

For an effective regulatory framework on sustainable finance: the position of ECCO and the Italian Sustainable Investment Forum on the Omnibus Package

ECCO – The Italian Climate Change Think Tank

Italian Sustainable Investment Forum (ItaSIF)

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Executive summary

To achieve the objectives set out in the [Competitiveness Compass](#), the European Commission has proposed, through the Omnibus I legislative package, a series of amendments to three fundamental pillars of the EU sustainable finance framework: **the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Taxonomy on sustainable activities**. The stated aim is to simplify regulatory obligations and alleviate administrative burdens for undertakings. Nevertheless, these proposals have raised substantial concerns regarding the potential dilution of the EU's overarching sustainability regulatory architecture.

For financial market participants, sustainability-related information constitutes not merely a compliance obligation but a critical input for the accurate assessment of risks, the efficient allocation of capital and the preservation of financial stability. Access to reliable, comparable and granular data enables the effective integration of environmental, social and governance (ESG) factors into risk assessment frameworks, investment decision-making processes and portfolio management strategies. In a context where supervisory authorities and central banks increasingly rely on harmonised datasets to monitor systemic risks, any fragmentation of the regulatory framework or narrowing of reporting requirements would represent a regressive step. Furthermore, enterprises that embrace transparency and sustainable business models tend to exhibit greater resilience to external shocks, attract long-term investment more effectively and are better positioned to capitalise on the opportunities presented by the green transition.

Sustainability and competitiveness are not mutually exclusive objectives; on the contrary, well-crafted regulation can enhance both, fostering a more efficient, transparent and resilient market over the long-term. Weakening these regulatory instruments risks undermining the availability of critical data necessary for the proper functioning of financial markets, increasing uncertainty for investors and disadvantaging the very companies actively investing in the transition. Conversely, a targeted and proportionate revision of the regulatory framework can strike an appropriate balance between streamlining compliance obligations and preserving the integrity and reliability of the information ecosystem.

Furthermore, introducing changes to regulatory frameworks that are either still in the implementation phase or not yet entirely in force could generate additional market uncertainty and foster a wait-and-see attitude among financial market participants and businesses. This, in turn, could delay investment flows and strategic decision-making as stakeholders await greater regulatory clarity. Such an approach risks undermining the European Union's competitiveness

agenda, impeding innovation and compromising the EU's credibility and leadership as a global standard-setter in the sustainable transition. Reversing regulatory frameworks developed over several years through inclusive, evidence-based processes, and with substantial resource investments by both EU institutions and Member States, could also lead to reputational damage and a loss of institutional trust.

In this context, ECCO – the Italian Climate Change Think Tank – and the Italian Sustainable Investment Forum (ItaSIF) have developed a set of strategic policy recommendations. By the end of June, political groups in the European Parliament are expected to submit their proposed amendments to the draft report prepared by Rapporteur Jörgen Warborn. Such amendments must pursue the objective of streamlining the regulatory architecture for sustainable finance, while safeguarding its coherence, robustness and effectiveness.

The main recommendations are summarised as follows:

Corporate Sustainability Reporting Directive (CSRD)

- Maintain a broad scope of application, requiring sustainability disclosures from large undertakings with more than 500 employees, under the current European Sustainability Reporting Standards (ESRS), and from mid-cap companies (250–500 employees) through a simplified but robust set of reporting standards.
- Restrict the use of the Voluntary Standard for Small and Medium Enterprises (VSME) to companies with fewer than 250 employees. Develop an intermediate reporting framework tailored to mid-cap companies, aligned with ESRS principles and materiality criteria.
- Reintroduce sector-specific sustainability standards, not as mandatory obligations but as technical reference guidelines, to facilitate the identification of material issues, enhance reporting quality, and improve the relevance and comparability of sustainability disclosures.
- Eliminate the “value chain cap” that restricts the information financial entities can request from investee, financed or insured companies. Clarify that material information relevant to financial decision-making should also be accessible for companies under voluntary reporting standards (VSME).

EU Taxonomy

- Broaden the scope of entities subject to taxonomy-aligned disclosure, in line with CSRD provisions, by progressively lowering size thresholds to include companies with over 250 employees.
- Lower the materiality threshold to 5% and adopt absolute, rather than relative, metrics to ensure that larger companies are not exempt from disclosure obligations.
- Revise the KPIs for financial institutions to ensure consistency between the numerator and denominator, allowing for the inclusion of voluntary data from companies outside the scope of the CSRD.

