BETTER FINANCE recommendations for Omnibus I (CSRD) revisions

As representatives of European citizens as financial services users, we see the benefits of balanced simplification to attract capital in the European markets while ensuring competitiveness for European listed companies. Both former Italian Prime Ministers Mario Draghi[1] and Enrico Letta[2] presented crucial perspectives on how the EU can enhance the retail investment landscape and improve the Capital Markets Union. Similarly, with the renowned focus on a Savings and Investment Union[3], connecting savings to the most productive investment, can ensure increasing returns for EU citizens and improve the competitiveness of the EU. Following these developments and the Budapest Declaration[4] in 2024, a simplification reform ensued with the goal of ensuring a clear, simple and smart regulatory framework for businesses, reducing administrative, regulatory and reporting burdens, in particular for SMEs. This led to concrete proposals from the European Commission to reduce reporting requirements by at least 25% in the first half of 2025, presented with the 'Competitiveness Compass'[5] and the 'Omnibus I'[6].

It is evident that European entrepreneurs encounter significant challenges due to a fragmented market landscape, limited access to venture funding, and inadequate innovation support. Regulatory requirements in some instances can impede their expansion efforts. As noted by the European Commission, only 5% of global venture capital flowing into the region - compared to 52% in the US and 40% in China - the combination of restricted funding and lower growth potential, prompting many start-ups to seek opportunities and larger markets abroad. Since our last report on CMU Assessment 2019 - 2022, changes to the capital market funding and bank funding; SME participation in capital markets; and coherence of rules in sectoral legislation and sustainable finance outlook have all changed.

A more focused reporting framework may enhance clarity by concentrating on material issues, thereby aiding investors in identifying core sustainability risks. However, these benefits hinge on ensuring that any administrative relief is paired with robust, enforceable standards that prevent greenwashing and ensure that disclosed plans translate into tangible actions. While listed SMEs should be enabled to grow within Europe, their obligation to their shareholders - especially when those shareholders request quality sustainability reporting - should be fulfilled to keep trust, as well as attract new capital and ultimately position European companies as leaders in the sustainable economy. **Administrative efficiency at the cost systematic integrity and without smart amendments can cause SMEs to lose competitiveness, investors to lose access to relevant and trustworthy information, creating further fragmentation when clarity and comparability are most needed.** The solution isn't to reintroduce complexity - it's to build clarity through proportionate, modular, and strategic mechanisms that empower SMEs and protect investor trust.

---

[1] The Draghi report on EU Comptetitiveness (2024)
[2] Letta report 'Much more than a market' (2024)
[3] Savings and Investments Union (2025)
[4] Budapest Declaration on the New European Competitiveness Deal (2024)
[5] A competitive compass for the EU (2025)
[6] Omnibus I (2025)

Simplifying Sustainability Disclosures: From Overload to Usability

Currently, if an investor wants to check sustainability statements and impacts, this information is presented in various formats across disparate documents - making it difficult to interpret and often leading individual investors to consider such data irrelevant[7]. Instead of adding hundreds of more pages to already lengthy annual reports, the sustainability reporting section can benefit from simplifications to ensure that its users are well informed but not overburdened with information overflow. Unfortunately, **the reports in their current format are long, repetitive and focus on processes** with limited visual aids, making the sustainability parts intelligible.

Every report could begin with a concise executive summary, modelled after the prospectus format, that highlights the most material ESG risks and opportunities in a clear, jargon-free manner. This "ESG at a glance" section would follow **the KISS principle ("Keep It Short and Simple")**, helping individual investors quickly grasp the essentials without needing technical expertise, and boosting transparency and trust. For reports to be truly useful - especially in an environment where more individual investors are encouraged to engage with ESG - they must also be accessible. Improving quality while maintaining a level of understandability is not mutually exclusive; both goals can and should reinforce each other.

The key to improving the European Sustainability Reporting Standards (ESRS) lies in striking a balance between standardisation and flexibility, ensuring that it remains user-friendly while still meeting the evolving needs of investors, other stakeholders, and companies. This involves enhancing clarity in reporting, improving accessibility for different company sizes, integrating sustainability with financial disclosures, and addressing emerging trends. With these adjustments, ESRS could be made more efficient, impactful, and responsive to future challenges. **Meaningful simplification requires that the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR) frameworks be better aligned to prevent fragmentation**.

