SUSTAINABLE BANKING COALITION

Getting Simplification Right: Banking Perspective on the Omnibus Package

May 2025

EXECUTIVE SUMMARY

The Sustainable Banking Coalition (Coalition) and the European Federation of Ethical and Alternative Banks and Financiers (FEBEA) welcome the European Commission's initiative to improve and streamline sustainability reporting obligations. However, it is essential to consider several key aspects in order to create a more navigable reporting landscape without compromising the high standards that underpin effective sustainable finance practices. This briefing provides key recommendations to ensure that these changes lead to a strong and effective reporting framework that enables the financial sector and the broader European economy to access essential sustainability data efficiently, supporting well-informed investment and business decisions. It focuses on the revised Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), introduced under the Omnibus Simplification Package I from 26 February 2025[1].

The Coalition and FEBEA bring together environmental and social sustainability-focused financial institutions from across the European Union (EU). Our members are leaders in sustainable finance and engage in sustainability reporting for three reasons:

- **As investors**, we rely on reliable, standardised ESG data to make informed and comparable investment decisions.
- **As lenders**, we use ESG reporting to assess and manage sustainability risks in our lending activities.
- We also use ESG data to **track our progress toward sustainability commitments**, ensuring accountability and compliance with regulatory requirements.

This paper draws directly from our members' experience navigating environmental, social, and governance (ESG) reporting frameworks, offering a practical perspective on both challenges and necessary improvements. Striking the right balance is crucial: we need sufficient transparency to direct capital towards sustainable projects while ensuring that reporting requirements remain manageable for companies and financial institutions.

In a rapidly evolving global market, the EU must equip its financial sector with the right tools to maintain its competitive advantage in forward-looking financial practices and avoid falling behind. To achieve this, the Coalition believes that following priorities must be addressed:

- A **balanced approach to ESG reporting**, ensuring financial institutions can access relevant data.
- Enabling **risk-based value chain reporting** to ensure comprehensive ESG risk visibility across supply chains without overburdening SMEs.
- **Maintaining double materiality** to support sound investment decisions and financial risk management.
- Ensuring companies have **credible climate transition plans**.

[1] Omnibus I COM (2025)81

1. Balanced approach to ESG reporting scope

The Omnibus proposal significantly reduces the CSRD scope, now covering only companies with over 1.000 employees and at least €50 million in annual net turnover or a balance sheet above €25 million. This change excludes mid-sized companies (between 250 and 1000 employees), reducing oversight of financial and operational risk across key parts of the EU economy. This reduction removes 80% of initially covered companies, severely limiting access to critical ESG data.

The consequences of this reduction extend beyond reporting burdens, as reducing the scope increases financial risk. Banks and investors rely on ESG disclosures to assess exposure to environmental, social and governance risks in their portfolios. Without transparent and standardised data, financial institutions will struggle to evaluate companies' long-term viability, potentially leading to mispriced risks and stranded assets. The European Central Bank (ECB) has repeatedly warned that climate-related risks could destabilise the financial system if left unaccounted for. Credit and market risks from poorly assessed companies can affect banks' stability and the broader financial system.[2]

While some progress has been made in measuring climate-related risks, the ECB report from 2023 warns that major data gaps remain.[3] By narrowing the CSRD scope, the EU is weakening financial risk assessments at a time when financial authorities, such as the Financial Stability Board (FSB), the European Securities and Markets Authority (ESMA), and the European Banking Authority (EBA), are urging for more - not less - ESG disclosure.[4] Excluding mid-cap firms, many of which are already preparing audited financial statements in line with CSRD reporting standards, and voluntarily responding to investor requests for ESG information, will widen this gap. Removing them now introduces legal uncertainty, penalises early movers, and weakens the credibility of the reporting framework.

The EU has a unique opportunity to lead, as global momentum for robust ESG disclosure is accelerating. While other jurisdictions advance their frameworks, the EU's early leadership puts it in a strong position to continue setting international standards. By refining rather than restricting its ESG reporting approach, the EU can maintain its competitive edge, attract capital, offer a predictable regulatory environment and reinforce its role as the leading destination for responsible investment.

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[2] European Central Bank: Climate-related Risks and Financial Stability ECB Report (2024).
[3] CB/ESRB: Towards macroprudential frameworks for managing climate risks (2023).
[4] Financial Stability Board (FSB): Achieving consistent and comparable Climate-related Disclosures progress report (2024).
ESMA: ESMA's 2024 Corporate Reporting Priorities highlight sustainability statements and transparency (2024).
European Banking Authority: The EBA finds progress in availability and accessibility of data used to identify and qualify environmental, social and governance risks but data landscape remains incomplete (2025).

