



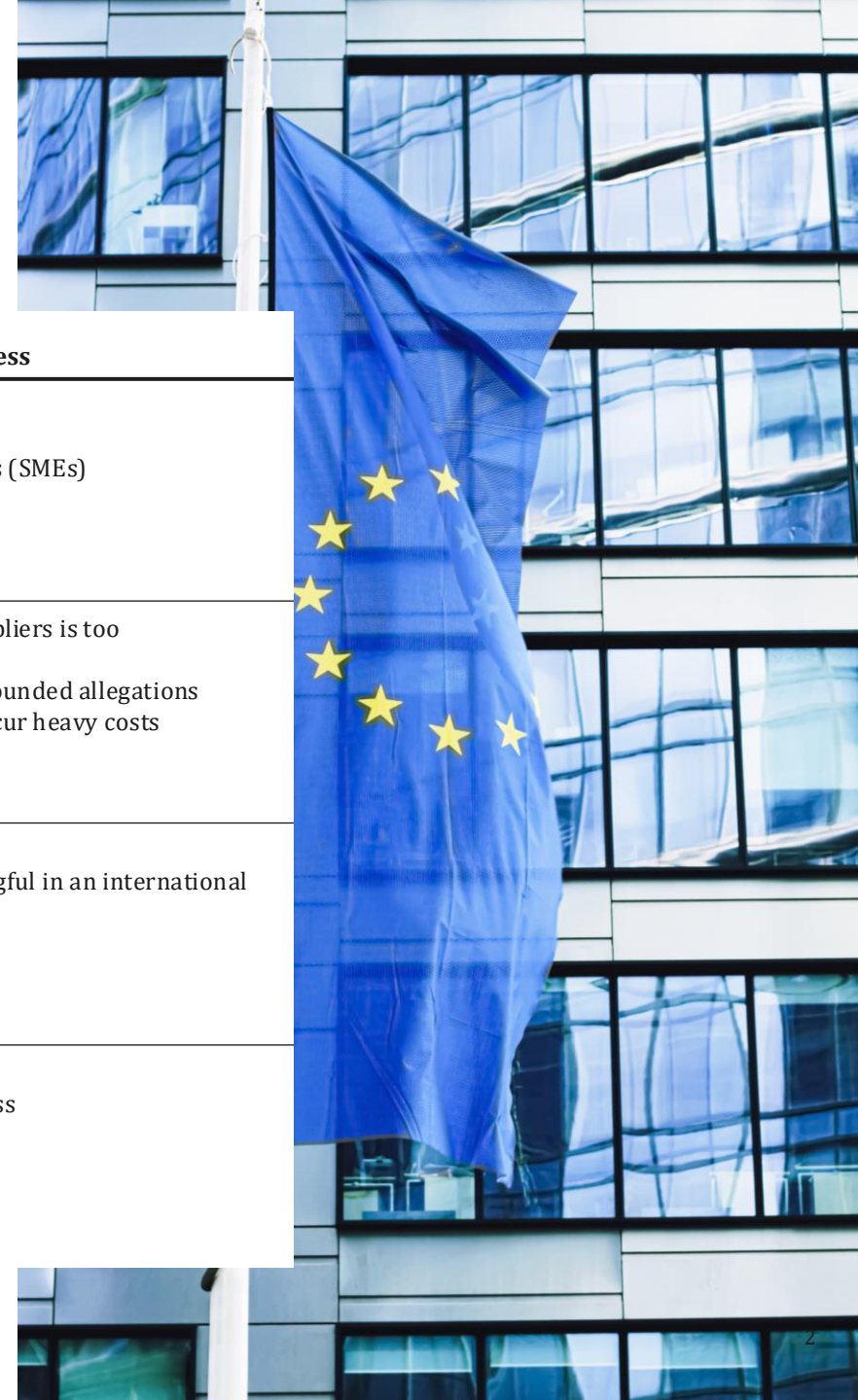
EU Omnibus: Preparing for upcoming changes to sustainability regulations

