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CORPORATE SUSTAINABILITY REPORTING IN THE EUROPEAN UNION: *QUO VADIS*, EU LAWMAKER?

SPRAWOZDAWCZOŚĆ PRZEDSIĘBIORSTW W ZAKRESIE ZRÓWNOWAŻONEGO ROZWOJU W UNII EUROPEJSKIEJ – *QUO VADIS*, USTAWODAWCO EUROPEJSKI?

The Corporate Sustainability Reporting Directive (CSRD) aims to ensure that companies transparently disclose their sustainability-related activities, providing stakeholders with reliable and comparable information. The CSRD stipulates that mandatory reporting must be conducted in accordance with the European Sustainability Reporting Standards (ESRS). However, from the outset, these reporting standards have raised numerous concerns regarding their complexity and level of detail, which has initiated an active debate within the European Union. As a result, the European Commission has proposed a set of simplifications to these regulations. The purpose of this article is both to review the CSRD and to examine the potential implications of the changes proposed by the European Commission in the simplification package known as 'Omnibus I.' The primary research method employed is the dogmatic-legal method, supplemented by the theoretical-legal method.

Keywords: ESG criteria; sustainability reporting; stakeholders; European Union; CSRD

Dyrektywa w sprawie sprawozdawczości przedsiębiorstw w zakresie zrównoważonego rozwoju (CSRD) ma na celu zapewnienie, aby przedsiębiorstwa w sposób przejrzysty informowały o swoich działaniach w zakresie zrównoważonego rozwoju, dostarczając interesariuszom wiarygodnych oraz porównywalnych informacji. Dyrektywa CSRD stanowi, że obligatoryjna sprawozdawczość odbywa się zgodnie z jednolitymi Europejskimi standardami sprawozdawczości w zakresie zrównoważonego rozwoju (ESRS). Jednakże standardy sprawozdawczości od samego początku budziły sporo wątpliwości pod względem stopnia ich skomplikowania oraz szczegółowości, co spowodowało ożywioną dyskusję w Unii Europejskiej, w wyniku której Komisja Europejska przygotowała propozycję uproszczenia tych przepisów. Celem artykułu jest zarówno dokonanie przeglądu dyrektywy CSRD, jak i próba oceny skutków zmian zaproponowanych przez Komisję Europejską w pakiecie uproszczeniowym „Omnibus I". Podstawową metodą badawczą, która została wykorzystana, jest metoda dogmatycznoprawna, uzupełniona o metodę teoretycznoprawną.

Słowa kluczowe: kryteria ESG; interesariusze; raportowanie zrównoważonego rozwoju; Unia Europejska; CSRD

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I. INTRODUCTION

The world's population has reached 8 billion, a milestone in human development. This milestone, as United Nations Secretary General António Guterres has rightly argued, 'is an occasion to celebrate the diversity and advancements while considering humanity's shared responsibility for the planet' (UN, 2022, para. 1). This, however, leaves much to be desired.

Firstly, as human beings, we live on credit, which means that we consume far more of the planet's resources than can be sustainably renewed. The sustainable consumption of our planet's resources requires that the ecological footprint per person be no more than 1.6 global hectares,[1] whereas today it has reached 6.4 global hectares. This means that most of us consume four times more resources than our planet is capable of regenerating. In addition, we produce four times more waste than the planet can absorb. Secondly, global emissions of greenhouse gases continue to rise.[2] To achieve climate neutrality by 2050, a tremendous effort and a drastic change will be required in the next decade.

Thirdly, the linear economy model continues to be the most popular model adopted by companies, and it deepens the unsustainable patterns of production and consumption.[3] Scholars point out that 'it is apparent that business as usual is not an option for a sustainable future' (Bocken et al., 2014, p. 42; see also Elkington, 1997, p. 87). Fourthly, the impact of climate change on people's living standards is obvious and is an indisputable driver of social inequalities. The climate change we observe today causes forced migration from regions which are becoming increasingly uninhabitable due to drought or flood. The World Bank estimates that by 2050, the number of climate migrants from six regions, including East Asia and the Pacific, North Africa, Eastern Europe, and Central Asia, will have reached 216 million (Clement et al., 2021). These data cannot be ignored (World Economic Forum, 2025).