RECOMMENDATION

Align the CSRD scope with the existing definition of "large undertakings" from the Accounting Directive[5]

This includes companies that meet at least two of the following three criteria: (i) more than 250 employees; (ii) €40 million in turnover; or (iii) €20 million in total assets. This approach builds on an established legal framework that companies already understand and apply.

It ensures:

- Better **alignment between financial and sustainability disclosures**
- An ESG data landscape for **risk-based supervision**
- Inclusion of companies that are **capable**, **prepared**, and **already moving toward disclosure**
- It keeps mid-sized companies within scope, as they are operationally ready and financially significant, while **leaving time and space for SMEs to prepare**.

2. Enable risk-based value chain reporting

The majority of an organisation's ESG impact resides in its value chain, with up to 90% of a company's total ESG risk exposure originating there[6]. These risks have direct implications for corporate stability and creditworthiness. To effectively assess ESG risks, companies need visibility beyond their own operations into the broader value chain, particularly in areas where the likelihood or severity of sustainability impacts is greatest. This approach, known as risk-based supply chain analysis, focuses attention and resources on the parts of the supply chain where adverse impacts are most likely or most severe.

This is particularly important for the financial sector, as banks are expected to assess and manage environmental and social risks as part of their prudential oversight obligations. While the CSRD does not directly amend prudential rules, the data it generates can play a valuable role. Improved access to reliable, forward-looking information, including on value chains, can support banks in identifying relevant risk factors, strengthening internal risk models, and informing disclosures expected by supervisors such as the European Central Bank.[7]

The CSDDD already embeds the concept of risk-based approach, requiring companies to identify, prioritise, and address the most severe or likely sustainability risks across their operations and value chains.[8] Aligning CSRD reporting obligations with this methodology - focusing disclosures on material

[5] Directive 2013/34/EU
[6] S&P Global Market Intelligence: The State of Sustainability and the Supply Chain (2023).
[7] Frank Elderson, ECB Executive Board: From concept to delivery: accounting for climate and nature in maintaining price stability and keeping banks safe and sound (2025).
[8] Article 5, 7 of Directive (EU) 2024/1760 of the European Parliament and of the Council.

risks relevant to the specific company - would ensure reporting remains both effective and proportionate.

Enabling proportional and risk-based supply chain ESG reporting also brings financial advantages, as businesses actively managing supply chain risks have €12.5 billion in cost savings[9]. This demonstrates that better transparency in value chain reporting offers economic advantages.

RECOMMENDATION

Adopt a risk-based approach for value chain information requests

We recommend applying a threshold aligned with the Accounting Directive definition of large undertakings.[10] Below this threshold, companies should not be expected to collect ESG data from value chain partners unless it is directly relevant to material risks or potential impacts that could affect their business operations.

Mid-cap companies, despite being below the large company threshold, can face significant environmental and social risks due to their complex supply chains, regional market influence, and involvement in high-impact sectors. These companies often operate in areas where sustainability risks are material, yet they may be excluded under the Commission's current proposal.

Focusing on materiality rather than company size ensures that only relevant, significant risks determine the need for value chain information. This risk-based approach not only improves the effectiveness of risk management but also ensures proportionality - requiring reporting only when there is a material risk.

3. Maintaining double materiality

Double materiality requires companies to assess both how sustainability issues impact financial performance (financial materiality) and how their operations affects society and the environment (impact materiality). We welcome the fact that this dual lens is embedded in the EU reporting framework, as it reflects how financial institutions evaluate risk and opportunity across portfolios.

In economic terms, there is a clear business case for this approach. Companies with robust sustainability programs attract 40% more investment capital and often enjoy lower borrowing costs on the European market.[11] The financial advantages of implementing sustainability initiatives frequently outweigh the implementation costs, particularly when standards are tailored and proportionate to company size and complexity.

[9] HSBC: Strengthening the chain: Transform the norm (2024).
[10] Directive 2013/34/EU.
[11] OPTEL: 7 reasons why the EU's ESG reporting delays shouldn't slow your sustainability efforts.

Double materiality helps identify hidden or long-term risks that purely financial analysis may overlook.[12] It gives both companies and their lenders a fuller picture of operational, reputational, and environmental exposures.

International alignment is also an important, and it has already been addressed through collaboration between the European Financial Reporting Advisory Group (EFRAG) and the International Sustainability Standards Board (ISSB). Together, they have developed guidance to ensure interoperability between the EU's approach and international standards, reducing the risk of fragmentation while allowing Europe to address issues particularly relevant to its own markets.[13] This guidance should be actively used to minimize reporting burdens and ensure coherence.

Double materiality should extend proportionately to companies of all sizes, including SMEs. While we agree that the application of standards should reflect the size and capacity of the company, it is essential that voluntary SME sustainability reporting frameworks are grounded in double materiality, as SMEs make up 99.8% of EU businesses[14] and are vital to Europe's green and digital transitions. Their role can only be supported if the upcoming voluntary standards are clear, usable, and inclusive of both financial and impact materiality.

