March 2025

The EU Commission's omnibus proposals for amending the CSRD and CSDDD

A bang in sustainability law: On 26 February 2025, the European Commission presented its first proposals to ease bureaucratic burden on companies, mainly concerning sustainability reporting obligations under the Corporate Sustainability Reporting Directive (CSRD) and supply chain due diligence obligations under the Corporate Sustainability Due Diligence Directive (CSDDD).[1] In addition, changes to the taxonomy disclosures are proposed. The drafts have received mixed reactions and have sparked heated discussions. In practice, the main question that remains unanswered at present is whether and, if so, how quickly the drafts can be implemented in order to achieve legal certainty, especially in view of the proposed postponement of the CSRD ("stop the clock"). In addition, a large number of substantive questions remain unanswered.

I. Overview

The proposals follow on from reports on the future of the Single Market and EU competitiveness, notably the Draghi report of September 2024. The omnibus proposals on CSRD/CSDDD were announced by the European Commission at the end of January 2025 as one of the key areas of action under the "Competitiveness Compass" to counter the risk of overburdening companies and to strengthen the competitiveness of companies. The "Omnibus 1" initiative comprises two legislative proposals: a proposal to adapt the CSRD and the CSDDD and a proposal to postpone the CSRD and the CSDDD for certain companies. It also proposes changes to the EU Taxonomy. The overall objective is to significantly simplify sustainability reporting and reduce the burden on companies.

> The term "omnibus" is used to describe a legislative process that makes changes to various areas or sets of rules at the same time. In this case, several omnibuses are planned: in

[1] For more information on CSRD and CSDDD, please refer to our previous Client Briefing Current Developments in the Area of Human Rights and Environmental Sustainability Duties of Business Enterprises as of July 2024 and Reporting on Sustainability - Corporate Sustainability Reporting Directive as of June 2024 (German version only).

addition to **Omnibus 1**, which covers due diligence to support responsible business practices and sustainability reporting, and in the course of which simplifications of the rules on the Carbon Border Adjustment Mechanism (CBAM) are also planned, another **Omnibus 2** has been presented at the same time. The latter, which is a regulation rather than a directive, deals with the simplification and optimization of EU investment programs. **Omnibus 3** will create a new category of medium-sized companies ("small mid-caps") in the second quarter of 2025.

II. Proposals for adapting sustainability reporting (CSRD and EU Taxonomy)

1. Postponement of the CSRD for certain companies ("stop the clock")

The EU's 2023 CSRD reporting regulation extends the current "non-financial reporting" rules. It has already been transposed into national law by a large number of member states.[2] Its scope of application for affected companies will gradually grow.[3] The European Commission is now proposing a two-year postponement of the first application for companies that will be subject to the new CSRD sustainability reporting regime for the first time for the financial year 2025. This means:

- Companies with more than 250 employees and/or a turnover with more than EUR 50 million and/or a balance sheet total of more than EUR 25 million, which would presently be required to report under the CSRD from the financial year 2025 onwards under the current version of the CSRD (so-called "Wave 2" companies), would not be required to report until the 2027 financial year.
- Public Interest SMEs (with fewer than 250 employees and/or below the turnover or balance sheet thresholds) that would presently be required to report under the CSRD from the 2026 financial year under the current version of the CSRD (so-called "Wave 3" companies) would not be required to report until the 2028 financial year.
- There will be no postponement for companies that were required to report under the current version of the CSRD as of the 2024 financial year (the so-called "Wave 1" companies); they will therefore remain subject to the reporting requirements for the 2025 financial year.

However, it should be noted that under the second Commission's proposal, Wave 1 companies with no more than 1,000 employees would later be exempt from the reporting requirement (see below under **II.2.** for more on the scope limitation). This means that, if the CSRD has already been transposed into national law, they will remain subject to the reporting requirements for financial years 2024, 2025 and subsequent years **until** a change to the thresholds/scope has been adopted and transposed into national law.

As the CSRD has not yet been transposed into German national law, there is currently no obligation to report on sustainability in Germany, only to provide a non-financial statement. Affected companies currently have to fulfill both the existing "old" legal situation by preparing a non-financial statement and the necessary preparations for a true sustainability report in order to be prepared for the "new" legal situation under the CSRD, which still depends on the implementation by the German legislator.

