

BAVC/VCI-POSITION

Assessment of the Omnibus Procedure for the Corporate Sustainability Reporting Directive (CSRD): Refocusing on the Initial Regulatory Objectives and Meaningful Reporting

Introduction

BAVC and VCI welcome the Omnibus package presented by the European Commission on February 26, 2025, aiming in its first step to significantly simplify the extensive sustainability-related reporting obligations (CSRD, CSDDD, CBAM, and EU Taxonomy). The Omnibus package includes numerous measures for simplifying and reducing sustainability-related reporting requirements.

With the following assessments and adaptation proposals for the individual suggestions within the Omnibus package for sustainability reporting under the CSRD, we aim to contribute to a sustainable economy while achieving the overarching objective of the EU Green Deal:

Content and Assessment of the Omnibus Proposals for the CSRD

Scope Expansion (Articles 19a and 29a of the Accounting Directive Draft):

Articles 19a and 29a of the Accounting Directive Draft raise the thresholds for large reporting companies to a minimum of 1,000 employees. The financial thresholds remain unchanged, and other size criteria according to § 267 HGB must still be exceeded, either sales of €50 million or a balance sheet total of €25 million.

Assessment: Positive. BAVC and VCI welcome the reduction in the scope of reporting companies. According to EU estimates, approximately 80% of companies would be excluded from the scope. However, revenue thresholds should also be raised to align with the CSDDD (at least €450 million turnover). Maximum harmonization between the thresholds of CS3D, CSRD, and the EU Taxonomy allows consistent reporting.

Postpone Reporting Requirements for Large Companies (Article 5 Paragraph 2 of the CSRD Draft):

The reporting obligations for newly reporting companies are to be postponed by two years for large non-capital market-oriented companies (Wave 2: balance sheet total >€25 million, revenues >€50 million, and >250 employees) and capital market-oriented SMEs (Wave 3: balance sheet total >€450,000, revenues >€900,000, and >10 employees) using a "Stop-the-clock" procedure.

Assessment: Very Positive. BAVC and VCI support the delay in reporting requirements for newly reporting companies. This postponement can prevent certain companies from being subject to

reporting obligations for a short period before becoming exempt due to raised thresholds, thus avoiding unnecessary costs for affected companies.

Maintain Limited Assurance Audit (Article 26a Paragraph 3 of the Audit Directive Draft):

In the future, there will be no expansion of audits to "reasonable assurance." The mandatory limited assurance audits, as already embedded in the CSRD, will remain.

Assessment: Very Positive. BAVC and VCI welcome the decision not to extend audits to reasonable assurance, as this avoids unnecessary costs for the companies without undermining the value of sustainable investments.

Restrict Data Requests for Large Companies to Indirectly Affected SMEs (Article 19a Paragraph 3 and Article 29ca of the Accounting Directive Draft):

To limit the "trickle-down" effect, the European Commission proposes a proportional standard for voluntary application for companies not subject to sustainability reporting, based on the VSME standard developed by EFRAG. The Commission intends to publish a recommendation for voluntary sustainability reporting based on the VSME standard soon, addressing market demand.

Additionally, sustainability reporting requirements for large companies should not burden smaller companies further up the value chain. The "Value-chain-cap" should be expanded and reinforced, defined by the voluntary standard to be developed by the Commission.

Assessment: Positive. BAVC and VCI support a proportional and official standard for non-reporting companies and especially the establishment of this as a "Value-chain-cap." Thus, all companies with up to 1,000 employees would be better protected from disproportionate questionnaires, significantly reducing the "trickle-down" effect. It must be ensured beyond the proposed regulations that limitations occur only on direct business partners (Tier-1), as influence on practices of more distant partners in the value chain is often limited. The European Commission should clarify that the data provided by non-reporting companies should not be subject to audits. Furthermore, ESRS for reporting companies should only request information from non-reporting partners that are included in the voluntary reporting standard.

Critical Reflection on the Need for Sector Standards (Articles 29b and 29c of the Accounting Directive Draft): Articles 29b and 29c propose a move away from developing sector-specific standards.

Assessment: Very Positive. BAVC and VCI commend the departure from developing sector-specific standards. Set 1 of the ESRS has already proven extremely challenging in practice, and additional data requirements, such as in the current draft for the oil and gas sector standard, are counterproductive to reducing bureaucracy and enhancing competitiveness. EFRAG should focus on user-oriented support for the implementation of cross-sector standards and a timely evaluation of Set 1 with input from first-time users, auditors, and key stakeholders of reporting.