With a growing ESG marketed products, investors need to understand both the risks and the opportunities of their investments in a simple way[8]. A company's financial results and competitive position are influenced by manifold factors. Neither ESG reporting nor a better ESG performance possibly triggered by reporting alone will per se translate into stronger or weaker financial outcomes. Nonetheless, empirical evidence is gradually emerging of a correlation between ESG disclosure and competitiveness, at least with reference to specific ESG factors.[9][10][11] **To ensure that attractiveness of European markets and company listings remain, we call for a balanced simplification that prioritises sufficient quality information, coupled with implementing actions to prevent greenwashing practices.**

---

[7] BETTER FINANCE (2025) Shareholder engagement and transition of capital flows

[8] The simplification efforts should also be translated within the PRIIPs KID to enable investors to easily understand and compare financial products and their key features.

[9] Christensen, H. B., Hail, L., & Leuz, C. (2021). Mandatory CSR and sustainability reporting: economic analysis and literature review. Review of Accounting Studies, 26(3), 1176 1248

[10] Trautwein, C. (2021). Sustainability impact assessment of start-ups–Key insights on relevant assessment challenges and approaches based on an inclusive, systematic literature review. Journal of Cleaner Production, 281, 125330.

[11] Shields, J., & Shelleman, J. M. (2015). Integrating sustainability into SME strategy. Journal of Small Business Strategy, 25(2), 59-78.

How to avoid unintended consequences and strengthen simplification through smart amendments in the CSRD?

1. Replace blanket exemptions with a risk-based tiered approach

Unintended consequences: Blanket exemptions lead to loss of access to standardised, comparable sustainability data from a broad range of companies, making it harder to assess overall portfolio risks. This can have a spillover effect on access to lending for companies (in the EU, the value of such credit segments is estimated at €15-27 billion[12]). As a result, financial and non-financial information lose alignment whereby investors can't fully integrate ESG data into valuation models, credit assessments, or scenario analysis - undermining portfolio resilience, verification, trust, and usability of ESG in capital markets.

Proposed Amendments:

- Introduce Sectoral Materiality Criteria: Instead of removing all companies <1000 employees, require sustainability reporting for undertakings in high-impact sectors, regardless of size, using double materiality as a qualifier.
- Reduce granularity, frequency (e.g., biennial instead of annual), and delay assurance requirements for SMEs, but maintain essential disclosures on climate, workforce, and value chain risks.
- Use existing frameworks like NACE codes and the EU Taxonomy to define high-risk sectors i.e energy, forestry, manufacturing, transport, buildings, and water/waste management.

Benefits: Targets reporting obligations where they matter most, retaining transparency while easing the burden for low-risk undertakings and savings costs on compliance.

2. Strengthen interoperability and value chain transparency

Unintended consequences: Exempting large chunks of the economy creates blind spots for large undertakings still subject to the CSRD, who must report on their value chains. The current proposal over-simplifies by removing scope, rather than supporting under-resourced entities which can disincentivise smaller companies who are willing but under-resourced to disclose relevant information.[13][14][15]

Proposed Amendments:

- Require basic sustainability disclosures from undertakings that are critical suppliers or contractors to in-scope companies.
- Create a centralised digital reporting interface (possibly integrated with EFRAG or the ESAP initiative) for simplified disclosures.

---

[12] Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, Giannotti, E., Bolognini, A., Pal, T., (2024) SME disclosure on taxonomy alignment – Cost/benefit analysis – Final report. Volume 1, Publications Office of the European Union

[13] Eurostat (2023) Structural Business Statistics, retrieved from https://ec.europa.eu/eurostat/web/structural-businessstatistics/database

[14] The original CSRD also exempted from mandatory reporting SMEs listed in certain markets, such as SME Growth Markets set up as Multilateral Trading Facilities (MTFs).

[15] EFRAG, Syntesia Prometeia (2024) Cost-Benefit Analysis of the VSME. *The same report for the LSME is not publicly available.*

- Allow temporary exemptions (e.g. up to 3 years) for newly scoped-in undertakings with dedicated support via EU-wide technical assistance hubs (similar to the LIFE programme) and funded digital tools for auto-generating standard reports.
- Offer regulatory or financial incentives for voluntary reporters below threshold (e.g., public procurement advantages, access to EU funding instruments, tax credits).
- Allow companies to exclude value-chain undertakings under 1000 employees only if they represent immaterial shares of purchasing volume or emissions and if operating in low-risk sectors.

Benefits: Reduces the burden on Wave-1 companies while preserving traceability and encourages sustainable reporting readiness without diluting scope or long-term expectations, which stimulates a "race to the top" culture rather than enforcing a compliance ceiling. Removes undue burden on micro/small firms but maintains visibility on high-risk value chain actors - even if they're small.