With the "stop the clock" proposal, the European Commission aims to prevent companies from initially falling under sustainability reporting under the

[2] According to Accountancy Europe's CSRD Tracker, as of January 28, 2025, the CSRD has been implemented in 20 EEA member states. However, it has not yet been implemented in nine member states, including Germany, Spain, the Netherlands and Austria (last accessed early March 2025).

[3] For more details, see our Client Briefing Corporate Sustainability Reporting Directive from June 2024.

current version of the CSRD, then falling out again after the proposed omnibus relief. It aims to adopt the postponement independently of the other changes to the omnibus proposal using a "fast track" legislative procedure, allowing Member States to implement the postponement into national law before the end of 2025.

Whether the European Commission's "stop the clock" proposals will be implemented in time is particularly important to the affected companies. It remains to be seen how quickly the legislator moves forward and whether it will be able to pass the legislation this year for its member states to implement by 31 December 2025.

2. Restriction of the scope of application of the CSRD

The Commission also proposes significant restriction of the CSRD, excluding around 80% of companies from its scope.

- The scope of the CSRD would be limited to large companies with an average of more than 1,000 employees (and a turnover of more than EUR 50 million or a balance sheet total of more than EUR 25 million).
- The listing of companies will no longer be important.
- SMEs and large companies with fewer than 1,000 employees would no longer be subject to the CSRD in future.
- The thresholds for group reporting are also adjusted accordingly. Parent companies of a large group are therefore only included if they have more than 1,000 employees on a consolidated basis.

According to initial estimates, this would mean that only around 10,000 companies (instead of around 50,000 previously) would be obliged to report under the CSRD. In particular, large companies with fewer than 1,000 employees and Public Interest SMEs would no longer be included.

3. Standards for voluntary reporting as a "value-chain cap"

According to the Commission´s proposals, standards for voluntary sustainability reporting should be developed for non-reporting entities. These standards should be based on the *Voluntary Standard for non-listed micro-, small- and medium-sized undertakings* (VSME) developed by the European Financial Reporting Advisory Group (EFRAG) and should be published as soon as possible.

EFRAG (European Financial Reporting Advisory Group) is an EU expert body organized under private law advising the Commission on the adoption of international accounting standards. The CSRD has significantly strengthened EFRAG's role. It plays a key role in the preparation of the European Sustainability Reporting Standards (ESRS), which define the required reporting obligations in detail.[4]

The standards for voluntary sustainability reporting are also intended to represent the limit of the requirements that companies subject to reporting obligations must fulfill with regard to their value chain (so-called "value-chain cap"). This is intended to avoid a further burden on smaller companies ("no trickle-down"). There is also an exception for sustainability information commonly used or exchanged by companies in the relevant sector.

[4] For more details, see our Client Briefing Corporate Sustainability Reporting Directive from June 2024.

4. Revision of the first Set of the ESRS and abandonment of sector-specific ESRS

The European Commission intends to revise and significantly streamline the existing ESRS (Set 1). The revision aims to significantly reduce the number of mandatory ESRS data points and eliminate ambiguities. Industry standards (so-called sector-specific ESRS) should be dropped.

5. Restriction to "limited assurance" in the audit

The basic requirement to audit sustainability reporting in accordance with the CSRD remains, but the level of assurance should remain limited to "limited assurance" and should not be extended to "reasonable assurance", according to the proposals.

> The European Commission is thus moving away from its original plans for a gradual introduction of a "reasonable assurance" (external) audit. Nevertheless, the introduction of a "limited assurance" (external) audit requirement still represents an increase over the current legislation, which only requires a formal existence check for non-financial reporting.
>
> It remains to be seen to what extent this will also affect the intensity of the review by the supervisory board and its preparatory audit committee within the German two-tier-system.

6. Proposals to amend the EU taxonomy

The EU Taxonomy is essentially a classification system for environmentally sustainable economic activities. The companies affected by the Taxonomy Regulation must show the extent to which their economic activities are taxonomy-eligible and taxonomy-aligned. Revenue, operating expenses (OpEx) and capital expenses (CapEx) are the key metrics.

