



Need to know

EU Commission announces far-reaching simplification in the fields of sustainability reporting, due diligence and taxonomy

Contents

Background

Omnibus proposals

Further information

This *Need to know* sets out parts of the *EU Compass to regain competitiveness* (Competitiveness Compass), that was published by the European Commission (EC) on 29 January 2025.

- The EC has published a Competitiveness Compass that includes an announcement for far-reaching simplification in the fields of sustainability reporting, due diligence and taxonomy
- The details of this simplification will be set out in an 'Omnibus proposal' expected on 26 February 2025
- To ensure proportionate regulation adapted to an entity's size, a new definition of small midcaps will also be proposed
- With these measures, the EC intends to cut by at least 25% the administrative burden for all entities and by at least 35% for small- and medium-sized entities (SMEs).

Background

The EU has set out an ambitious framework to become a decarbonised economy by 2050. The **Draghi report**, commissioned by the EC and published in September 2024, highlights that decarbonisation policies can be a powerful driver of growth when they are well integrated with industrial, competition, economic and trade policies.

Building on the analysis of the Draghi report, the EC has published a Competitiveness Compass that is intended to guide its work in the coming five years and lists priority actions intended to reignite economic dynamism in Europe.

The Competitiveness Compass pursues two goals:

- identify the policy changes needed
- develop new ways of working together to increase the speed and quality of decision-making, simplify the EU frameworks and rules, and overcome fragmentation.

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The Competitiveness Compass sets out three core areas for action: innovation, decarbonisation and security. These three pillars are complemented by five horizontal enablers, which are seen as essential to underpin competitiveness across all sectors. One of these enablers is 'simplification' as the regulatory burden has been identified as hampering the EU's competitiveness. In the EC's view, regulation must be proportionate, stable, coherent and technology neutral. The EC has therefore set out to establish 'a regulatory system based on trust and incentives rather than detailed control'.

Omnibus proposals

To reduce the regulatory and administrative burden, the EC will publish a series of omnibus proposals. The first in the series of 'simplification omnibus' packages is expected on 26 February 2025 and will cover a far-reaching simplification in the fields of sustainable reporting, due diligence and taxonomy, i.e. a simplification of the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU taxonomy for sustainable activities.

In line with the objectives of the sustainable finance framework to mobilise investment in the clean transition, the EC intends to ensure the following:

- better alignment of the requirements with the needs of investors
- proportionate timelines
- financial metrics that do not discourage investments in smaller entities in transition
- obligations proportionate to the scale of activities of different entities.

The EC states it will in particular address the trickle-down effect to prevent smaller entities along the supply chains from being subjected in practice to excessive reporting requests that were never intended by the legislators.

With a view to ensure proportionate regulation adapted to an entity's size, a new definition of small mid-caps will also be proposed. By creating such a new category, bigger than SMEs but smaller than large entities, thousands of entities in the EU would benefit from tailored regulatory simplification in the same spirit as SMEs.

This 'unprecedented simplification effort' will aim to achieve the agreed policy objectives in the simplest, most targeted, most effective and least burdensome way. To ensure sustained and measurable efforts over the coming years, the EC has set quantified targets for reducing reporting burdens: at least 25% for all entities and at least 35% for SMEs. Reporting burdens are a subset of all administrative burdens. Thus, to further increase the EC's ambition, the 25% and 35% burden reduction targets should in the future refer to the costs of all administrative burdens, and not only reporting requirements. The EC therefore sets a goal of reducing around EUR 37.5 billion of recurring costs until the end of its mandate. This is consistent with the commitment made in the **Budapest Declaration** adopted by the EU Council last November.

Observation

The Competitiveness Compass includes a commitment to engage with stakeholders. This will be co-ordinated by the first-ever Commissioner for Implementation and Simplification. The EC intends for each Commissioner to hold regular implementation dialogues with stakeholders, twice a year, to understand implementation issues, hear business concerns and identify opportunities for simplification and burden reduction.

Further information

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