Corporate Sustainability Due Diligence Directive (CSDDD)

- Reintroduce the requirement to implement climate transition plans.
- Ensure a risk-based due diligence approach that goes beyond Tier 1 suppliers and considers potential severe negative impacts across the entire value chain.
- Restore a harmonised civil liability framework at the EU level to provide legal certainty for companies and ensure uniform enforcement across Member States.
- Enhance support mechanisms for SMEs by mandating that large companies offer capacity-building measures, including training, technical assistance and financial support to their smaller business partners.

For over 20 years, the Italian Sustainable Investment Forum (ItaSIF) has been promoting the integration of ESG criteria into financial products and processes. ItaSIF pursues its mission through a multi-stakeholder approach: participation is open not only to financial sector actors but to all entities affected by the environmental and social impacts of financial activities. Today, the Association has over 170 members.

ECCO is a non-profit organisation legally registered in Italy as a Foundation. It was founded in 2021 as an independent think tank. ECCO is supported exclusively by philanthropic and public resources – disentangled from private interests – and works in the public interest to accelerate climate action. ECCO develops and promotes political strategies, policy proposals and technical analyses based on facts and science, which are aimed at identifying and mainstreaming solutions and narratives that build consensus for inclusive, effective and timely climate action.

Introduction

In recent months, the European Commission has introduced a series of legislative proposals – presented within several [Omnibus](#) packages – aimed at enhancing the EU's competitiveness while simultaneously reducing administrative burdens on businesses. The first Omnibus package affects several key components of the EU's sustainable finance regulatory framework: the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD)¹ and the [EU Taxonomy](#)².

While affirming continuity with the objectives of the Green Deal, the initiative raises concerns about a potential weakening of the existing regulatory framework. The primary concern relates to a possible reduction in the availability and quality of sustainability-related data, which constitute indispensable inputs for financial market participants. Such data is critical not only for identifying and managing environmental and social risks embedded in investment, financing and insurance activities, but also for the effective allocation of financial flows and the preservation of financial stability over the medium to long-term.

For banks, insurers, investors and other financial market participants, the integration of environmental, social and governance (ESG) criteria into decision-making processes is fundamental³: both market dynamics and regulatory supervisory bodies recognise ESG risks as economically and financially material. **CSRD, CSDDD and EU Taxonomy are not mere procedural requirements; rather, they provide critical frameworks and data essential for the analysis, management and mitigation of physical and transition risks associated with climate change. These regulatory instruments underpin the formulation of investment, financing and insurance strategies, facilitating the mobilisation of capital towards a more sustainable and competitive European economy.** In a context where financial operators are progressively incorporating climate-related risks into their assessment frameworks, any weakening of these regulatory instruments would compromise the market's capacity to allocate capital efficiently. This would, in turn, disproportionately disadvantage the most proactive and sustainable companies that are already committed to the transition.

With the deadline for political groups in the European Parliament to submit amendments approaching at the end of June, the Italian Sustainable Investment Forum and ECCO – the Italian Climate Change Think Tank have formulated a comprehensive set of recommendations.

Corporate Sustainability Reporting Directive - CSRD

¹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on Corporate Sustainability Due Diligence

² Regulation (EU) 2020/852 establishing a framework to facilitate sustainable investments

³ Sustainability is increasingly central to decision-making processes within both the business sector and civil society, not only because it represents the only viable pathway to long-term prosperity but also due to its fundamental economic rationale. Data cited in the [Istat Report](#) clearly show that Italian companies embracing sustainability improve both productivity and competitiveness. In particular, according to [ASVIS](#) estimates, among companies investing in environmental sustainability, manufacturing firms with a "high" sustainability profile (7.1% of the total) experience an additional growth in added value of 16.7% compared to non-sustainable firms. Furthermore, 92% of family-owned businesses and 89% of non-family businesses report benefits from integrating sustainability; for this reason, sustainability is one of the top priorities for companies moving forward.

For financial operators, the availability of comprehensive, reliable and comparable ESG data is indispensable for accurately assessing exposure to physical and transition risks, safeguarding financial stability and reallocating capital towards sustainable activities. The CSRD was introduced to supersede the previous regulatory framework (the Non-Financial Reporting Directive (NFRD), adopted in 2013 and implemented in Italy in 2016) which was deemed inadequate to meet investors' increasing demand for high-quality ESG data, to mobilise financing for the sustainable transition, and thereby to fulfil the objectives of the European Green Deal.