The EU Commission's omnibus proposals include changes to taxonomy reporting, limiting its scope and differentiating between mandatory and voluntary disclosure. In the future, only CSRD-reporting companies with **more than 1,000 employees and a turnover of more than EUR 450 million** would be required to report on the taxonomy. Companies below this revenue threshold would be exempt, although they could report voluntarily with reduced obligations. In addition, a materiality threshold of 10% of the relevant KPI are proposed to be introduced, and if the threshold of economic activities eligible for the taxonomy is below 25% of revenue, information on OpEx should be omitted. The Green Asset Ratio (GAR) will exclude assets related to non-CSRD companies, and the Do No Significant Harm (DNSH) criteria will be simplified.

The proposals are still subject to public consultation until 26 March 2025 and are scheduled to be adopted by the Commission in the second quarter of 2025. The amended Delegated Regulations for taxonomy reporting are scheduled to come into force on 1 January 2026.

III. Proposals to amend the CSDDD

1. Postponement of the CSDDD ("Stop the clock")

A postponement is also being considered for the CSDDD, but only for one year, so that the obligations would not apply until July 26, 2028.

The companies that would benefit from the postponement are those that fall into the first cohort of companies affected by the CSDDD in terms of timing, i.e. very large companies with an average of more than 5,000 employees and a global turnover of more than EUR 1.5 billion. For companies that would only be included in the second or third cohort in subsequent years under the current CSDDD regulation, the timing would not change.

As a result, the first and second cohorts will be merged and the current "three-step”-approach (2027, 2028, 2029) will be shortened to a "two-step"-approach (2028, 2029).

The transposition deadline for the CSDDD itself would also be extended by one year for the Member States, to 26 July 2027. However, the "stop the clock" directive would have to be transposed into national law by 31 December 2025.

Company category	Initial application according to the current version of the CSDDD	Initial application following the proposal of the omnibus I
At least 5,000 employees; EUR 1.5 billion turnover	26.7.2027	26.7.2028
At least 3,000 employees; EUR 900 million turnover	26.7.2028	Unchanged 26.7.2028
All other companies subject to CSDDD (at least 1,000 employees, EUR 450 million turnover)	26.7.2029	Unchanged 26.7.2029

2. Overview of the proposed amendments

The most important changes proposed by the EU Commission with regard to the CSDDD can be summarized in the following points, which are discussed in more detail below:

- Extension of full harmonization;
- Limitation of certain due diligence obligations to direct business partners instead of the entire chain of activity;
- Removal of contract termination as a measure of last resort;
- Extension of the regular monitoring period;
- Adjustment of the legal consequences (civil liability and penalties);
- Relief for small and medium-sized enterprises;
- Restriction of stakeholder engagement;
- Amendment of the requirement to implement the climate change mitigation plan;
- Early publication of guidelines.

In detail:

3. Extension of full harmonization, but retention of the ban on deterioration

The European legislator has two main options for harmonizing national regulations: minimum harmonization and full harmonization. In the case of minimum harmonization, Member States must adopt the standards of protection contained in an EU directive, but retain the option of introducing stricter requirements that go beyond the directive. In the case of full harmonization, on the other hand, they may not deviate "upwards" or "downwards" from the provisions of the directive and, in particular, may not introduce stricter national provisions in order to achieve a higher level of protection. The purpose of full harmonization is to reduce legal differences between Member States and to create a level playing field.

In the current CSDDD, only a few provisions are subject to full harmonization, in particular the identification and assessment of actual and potential adverse impacts and the adoption of appropriate measures to prevent potential and remedy actual adverse impacts.

a. Extension of full harmonization

The European Commission now proposes to extend full harmonization to key due diligence requirements. In particular, the specific measures to be taken to prevent potential adverse effects and to remedy actual adverse effects should be subject to full hamonization, including, for example, developing and implementing an action plan, seeking contractual assurances from business partners, making investments or adjusting the company's own purchasing or distribution practices, and providing remediation. The conditions under which a parent company can fulfil its due diligence obligations on behalf of its subsidiaries, as well as the obligation for companies to establish a notification mechanism and a transparent procedure for handling complaints, should also be covered by full harmonization. Extending full harmonization to these additional provisions would mean that Member States would no longer be allowed to introduce higher requirements or stricter rules when transposing these provisions into national law. Businesses could therefore generally expect that the provisions covered by full harmonization would be transposed unchanged into national law and would be identical in all EU Member States.

