



The European Commission progresses in its efforts to simplify corporate sustainability reporting

November 2025

During 2025, the European Commission (EC) has put forward a series of measures aimed at simplifying the sustainability reporting framework, in line with the broader objective of simplifying and reducing reporting burdens for companies in the European Union (EU).

In a previous edition of this Bulletin, an [Article](#) on the EC's omnibus package related to this matter mentioned that the institution had consulted on its proposed amendments to several aspects of the delegated acts under the Taxonomy Regulation¹. This Article outlines the most significant amendments ultimately adopted by the EC and included in the delegated act published on 4 July. The European Parliament and the Council of the EU now have a four-month period, extendable by two months, to carry out their scrutiny.

In addition, it is worth recalling that, in relation to the Corporate Sustainability Reporting Directive (CSRD)², the EC adopted the so-called stop-the-clock directive³ in April, which postponed by two years, for entities subject to waves 2 and 3⁴, the obligation to report in accordance with the European Sustainability Reporting Standards (ESRS)⁵, while the requirements set out in those standards are reviewed and simplified. This article also briefly describes the scope of a delegated act adopted by the EC in July, as a quick fix⁶, to ensure that companies in wave 1⁷, excluded from the scope of the stop-the-clock directive, would not be subject to certain reporting obligations during the review of the overall framework.

Finally, this Article also addresses an EC Recommendation, published on July 30, which encourages the use of the voluntary ESRS for unlisted SMEs and micro-undertakings (VSME) developed by the European Financial Reporting Advisory Group (EFRAG) under the EC's mandate.

¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020.

² Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022.

³ Directive (EU) 2025/794 of the European Parliament and of the Council of 14 April 2025.

⁴ Wave 2 comprises other large companies that meet two of the three criteria (turnover exceeding EUR 50 million; a balance sheet total exceeding EUR 25 million; and 250 employees). Wave 3 comprises SMEs listed on regulated EU markets. Prior to the postponement, wave 2 companies were due to start reporting in 2026, and wave 3 companies in 2027.

⁵ Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023.

⁶ Its entry into force is expected around mid-November.

⁷ In general, large public interest companies with over 500 employees began reporting in 2025 for the 2024 financial year. However, in certain cases (for instance, when the number of employees is up to 750), compliance with some reporting obligations is expected to be phased in.

Pregunta

Which is the EC's final proposal for the reform of the Delegated Acts on Taxonomy?

Respuesta

The main features of the proposal are as follows:

- **Materiality Principle.** The proposal allows companies to refrain from assessing **eligibility** (i.e., whether an economic activity is included in the taxonomy) and **alignment** (i.e., whether it meets the criteria to qualify as an environmentally sustainable economic activity under the taxonomy) for non-material economic activities (in the case of non-financial companies) or financial assets (in the case of financial companies). Assets are considered non-

material where they represent **less than 10% of the denominator** of each relevant key performance indicator (KPI) related to turnover, capital expenditure (CapEx), and operational expenditure (OpEx)⁸. This threshold applies independently to each KPI and cumulatively across all excluded activities. To prevent any misuse of this exemption, a **transparency requirement** is included: information on the amount, sector, and a brief justification for the activities deemed non-material must be disclosed in the reporting template.

Regarding **financial companies**, as indicated in the previous paragraph, it should be noted that this flexibility does not apply to exposures to financial assets for which the intended use of proceeds is unknown (for example, general-purpose loans or investments).

Furthermore, it is acknowledged that the **OpEx KPI** is generally of lesser relevance to investors compared with other KPIs. Therefore, **non-financial companies** may disregard operating expenditure in its entirety if considered non-material, although they must provide a justification and disclose its total value.

Other simplifications for financial companies. A transitional regime is introduced until 31 December 2027 under which such companies are not required to use the detailed disclosure templates or models required by the regulation, provided that their management report includes a standard statement clarifying that, under no circumstances, do they claim that their activities are associated with environmentally sustainable economic activities within the framework of the Taxonomy Regulation.