Sustainability is our business

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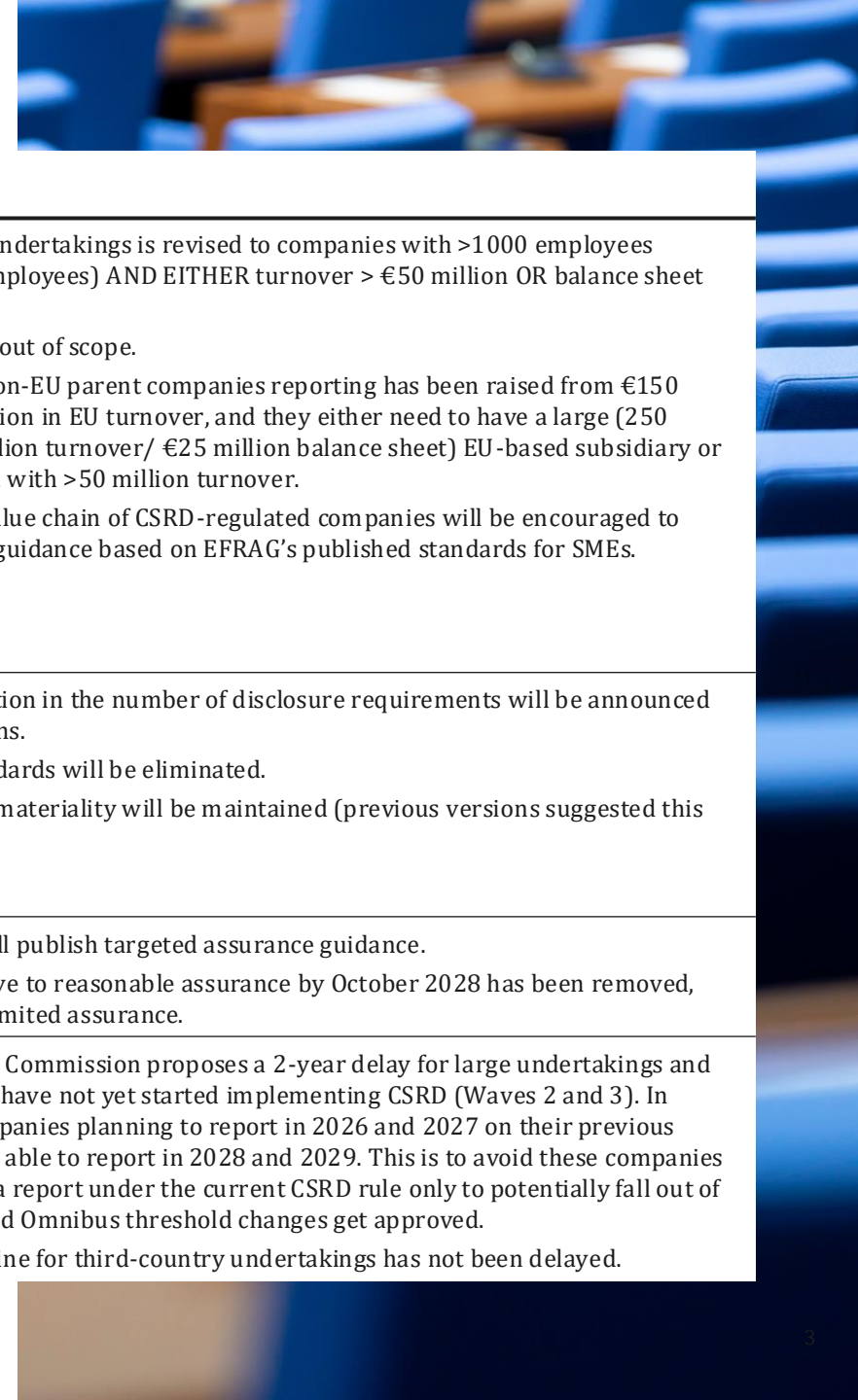


Overview of rules included in the Omnibus Proposal



Sustainability Rule	What the Rule mandates	Headline Issues that the Omnibus Aims to Address
Corporate Sustainability Reporting Directive (CSRD)	Requires in-scope companies to comprehensively report their sustainability impacts, risks, opportunities, and associated management strategies.	<ul style="list-style-type: none"> • Too many data points • Reporting guidance lacks clarity • Undue burden on small and medium enterprises (SMEs)
Corporate Sustainability Due Diligence Directive (CSDDD)	In-scope companies must identify and address adverse human rights and environmental impacts in their own operations, subsidiaries, and value chains; stakeholders can file complaints for alleged wrongdoing.	<ul style="list-style-type: none"> • Identifying and monitoring many upstream suppliers is too difficult and may not lead to change • Detractors may abuse the system and make unfounded allegations • Upstream small and medium companies may incur heavy costs when constantly audited
EU Taxonomy Regulation	Establishes common definitions of when economic activities are considered environmentally sustainable, with the aim to direct investment into these activities.	<ul style="list-style-type: none"> • Lack of financial materiality threshold • Alignment criteria too complex and less meaningful in an international context • Undue burden for SMEs
Carbon Border Adjustment Mechanism Regulation	Imposes a carbon price on imports of carbon-intensive goods, such as steel and cement, to prevent carbon leakage and ensure a level playing field for EU producers.	<ul style="list-style-type: none"> • Undue burden on small importers • Too complex and restricted authorization process • Undue verification burden