The principle of minimum harmonization continues to apply to all other CSDDD provisions.

b. Prohibition of regression or deterioration

The European Commission's omnibus proposal leaves unchanged the non-regression clause contained in Art. 1 (2) CSDDD, which prohibits member states from using the CSDDD as a justification for reducing the level of protection of human rights, employment and social rights, or environmental or climate protection provided for in national legislation. According to the wording of Art. 4 (1) CSDDD, this prohibition of regression also applies to provisions that are subject to full harmonization. This would ultimately lead to a situation in which there may be rules in individual member states that do go beyond the provisions of the directive – namely if these already existed before the CSDDD was transposed – which runs counter to the actual purpose of full harmonization. This applies in particular to parts of the German Supply Chain Due Diligence Act *(Lieferkettensorgfaltspflichtengesetz – LkSG).*

The discussion as to whether it is possible to align the scope of the German LkSG with that of the CSDDD in view of this provision is therefore likely to continue in the future. However, the better arguments suggest that such an alignment is in principle possible and even necessary in order to create a Europe-wide level playing field: the regression prohibition can only apply within the scope of the CSDDD and thus not to the broader scope of the LkSG. Moreover, non-regression clauses do not per se prohibit a lowering of the national level of protection, but only to justify it on the basis of the EU Directive. The German government is therefore free to limit the scope of the LkSG for other reasons, e.g. in the context of a general reduction of bureaucracy in order to reduce the burden on companies.

4. Limitation of due diligence obligations to direct business partners

The current version of the CSDDD requires companies to take appropriate steps to identify areas of their business activities where adverse environmental or human rights impacts are most likely to occur or to be most severe ("mapping"). In doing so, companies must consider their own operations, those of their subsidiaries, and those of their business partners associated with their chain of activities, including the operations of indirect business partners.

Based on the results obtained, companies must conduct a in-depth assessment of their own operations, those of their subsidiaries, and those of their business partners (direct and indirect) in the areas where negative impacts are considered most likely or most severe.

According to the European Commission's omnibus proposal, this second stage of the in-depth assessment of actual and potential negative impacts should be limited to the company's own operations, those of its subsidiaries and those of its direct business partners. For indirect business partners, an in-depth assessment should only be carried out in exceptional cases. On the one hand, this concerns cases of circumvention, where the structure of the business relationship is not economically justifiable, because its sole purpose is to avoid having to (continue to) treat a counterparty as a direct business partner. On the other hand, it concerns cases in which the company receives plausible information that adverse effects have occurred or may occur at the level of the business activities of an indirect business partner. Plausible information may include, for example, a complaint submitted through the notification mechanism, credible media or NGO reports, knowledge of an indirect business partner's past harmful activities, or problems in a particular area (e.g., conflict zones).

The European Commission's proposed amendment also requires companies to seek contractual assurances from their direct business partners that they will contractually require their business partners in the chain of activities to comply with the company's own code of conduct ("contractual cascading").

Under the omnibus amendments, companies would still be required to map the business activities of their indirect business partners and identify the areas where adverse environmental or human rights impacts are most likely to occur or to be most severe. However, they would no longer be required to conduct an in-depth assessment of those operations unless they receive plausible information that suggest adverse impacts resulting from the operations of an indirect business partner or where the

structure of the business relationship is a circumvention arrangement.

The proposed amendments would bring the CSDDD closer to the German Supply Chain Due Diligence Act (LkSG) since under the LkSG measures with regard to indirect suppliers are only required if the obligated party has actual indications (substantiated knowledge) of possible environmental or human rights risks at the indirect supplier or in cases of circumvention. The extent to which indirect suppliers are to be included in the risk analysis under the LkSG has not yet been finally clarified. The competent authority, the Federal Office for Economic Affairs and Export Control ("BAFA"), generally favors a broad interpretation, according to which the entire supply chain must be examined in the event of changes in business activities. The LkSG rightly does not provide for an immediate obligation to investigate indirect suppliers. On this basis, the CSDDD, even taking into account the omnibus proposals, continues to provide for a certain extension of the duties towards indirect suppliers. However, the differences to the current practice of the authorities are likely to be limited.

Unchanged from the omnibus proposal is a somewhat hidden change that the CSDDD makes to the LkSG regarding the scope of its own business area. Whereas under the LkSG, subsidiaries are only to be included in a parent company's own business if the parent company exercises decisive influence over them, the requirements of the CSDDD extend a company's obligations to all subsidiaries without this additional influence requirement.

Companies must also ensure that indirect business partners also undertake to comply with their Code of Conduct (see above).