To tackle these urgent environmental and social challenges, many scholars and experts have urged 'changes at the core of the business model' (Bocken et al., 2014, p. 44). Paul Polman, CEO of Unilever, argued that 'it is more important than ever that businesses take active leadership to show that growth and sustainability are not in conflict' (UN, 2015, para. 5). Governments, policymakers, investors, banks, insurers, and other stakeholders have also stressed the importance of incorporating environmental, social and governance (ESG) criteria into investment decision-making, and business operations (Baumuller & Sopp, 2022; Elalfy et al., 2021; PRI, 2006; Rüdiger et al., 2023, pp. 3–16;

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[1] *Ecological footprint* is 'a measure of how much area of biologically productive land and water an individual, population, or activity requires to produce all the resources it consumes and to absorb the waste it generates, using prevailing technology and resource management practices. The Ecological Footprint is usually measured in global hectares' (Data Footprint Network, 2024).

[2] 'The Ecological Footprint per person is a nation's total Ecological Footprint divided by the total population of the nation' (Data Footprint Network, 2024).

[3] The linear economy is an economic model based on the extraction and exploitation of natural resources or raw materials to make different products whose life cycle is usually very short and generates a high volume of waste.

Shauhrat et al., 2024, pp. 1–14; van Bommel et al., 2023, pp. 179–206). These ESG criteria[4] help to assess a company's impact on people and the environment and determine whether the company conducts its business in a sustainable, ethical and transparent manner.

Thus, ESG reporting (GRI & World Benchmarking Alliance, 2024) has become a crucial tool for analysing the multifaceted nature of sustainability issues within companies. One of the leading drivers of mandatory corporate sustainability reporting is the EU legislation, which obliges companies to report not only on financial matters but also on environmental, social and governance aspects of their business operations (Johnston & Sjåfjell, 2020, pp. 396–410). In 2021, the European Commission adopted a Proposal for a Corporate Sustainability Reporting Directive.[5]

The aim of this paper is to present the state of corporate sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD).[6] The first part outlines the background and the scope of application of the CSRD. This is followed by a discussion of the CSRD as a potential game changer for corporate sustainability reporting and an overview of the amendments that have recently been proposed by the European Commission in the first Omnibus package of sustainability rules. These amendments are causing uncertainty about the future of the Directive in its current wording. The final part summarizes the article and draws some provisional conclusions.

II. SHIFT FROM NON-FINANCIAL REPORTING TO CORPORATE SUSTAINABILITY REPORTING

ESG reporting has been mandatory in the EU since 2017, pursuant to the Non-Financial Reporting Directive (NFRD),[7] which imposed an obligation on large public-interest entities – such as companies listed on a stock exchange and financial institutions with more than 500 employees – to disclose their non-financial data. At the same time, the NFRD allowed those entities broad

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[4] ESG criteria are also known as sustainability factors which include 'environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters', see Article 2(24) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR), [2019] OJ L 307/1.

[5] Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, 21.04.2021, COM(2021) 189 final (hereinafter 'Proposal for a Directive 2021').

[6] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, [2022] OJ L 323/215 (hereinafter 'CSRD').

[7] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups [2014] OJ L330/01.

discretion in deciding the reporting standard and the information to be disclosed in the report. This, in consequence, created a need for a robust and clear reporting framework in which relevant and sufficient information could be disclosed alongside effective auditing practices to ensure the reliability of that data and the avoidance of greenwashing or social washing.

In December 2019, the European Commission announced a revision of the NFRD within the framework of the European Green Deal[8] in order to ensure the comparability of non-financial data[9] and their mandatory verification. The information provided under the NFRD lacked certain relevant data, was incomplete, insufficiently reliable and transparent, and was therefore often difficult to find, read, and compare. Disclosure requirements regarding ESG issues needed to be clarified and significantly expanded.