Overview of proposed changes to CSRD



Aspect	Current Approach	Change Proposed
Companies in scope	<p>Large undertakings that are also public interest entities (therefore previously subject to NFRD) have to report in 2025 on 2024 data.</p> <p>All large companies and legal entities in the EU that meet at least two out of three of the following must report in 2026 for 2025 data:</p> <ul style="list-style-type: none"> • More than 250 employees; and/or • More than €50 million turnover; and/or • Total assets of €25 million. <p>These companies are also responsible for assessing the information applicable to their subsidiaries. Also, listed small and medium enterprises with more than 10 employees, €900,000 turnover, €450,000 balance sheet (if they meet two of these three criteria).</p> <p>Third-country undertakings/parents: In scope, if they have >€150 million in turnover across the EU that have an EU-based subsidiary that is a large undertaking or a listed SME as per the above OR have an EU-based branch with >€40 million in turnover.</p>	<p>Definition of large undertakings is revised to companies with >1000 employees (raised from 250 employees) AND EITHER turnover > €50 million OR balance sheet >€25 million.</p> <p>Listed SMEs will be out of scope.</p> <p>The threshold for non-EU parent companies reporting has been raised from €150 million to €450 million in EU turnover, and they either need to have a large (250 employees/€50 million turnover/€25 million balance sheet) EU-based subsidiary or an EU-based branch with >50 million turnover.</p> <p>Companies in the value chain of CSRD-regulated companies will be encouraged to leverage voluntary guidance based on EFRAG's published standards for SMEs.</p>
Reporting scope and criteria	<p>The CSRD mandates that companies submit an annual sustainability report alongside their financial reporting to their member state. Reporting must comply with ESRS 1 and ESRS 2 guidelines.</p> <p>Companies must determine which of the ten topical disclosure standards across ESG criteria are material to their business by conducting a double materiality assessment. For each topic deemed material, companies must collect data and disclose all relevant data points within those standards.</p>	<p>A substantial reduction in the number of disclosure requirements will be announced in the coming months.</p> <p>Sector-specific standards will be eliminated.</p> <p>Principle of double materiality will be maintained (previous versions suggested this may go away).</p>
Assurance level	<p>Progressive assurance requirement, beginning with limited assurance and eventually moving to reasonable assurance by 2028.</p>	<p>The Commission will publish targeted assurance guidance.</p> <p>The proposal to move to reasonable assurance by October 2028 has been removed, keeping review to limited assurance.</p>
Timeline	<p>Companies currently subject to the NFRD will need to comply with CSRD requirements in 2025 for the financial year 2024, with others required to comply along a graduated timeline between 2025 and 2029, depending on their location, size, and scope of operation.</p> <p>Third-country undertakings with net turnover > €150 million in the EU (at least one subsidiary/branch exceeding certain reporting thresholds) to report in 2029 on 2028 data.</p>	<p>'Stop the clock': The Commission proposes a 2-year delay for large undertakings and for listed SMEs that have not yet started implementing CSRD (Waves 2 and 3). In effect, it means companies planning to report in 2026 and 2027 on their previous fiscal year would be able to report in 2028 and 2029. This is to avoid these companies starting to prepare a report under the current CSRD rule only to potentially fall out of scope if the proposed Omnibus threshold changes get approved.</p> <p>The reporting timeline for third-country undertakings has not been delayed.</p>

Overview of proposed changes to CSDDD

Aspect	Current Approach	Change Proposed
Companies in scope	<p>Group 1: EU companies with over 1,000 workers and over €450 million in turnover globally.</p> <p>Group 2: Third-country companies with over €450 million in turnover in the EU.</p> <p>Group 3: Franchised companies (EU and non-EU); franchised companies in the EU with over 1,000 workers, over €80 million in turnover, and €22.5 million in royalties.</p>	<p>No change in the proposed number of companies. Estimated to impact over 6,000 large firms with more than 1,000 workers and over €450 million in turnover in the EU.</p> <p>However, the bill removes the intention to introduce full due diligence requirements for financial undertakings in the near future.</p>
Assessment frequency	Annually	The frequency of assessing the effectiveness of the due diligence system is proposed to be reduced to every 5 years instead of annually.
Indirect suppliers	Companies will be required to conduct due diligence on both direct and indirect suppliers throughout the entire value chain (both upstream and downstream).	The requirement to scrutinize all indirect suppliers has been removed unless there is a clear indication of harm. Instead, companies can focus on their own operations, subsidiaries, and direct suppliers.
“Shield” for smaller suppliers	Companies will be required to map their own operations, those of their subsidiaries, and, where related to their chains of activities, those of their business partners in order to identify general areas where adverse impacts are most likely to occur and to be most severe.	Direct business partners with < 500 employees can’t be asked to provide information on sustainability performance beyond voluntary reporting standards to be adopted by the EU.
Guidance schedule	The guidance on due diligence for companies will be released in two batches, the first in 2026 and the second in 2027.	Companies will have access to guidance on due diligence in July 2026 to support preparedness for impact assessment and management.
Stakeholder definition	Stakeholders include any individuals, groups, or entities whose rights or interests could be affected by a company’s operations, products, or services.	Stakeholder engagement is limited to affected persons and their representatives. Only ‘relevant’ stakeholders need to be engaged in key due diligence steps.
Timeline	The transposition of CSDDD into national law will occur in 2026, and the first wave of companies that need to comply will be in 2027.	The transposition of CSDDD into national law is delayed until July 2027, and the first wave of companies that need to comply will be in July 2028.
Enforcement	Individuals, trade unions, and civil society organizations can submit civil liability claims for at least 5 years. Under these claims, they will have the right to full compensation where they have been adversely impacted by a company’s failure to meet specific requirements of the Directive.	To avoid a fragmented regulatory landscape, EU countries will not be allowed to go beyond the Directive on certain aspects of due diligence. However, the original harmonization of national liability regimes regarding penalties has been dropped.