Today's voluntary SME standards, as drafted by EFRAG, focus mainly on financial materiality and remain too limited for meaningful risk assessment or investment decisions. Without the inclusion of at least a minimal set of impact materiality indicators, these standards fall short of what financial institutions require and may not allow SMEs to effectively demonstrate their sustainability performance. As ESG data becomes more central to capital allocation, there is a growing risk that finance will disproportionately flow to larger firms already providing more comprehensive disclosures, potentially leaving SMEs at a disadvantage.

To address this, it is crucial that voluntary SME standards are revised to include a targeted set of additional indicators essential for bank analysis. These should be carefully designed to avoid overburdening small businesses, while ensuring they remain visible and competitive in the sustainable finance landscape.

Complementarily, a key focus should be on equipping SMEs with the right tools, including unified calculation methodologies, a centralized support hub, practical tools, subsidized trainings, and digital solutions. Many SMEs are already taking sustainability action on the ground, and often have the ability to adapt quickly. With the right support, they can turn ESG reporting into a competitive advantage and remain visible to investors and lenders.

[12] Deloitte/Tufts Survey on ESG today: 80% of Global Investors Now Have Sustainable Investment Policies in Place (2024).
[13] EFRAG and IFRS: ESRS-ISSB Standards Interoperability guidance (2024).
[14] Eurostat: Micro & small businesses make up 99% of enterprises in the EU (2024).

RECOMMENDATION

Maintaining double materiality in ESG reporting

We strongly support the inclusion of the double materiality principle in the CSRD, as it is essential for guiding sustainable investment and lending decisions.

To ensure consistent application, we recommend embedding double materiality across all EU sustainability reporting standards, including the voluntary standards for SMEs, though in a proportionate manner that reflects their size and capacity. As the Commission reviews and endorses the SME standards, it is important to incorporate a limited set of clearly defined impact materiality indicators that meet the needs of financial institutions. This will increase SME visibility, improve their access to sustainable finance, and strengthen their role in ESG-aligned value chains.

In parallel, successful implementation will require tailored support for SMEs. This should include harmonized calculation methodologies, user-friendly tools, a centralized support hub, targeted and subsidized training, and scalable digital solutions. These resources will help ensure that reporting is achievable, proportionate, and meaningful for smaller businesses.

4. Credible climate transition plans

A cornerstone of the EU's climate regulatory framework has been the requirement for companies to adopt and put into effect transition plans for climate mitigation under the CSDDD. These plans are intended not as rigid obligations but as a structured and strategic way for companies to plan and demonstrate how their business models are aligned with the transition to a low-carbon economy.

The Omnibus proposal weakens this requirement by removing the obligation to actually "put into effect" these transition plans. This creates a major loophole: without mandatory implementation of transition plans, companies can engage in greenwashing by making superficial climate commitments without any requirement to follow through. While many banks have pledged to reach net-zero emissions by 2050, their current actions and financial flows do not align with these climate goals.[15]

This matters not only for how banks manage their own climate strategies, but also for how they assess the companies they finance. Banks are increasingly required to assess the climate risk of companies they invest in or lend to. The lack of enforceable plans makes it difficult for banks to distinguish between companies genuinely aligned with the EU's net-zero goals and those making symbolic and marketing gestures.

[15] World Resources Institute: Banks have committed to Net Zero but aren't on track to reach it (2024).

RECOMMENDATION

Ensure that companies not only adopt transition plans but also take best efforts to implement them effectively

The requirement should remain practical and proportionate, focusing on key elements that companies should consider and be able to evidence through concrete actions, including:

- Explain how the transition plan is embedded in the company's overall business strategy and financial planning, and whether it is approved by the administrative, management, or supervisory bodies.
- Disclose time-bound GHG emission reduction targets in line with limiting global warming to 1.5°C under the Paris Agreement.
- Describe key climate mitigation actions, including changes to products, services, technologies, and operations, and the related investments and funding.
- Provide a qualitative assessment of potential locked-in GHG emissions from key assets and products.
- If applicable, explain current and planned alignment of revenues, CapEx, and CapEx plans with the EU Taxonomy Regulation on climate mitigation and adaptation.
- State whether the company is excluded from the EU Paris-aligned Benchmarks.

The approach should avoid rigid enforcement and recognise the impact of external factors on transition plans' implementation, at the same time it should ensure that transition plans are meaningful, supporting risk assessment, regulatory clarity, and financial market confidence.

5. Co-Signatories

Sustainable Banking Coalition

febea
EUROPEAN FEDERATION OF ETHICAL AND ALTERNATIVE BANKS AND FINANCIERS