Accordingly, the Directive enacted in 2022 mandates an expansive scope of application, obliging a broad spectrum of companies to disclose information in accordance with harmonised reporting standards (the European Sustainability Reporting Standards – [ESRS](#)) designed to ensure the comparability and reliability of ESG information.

As such, the CSRD constitutes the cornerstone of the European corporate transparency framework concerning environmental and social risks. However, the legislative proposals presented by the European Commission within the “Omnibus I” package risk undermining the consistency and overall quality of the dataset, which is essential for market participants to effectively identify and manage ESG risks that are economically and financially material.

In particular, the Commission has proposed:

- **New size thresholds for mandatory reporting**, limiting the reporting obligation to companies with **more than 1,000 employees** that also meet at least one of the following financial criteria: €25 million in total assets or €50 million in annual turnover (reducing the number of [affected companies in Italy](#) from over 10,000 to approximately 1,300).
- Introduction of a voluntary reporting regime for companies with fewer than 1,000 employees, utilising the voluntary SME standards (VSME standards) developed by the European Financial Reporting Advisory Group (EFRAG).
- A **cap** on the information that companies and financial operators can request from clients or suppliers not subject to the CSRD: only data already covered by the VSME standards can be requested.
- Elimination of **sector-specific reporting standards**, whose formal publication has already been deferred to 2026.
- **Simplification** of reporting requirements, entailing a reduction of requested data and a prioritisation of **quantitative** disclosures over qualitative information.
- Removal of the clause providing for the transition from **limited assurance** to **reasonable assurance** on the sustainability reports.

While the Commission intends these measures to reduce administrative burdens for businesses, the narrowing of the CSRD's scope and the drastic simplification of the ESRS raise concerns about the impact on the availability, comparability, quality and transparency of ESG data. In the absence of mandatory reporting obligations, even if market dynamics incentivise mid-sized enterprises and listed SMEs to disclose sustainability information, the resulting data may remain inadequate and lack the necessary comparability. Similarly, the deferral of specific regulatory measures and the removal of the clause on reasonable assurance could undermine the overall reliability of the reported information. **Regulatory uncertainty related to these proposals represents a critical**

challenge: numerous companies have either already planned or are actively considering substantial investments to comply with the CSRD framework. The prospect of a retrenchment or fundamental shift in regulatory direction risks causing decision-making paralysis, thereby slowing the adoption of data collection systems, internal process reviews and governance model adjustments.

Furthermore, the sector-specific ESRS were initially designed to assist companies and financial market participants by concentrating materiality assessments and disclosure requirements on the most pertinent aspects of the business transition within defined sectors.

In recent weeks, various stakeholders have expressed alignment with this analysis.

[The European Banking Authority \(EBA\)](#) has acknowledged recent progress in the availability of ESG data; however, it notes that the current data landscape remains fragmented and inadequate to meet the growing needs of financial operators. A further narrowing of the CSRD's scope risks exacerbating this gap, particularly by reducing data availability from mid-cap companies and listed SMEs. Such disclosures are essential for banks and insurers, which, under prudential regulatory frameworks, are required to evaluate and manage ESG risks within their portfolios, even when counterparties are not subject to mandatory reporting obligations.

[The European Central Bank \(ECB\)](#) has similarly emphasised the critical importance of a well-calibrated and proportionate sustainability reporting framework for the effective identification, monitoring and management of sustainability-related financial risks. In particular, the ECB has emphasised that access to reliable, comparable and high-quality ESG data is a necessary precondition for informed credit allocation and investment decisions. Without such data, financial institutions risk making decisions based on incomplete or inconsistent information, thereby increasing the potential for systemic financial instability. These data are not only vital for investors but also for banks, supervisory authorities and central banks in fulfilling their mandates to preserve financial stability, ensure the soundness of the financial system and calibrate monetary policy effectively.

In this regard, the ECB has explicitly cautioned against any excessive narrowing of the CSRD's scope and advocates for maintaining a broad and representative reporting base. It further underscores the need to preserve the granularity of the ESRS, with particular emphasis on ESRS E1 (climate change) and ESRS E4 (biodiversity and ecosystems), which are vital for assessing credit exposure to physical and transition risks.