Overview of proposed changes to the EU Taxonomy



Aspect	Current Approach	Change Proposed
Companies in scope	All companies within scope of CSRD (see CSRD table above).	All companies within scope of CSRD (over 1,000 employees) but with additional requirement of over €450 million in turnover.
Reporting scope and criteria	<p>Full-scope disclosure tables (one each for turnover, CapEx, and OpEx, plus separate tables for fossil fuel and nuclear exposure).</p> <p>No financial materiality threshold.</p> <p>Reporting on partial alignment is not impossible but is not done in practice.</p>	<p>The required disclosure tables will be reduced in complexity by about two-thirds for non-financial entities and even more for financial entities.</p> <p>Introduction of a reporting materiality threshold for OpEx, tied to eligible turnover being above 25% of total turnover.</p> <p>OpEx reporting fully voluntary for companies opting in to report on Taxonomy (i.e., below the €450 million turnover threshold).</p> <p>Reporting on partial alignment allowed and encouraged.</p> <p>Proposed changes to Do No Significant Harm criteria for Pollution Prevention and Control and announcement of further simplification of alignment criteria (details not yet known).</p>
Assurance level	Companies must follow the same assurance requirements they do for CSRD.	Companies must follow the same assurance requirements they do for CSRD.
Timeline	<p>The CSRD requires disclosure and assurance aligned with the EU Taxonomy's guidelines; as such, a company's EU Taxonomy timeline will match its CSRD disclosure timeline.</p> <p>Companies in scope are required to report their EU Taxonomy turnover, CapEx, and OpEx KPIs on an annual basis.</p>	<p>Companies affected by the two-year 'stop the clock' on CSRD would also not need to report on Taxonomy.</p> <p>Two-year suspension of certain KPIs for financial institutions and exclusion of companies no longer in scope of CSRD (as per suggested Omnibus changes) from the denominator in KPIs.</p>

Overview of proposed changes to CBAM



Aspect	Current Approach	Change Proposed
Thresholds	€150 per individual consignment of CBAM Goods.	Annual threshold of 50 tonnes of CBAM goods. The revised rules will cover 99% of emissions whilst exempting ~90% of importers.
Downstream processes in steel and aluminium	All processes between upstream production and importation must be accounted for and relevant emissions allocated to CBAM goods.	Downstream processing of steel no longer needs to account for its own emissions. Reporting will be based on upstream emissions and material consumed per tonne product produced.
Exemption of precursors produced in the EU	All relevant input materials are accounted for, and net carbon pricing is applied overall.	Because EU production already includes EU ETS pricing, these products would be attributed zero embedded emissions with origin and quantities tracked.
Default values and Benchmarks	Default values currently based on 10% worst performing installations in EU.	Defaults based on the average of 10 worst-performing countries, allowing sectoral expansion. Benchmark development aligned to Combined Nomenclature (CN) codes underway. Possible third-country default carbon prices.
Verification	All CBAM data will require verification.	Exemption of verification requirements for reporting using default values only.
Authorisation of declarants	CBAM declarants are importers or indirect customs representatives only.	Introduction of a new post of “CBAM Representative” appointed by the declarant. Like an EU ETS consultant, allowed to carry out technical and reporting functions on behalf of importer (who retains responsibility).
Reporting deadlines	Report submission and certificate surrender by 31st May each year.	Closer alignment to EU ETS with reporting and surrender by 31st August each year.
CBAM registry access		Accredited Verifiers to be given access to the CBAM registry to ease the verification process and provide access to verification reports.
CBAM certificate purchases	Mandatory holding of certificates for 80% of total embedded emissions imported that year by the end of each quarter. Certificate purchases starting from Q1 2026.	Reduction to 50% holding requirements and removal of repurchase limit for unused certificates. Purchases to start from 2027, for surrender against embedded emissions reported in 2026.



