

Sustainability Omnibus: Priorities for trilogues

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As the EU co-legislators engage in final negotiations on the Sustainability Omnibus amending CSRD and CSDDD, it is essential to maintain focus on delivering simplification, ensuring that requirements are workable in practice and minimising regulatory burdens on companies.

AFME welcomes progress made by the Council and European Parliament in building upon the Commission proposal. It is crucial that the Omnibus delivers genuine simplification, effectively contributing to the EU's competitiveness objectives.

AFME continues to strongly support a policy framework which facilitates the financing needed for the transition, backed by streamlined, decision-useful sustainability reporting requirements. Notwithstanding the simplifications currently under negotiation, the EU's sustainable finance framework is set to remain the most ambitious and comprehensive globally. It is therefore critical that the very significant compliance efforts and resources that will continue to be required from both financial and non-financial companies support their international competitiveness.

We urge the co-legislators to give due consideration to the following priorities for the trilogues:

- Maintain a proportionate, **workable approach to reporting and due diligence requirements with respect to entities' value chains/chains of activities**, which are particularly challenging for financial institutions.
- Ensure that any transition planning requirements support the role of **transition plans as strategic, forward-looking tools and avoid duplication across different pieces of legislation**.
- Provide for **fast adoption of the Omnibus I changes** to ensure clarity for companies and sufficient time for implementation.

Alongside finalisation of the Sustainability Omnibus, we stress the importance of reviewing banking legislation and supervisory requirements to reflect the changes being made via the Omnibus I. Reducing burdens for non-financial companies cannot be achieved in practice without corresponding streamlining and simplification in financial sector-specific regulation (e.g. Capital Requirements Regulation/Capital Requirements Directive). In addition, further simplification of Taxonomy reporting - largely overlooked in these negotiations - is also essential.

We set out below our views and proposals reflecting upon the co-legislators' positions.

CSRD

AFME supports the steps taken towards a more meaningful, streamlined sustainability reporting system. We set out below our views on how the trilogue negotiations can achieve meaningful simplification of CSRD in three areas: scope, ESRS reporting and coherence with financial legislation.

Association for Financial Markets in Europe

London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540

Frankfurt Office: c/o SPACES – Regus, First Floor Reception, Große Gallusstraße 16-18, 60312, Frankfurt am Main, Germany T: +49 (0)69 710 456 660

www.afme.eu

Scope

- **Group reporting:** We support the proposals of the Council and European Parliament to calibrate the scope criteria to enable effective group reporting and avoid duplication. Notably, we welcome the Council and Parliament's expansion of the subsidiary exemption to listed undertakings, which is a critical step to deliver simplification in practice. We include some drafting clarifications on this exemption in Annex B to this paper.
- **"Stranded" Wave 1 companies:** We recommend that the co-legislators retain the Council's proposed flexibility to allow Member States to exempt "stranded" wave 1 companies which will fall out of the revised CSRD scope.
- **Financial holding companies:** We support the Parliament's introduction of an exemption for financial holding undertakings. We include some drafting clarifications on this exemption in Annex B.
- **Third-country scope:** The employee threshold for subsidiaries of third-country undertakings under the amended Article 40a(1) should be aligned with the employee threshold for EU undertakings and limited to large subsidiary undertakings with more than 1,000 employees.

ESRS Reporting

- **Value chain reporting relief:** The co-legislators should retain the European Parliament's proposed permanent relief for value chain reporting. This relief is needed to complement the value chain cap and reduce burdens on smaller companies within the value chain.
- **Sector-specific guidance:** AFME strongly supports the Commission's proposal to remove sectoral ESRS, thereby avoiding an increase in reporting burden. For this reason, we do not support reinstating formal empowerments for the introduction of sector-specific provisions and guidance. Sector-specific guidelines risk increasing burdens and audit costs.
- **Business secrecy:** We support the Council and Parliament both recognising the need to provide a clear exemption for companies from reporting commercially sensitive information. The Council's provision makes it clearer that other types of protected information can be excluded, such as information withheld for privacy law concerns; therefore, we recommend this version be retained in the final text.
- **Assurance standards:** We support both co-legislators' recognition of the need to quickly provide direction to auditors on limited assurance standards. We support the swift development of limited assurance standards by 2026, as proposed by the Parliament.