According to the current state of the law, suppliers can only be required to adequately address the human rights and environmental expectations placed on them within the supply chain, with such expectations usually set out in a supplier code of conduct. A strict contractual requirement for a supplier to pass on the content of the supplier code within the supply chain through contractual agreements is widely considered inadmissible, at least if it is formulated as a general term and condition. Often it may not even be legally or factually possible for a supplier to fulfill such a requirement. The omnibus proposal therefore goes further than the provisions of the LkSG. It remains to be seen whether such a provision could be implemented at all in contractual practice under the current German law on standard terms and conditions, which applies even between businesses.

5. No requirement to terminate contractual relationships

The current version of the CSDDD requires companies, as a measure of last resort, to terminate business relationships when other measures have failed to prevent, mitigate, or remedy potential or actual adverse environmental and human rights impacts. The omnibus proposals would remove this requirement. Companies would only have to suspend, not terminate, business relationships.

However, companies may still be required to refrain from entering into certain business relationships or to refrain from extending existing business relationships.

In certain cases, the LkSG provides for an obligation to terminate the contract as a last resort. This would no longer apply under the omnibus amendments. In this respect, the omnibus proposals provide for full harmonization. A corresponding amendment of the LkSG should therefore be permissible (see above **III.3.b.**).

6. Extension of the intervals for unprovoked monitoring measures

Companies must regularly assess their business activities and measures, as well as those of their

subsidiaries and business partners (direct and indirect) in the supply chain, and monitor the adequacy and effectiveness of the due diligence measures. Currently, the CSDDD requires an annual assessment and monitoring of measures.

To reduce the burden on companies, the European Commission wants to extend the period for periodic monitoring. Thereafter, an assessment and monitoring of the adequacy and effectiveness of the measures would only be required every five years. The European Commission hopes that this will significantly reduce the burden on both the companies concerned and their business partners, who are likely to have to deal with extensive requests for information as part of the monitoring process.

However, ad hoc monitoring would continue to be necessary and may need to be more frequent. These must be carried out immediately after a significant change occurs and when there are reasonable grounds to suspect that due diligence measures are no longer adequate or effective or that new risks of adverse effects may arise.

Under the omnibus proposals, monitoring would only be required on an ad hoc basis and at least every five years, rather than annually. This would significantly reduce the monitoring burden on affected companies.

This would be a relief not only compared to the CSDDD requirement, but also compared to the current legal situation under the LkSG. The LkSG requires an annual and regular risk analysis. Irregular risk analyses are also already required under current legislation in certain cases. The omnibus proposals do not provide for full harmonization in this respect. This raises the question of whether the German legislator is permitted to amend the applicable requirement accordingly (see above **III.3.b.**).

7. Legal consequences: Penalties and civil liability

The CSDDD provides for administrative sanctions, in particular pecuniary penalties, to be imposed on undertakings for breach of the provisions of the Directive. These penalties must be effective, proportionate and dissuasive. In addition, unlike the LkSG, the CSDDD provides for a civil liability regime under which persons who have suffered damage as a result of an intentional or negligent breach of due diligence may claim compensation from the company obliged. The European Commission's omnibus package contains proposed amendments to both the sanctions and civil liability regimes.

a. Changes to the penalties

Under the current version of the CSDDD, the amount of pecuniary penalties must be based on the worldwide net turnover of the undertaking. Where Member States provide in their national law for a maximum amount for the imposition of pecuniary penalties, this maximum amount must be at least 5% of the company´s worldwide net turnover in the preceding financial year.

According to the European Commission, the minimum ceiling provision has caused particular confusion and should therefore be abolished. According to the omnibus proposals, Member States that provide for a maximum amount for pecuniary penalties need only ensure that the maximum amount does not render the penalty ineffective and non-dissuasive. In addition, the amount of the pecuniary penalties to be imposed should no longer be based on the worldwide net turnover of the company, but should be freely determined taking into account a number of specified factors. These factors, which are already taken into account in the current version of the CSDDD, include, inter alia, the nature, gravity and duration of the infringement and the extent of its impact, the extent of any remedial measures and investments made, and the amount of any financial benefit obtained as a result of the infringement.

In order to achieve penalties that are as comparable as possible in the different Member States, the European Commission, in cooperation with the Member States, will issue guidelines under the omnibus amendment proposals to determine the level of penalties to be imposed by the national authorities.

