**Arthur Sauzay**  
*Partner, Paris*

Tel +33 14 006 5090  
[arthur.sauzay@aoshearman.com](mailto:arthur.sauzay@aoshearman.com)

**Ying-Peng Chin**  
*Senior Knowledge Lawyer, London*

Tel +44 20 3088 3708  
[ying-peng.chin@aoshearman.com](mailto:ying-peng.chin@aoshearman.com)

## GLOBAL KEY CONTACTS

### Amsterdam

**Jochem Spaans**  
*Partner*

Tel +31 20 674 1500  
[jochem.spaans@aoshearman.com](mailto:jochem.spaans@aoshearman.com)

**Caroline Obenhuijsen**  
*Knowledge Counsel*

Tel +31 20 674 1595  
[caroline.obenhuijsen@aoshearman.com](mailto:caroline.obenhuijsen@aoshearman.com)

### Frankfurt

**Dr Udo Olgemöller**  
*Partner*

Tel +49 69 2648 5960  
[udo.olgemoeller@aoshearman.com](mailto:udo.olgemoeller@aoshearman.com)

**Dr Maike Hoelscher**  
*Associate*

Tel +49 69 2648 5544  
[maike.hoelscher@aoshearman.com](mailto:maike.hoelscher@aoshearman.com)

### Brussels

**Gauthier van Thuyne**  
*Partner*

Tel +32 2 780 25 75  
[gauthier.vanthuyne@aoshearman.com](mailto:gauthier.vanthuyne@aoshearman.com)

**Axel de Backer**  
*Partner*

Tel +32 3 287 7402  
[axel.debacker@aoshearman.com](mailto:axel.debacker@aoshearman.com)

**Stephanié Dalleur**  
*Knowledge Counsel*

Tel +32 2 7802 430  
[stephanie.dalleur@aoshearman.com](mailto:stephanie.dalleur@aoshearman.com)

### London

**Matthew Townsend**  
*Partner*

Tel +44 20 3088 3174  
[matthew.townsend@aoshearman.com](mailto:matthew.townsend@aoshearman.com)

**Tom d’Ardenne**  
*Counsel*

Tel +44 203 088 3534  
[tom.dardenne@aoshearman.com](mailto:tom.dardenne@aoshearman.com)

**Danae Wheeler**  
*Senior Associate*

Tel +44 20 3088 3505  
[danae.wheeler@aoshearman.com](mailto:danae.wheeler@aoshearman.com)

**Ying-Peng Chin**  
*Senior Knowledge Lawyer*

Tel +44 20 3088 3708  
[ying-peng.chin@aoshearman.com](mailto:ying-peng.chin@aoshearman.com)

### Paris

**Arthur Sauzay**  
*Partner*

Tel +33 14 006 5090  
[arthur.sauzay@aoshearman.com](mailto:arthur.sauzay@aoshearman.com)

**Romarc Lazerges**  
*Partner*

Tel +33 14 006 5344  
[romarc.lazerges@aoshearman.com](mailto:romarc.lazerges@aoshearman.com)

### New York

**Ken Rivlin**  
*Partner*

Tel +1 212 610 6460  
[ken.rivlin@aoshearman.com](mailto:ken.rivlin@aoshearman.com)

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