3. Utilise sector-specific standards in a more efficient way

Unintended consequences: Removing sector-specific standards sacrifices precision, comparability, and materiality relevance, particularly for high-emission sectors and high-risk sectors. Without sector-specific standards, double materiality becomes generic, especially for less mature reporters.[16][17]

Proposed Amendments:

- Introduce Sectoral Compacts: concise 2–4 pages guidance notes outlining top 3-5 sectoral KPIs (GHG intensity, water use, turnover from transition activities, etc.), and key stakeholder risks.
- Reintroduce sector-specific guidance as non-binding annexes or modular add-ons, prioritised by impact (e.g. climate, biodiversity, human rights), exposure (e.g. % turnover from high-risk sectors), and market demand (from investors, regulators, ESG ratings).
- Require companies to consider sector risk references when conducting their double materiality assessment (EFRAG could publish a sectoral risk register updated annually).

Benefits: High-risk sector companies would justify any omissions of typical material topics, which can improve consistency and completeness in reports while maintaining flexibility. Reutilising the sector standards as guidance can provide much needed relevance without prescription or additional burden/costs for companies.

4. Retain reasonable assurance as a future ambition

Unintended consequences: By explicitly removing the future option for reasonable assurance market confidence as well as investor trust is lowered in reported sustainability

[16] https://www.efrag.org/en/sustainability-reporting/esrs-workstreams/sectorspecific-esrs
[17] Size does not necessarily best reflect an SME's sustainability footprint and profile, and so the business activity/sector and its associated risk profile should also be a primary driver for determining sustainability reporting requirements. If the VSME's scope is expanded, it could fall short of the needs of larger customers especially in sectors which have specific disclosure needs, and the VSME should at least be complemented by sector-specific disclosures.

data, creating disparity between the level of assurance placed on financial and non-financial information.

Proposed Amendments:

- Retain reasonable assurance as a future ambition, with a 2028–2030 review clause.
- Use an evidence-based trigger: shift only when data maturity, digitalisation, and market readiness are proven.
- Frame limited assurance as a minimum quality threshold, not the ceiling.
- Consider tiered approach to reasonable assurance over time (starting with high-impact sectors and listed undertakings over certain thresholds).

Benefits: This can enhance investor trust and capital access, build internal data discipline and board-level engagement, provide safety net against greenwashing and regulatory/reputational risks. This approach will maintain proportionality while raising standards where they are needed most.

Towards Smart Simplification: Protecting Trust, Competitiveness, and Sustainability

The co-legislators should consider the unintended consequences and proposed amendments for a balanced simplification. Meaningful simplification requires that the CSRD and SFDR frameworks be better aligned to prevent fragmentation, reduce reporting burdens, and deliver more consistent and actionable sustainability information for all users of sustainability reporting.[18] Reducing pressures on SMEs and reporting costs are important targets – but credibility, interoperability and capital flow are equally vital.

The European Commission's proposal solves the problem with the wrong tool. There is a need for a risk-based proportionality, and not a hard exemption that creates bling spots. **A smarter, risk-based approach to simplification can reduce burdens while enhancing Europe's competitiveness, capital market trust, and sustainability leadership. With targeted amendments, the CSRD can empower SMEs, protect investors, and ensure the EU remains a global standard-setter in sustainable finance.**

[18] EFRAG could establish a process for regularly reviewing feedback from preparers and users to keep the standards dynamic and responsive to real-world changes. This could involve consultation with key stakeholders, including investors, civil society, and regulatory bodies, to ensure that ESRS remains relevant and forward-thinking.

Authors

Mariyan Nikolov, Research & Policy Officer, BETTER FINANCE

nikolov@betterfinance.eu

policy@betterfinance.eu

About BETTER FINANCE

BETTER FINANCE - the European Federation of Investors and Financial Services Users -is the voice of European citizens as savers, investors, and financial users at the EU level. Working independently from the industry, BETTER FINANCE serves as an independent hub of financial expertise for the direct benefit of individual shareholders, individual investors, savers, life insurance policyholders, pension fund participants, and mortgage borrowers across Europe. Aiming to promote research, information, and training on investments, savings, and personal finances to lawmakers and the public. BETTER FINANCE counts 40 independent, national, and international member organisations, sharing similar objectives – both from EU Member States as well as Iceland, Norway, Turkey, Lebanon, and Cameroon.