Furthermore, the European Commission recommended imposing the reporting obligation on a much wider range of companies and explained that doing so would facilitate their green transition as well as increase their resilience to climate change. It was proposed that non-financial reporting be more closely aligned with the implementation of the EU Action Plan on Sustainable Finance.[10]

Last but not least, since ESG data are often as important to investors as financial data (and sometimes even more important), the term 'non-financial reporting' was replaced by 'sustainability reporting'[11] and the European Commission proposed to put sustainability reporting on an equal footing with financial reporting. In December 2022, the CSRD was adopted and came into force on 5 January 2023, giving the deadline for its implementation by EU Member States by 6 July 2024.[12]

The purpose of the CSRD is to ensure that companies provide relevant, comparable, and reliable information on sustainability issues to investors and other stakeholders. The CSRD indicates which specific information companies must disclose about environmental, social, and human rights factors, as well as governance factors.

Environmental factors include climate change mitigation,[13] climate change adaptation, water and marine resources, resource use and the circular econo-

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[8] Communication from the European Commission, The European Green Deal, 11.12.2019, COM(2019) 640 final.

[9] Comparability was only within European companies reporting under the same reporting standards for instance GRI standards.

[10] Communication from the Commission, Action Plan: Financing Sustainable Growth, 8.03.2018, COM(2018) 97 final.

[11] The term 'sustainability reporting' is defined in the CSRD as 'reporting information related to sustainability matters' which means the environmental, social and human rights, and governance factors, including sustainability factors defined in point 24 of Article 2 of the the SFRD.

[12] It should be noted that the CSRD amends, among other things, Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, [2024] OJ L 182/19 (hereinafter 'Accounting Directive').

[13] Including as regards scope 1, scope 2 and, where relevant, scope 3 greenhouse gas emissions.

my, pollution, and biodiversity and ecosystems (CSRD, amendment of Article 29b para. 2(a) of the Accounting Directive). Social factors cover equal treatment and opportunities, working conditions, and respect for human rights, fundamental freedoms, democratic principles and standards established under international human rights instruments (CSRD, amendment of Article 29b para. 2(b) of the Accounting Directive). Governance factors encompass the role of management and supervisory bodies regarding sustainability matters, business ethics and corporate culture, internal control and risk management systems, and political influence and lobbying activities (CSRD, amendment of Article 29b para. 2(c) of the Accounting Directive).

This means that each of these three areas of a company's operations will be reviewed: (i) how the employees are treated; (ii) what the supply chain is like; and (iii) what anti-corruption and anti-bribery measures are taken, and how business operations affect people and the environment.

The reporting obligation under the CSRD is gradually imposed on listed and non-listed companies. The CSRD requires that the new rules be applied for the first time for the financial year 2024 and published in 2025. The first entities required to report on sustainability are companies that have already been reporting under the NFRD.[14] In the second phase, that is, in 2026, sustainability reports for the financial year 2025 will have to be prepared by large companies for which two out of the three following conditions are true: (i) their turnover exceeds EUR50 million per year; (ii) their balance sheet total is more than EUR25 million; and (iii) they employ more than 250 people (averaged over a year; Article 3(4) of the amended Accounting Directive). In the third phase, starting in 2027, small and medium-sized enterprises (SMEs) listed on regulated markets of any Member State in the EU will also be obliged to submit sustainability reports (CSRD, amendment of Article 19a(1) of the Accounting Directive).[15] Moreover, under the CSRD, sustainability reports will be required from third-country undertakings with an EU subsidiary or EU branch that, for the last two consecutive financial years, have generated a net turnover of more than EUR150 million in the Union (Article 40(a)–(d) of the amended Accounting Directive).

It is estimated that a total of 49,000 entities will have to comply with the CSRD provisions and report on sustainability, compared to the current 11,600 companies subjected to the NFRD (Proposal for a Directive 2021, p. 10). With respect to subsidiary companies, the CSRD provides for an exemption from the obligation of sustainability reporting provided that the subsidiary is included in the consolidated sustainability report of a parent company (CSRD, amendment of Article 19a para. 9 of the Accounting Directive). In other words, if a parent company based in the EU has included its subsidiary company in

[14] It should be stressed that the NFRD applies only to listed companies.

[15] Although they have a possibility to opt out of reporting for financial years 2026 and 2027, namely small and non-complex credit institutions, and captive insurance and reinsurance undertakings, are also part of the third wave, although they may only use the additional two-year opt-out if they are listed SMEs.

its consolidated sustainability report, that subsidiary is exempted from separate reporting (CSRD, amendment of Article 29a para. 4 of the Accounting Directive). This exemption, however, does not apply to large companies listed on a regulated market in the EU (CSRD, amendment of Article 29a para. 8 of the Accounting Directive).