Coherence with financial sector legislation

It is important to ensure coherence between the revised CSRD and regulatory and supervisory requirements on the banking sector. These should be simplified and streamlined to ensure that they support the Omnibus I objectives while enabling banks to effectively manage risk. We therefore welcome the inclusion of new recitals in both the Council and Parliament texts, highlighting the need to maintain coherence. **AFME strongly supports retaining the European Parliament's formulation (Recital 7a new)** that clearly sets out the need to consider adapting sector-specific financial services legislation, referencing delegated acts, guidelines by the ESAs and supervisory expectations.

Climate Transition Plans

We welcome the co-legislators' recognition of the need to simplify transition planning requirements and take note of the different proposals put forward in their respective mandates, including the European Parliament's deletion of Article 22 CSDDD.

If the co-legislators decide to retain Article 22 CSDDD, it should require companies to adopt a climate transition plan in accordance with the disclosure requirements set out in CSRD. It is critical that the CSDDD does not impose additional requirements that inadvertently create inconsistency with the

ESRS. A direct cross-reference to CSRD (as suggested in Annex A to this paper) would support coherence and clarity about a “single transition plan” approach and avoid uncertainty regarding how CSDDD requirements and targets must be “overlaid” onto CSRD transition plans.

If the co-legislators retain Article 22 CSDDD, below are our further reflections on the Council’s text:

- **Objective:** We welcome the Council’s removal of the reference to a 1.5°C temperature target under both CSDDD and CSRD.
- **Implementation:** We support the removal of the obligation to put transition plans “into effect”. It is essential to acknowledge that the implementation of transition plans is subject to external dependencies which are not under companies’ control. While we understand the Council’s intention to clarify that the reference to “reasonable efforts” is an obligation of means rather than results, it continues to create uncertainty for businesses as to what it requires in practice.
- **Content of plans:** As discussed above, it is essential to address the overlap between different frameworks for transition planning requirements. In the absence of a direct cross-reference to CSRD as we have proposed, we support the Council’s proposal to make the design elements set out in Article 22(1), second subparagraph, optional.
- **Phase in and supervision:** To allow for capacity building as companies design their transition plans, we support the Council’s phased approach to any transition plan obligations, as well as the limitation of supervision to the adoption and update of the plan.
- **Guidelines:** We do not support the introduction of separate guidelines for transition plans under CSDDD. It is important to avoid multiple sets of guidelines.
- **No gold-plating:** If included, we support making Article 22 subject to maximum harmonisation to prevent gold-plating and provide a level playing field across the EU.

CSDDD

We support the co-legislators’ work on the simplification of CSDDD. It remains essential to maintain the deletion of the review clause on the potential extension of CSDDD to the downstream provision of financial services, and we welcome the recognition of this by the co-legislators. It is important to acknowledge that in-scope companies will continue to face significant operational burdens in applying this Directive in practice.

- **Due diligence obligations:** We support the Council’s approach to Article 8 CSDDD, limiting the scope of due diligence obligations to direct business partners, which represents clarity for businesses without unduly restricting the ability to conduct due diligence.
- **Implementing guidelines:** We support the Parliament’s proposal to bring forward the deadline for all implementing guidelines to 26 July 2026. It is important that the guidance is in place well in advance of the requirements taking effect.
- **Civil liability:** We welcome that both co-legislators have confirmed the changes proposed by the Commission in order to limit possible litigation risks under this Directive.
- **Third-country scope:** As with the CSRD, scope criteria for EU and third-country companies should apply consistent employee thresholds. Currently, EU companies must meet turnover and employee thresholds to fall within the scope of the CSDDD, whereas third-country companies are subject to CSDDD on the basis of turnover only.

AFME Contacts

Oliver Moullin

Managing Director, Sustainable Finance
General Counsel and Company Secretary
Oliver.Moullin@afme.eu

Rachel Sumption

Associate Director, Sustainable Finance
Rachel.Sumption@afme.eu

Carolina Cazzarolli

Manager, Advocacy
Carolina.Cazzarolli@afme.eu

Jack Chapman

Associate, Sustainable Finance
Jack.Chapman@afme.eu

About AFME

The Association for Financial Markets in Europe (AFME) is the voice of the leading banks in Europe's financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent over 150 leading global and European banks and other significant market players. Our members play a vital role in Europe's financial ecosystem, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. AFME is registered on the EU Transparency Register, registration no. 65110063986-76.