[PensionEurope](#), the association representing the European pension fund industry, has also stressed that an overly narrow scope of application could expose investors to greater risks by reducing the transparency of investee companies and hindering informed investment decisions. The association explicitly highlights the implications for private equity: a rapidly expanding asset class that plays a pivotal role in advancing responsible investment practices and for which access to high-quality ESG data is indispensable.

In a context where central banks, prudential supervisory authorities and monetary policies are increasingly demanding harmonised sustainability information, it is crucial to avoid fragmentation in reporting requirements. Instead, enhanced alignment and interoperability among regulatory

frameworks would help reduce compliance burdens for reporting companies while safeguarding the granularity of data required for robust risk assessments and for the efficient mobilisation of finance to support the green transition.

Recommendations

To ensure that the simplification measures proposed by the European Commission do not compromise the financial system's capacity to accurately evaluate and manage ESG risks, as well as to channel private capital toward sustainable economic activities, it is necessary to reassess key elements of the legislative proposal.

1. Scope of application

To strike an appropriate balance between regulatory simplification and the availability of ESG data for financial market participants, the revision of the CSRD's scope of application should adopt a tiered approach. A single threshold of 1,000 employees, as proposed in the Omnibus I package, would be too high and risks excluding precisely those companies that play a strategic role in industrial value chains and investors' portfolios from the CSRD framework.

Under Directive (EU) 2013/34/EU on annual financial statements, undertakings with more than 250 employees are already classified as large. To ensure the continued availability of material ESG information—particularly from mid-cap companies—while mitigating reporting burdens for smaller entities and avoiding informational discontinuities along value chains, it would be appropriate to establish an **intermediate category of “small mid-caps.”** This category, encompassing companies with **between 250 and 500 employees, could be subject to proportionate and streamlined reporting requirements**, including a reduced set of sectors or risk-relevant datapoints, the option to make certain disclosures voluntary and a phased implementation of requirements based on company size or impact. For **companies with more than 500 employees, full compliance with the ESRS** should be maintained, in alignment with the threshold previously established under the NFRD.

2. VSME standards and sector-specific standards

The use of the **VSME standard** by companies with more than 250 employees raises significant concerns. Designed explicitly for micro and small undertakings, the VSME standard lacks the necessary conceptual alignment with the ESRS and is insufficient for addressing the information requirements of financial market participants⁴. Should its scope of application be expanded, the standard would require substantial revision and enhancement, particularly in terms of content, granularity and reporting guidance. A more effective approach would be to restrict the VSME standard to its intended target group (companies with fewer than 250 employees) while developing

⁴ As also emphasized by [Eurosif](#) in its recommendations, the VSME standard was developed for small enterprises with fewer than 250 employees, serving as a simplified reporting tool based on a questionnaire-style format. However, its structure differs significantly from the ESRS: it lacks a clear distinction between risks and impacts, as well as between the various ESG topics. Another critical issue is the absence of an external assurance requirement, which makes the data collected through the VSME less reliable. In contrast, the ESRS are built on the principle of double materiality and are aligned with both the ISSB climate standards and the GRI framework—features that are not reflected in the VSME.

a distinct set of proportionate reporting standards for mid-cap companies (see Recommendation 1).

Furthermore, the cancellation of **sector-specific standards** represents a missed opportunity to enhance the relevance and comparability of sustainability data. To mitigate this, the technical work already undertaken by EFRAG could be leveraged by reframing sector-specific standards as non-binding technical guidance. Such tools would support undertakings in conducting sector-sensitive materiality assessments, thereby enhancing focus on sectoral sustainability risks and opportunities (e.g., in the textile, transport, financial, agri-food and oil & gas sectors), without imposing new mandatory obligations.

3. Value chain cap

The introduction of a regulatory limit (“value chain cap”), which would limit the extent to which undertakings and financial market participants may request sustainability-related information from entities not falling within the scope of the CSRD, risks weakening the entire sustainability disclosure system. If financial operators are unable to access material data across the value chain, their ability to conduct accurate assessments is reduced, negatively impacting financing for SMEs and the implementation of the Industrial Green Deal. In addition, such a cap would not eliminate the likelihood of uncoordinated, duplicative and inconsistent data requests from private actors. On the contrary, it may increase reliance on third-party data providers, thereby raising serious concerns regarding data reliability, transparency, interoperability and cost-efficiency.