The CSRD specifies that companies must include in their reports 'information necessary to understand the [company's] impacts on sustainability matters, and information necessary to understand how sustainability matters affect their development, performance and position' (CSRD, amendment of Article 19a of the Accounting Directive). The information provided will comprise, among other things, a brief description of the company's business model and strategy, which will present: (i) the resilience of the company's business model and strategy in relation to risks related to sustainability matters; (ii) the opportunities for the company related to sustainability matters; (iii) the plans of the company, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C, which is in line with the Paris Agreement and the objective of achieving climate neutrality by 2050; (iv) how the company's business model and strategy take into consideration the interests of the company's stakeholders and of the impacts of the company on sustainability matters; and (v) how the company's strategy has been implemented regarding sustainability matters (CSRD, amendment of Article 19(a) para. 1 of the Accounting Directive).

The company must also describe its time-bound targets related to sustainability matters set by the company and policies relating to sustainability matters. In addition, the report must clarify the role of the administrative, management, and supervisory bodies with regard to sustainability matters, including their expertise and skills in relation to the fulfilment of that role or the access these bodies have to such expertise and skills. The report must also contain a description of the principal actual or potential adverse impacts connected with the company's own operations and its value chain, including its products and services, business relationships, and supply chain, as well as actions taken to identify and monitor those impacts. Finally, companies are required to include a description of the principal risks they face in connection with sustainability matters, including their main dependencies on those matters, and to explain how such risks are managed (CSRD, amendment of Article 19(a) para. 1 of the Accounting Directive).

Bearing in mind the detailed extent of this information, corporate sustainability reporting may have a fourfold purpose. First, it may help companies to identify and manage their own risks and opportunities related to sustainability matters, thereby facilitating access to financial capital. Second, it may provide a basis for a better communication between companies and their stakeholders. Third, it may help companies to improve their reputation and reliability. Fourth, users of these reports will be able to create a picture of how the company is implementing sustainability in both the short and long term.

Subject to the CSRD, companies must report in a manner that complies with the European Sustainability Reporting Standards (ESRS), which were adopted in the Commission Delegated Regulation (EU) 2023/2772.[16] The ESRS comprise 12 standards.[17] The first two are cross-cutting standards and are general in nature, specifying what should be reported on strategy, governance, and decisions related to materiality. It should be noted that the CSRD requires companies to report both on the impacts of their activities on people and the environment, and on how sustainability matters affect the company itself. This means that companies are obliged to report information on ESG factors in compliance with the principle of double materiality (ESRS 1 para. 26).

Double materiality is defined as a guiding principle of corporate sustainability reporting and includes two dimensions: impact materiality and financial materiality. From an impact perspective, a sustainability matter is material when 'it pertains to the [company's] material actual or potential, positive or negative impacts on people or the environment over a short-, medium- and long-term. Impacts include those connected with the [company's] own operations and the upstream and downstream value chain, including through its products' (ESRS 1 para. 43). From a financial perspective, a sustainability matter is material 'if it triggers or could reasonably be expected to trigger material financial effects on the [company]. This is the case when a sustainability matter generates risks or opportunities that have a material influence or that could reasonably be expected to have a material influence on the [company's] development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term' (ESRS 1 para. 49).

In practice, this means that impact materiality requires a company to identify its key impacts, whereas financial materiality focuses on identifying material risks and opportunities. Therefore, a sustainability issue is considered 'material' if it meets the criteria specified for impact materiality, financial materiality, or both. In particular, companies must focus on areas where significant impacts, risks, and opportunities may arise based on the nature of the business, business relationships, geographic areas, and other relevant circumstances.

Nevertheless, regardless of the outcome of its materiality assessment, the company must disclose the information required in ESRS 2. The remaining ten standards are topical standards that cover different ESG issues. The environmental standards include climate change (ESRS E1), pollution (ESRS E2),

[16] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards. This Regulation has been in force since 1 January 2023 and applies to financial years beginning on or after 1 January 2024. It should be stressed that ESRS are included in the Commission Delegated Regulation which is immediately applicable in all EU Member States and hence requires no further transposition.