The LkSG provides for a graduated scale of fines depending on the nature of the violation. For certain serious infringements, a fine of up to 2% of the average annual turnover may be imposed on legal entities or associations of legal entities with an average annual turnover of more than EUR 400 million. The calculation of the average annual turnover includes the worldwide turnover of the group, provided that the group acts as an economic unit. It remains to be seen whether the German legislator will make use of the authority provided by the omnibus amendment to modify this penalty framework. The omnibus amendment also allows for the retention of the current provisions on fines, provided that they are in line with the guidelines yet to be adopted.

b. Changes to civil liability and its enforcement

The civil liability provisions of the CSDDD have already been the subject of heated debate during the legislative process and have led to considerable uncertainty in the transposition into national law. In its proposed amendments, the European Commission now intends to delete the precise specifications of the factual requirements for civil liability and to leave these to the national law of the Member States. However, with reference to the principle of effective legal protection, the Commission emphasizes that Member States must ensure that damaged parties are entitled to compensation for the full amount of their loss where a company is held liable under national law for a breach of its due diligence obligations and that breach has caused damage.

Under these proposed amendments, it is for national law to determine whether and under what conditions companies can be held civilly liable for breaches of due diligence obligations.

In addition, the overriding application of the national law implementing the liability regime in cases where the law of a third country would otherwise be applicable to civil claims is to be deleted. This would mean that the substantive law of the country in which the damage occurred would normally apply, Art. 4 (1) Rome II Regulation. In many cases of supply chain liability claims, this will not be the same country where the liable company is based.

The proposed amendment also seeks to remove the requirement for Member States to allow civil actions for damages to be brought by trade unions, non-governmental human rights or environmental organizations or other NGOs.

However, the proposed amendments also stipulate that the CSDDD should continue to contain a provision whereby companies can be obliged to disclose evidence in legal proceedings, which goes beyond the disclosure obligations known under German civil procedural law.

The LkSG does not currently provide for any explicit civil liability. However, civil liability in accordance with the general provisions remains unaffected. For the assertion of such claims, the LkSG provides for the possibility of a special representative action by domestic trade unions or non-governmental organizations. It would be up to the national legislator to adapt this provision. As things stand at present, however, the inclusion of an explicit liability standard is not to be expected.

8. Relief for SMEs

The omnibus amendments also aim to reduce the burden on small and medium-sized enterprises ("SME"). On the one hand, this should result from the elimination of annual monitoring activities that indirectly affect SMEs as business partners of obligated companies (see above).

Another change will be that only limited information may be requested from SMEs for the purpose of identifying areas of business activity where negative environmental or human rights impacts are most likely or severe (so-called "mapping"). Requests for information should not go beyond the information contained in the CSRD's voluntary reporting standards ("VSME"). However, an exception should be made for information that is necessary for mapping and cannot be obtained by other means.

To date, the LkSG has not differentiated according to whether a supplier is itself obliged under the LkSG or not. The particular burden faced by SMEs, which are subject to requests for information from their business partners who are obliged under the LkSG, prompted the BAFA to issue special guidelines and a series of clarifications. Among other things, it is not permitted to pass on one's own obligations under the LkSG to suppliers, especially if these are SMEs. Against this background, the omnibus amendment proposal provides for a significant relief for SMEs that are not themselves obliged under the LkSG compared to the previous legal situation (see above on the prohibition of deterioration **III.3.b.**).

9. Restricting stakeholder engagement

The CSDDD requires companies to consult with stakeholders at a number of stages in the process of fulfilling their due diligence obligations, namely when gathering the necessary information to identify, assess and prioritize actual or potential negative impacts, when developing prevention and corrective action plans, when deciding to terminate or suspend a business relationship, when adopting remedial measures, and when developing qualitative and quantitative indicators as part of monitoring measures. Stakeholder consultation in all of these steps involves a significant amount of work and delay for obliged companies. For this reason, the European Commission's proposal to limit stakeholder involvement is welcome.

First, the proposed amendment reduces the group of stakeholders to be involved. In particular, consumers will no longer have to be consulted and only those individuals and communities whose rights or interests are or may be directly affected by the products, services and business activities will be directly involved. In addition, at each step, only those stakeholders with a link to the particular due diligence process should need to be consulted, rather than all stakeholders.