Furthermore, until this review has been completed, exposures to companies not required to report on sustainability under the Accounting Directive⁹ and Article 8 of the Taxonomy Regulation are **excluded from the denominator** of financial companies' KPIs. However, certain loans or exposures where the use of proceeds is known, or where counterparties voluntarily report their KPIs may be included on a voluntary basis. This measure prevents companies not subject to the EU Taxonomy from becoming indirectly bound by it, and also avoids the inclusion of activities irrelevant or unrelated to sustainability. Similarly, financial instruments whose alignment cannot be assessed (derivatives, cash and cash equivalents, on-demand bank loans, goodwill, or commodities) are also excluded from the KPI calculation. In short, the aim is to ensure that economic activities or financial assets which cannot be included in the numerator of the KPIs, either because there are no criteria to assess their alignment with the taxonomy, or because no data are available, since such activities are carried out by companies not required to report under the taxonomy, are likewise excluded from the denominator so that they do not distort the calculation.

Finally, the obligation to report the **KPI for the trading portfolio** and the **KPI for fees and commissions** from services other than lending has been postponed until 2028, in view of their current limited informational value and the technical complexity of their preparation.

- **Streamlining of reporting templates.** This simplification removes redundant details and reports, while presenting relevant information in a clear and concise manner. The EC estimates that these changes will reduce the amount of information to be reported by non-financial companies by 64% and by financial companies by 89%.

Regarding specific changes, the amendment concerning disclosures on **activities related to fossil gas and nuclear energy** is particularly noteworthy. This information will no longer be provided in separate templates or annexes; instead, some of the information will be integrated into the general summary formats. Non-financial companies will report these activities, where material, in the 'per activity' reporting templates. Financial companies will report significant exposure to these activities on an aggregated basis, in a specific column within the main KPI template.

- **Amendment to the DNSH criteria (Annex C).** Annex C of the delegated climate and environmental acts concerning pollution prevention and control in relation to the use and presence of chemicals is replaced by a **simplified version harmonised** with current EU environmental legislation (RoHS Directive, the REACH Regulation, and legislation on substances that deplete the ozone layer, and the legislation on mercury). The list of chemicals to be assessed is significantly reduced, focusing on those of greatest relevance. This simplification is **temporary**, as the EC has indicated its intention to conduct a more comprehensive and thorough review of the technical DNSH criteria and of the delegated acts under the taxonomy.

Implementation: *The new rules will apply from 1 January 2026. However, companies may choose to continue applying the previous rules for financial years beginning in 2025.*

⁸ Let us recall that the 3 KPIs measure, respectively, the turnover, CapEx or OpEx that meets the taxonomy criteria, that is, contributes substantially to an environmentally sustainable objective, does not cause significant harm to any other environmentally sustainable objective and complies with minimum social and governance safeguards (numerator), with respect to the total turnover, CapEx or OpEx of the economic activity in question (denominator).

⁹ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013.

Pregunta

What does the quick fix entail for wave 1 companies subject to sustainability reporting?

Respuesta

The CSRD framework, in addition to its phased implementation, postpones certain reporting obligations. For instance, companies with up to 750 employees may omit all reporting requirements under ESRS E4 (biodiversity and ecosystems), ESRS S2 (workers in the value chain), S3 (affected communities), and S4 (consumers and end-users) for the first two reporting years, and all reporting requirements for ESRS S1 (own workforce) for the first reporting year. However, where temporary exemptions are applied to a complete topical standard, some summary information on that topic must be provided if it is deemed material according to the company's materiality assessment.

The omnibus package, in addition to postponing waves 2 and 3 through the stop-the-clock directive, includes proposals to simplify the CSRD framework, such as raising the implementation threshold by exempting companies with less than 1,000 employees.