[17] It should be added that despite 12 ESRS which are explicitly described in the Regulation 2023/2772, sector standards are also mentioned. Sector standards are expected to be enacted by mid-2026 and should be included in reporting most likely starting with reports for 2027. On 6 June 2024 EFRAG Sustainability Reporting adopted a draft of the first sector standard for the Oil & Gas sector (EFRAG, 2024b).

water and marine resources (ESRS E3), and biodiversity (ESRS E4) and ecosystems (ESRS E5). The social standards cover the company's own workforce (ESRS S1), workers in the value chain (ESRS S2), affected communities (ESRS S3), and consumers and end-users (ESRS S4). The governance standards address business conduct (ESRS G1).

All twelve standards contain 'Disclosure Requirements' and 'Application Requirements' which specify how the information must be disclosed. It should be noted that the latter are mandatory to the same extent as the disclosure requirements to which they apply. With regard to the topics, which a company determines to be not material and therefore not subject to disclosure requirements under the relevant thematic ESRS, the company may briefly explain the conclusions of its materiality assessment in respect of that topic.

As can be seen, although the European Sustainability Reporting Standards provide binding guidelines regarding double materiality, they do not specify a single clear methodology for conducting the double materiality assessment (EFRAG, 2024a). Therefore, this process may be conducted in any manner whatsoever, which can create uncertainties and practical difficulties, and may also entail higher costs for companies seeking to adjust to these requirements (Baumuller & Sopp, 2022).

III. CONCERNS ARISING FROM THE IMPLEMENTATION OF CORPORATE SUSTAINABILITY REPORTING

The CSRD indicates that information regarding ESG factors presented in the sustainability reports must be both qualitative and quantitative. It should cover past and future developments and address the short, medium, and long term. In addition, it should encompass the entire value chain. The qualitative information that must be included in the sustainability report is specified in the ESRS, particularly in ESRS 1. To be useful and provide a faithful representation, the information must be relevant, complete, and accurate. Furthermore, companies are obliged to present relevant information covering the value chain, both on the supplier side (upstream) and in the area of product distribution to final customers (downstream). This means that European companies will analyse their value chain and may require increasingly detailed information from their suppliers – for example, data on the treatment of employees, diversity policies, the origin of materials, or their carbon footprint.

Sustainability reporting will not be limited to presenting results and outcomes achieved during the reporting year or to stating the company's aspirations at its own discretion. Disclosures will be needed regarding the company's strategies, policies, and action plans; its risk management and governance in response to identified impact, risk or opportunities; and the metrics used to set targets and measure performance (ESRS 1, Appendix B, QC 5). This requirement aims to not only increase data comparability but also to enhance the company's transparency and credibility in the eyes of investors and consumers (Sjåfjell et al., 2020, p. 28).

The new sustainability reporting requirements are expected to increase the transparency and measurability of companies' ESG performance, which, in turn, might improve their reputation and, through greater comparability, attract new investment opportunities. Furthermore, listed medium-sized companies, as well as large non-listed companies, may gain access to investors from all over the world, as their ESG data will be easily obtainable and comparable. Companies that adapt to the new requirements in advance will be more likely to enhance their position as leaders in the sustainability transformation and thus be more competitive (Shauhrat et al., 2024, p. 5).

Another novelty introduced by the CSRD is the independent verification of corporate sustainability reports. Verification aims to raise the quality of sustainability information to the same level as financial information. At the same time, it will ensure that stakeholders can find reliable and comparable information which serves as the basis for their economic decision-making. Primarily a 'limited assurance',[18] it will evolve into 'reasonable assurance'. In practice, this means that a statutory auditor or an audit firm will be obliged to express an opinion on whether the sustainability reporting complies with CSRD requirements, based on a limited assurance engagement. The CSRD requires the European Commission to adopt limited assurance standards by 1 October 2026 at the latest, in order to clarify what is expected from statutory auditors and other assurance services providers when conducting assurance engagements on the sustainability information included in reports prepared under the ESRS. This, however, will leave a gap during which there will be no assurance standards adopted at the EU level.[19] The CSRD only specifies that Member States may adopt national standards as long as the European Commission does not adopt standards at the EU level.