It is therefore recommended to introduce a targeted exemption for investors and financial institutions, allowing them to request economically and financially material sustainability information regardless of whether the data originates from entities inside or outside the formal CSRD reporting perimeter.

EU Taxonomy for sustainable activities

The EU Taxonomy is a key component of the European regulatory framework on sustainable finance, serving as a fundamental tool for financial operators to align their investment, financing and insurance strategies with the EU’s climate and environmental goals. The need for shared classification systems was one of the cornerstones of the Action Plan on Financing Sustainable Growth and remains central today. Taxonomy is the only instrument within the sustainable finance regulatory architecture that provides clear, science-based criteria to identify which activities can be considered environmentally sustainable, thereby minimising ambiguity. As confirmed by the Platform on Sustainable Finance (PSF), which reported a [34% increase in taxonomy-aligned capital expenditures](#) (CapEx), this tool is becoming increasingly important, particularly in assessing the transition pathways of financial and non-financial companies toward the EU’s climate and environmental goals. The first four years of implementation of the EU Taxonomy Regulation have clearly demonstrated the need for significant simplification and streamlining of its application framework to fully achieve its intended objectives, namely, to curb greenwashing, facilitate credible and comparable disclosures, and steer capital flows toward climate-resilient, environmentally sustainable and socially inclusive economic activities.

The Commission's proposal in this area includes:

- limiting taxonomy reporting obligations to the largest companies (with over 1,000 employees and revenue exceeding €450 million), though voluntary reporting would still be allowed;
- introducing a 10% financial materiality threshold for taxonomy reporting and simplifying templates by 70%;
- allowing the reporting of partially aligned activities with the EU Taxonomy to support their transition pathways and boost transition finance;
- exempting economic activities that are not financially material to the business from the eligibility and alignment assessment (e.g., those accounting for less than 10% of total revenue, CapEx, or total assets);
- simplifying the “Do No Significant Harm” (DNSH) criterion⁵;
- for banks, excluding from the Green Asset Ratio (GAR) denominator⁶ exposures to companies that will no longer fall under the future CSRD scope.

Recommendations

Some of the proposals put forward by the European Commission hold significant potential to facilitate the mobilisation of capital in support of the EU's ecological transition objectives. In particular, the possibility to report on partially aligned activities could have a positive impact by incentivising transition finance, enabling the monitoring of economic performance over time. Similarly, the clarifications on the application of the DNSH principle address long-standing calls from market participants for greater regulatory clarity and simplification.

Nevertheless, some aspects of the reform package (particularly the narrowing of the reporting scope and the exclusion of specific economic sectors or activities from Taxonomy eligibility and alignment assessments) pose significant risks to the availability and comparability of environmental sustainability data, both in relation to economic activities and investments. To mitigate these risks, it is essential to address specific aspects of the proposal by integrating measures that enhance the availability of digital reporting tools⁷ and the use of standard estimates and proxies⁸.

⁵Specifically, the Commission has proposed introducing simplifications for the most complex applications of the DNSH criterion, particularly those relating to pollution prevention and control linked to the use and presence of chemicals, which apply horizontally across all economic sectors in the Taxonomy.

⁶ A KPI that measures the ratio between credit assets financing activities aligned with the EU Taxonomy (numerator) and total activities in the balance sheet (denominator).

⁷ Among other things, there is a need to increase the availability of automated tools and AI-based calculators. Furthermore, it is essential to ensure the timely implementation of the European Single Access Point (ESAP), strengthening national data collection hubs for efficient and standardised data gathering. The current Taxonomy Calculator must also be reviewed to make it fully operational and usable.

⁸ The use of common estimates and proxies should be allowed, provided they are accompanied by transparent methodologies and comply with minimum standards, with a review clause every five years in line with the Platform on Sustainable Finance (PSF) recommendations. Methods for using these tools should be regularly updated in accordance with the evolving disclosure regimes in non-EU countries and market data developments. It is also recommended to introduce safe harbour clauses for entities using estimates and proxies compliant with the standards, to exempt them from specific liabilities, including those related to audits.

1. Scope of application

It is recommended that the scope of entities subject to disclosure obligations be expanded by aligning it with the perimeter established under the Corporate Sustainability Reporting Directive (CSRD). This entails lowering the size threshold and including companies with more than 250 employees among those required to disclose information on the alignment of their economic activities with the EU Taxonomy. Such alignment would ensure greater regulatory coherence and facilitate integrated sustainability reporting, thereby reducing potential interpretative ambiguities, enhancing comparability of environmental and social performance, and providing investors and stakeholders with a clearer view of corporate impact and transition pathways.