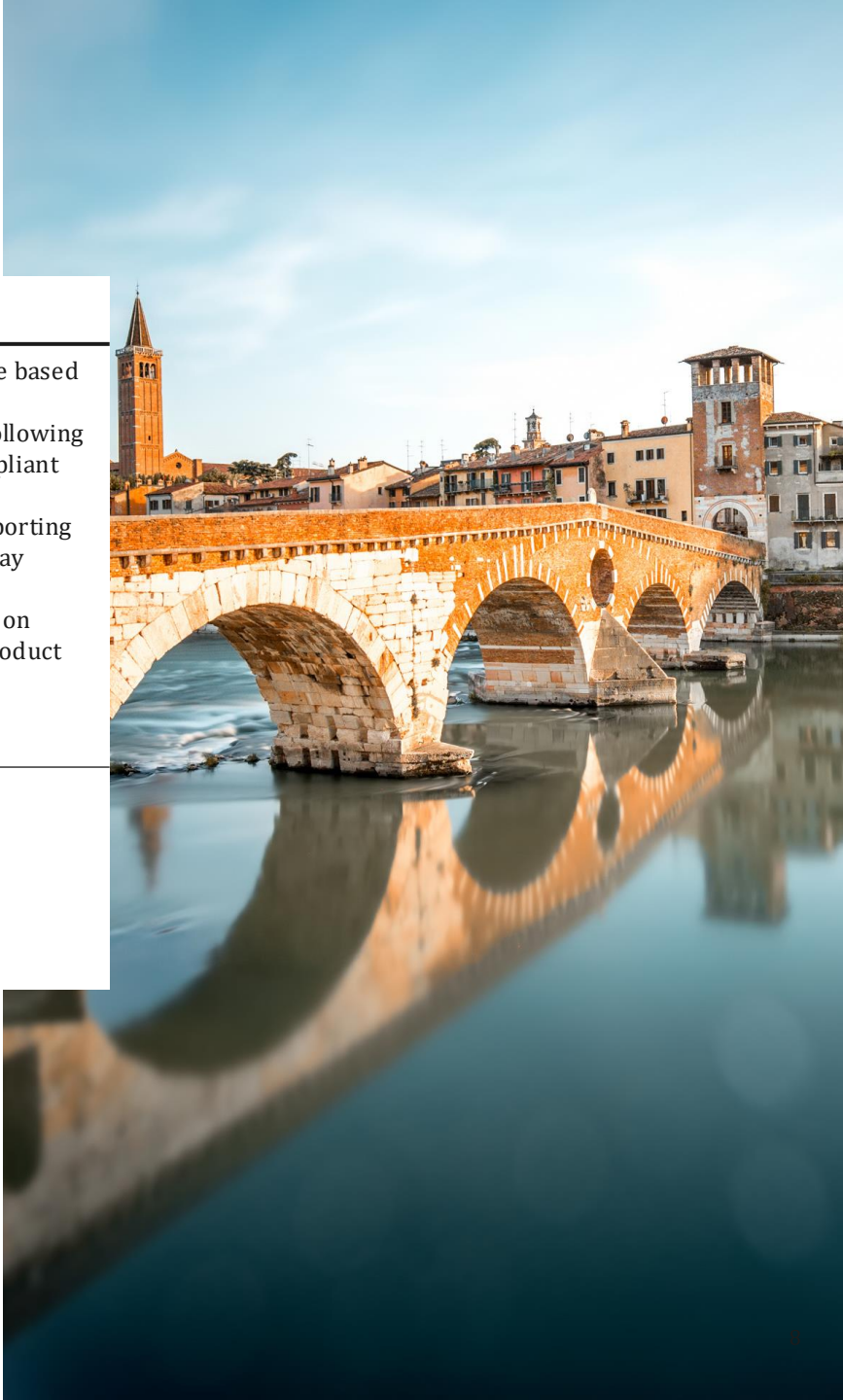
Recommendations regarding CSRD and EU Taxonomy