However, shifting business onto a sustainable path through mandatory corporate sustainability reporting has also raised doubts as to whether the adopted sustainability reporting standards actually impose a disproportionate administrative and financial burden on companies (see European Commission, 2024; European Council, 2024; République française, 2025). The ESRS were prepared and implemented hastily and late, and were accompanied by a commitment to maximizing interoperability with the work of global standard-setting initiatives for sustainability reporting, such as the Global Re-

[18] In a limited assurance, the auditor performs fewer tests than in a reasonable assurance. Limited assurance requires less verification of source documents as well as a less detailed understanding of processes and controls and a lower level of scrutiny of source data and topics included in the report. The conclusion of a limited assurance engagement is usually provided in a negative form of expression by stating that no matter has been identified by the assurance provider to conclude that the subject matter is materially misstated (Recital 60 and 61 of the CSRD).

[19] However, some clarity in this matter provides guidelines on limited assurance on sustainability reporting adopted by the Committe of European Auditing Oversight Bodies (CEAOB), 30 Septemebr 2024, https://finance.ec.europa.eu/document/download/8ac2df18-2ae1-4bc7-9d87-a4a740e48f5e_en?filename=240930-ceaob-guidelines-limited-assurance-sustainability-reporting_en.pdf

porting Initiative (GRI), IFRS Sustainability Disclosure Standards, and the Task Force on Climate-related Financial Disclosure (TCFD). However, they are much more detailed and complex than the already existing standards and include many new concepts that must be first understood, for example, a double materiality analysis or disclosures about a company's value chain, that is, the upstream and downstream elements.

All of this poses a strategic challenge for boards and corporate managements, who have had to implement clear governance structures to ensure that the commitments and decisions on sustainability-related issues are appropriately considered. New systems and data-gathering processes also have to be deployed. Even large companies that claim sustainability is central to their corporate strategy appear to struggle 'to find a proper balance between operations, strategy and compliance, as a great deal of work and resources are currently devoted to finding ways to report corporate sustainability' (Cambou et al., 2025, p. 32). This may result in companies focusing more on reporting and data collection rather than on 'taking proactive measures regarding sustainability matters, which may lead to resource misallocation' (p. 9).

Undoubtedly, compliance with the new reporting requirements will also be a huge challenge for companies with no previous experience of sustainability reporting that will be obliged to start reporting as of the financial year 2025. These companies will have to create from scratch the necessary organizational structures, resources, and business processes to adjust to new, environmental, social, and governance disclosures and metrics required under the ESRS (Mohin, 2024). It should also be noted that the complexity of the European Sustainability Reporting Standards has boosted the role of consulting firms in this adjustment process, as companies will need consultants to help them comply with the new regulatory requirements in preparing ESG reports and to avoid a negative assessment by auditors. In addition, they will also have to pay auditors for performing the limited assurance of their sustainability reports – paying significantly more than they currently pay for the audit of their financial reports (see Polish Chamber of Commerce, 2025).

All of this is likely to lead to a disproportionate increase in compliance costs and, regrettably, may be used by the opponents of the ESG today as proof that regulating corporate sustainability reporting entails only administrative burdens and costs.

To simplify the current ESG reporting rules and ensure proportionality of the duties imposed on companies, the European Commission has taken several concrete steps.[20] At the end of February 2025, it announced the first Omnibus package which proposes amendments to the CSRD aimed at 'making sustainability reporting more accessible and efficient' (European Commission, 2025, para. 7). The main aim of this legislative proposal is to 'to reduce the reporting

[20] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Commission work programme 2025 Moving forward together: A bolder, simpler, faster Union, COM/2025/45 final, Strasbourg 11.2.2025. See also European Commission (2025).

burden and to limit the trickle down of obligations on smaller companies', and to achieve this, the Commission has proposed, first, that the number of companies subject to mandatory sustainability reporting requirements be reduced by about 80%, thus exempting from this obligation large companies with up to 1,000 employees (covering some from the second wave and some from the first wave) and all listed SMEs (all companies in the third wave).[21]

This means that ESG reporting would be mandatory only for large companies with more than 1,000 employees on average, together with either a turnover above EUR50 million or a balance sheet above EUR25 million. For the new out-of-scope companies, which will not be subject to mandatory corporate sustainability reporting, the European Commission envisages a proportionate standard for voluntary use. This would be based on the voluntary standard for non-listed micro-, small-, and medium-sized enterprises (VSME) to be developed by EFRAG and adopted as a delegated act (Proposal for a Directive 2025a, p. 5).