2. Scaled and proportional approach to disclosure

For “small mid-caps” (companies with 250 to 500 employees), a simplified reporting regime is proposed, drawing on recommendations from the [Platform on Sustainable Finance](#) (PSF), which advocates for standards proportionate to the characteristics and capacities of SMEs. Key recommendations include: 1) reducing reporting burdens by over one-third for companies (e.g., making the KPI on OpEx a voluntary disclosure); 2) simplifying the Green Asset Ratio (GAR) (e.g., ensuring symmetry between numerator and denominator); 3) simplifying the approach to the Do No Significant Harm (DNSH) principle (e.g., introducing a “comply or explain”⁹ approach for assessing the principle in relation to revenue). Furthermore, it is crucial to harmonise the application of DNSH across the sustainable finance regulatory framework, particularly within the SFDR, to minimise administrative burdens and costs while enhancing the transparency and comparability of sustainability information.

3. Materiality threshold

It is recommended that the materiality threshold be lowered to 5% and that absolute metrics be introduced alongside relative ones to ensure that larger companies are not exempted from disclosure obligations. The impact of an economic activity representing 5% of a large multinational company’s revenue cannot be equated to that of an SME. The current proposal to set a 10% materiality threshold for taxonomy-eligible activities, both in terms of revenue and capital expenditure (CapEx), risks excluding significant information on the environmental performance of many companies. This would undermine transparency and distort market perceptions of sustainable investments.

Notably, several major energy companies, including key oil and gas operators, do not reach the 10% threshold in revenue from taxonomy-eligible activities, and some do not even reach 10% in terms of CapEx. [Analysis of data from seven leading European oil companies](#) indicates that the strict application of this threshold would exclude these entities from

⁹ The “comply or explain” principle provides considerable flexibility, allowing entities either to comply with the Taxonomy requirements or to clearly and justifiably explain the reasons for not complying.

reporting obligations on eligibility and alignment with the EU Taxonomy, both in terms of revenue and, in some cases, CapEx.

4. Review and update of KPIs for financial operators

- Ensure the representativeness and methodological robustness of KPIs by guaranteeing consistency between the numerator and the denominator across all indicator types, as is already required for the Green Asset Ratio (GAR), to avoid distortions and ensure data comparability.
- Consider the possibility of including voluntary Taxonomy disclosures from companies not subject to the CSRD, especially in contexts where changes to size thresholds might exclude relevant entities and cause misalignment in data availability.
- Explore the broader contribution of insurance companies to environmental objectives beyond climate adaptation and assess how this contribution can be improved and integrated into the Taxonomy framework.

Furthermore, the revision of the European sustainable finance regulatory framework represents a crucial opportunity to reopen discussions on two fundamental topics: the extension of the Taxonomy to new sectors and performance levels, and the development of a social taxonomy.

As emphasised by the European Commission, the EU Taxonomy must not be treated merely as a reporting instrument, but rather as a strategic framework to guide both corporate sustainability performance and sustainable finance decision-making. It is therefore essential to advance the [proposal for an extended taxonomy](#), enabling companies to systematically assess the environmental performance of their operations and allowing financial actors to track the impact of investment decisions over time.

At the same time, a social taxonomy is now more necessary than ever to develop appropriate indicators for measuring social impact¹⁰, starting from the definition of a common and standardised language. Such a taxonomy would facilitate benchmarking and transparency between companies and investors, enabling a more effective allocation of capital toward key activities that support a just transition¹¹.

Corporate Sustainability Due Diligence Directive - CSDDD

The Corporate Sustainability Due Diligence Directive (CSDDD) constitutes a core pillar of the European Green Deal, designed to ensure corporate accountability for adverse impacts on human rights and the environment across the entire value chain. The Directive reinforces and complements the transparency and reporting obligations established under the CSRD and the EU Taxonomy Regulation.

¹⁰ Unlike environmental indicators, which are often based on quantitative and verifiable metrics, social impacts are inherently multidimensional, qualitative and highly contextual. Concepts such as “decent work,” “social inclusion,” or “equitable access to services” require more sophisticated assessment tools capable of capturing aspects that are not easily standardised.