Wave	ERM's recommendations to clients
All Waves	Revisit the scoping exercise according to newly proposed thresholds considering legal entities, geographies, etc.
<p><u>Wave 1</u> Large EU companies formerly covered by NFRD (was 2025, stays 2025)</p>	<p>Continue reporting as the 'stop-the-clock' proposal does not affect Wave 1 companies, in particular:</p> <ul style="list-style-type: none"> • Continue CSRD implementation with a focus on quantitative data as these are likely to undergo fewer changes than qualitative data when the Omnibus takes effect (EU Omnibus aims to cut the reporting burden by 25 percent). • Monitor the development of the Delegated Act revising ESRS guidance, which will potentially take effect in 2026 or later. For now, continue reporting according to current ESRS standards. • Monitor how alignment criteria will be revised in the EU Taxonomy Climate and Environmental Delegated Acts. • Continue EU Taxonomy reporting. Internally, keep using alignment criteria as a sustainability performance checklist for sizeable eligible activities. Explore the new partial alignment option suggested in the EU Omnibus and how it might help you sharpen your transition narrative. Prepare for implementation of materiality thresholds. <p>If a company is below updated thresholds (500-1000 employees):</p> <ul style="list-style-type: none"> • Review your future reporting approach, taking into account the company's growth trajectory and impacts on thresholds, the option to switch to voluntary reporting under the simplified SME standards (see Wave 3), as well as the efforts made to date on reporting infrastructure and data availability improvements. Some companies might find it valuable to continue reporting under the current standards, even if they might fall out of scope.
<p><u>Wave 2</u> Large EU Companies not covered by NFRD and EU Subsidiaries and branches of third-country undertakings (was 2026, would be 2028 / potentially out of scope)</p>	<p>Closely monitor fast-track procedure with two-year postponement:</p> <ul style="list-style-type: none"> • If above threshold, continue with CSRD implementation and focus on 'no-regret' actions: double materiality assessment, operating model, data strategy and digitalization, operationalization of priority Impacts, Risks, and Opportunities (IROs). Leverage additional time to test and develop a robust approach focused on data management and business improvement. • If above CSRD threshold and >€450 million turnover, continue preparing for EU Taxonomy reporting. If not, companies with significant shares of eligible turnover should report according to the EU Taxonomy, whether mandatory or not, and leverage alignment criteria to boost sustainable activities and capital market attractiveness. If eligibility for turnover and major CapEx projects is limited, do not report eventually. • Consider the risk of the 'stop-the-clock' proposal – postponing CSRD compliance by two years – not being approved within 10 months. This would mean Wave 2 companies must start reporting according to the existing CSRD over the fiscal year 2025. Since this risk is substantial, Wave 2 companies should keep preparing for reporting over fiscal year 2025. • If below the thresholds, companies should at least aim to maintain a robust level of voluntary reporting (see Wave 3), especially if many of their B2B customers or investors demand it.



Recommendations regarding CSRD and EU Taxonomy continued

Wave	ERM's recommendations to clients
<p><u>Wave 3</u> Listed Small and Medium Sized Enterprises (was 2027, would be 2029 / most likely out of scope)</p>	<ul style="list-style-type: none"> • Closely monitor the regulatory process and track the development of standards for voluntary use, which will be based on the Voluntary Standard for SME Sustainability Reporting (VSME). • Consider the most appropriate voluntary reporting based on investor and broader stakeholder expectations, following (revised) VSME guidance. Voluntary reporting will be more critical if positioning as supply chain of CSRD-compliant company. • Perform high-level Taxonomy eligibility assessment focusing on turnover to ascertain the strategic value of reporting and attaining alignment. Base opt-in decision on this assessment. When reporting, make use of additional leeway provided for omitting OpEx KPI disclosure. • Focus on value creation and supply chain resilience by operationalizing sustainability, improving performance on priority topics (KPIs), and embedding approaches to mitigating ESG risks and leveraging opportunities (e.g., product sustainability, circularity, and associated transparency and sustainability / strategic communication).
<p><u>Wave 4</u> Non-EU HQ company (was 2029, stays 2029)</p>	<ul style="list-style-type: none"> • Review turnover criteria (as now >€450 million turnover across EU instead of >€150 million). • If above threshold continue CSRD and EU Taxonomy implementation. • If below threshold, consider the most appropriate voluntary reporting based on stakeholder expectations.



CSRD reporting for companies headquartered outside the EU

Step 1

Assess whether the parent company has EU subsidiaries that fall into the scope of proposed new CSRD thresholds as a large undertaking (Wave 2).

- Do they meet the threshold of 1,000 employees in that entity (or group of entities if it is the EU-based parent of a group)?
- If yes, does that entity or group have €50 million turnover OR €25 million balance sheet threshold?
- If yes, the ENTITY has a reporting obligation in 2028 (for the 2027 fiscal year).
- If no, to one or both, the ENTITY does not have a reporting obligation.

Step 2

Assess if a non-EU parent company falls in scope for reporting under CSRD (Wave 4).