Timely Evaluation and Adjustment of ESRS:

The European Sustainability Reporting Standards (ESRS), which outline the contents for sustainability reporting, should be revised within six months of the Omnibus regulations coming into effect. The objectives include reducing data points by eliminating those deemed least important for sustainability reporting, preferring quantitative data over narrative text, and distinguishing mandatory from voluntary data points, ensuring interoperability with global reporting standards and retaining individual company materiality assessments. The revisions will consider necessary changes based on experiences with the first application of ESRS.

Assessment: Very Positive. BAVC and VCI endorse the evaluation and adjustment of ESRS Set 1, emphasizing data points relevant for company decisions and financial markets, serving the financing of sustainable transformation. These vital data points should be promptly evaluated and identified.

Other necessary simplifications for companies:

Replace Set 1 ESRS with VSME: To reduce reporting obligations, Set 1 ESRS should be replaced with the voluntary reporting standard for SMEs (VSME), providing quick relief to all companies. Alternatively, the LSME standard for listed SMEs could substitute Set 1 ESRS.

Consolidate ESG Reporting: A significant issue in Sustainable Finance is the numerous and often vague, misleading, or contradictory reporting obligations. Combining sustainability reporting into a single report would simplify processes and eliminate duplicate obligations (Once Only principle). The CSRD sustainability report, with its materiality principle, is best suited for this. Reporting requirements under Article 8 of the EU Taxonomy have not elicited the expected market response and should be voluntary, especially for companies not covered by the EU Taxonomy.

Critically Evaluate Electronic Tagging Amidst New AI Solutions: Digital tagging of text, words, or numbers in sustainability reports aims to make data machine-readable for financial markets, posing challenges for companies with staffing and technological needs and IT tool costs. Rapid technological advances in AI tools allow capital market players tailored, partly automated data analysis. EU institutions EFRAG and ESMA should be urged to pause digital tagging until necessity evaluation involving all data users is conducted, considering previous tagging scarcely utilized.

Interoperability between ESRS and IFRS-S: High digital interoperability is recommended between sustainability frameworks like ISSB and GRI standards.

Suspend Sanctions and Liabilities: Penalties like fines and civil liability for firms and auditors should initially be limited to intent and expanded as predictable audit and administrative practices evolve.

Align Reporting Boundaries: To reduce complexity and integrate financial and sustainability reporting, reporting boundaries should be unified. CSRD and ESRS mandate demonstrating

consolidation scope; this should become "reporting boundaries" to achieve uniformity. Often companies must report group subsidiaries absent in financial reports in sustainability reports despite limited impact, incurring disproportionate costs relative to benefits.

Extend Exemption Rule: We welcome the exemption rule for European group subsidiaries, proposing further CSRD expansion exempting all subsidiaries regardless of size and stock market orientation via consolidated reporting, if the parent company complies with ESRS. Currently, large listed subsidiaries must independently report, even limited-purpose ones like Special Purpose Vehicles (SPV) for bond issuance, incurring unnecessary EU company burdens with no user benefit. Further language choice flexibility should be allowed for companies considering audience norms.

Efficiently Organize Implementation and Audit Actions: Numerous requirements cause users and auditors issues needing extensive implementation aids, presenting transparency demands or legal uncertainties. ESRS definitions diverge from or limit international standards (e.g., Greenhouse Gas Protocol), while EU regulations (e.g., ESRS vs. EU Taxonomy) often conflict. We advocate engaging first-time users and establishing a review process based on feedback.

Extended Phase-In: Certain data points challenge companies in data collection. Extended phase-in periods enable appropriate complex data collection. We recommend extending implementation timelines to three years without employee thresholds, excluding voluntary use. Additional phase-in data points (without employee limits) should include:

- E2-4(28)(b) for microplastic disclosure, based on REACH compliant data not exceeding REACH requirements.
- E2-5 for substances of concern.
- E5-4 and E5-5 for resource inflows and outflows.

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Identification no. in the EU Transparency Register: 15423437054-40

The VCI is registered with registration no. R000476 in the Lobbying Register for the Representation of Special Interests vis-à-vis the German Bundestag and the Federal Government.

The VCI and its sector associations represent the interests of around 2,300 companies from the chemical-pharmaceutical industry and areas related to chemistry vis-à-vis politicians, public authorities, other industries, science and media. In 2023, the VCI member companies realised sales of ca. 245 billion euros and employed over 560,000 staff.

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The German Federation of Chemical Employers' Associations is the head organization for collective bargaining and social policy in the chemical and pharmaceutical industry, as well as large parts of the rubber and plastics processing industries in Germany. It represents the interests of its 10 regional member associations, with 1,700 companies and 585,000 employees vis-à-vis trade unions, politics and public.