¹¹ For more information, you can refer to the paper “Towards a Just Transition: a compass for financial operators”: <https://finanzasostenibile.it/attivita/verso-una-transizione-giusta-una-bussola-per-gli-operatori-finanziari>

If implemented effectively, the CSDDD has the potential to establish a harmonised and enforceable due diligence framework across the EU. This would not only create a level playing field for companies but also provide financial institutions and corporates with enhanced tools for risk identification, impact analysis and decision-making, underpinned by greater legal certainty.

Regarding the CSDDD, the Omnibus package proposes:

- Simplification of due diligence obligations by:
 - Limiting the scope of due diligence to a company's operations, those of its subsidiaries and those of its direct business partners (Tier 1¹²). Obligations to go beyond Tier 1 would only apply in cases involving complaints or credible reports of harmful activities by indirect suppliers.
 - Reducing the required frequency of periodic monitoring exercises (every five years instead of annually).
 - Removing the obligation to terminate business relationships in cases of actual or adverse impacts. Instead, companies would be required to suspend the business relationship and, where possible, continue to work with the supplier towards a solution, making use of any increased leverage resulting from the suspension.
 - Further limiting the trickle-down effect on SMEs and small mid-cap companies by limiting the amount of information that may be requested by large companies as part of their value chain.
- Eliminating the obligation to put into effect the climate transition plans, while maintaining the requirement to adopt a transition plan and outline both planned and undertaken implementation actions.
- Removing the specific EU-wide liability regime in the Directive, while preserving victims' rights to full compensation under national law.
- Modification of pecuniary penalties would be based on Commission guidelines developed in collaboration with Member States rather than on the company's net worldwide turnover.

The CSDDD addresses the critical need to embed environmental and social risk management within corporate and financial decision-making processes. Effective due diligence is indispensable for the identification, prevention and mitigation of material risks arising from adverse human rights and environmental impacts, which frequently emerge across complex global supply chains. For the financial sector, this imperative is especially pronounced: a substantial portion of financial, reputational and climate-related liabilities are embedded in Scope 3 emissions (emissions linked to financed activities, investments and underwriting), which, for many institutions, constitute [up to 99% of their footprint](#). Accordingly, a comprehensive, risk-based due diligence framework, aligned with established international standards such as the [UN Guiding Principles on Business and Human Rights](#) and the [OECD Guidelines](#), is vital for prudent investment and risk management.

The Commission's proposal to restrict due diligence obligations to direct (Tier 1) suppliers risks significantly undermining the Directive's effectiveness. Such a limitation would impair the

¹² Tier 1 refers to a company's direct suppliers - those businesses that provide goods or services directly to the main organisation without intermediaries. These suppliers are an essential part of the value chain and are often subject to stricter controls regarding quality, sustainability and regulatory compliance.

detection of severe adverse impacts occurring further down the value chain, including forced labour, deforestation and other harmful environmental practices, and constrain companies' and financial institutions' ability to assess systemic risks associated with counterparties and investees.

In contrast, the complete and consistent implementation of the CSDDD enhances corporate risk anticipation and mitigation capabilities, lowers costs linked to reactive interventions, and improves the quality and availability of ESG and climate-related data. This fosters greater legal certainty and establishes a level playing field by harmonising regulatory expectations across market participants operating under divergent national frameworks within the EU.

For financial actors, this translates into a more stable, transparent and predictable environment, facilitating improved evaluation of investment, insurance, lending risks and sustainability. Ultimately, these conditions contribute to portfolio resilience and support the broader transition towards a sustainable and inclusive economy.

Recommendations

Several elements of the proposed regulation warrant reconsideration and amendment to ensure the establishment of robust, credible procedures for analysing, managing and mitigating risks associated with environmental and social impacts:

1. Reintroduce the obligation to put into effect climate transition plans

Climate transition plans are indispensable strategic instruments guiding companies through decarbonisation pathways aligned with the 1.5°C target of the Paris Agreement. These plans enable businesses to adapt their operational models, investments and governance frameworks accordingly. [The European Central Bank](#) underscores the necessity of maintaining a clear, binding obligation to both adopt and implement such plans. According to the ECB, credible planning enables companies to structure and monitor their climate alignment strategies while serving as a crucial tool for managing financial risks. The forward-looking information contained in these plans helps assess companies' readiness for the transition, identify systemic risks for the economy and support monetary policy planning.