- Does the parent company generate more than €450 million in EU turnover?
- If no, the PARENT has no reporting obligation, but if it has an EU subsidiary in scope of CSRD, that ENTITY still does.
- If yes, does the parent have at least one large EU subsidiary - defined as an entity with two out of three criteria: 250 employees, a €50 million in turnover, or €25 million on the balance sheet - or an EU branch generating €50 million in turnover?
- If yes, the PARENT has a reporting obligation in 2029 (for the 2028 fiscal year). If the ENTITY is also in the scope of CSRD, both need to report. The ENTITY may, however, be exempted from its reporting obligation if the PARENT prepares a consolidated report.
- If no, the PARENT has no reporting obligation.

Since the Omnibus delays Wave 2 until 2028, but Wave 4 is still slated for 2029, non-EU parent companies may want to reconsider their reporting approach in this scenario. Suppose both the parent and EU subsidiaries are in scope. In that case, it may be expedient to begin reporting at the parent level in 2028 to fulfill both obligations rather than report for the EU in the first year and then pivot to the enterprise-level for year two.



Recommendations regarding CSDDD

ERM's recommendations to clients

Large EU (>1000 employees and more than €450 million turnover globally) and non-EU companies (>€450 million turnover in the EU)

- Many of the requirements in CSDDD are already law in certain countries and have been part of voluntary standards for many years. Because scrutiny will increase, the environmental and human rights due diligence will continue to mature.
- Set up a core team to drive change management as needed; ensure inter-functional participation (HR, sustainability, procurement, legal, finance).
- Invest time in understanding the foundational standards behind the EU Omnibus directive and their intent, e.g., the UN Guiding Principles on Business and Human Rights.
- Conduct a gap and opportunity assessment to strengthen impact management of environmental, health and safety, labor, and community issues with a human rights lens in own operations and subsidiaries.
- Embed potential involvement in environmental and human rights harms and its consequences in enterprise risk management.
- Find efficiencies in value chain due diligence given the focus of risk mapping on Tier 1 suppliers, instead of the entire value chain.
- For indirect suppliers, ensure you have access to objective information from credible sources regarding high-risk commodities, industries, and local contexts in order to be proactive in avoiding and addressing harm and reducing legal liability risks in the future.
- Assess the practical implications of the new restrictions on information requests for suppliers with < 500 employees. For smaller direct and indirect suppliers, companies will need to rely on available voluntary reporting and additional research to identify and address risks and harms.
- Strengthen current corporate and asset-level grievance mechanisms or ethics hotlines to ensure you can address issues effectively.
- Focus your engagement on relevant stakeholders (i.e., affected workers, communities, individuals, and their legitimate representatives), but consider broader engagement to manage reputational risks and social acceptance.
- Connect the dots between climate, nature, and human rights – e.g., in Climate Transition Planning.
- Consider using key industry associations for collective solutions on supply-chain due diligence.

Small direct suppliers (<500 employees)

- Although the amended CSDDD lifts the burden on small direct suppliers to give companies in scope of the CSDDD bespoke information if they request it, continued adherence to robust voluntary reporting standards is crucial. Mandatory regulation may have ended for them, but most large firms that want to do business will still expect transparency and accountability.

Indirect suppliers

- The same is true for indirect suppliers. Companies in scope of CSDDD will still have an obligation to conduct in-depth assessments when plausible information of harm exists. Adhering to robust voluntary reporting standards is the best protection to avoid disruption of business.