In the same proposal, the Commission introduces a 'stop the clock' mechanism by which the obligation to comply with the reporting requirements set out in the CSRD for companies in the second wave and the third wave may be postponed by two years (Proposal for a Directive 2025a, p. 5). The purpose of the postponement is to avoid a situation in which certain companies would still be required to prepare an ESG report for the financial years 2025 or 2026, and to relieve them eventually of this obligation. It is worth noting that companies will have ample time to align internal processes and data management requirements. At the same time, the Commission has urged the European Parliament and the Council to reach a rapid agreement on the proposed postponement and to provide the necessary legal clarity for companies currently required to submit their first ESG report in 2026.

Importantly, since the Commission has decided not to adopt the standards for reasonable assurance of ESG reports, there will be no future increases in the consultancy costs as a result of this requirement. These standards are now to be replaced by targeted assurance guidelines by 2026. Last but not least, the Commission has proposed a revision of the first set of the ESRS to 'reduce the number of mandatory ESRS datapoints by (i) removing those deemed least important for general purpose sustainability reporting, (ii) prioritizing quantitative datapoints over a narrative text and (iii) further distinguishing between mandatory and voluntary datapoints, without undermining interoperability with global reporting standards and without prejudice to the materiality assessment of each undertaking.'[22] The Commission also intends to

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[21] Proposal for a Directive of the European Parliament and of the Council amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements, COM(2025) 80 final, Brussels, 26.02.2025, pp. 3–5 (hereinafter 'Proposal for a Directive 2025a'). The EC clarifies that this revised threshold would align the CSRD more closely with the CSDDD.

[22] Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements, COM(2025) 81, Brussels, 26.02.2025, p. 5.

improve consistency with other pieces of EU legislation and to provide clearer instructions on how to apply the materiality analysis.

The Commission's proposal has not been met with a warm welcome from multi-stakeholders. In essence, the objections boil down to concerns about oversimplification and deregulation, rather than the desired simplification of mandatory corporate sustainability reporting. Concerns have also been raised that the proposed solutions lack legal certainty and coherence and undermine the numerous sustainability investments and efforts undertaken by many companies to date (Arus, 2024; Business & Human Rights Resource Centre, 2025a, 2025b; Danish Institute for Human Rights (2025); PRI 2025). There is no doubt that the current approach of the European Commission represents a step backwards in the area of mandatory ESG reporting. The 1,000-employee threshold is one of the main criteria used to define which companies are subject to sustainability reporting under the new proposal. It exempts from mandatory reporting those companies that have been reporting on sustainability since the entry into force of the Non-financial Reporting Directive and that have invested considerable resources in aligning their reporting with the new regulatory requirements in a comprehensive and attentive way.

It falls beyond the scope of this paper to examine in detail how the regulatory framework for corporate sustainability reporting should be shaped to address all the concerns raised. However, it suffices here to indicate that legal certainty and a level playing field are crucial for companies to implement the transition to sustainability (Sjafjella & Cornell, 2024, p. 558). The current proposal tabled by the European Commission focuses on the largest business entities, unexpectedly excluding from mandatory ESG reporting 80% of companies that were previously included. Companies that have already been integrating sustainability into their business models may interpret this as a signal that their efforts have not been acknowledged or adequately rewarded, which may eventually cause them to abandon the creation of broader sustainable value.

There is a growing concern that the proposal will lead to a range of superficial actions such as 'sustainability washing' or 'sustainability wishing' by companies no longer subject to mandatory corporate sustainability reporting (Sjåfjell, 2022, p. 4).[23] As a lawmaker, the EU has a vital role in ensuring that the 'European regulatory framework for business mitigates the risks of unsustainability as far as possible' (Sjafjella et al., 2020, p. 31) and in maintaining a coherent narrative for ESG reporting. The reporting rules under the CSRD should be viewed not only through the prism of regulatory obligations, but also as opportunities to strengthen the companies' market position.