The current proposal to downgrade the implementation requirement risks reducing transition plans to mere formalities, devoid of enforceable operational impact. Without a binding obligation to implement these plans, they risk becoming non-committal declarations rather than actionable frameworks capable of driving necessary business transformation and investment.

The CSDDD can fill this gap by working in synergy with the CSRD: while the CSRD mandates transparency, the CSDDD can ensure transition plans function as effective tools for risk management and strategic adaptation. Reinstating the obligation to implement transition

plans - explicitly as an obligation of means rather than of results¹³ - would enhance legal certainty, prevent ambiguous interpretations and safeguard companies undertaking credible and timely transition efforts. Moreover, this approach would promote fair competition within the European market by recognising and rewarding early movers, while discouraging business strategies that postpone critical investments in anticipation of regulatory leniency, actions that elevate systemic risks for the financial sector and wider economy.

2. Ensure a risk-based due diligence approach beyond direct suppliers (Tier 1)

A key concern in the current CSDDD revision proposal is the restriction of mandatory due diligence obligations exclusively to direct (Tier 1) suppliers. While intended to alleviate compliance burdens, particularly for SMEs within supply chains, this limitation risks undermining the Directive's effectiveness in identifying and preventing severe adverse impacts throughout global value chains.

Studies such as the [analysis conducted by the German Federal Office for Economic Affairs and Export Control](#) on the implementation of national due diligence legislation demonstrate that companies adopting a risk-based approach spanning the entire supply chain from the outset can avoid elevated costs associated with reactive, ad hoc investigations or subsequent adjustments to mitigation measures. This comprehensive risk-based framework, aligned with UN and OECD Guidelines, has proven more effective in enabling companies to pinpoint critical risk hotspots and prioritise mitigation efforts efficiently.

The most significant risks - such as forced labour, child exploitation, deforestation and substantial Scope 3 greenhouse gas emissions - frequently arise beyond Tier 1 suppliers. Restricting due diligence to direct suppliers may therefore produce counterproductive outcomes: on the one hand, failing to detect and address material risks, increasing companies' and investors' exposure to reputational harm and legal liabilities; on the other hand, encouraging a bureaucratic, box-ticking approach focused disproportionately on European suppliers already governed by robust environmental and social regulations, thereby diminishing overall impact.

Moreover, the current formulation, which extends due diligence obligations beyond Tier 1 suppliers only upon the emergence of "plausible information" introduces significant ambiguity, thereby increasing both legal and operational uncertainty, particularly for financial actors. While BusinessEurope acknowledges the objective of regulatory simplification, it advocates for a reinstatement of a risk-based approach that prioritises the identification and mitigation of severe and substantiated impacts. This approach would minimise unnecessary compliance burdens and better uphold the principle of proportionality.

3. Restore the civil liability regime at the European level

¹³ Companies are not required to guarantee that human rights violations or environmental harm never occur throughout the entire value chain, but rather to implement reasonable and proportionate measures to prevent, mitigate and remedy them when they do occur.

The Commission's proposed amendments to the civil liability provisions devolve significant discretion to Member States, risking a fragmentation of the EU legal framework. This decentralisation would substantially diminish the Directive's overall effectiveness by complicating regulatory interpretation and compliance for multinational corporations, creating inconsistent legal standards and enforcement across Member States and restricting access to redress and protection mechanisms for affected clients and consumers.

For the CSDDD to be both practical and effective, it is imperative to strengthen the **accountability of large companies and financial actors in facilitating SME compliance** throughout the due diligence value chain.

The success of due diligence efforts critically depends on SMEs' capacity to understand and meet regulatory requirements. The European Commission should therefore issue **comprehensive guidelines** outlining practical procedures, compliance expectations and the delineation of roles and responsibilities. Such clarity would enhance market confidence in the feasibility of obligations and foster effective collaboration between large companies and their smaller supply chain partners.

Moreover, [consistent with the document adopted in 2024](#), **large enterprises should be mandated to provide active support to SMEs and mid-cap companies within their supply chains**. This support should be operationalised through concrete measures, including:

- **Capacity building:** provision of technical training and updates to management systems that enable SMEs to implement effective reporting and risk mitigation frameworks. Large companies should contribute to co-financing training programmes, facilitating data collection infrastructures and allocating dedicated personnel to assist SMEs throughout the supply chain.
- **Financial assistance:** sharing costs related to consultancy services and offering economic support mechanisms such as low-interest loans or guarantees to enable SMEs to establish robust compliance and reporting capacities.