Recommendations regarding CBAM

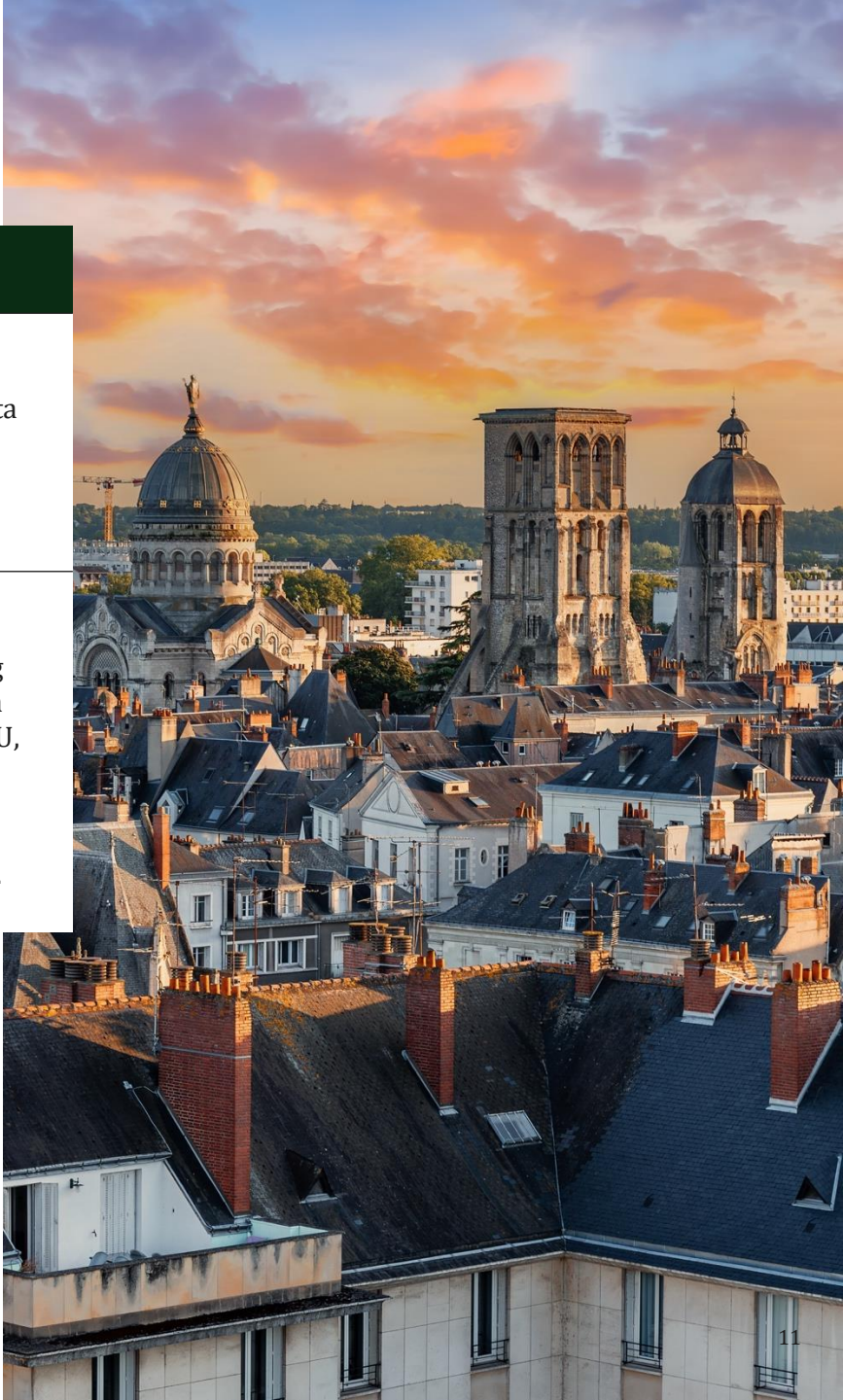
ERM's recommendations to clients

2026 compliance actions

- Ensure you or your customs representative acting as CBAM Declarant have completed the necessary registration to allow your continued imports.
- The same applies to non-EU installations, ensuring that when the time comes, you can enter your data into the EU's data portal for your customers.
- Continue to understand your supply chain and document any failed attempts to obtain detailed data from upstream installations.

Long-term strategic view

- Developing supply chain intelligence and data will help avoid the need to use default values for reporting. These default values may change prior to the definitive phase but will remain punitive.
- A better understanding of your supply chain will also allow better management and decision-making concerning possible CBAM exposure. This could include identifying suppliers with more mature data management, lower emissions technologies, and identifying materials ultimately sourced from the EU, which may not attract any additional carbon pricing.
- Continue to monitor the legislative developments, particularly in areas such as verification requirements, benchmarks, and defaults.
- Develop a forward-looking analysis of potential CBAM certificate holding requirements and costings.



Steps from directive proposal to national law

1

Commission Proposal:

- The European Commission drafts and publishes a legislative proposal.
- It is sent to the European Parliament and the Council of the EU.

2

First Reading:

- Parliament Review: The European Parliament examines the proposal and may adopt it as is or with amendments.
- Council Review: The Council reviews the Parliament's position and may accept it or propose changes.

3

Negotiations:

- The Commission, Parliament, and Council negotiate to resolve any differences in their positions.

4

Second Reading:

- Parliament Review: The Parliament reviews the Council's position and may accept it, reject it, or propose further amendments.
- Council Review: The Council reviews any new amendments from the Parliament.

5

Conciliation:

- If the Parliament and Council cannot agree, a Conciliation Committee is formed to negotiate a joint text.

6

Third Reading:

- Parliament Approval: The Parliament votes on the final text.
- Council Approval: The Council also votes on the final text.

7

Adoption & Implementation:

- Directive Published: The agreed text is published in the Official Journal of the EU.
- Transposition into National Law: Member states must transpose the directive into their national laws within a specified timeframe.

Thank you