In light of the above, it appears unreasonable for certain companies (please, note that wave 1 companies are those with over 500 employees), for which the EC intends to simplify reporting obligations in the future, to be required to prepare such detailed information for the 2025 and 2026 financial years. In the current context of simplifying reporting burdens, it also seems reasonable to seek greater harmonisation of reporting requirements for all wave 1 companies, regardless of whether they have more or less than 750 employees.

The quick fix, which aims to ensure regulatory consistency and to prevent **wave 1 companies** from bearing a disproportionate burden while regulatory adjustments are underway, proposes: (1) that no wave 1 company be required to report additional information in the second and third years of ESRS application beyond the information already reported in the first year¹⁰, and (2) that the two-year temporary exemptions currently applied to companies with up to 750 employees be extended to **wave 1 companies with over 750 employees**. To provide clarity on the simplification measures proposed for all wave 1 companies, for companies with up to 750 employees, and for companies above that threshold, the EC has prepared a summary table, which can be consulted [here](#).

It is expected that by the reporting date for the 2027 financial year, the relevant revisions and simplifications to the CSRD and ESRS will have been completed and will be in effect.

Implementation: *These modifications will apply to financial years beginning on or after 1 January 2025.*

¹⁰ In addition, wave 1 companies will not be required to provide additional information on the anticipated financial effects of certain sustainability-related risks for the 2025 and 2026 financial years.

Pregunta

What is the current and future status of voluntary reporting under the ESRS?

Respuesta

Under the current CSRD framework, listed SMEs may report their sustainability information using simplified sustainability reporting standards (LSME), while unlisted SMEs have no legal obligation to report on sustainability matters. Furthermore, to mitigate the **"trickle-down effect"** resulting from the obligations of large companies under CSRD and the Sustainability Due Diligence Directive¹¹ to report on their **value chain**, which may prompt them to request data from their SME suppliers, a value-chain **cap** has been established. This cap ensures that SMEs cannot be asked to provide information beyond that required by the LSME.

In addition to the LSME, the EC tasked EFRAG with developing a simpler, voluntary standard to help unlisted SMEs in responding to data requests from banks, large companies, and other stakeholders. The VSME, published in July, provides this voluntary framework, enabling unlisted SMEs and micro-undertakings, both European and from third countries, to report on sustainability in a standardised and simplified manner. The EC recommends that large companies and financial institutions limit their requests to the information covered by the VSME.

The VSME comprises a basic module (containing the minimum core information required for SMEs adopting the standard, while micro-undertakings may apply a "target approach" and report only relevant information), a comprehensive module (more complete, optional information), and accompanying guides and tools, which include practical guidance, examples, and educational materials. **External assurance of this information is not required; a self-declaration** from the company suffices.

The EC encourages Member States to promote the VSME, support their adoption, and foster the digitalisation of

reporting to enable efficient data exchange while respecting SMEs' data ownership. It also notes that, for sustainable lending or investment purposes, banks and investors may request additional information beyond that covered by VSME.

Furthermore, the omnibus package proposes that only large companies with over 1,000 employees be required to report, while other companies may provide information in accordance with **future voluntary standards**. Accordingly, the value-chain cap is reinforced, as companies subject to the CSRD would not be allowed to request more information from companies with fewer than 1,000 employees than is permitted under the future voluntary standards. The VSME published now will serve as **the basis** for these future voluntary standards, which will need to be adopted through a delegated act subject to public consultation. However, it is currently difficult to determine which elements will be retained and which will not, as this depends on both the comprehensive review of the ESRS and on the adjustments arising during co-legislators' negotiations. Consequently, this recommendation represents an **interim solution** until the CSRD framework is reviewed and simplified more thoroughly.

¹⁴ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024.

Links of interest:

[EC final proposal for the review of delegated acts on Taxonomy](#)

[The EC adopts a quick fix for companies required to report on sustainability in the wave 1](#)

[EC Recommendation for the use of voluntary ESRS for unlisted SMEs and micro-undertakings](#)

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