Stakeholder consultation should not be required for the decision to suspend a business relationship or for the development of qualitative and quantitative indicators as part of the monitoring process.

Despite this limitation of stakeholder participation rights compared to the requirements of the CSDDD, a tightening of the current legal situation is expected in this respect. At present, the LkSG does not provide for an obligation to consult stakeholders. So far, obligated companies are only required to take appropriate account of the interests of employees, employees in the supply chain and those who may otherwise be directly affected by the economic activities of the company or a company in the supply chain when designing and implementing the risk management system and, in particular, when setting up the complaints procedure. However, active involvement of these groups is not (yet) required.

10. Implementation of the climate change mitigation plan

The current version of the CSDDD requires companies to adopt and implement a climate change mitigation plan to align their business model with the goal of limiting global warming to 1.5°C and achieving climate neutrality. The European Commission's proposed amendment seeks to change the wording to require companies to adopt a transition plan for climate change mitigation, including implementing actions. In other words, the obligation would no longer be to actually implement the climate protection plan, but to ensure that it contains implementing measures planned and already taken. According to the European Commission, this change is intended to better align the CSDDD with the CSRD sustainability reporting regime.

The LkSG does not yet provide for a climate plan. It is therefore expected that the scope of obligations for the companies concerned will be expanded, despite the relief provided by the omnibus proposals.

11. Early publication of guidelines

As some questions remain regarding the application and interpretation of the CSDDD and the European Commission has recognized the difficulties companies face in implementing the requirements of the CSDDD in a timely and appropriate manner, the European Commission will publish its Guidelines and best practices on how to conduct due diligence in accordance with the obligations laid down in Articles 5 to 16 CSDDD, currently scheduled for January 26, 2027, six months earlier, on July 26, 2026, according to the omnibus amendment proposals. Together with the postponement of the start of application of the due diligence obligations under the CSDDD, companies should thus have two years from the publication of the guidelines to adapt their business models and structures.

> The BAFA also regularly publishes guidelines, practical examples and implementation aids relating to the requirements of the LkSG. The question of the relationship between the BAFA's publications and the European Commission's expected future guidelines is still of a theoretical nature. It remains to be seen whether the practice of the authorities will coincide in this respect.

IV. Conclusion

The significant restriction of the CSRD's scope of application is good news for companies. Limiting the audit requirement to a limited assurance engagement should at least ease the financial burden on the companies to be audited. However, this does not answer the related discussion about the supervisory board's audit standard. Otherwise, the simplifications will depend primarily on the proposals to reduce the data points in the ESRS, which have so far only been announced. There will only be a real short-term simplification for companies if the proposed amendments, in particular on "stop the clock", can be adopted very quickly, since companies are currently working "full steam ahead" on implementing the currently applicable legal situation.

Despite the large number of individual proposals, the omnibus proposals concerning the CSDDD do not represent a major reform, but rather a series of marginal, selective adjustments. The adjustments to the legal consequences regimes are to be welcomed, as it was completely unclear how the Member States should have implemented Article 29 CSDDD. However, important questions in relation to national law remain unanswered even after the extension of the full harmonization rules.

.

This client information merely contains a non-binding overview of the subject area addressed in it. It does not replace legal advice. Please do not hesitate to contact us for further information and advice:

Dr. Nicolas Ott
Rechtsanwalt | Partner
Compliance | Corporate

T +49 621 4257 205
E Nicolas.Ott@sza.de

Dr. Michaela Balke
Rechtsanwältin | Partner
Corporate | ESG | Compliance

T +49 621 4257 205
E Michaela.Balke@sza.de

Dr. Cäcilie Lüneborg
Rechtsanwältin| Partner
Compliance | ESG | Corporate

T +49 69 9769601 201
E Caecilie.Lueneborg@sza.de

Dr. Pius O. Dolzer
Rechtsanwalt | Associate
Corporate | ESG | Compliance

T +49 621 4257 229
E Pius.Dolzer@sza.de

Dr. Niklas Schmelzeisen
Rechtsanwalt | Associate
Compliance | M&A

T +49 69 9769601 801
E Niklas.Schmelzeisen@sza.de

Kathrin Sundermann, LL.M.
Rechtsanwältin | Associate
Compliance | Dispute Resolution

T +49 89 4111417 445
E Kathrin.Sundermann@sza.de