Annex A – Transition plans amendments

Should the co-legislators decide to retain Article 22 CSDDD, we suggest the following drafting:

1. Member States shall ensure that companies referred to in Article 2(1), points (a), (b) and (c), and Article 2(2), points (a), (b) and (c), adopt a transition plan for climate change mitigation for disclosure **in accordance with the requirements of Article 19a, 29a or 40a, as the case may be, of Directive 2013/34/EU.**

By way of derogation from the first subparagraph and the third paragraph, Member States shall ensure that adoption of the transition plan referred to in that subparagraph is optional during the first two years of the application of the measures to be adopted in accordance with Article 37.

2. Companies that report a transition plan for climate change mitigation in accordance with Article 19a, 29a or 40a, as the case may be, of Directive 2013/34/EU shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article.

3. Member States shall ensure that the transition plan for climate change mitigation referred to in paragraph 1 is updated every 12 months and contains a description of the progress the company has made towards achieving its targets.

Annex B – Technical drafting amendments

1. Subsidiary Exemption

We welcome the co-legislators' inclusion of an amended subsidiary exemption, ensuring that subsidiaries (including those with listed securities) which are part of a group subject to CSRD do not have to report under the ESRS.

The co-legislators' proposed amendment requires drafting modifications to ensure that listed subsidiaries should not have to prepare a separate report in accordance with the ESRS regardless of whether such subsidiaries are scoped in to reporting via the Accounting Directive or Transparency Directive. In order to achieve its simplification objective, the amended subsidiary exemption should be made a maximum harmonisation provision, to ensure consistent application across the EU.

Article 2(2), subparagraph d (new) amending Article 19a of Directive 2013/34/EU

(2) Article 19a is amended as follows:

(d) paragraph 10 is replaced by the following:

‘The exemption laid down in paragraph 9 shall also apply to public-interest entities subject to the requirements of this Article **or Article 4(5) of the Transparency Directive.**’

2. Financial Holding Companies Exemption

We welcome the Parliament's inclusion of an exemption for financial holding companies, which better aligns the boundaries of groups' consolidated financial reporting with CSRD reporting under Article 29a.

A portion of Parliament's proposed amendment requires drafting modifications to ensure that the functioning of the exemption is clear and unambiguous. In particular, the new drafting in Article 29a(8) requires amendment. As there is no proposed amendment to the second subparagraph of Article 29a(8),

the current drafting would subject the new exemption for financial holding undertaking (the new subparagraph (ii)) to the conditions set out in the existing second subparagraph, which is not the intent of the exemption.

Article 2(4), subparagraph d (new) amending Article 29a(8) of Directive 2013/34/EU

(4) Article 29a is amended as follows:

(d) Paragraph 8 is amended as follows:

8. Provided that the conditions the second subparagraph of this paragraph are met, a parent undertaking which is a subsidiary undertaking shall be exempted from the obligations set out in paragraphs 1 to 5 of this Article (the “exempted parent undertaking”) if such parent undertaking and its subsidiary undertakings are included in the consolidated management report of another undertaking, drawn up in accordance with Article 29 and this Article. A parent undertaking which is a subsidiary undertaking of a parent undertaking that is established in a third country shall also be exempted from the obligations set out in paragraphs 1 to 5 of this Article where:

(i) such parent undertaking and its subsidiary undertakings are included in the consolidated sustainability reporting of that parent undertaking that is established in a third country and where that consolidated sustainability reporting is carried out in accordance with the sustainability reporting standards adopted pursuant to Article 29b or in a manner equivalent to those sustainability reporting standards, as determined in accordance with an implementing act on the equivalence of sustainability reporting standards adopted pursuant to the third subparagraph of Article 23(4) of Directive 2004/109/EC.; **or**

(ii) the parent undertaking is a financial holding undertaking in accordance with Article 2(15), that does not have any subsidiaries in the Union with an operating business.

The exemption in the first subparagraph shall be subject to the following conditions:

...

[insert]

By way of derogation, the conditions set out in the second subparagraph shall not apply to financial holding undertakings exempted under the first subparagraph.