Corporate sustainability reporting should be perceived as a tool for increasing business innovation and supporting the implementation of product and process innovations or technologies, including those which produce heat

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[23] Sjåfjell (2022) clarifies that '"sustainability washing" means using references to sustainability to cover over continued unsustainable business)', in turn '"sustainability wishing" means for example, business goals related to sustainability without clear plans on how to achieve them' (p. 4).

and light without emitting carbon into the atmosphere. In the long term, many of these innovations will lead to cost savings – for example, through investments in renewable energy resources or upgrading production lines. At the same time, sustainability reporting will enable companies to better mitigate risks arising from complex relationships between different actors in the value chain.

Through extended disclosures under the ESRS, companies will gain greater control over their supply chains and will be able to identify potential risks in advance and implement measures to prevent them – for example, delays or disruptions in the supply of key raw materials or semi-finished products. Uniform standards for reporting ESG information and independent, mandatory verification of reports will lead to a profound improvement in the quality of sustainability reporting.

While simple in theory, it is nonetheless important to stress that the current proposal regarding amendments to corporate sustainability reporting requires dialogue, since the transition to sustainability cannot be imposed in a fragmented, top-down manner. It will only be successful if it is based on interdisciplinary, transparent, and constructive dialogue, research, and the active participation of different stakeholders, such as industry, regulatory bodies, governments, ESG experts, scientists, and NGOs, while 'leaving no one behind.'

This dialogue must take into account the current volatile geopolitical and macroeconomic reality, as many EU companies face high energy costs and risk losing their competitive advantage. Instead of watering down its approach, the European Commission should consider adopting corresponding support mechanisms for companies subject to ESG reporting, rather than formulating provisions without a realistic understanding of their operational impacts.

The proposed amendments should focus on providing large and medium-sized companies from the second and third wave, along with their suppliers who are part of the value chain, with institutional guidance from Member States. This would facilitate the sustainability transition and help achieve sustainable competitiveness through public-private partnerships, enabling companies to understand and apply these regulations effectively in their unique operational contexts.[24]

IV. CONCLUSIONS

The rationale for adopting the CSRD was to present a company's sustainability performance transparently, by providing investors with credible and comparable sustainability disclosures that could be analysed and used to support their strategic choices and decisions. While the CSRD may not be a silver

[24] For instance, it would be desirable to create common platforms for reporting sustainability metrics or jointly investing in sustainable technologies as well as elaborate specific case studies and practical examples of best practices.

bullet, the fact remains that stakeholders require reliable ESG information. The coming months will be pivotal in shaping the future of the EU's corporate sustainability reporting framework. The European lawmaker now stands at a crossroads, having to balance the calls for 'deregulation' with those for simplification of the legislation to increase competitiveness, and with those that stress the need to maintain mandatory ESG reporting under the current wording of the CSRD. This balancing remains a complex task, requiring careful consideration of short-term economic benefits alongside long-term environmental and social impacts (Pankov & Olmez, 2025).

A firmer and more coherent regulatory approach is needed to reduce ambiguity in the ESRS and address the growing concerns of stakeholders. However, the approach adopted by the European Commission in the first Omnibus package of sustainability rules does not provide companies with legal certainty or a level playing field, nor does it include a proper impact assessment. At present, it is too early to determine whether the CSRD and the ESRS will become effective drivers of corporate sustainability reporting.

According to the Deloitte 2023 CxO Sustainability Report – Accelerating the Green Transition, 65% of CxOs recognized that the 'changing regulatory environment has led their organisation to increase climate action over the last year' (Deloitte, 2023, p. 10). It is clear that there is no easy fix, but it is crucial to understand that 'it is time to put aside ideological differences and concentrate on how to get into place the regulatory infrastructure that business and the world needs [to achieve sustainable development]' (Sjåfjell, 2022, p. 24). To this end, the European lawmaker should carefully consider the realities faced by large, medium-sized, and small EU companies and adopt regulations that deliver sustainability gains without leading to overcompliance and higher operational costs.

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