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EU Sustainability: State of Play – The Conclusion of the Sustainability Omnibus Process

The Sustainability Omnibus has led to substantive amendments to the EU CSRD, EU CSDDD, and EU Taxonomy, bringing clarity on next steps.

Our EU Sustainability: State of Play series focuses on regulatory developments and policy initiatives emerging from Brussels. In this series, we explore EU sustainability frameworks and their intersection with other areas of EU law.

EU sustainability regulations continue to play a key role in shaping the direction of international ESG frameworks. Latham's European ESG Practice tracks these EU-driven developments closely by drawing on our connections with EU regulators, our presence in Brussels, and our broader European platform.

The EU Sustainability Omnibus: Finalisation of the Detailed Directive

In December 2025, after months of negotiation, the EU finalised Directive 2026/47, also known as the Detailed Omnibus Directive (Detailed Directive), which forms part of the first Omnibus package on sustainability. The Detailed Directive has resulted in substantive amendments to both the EU Corporate Sustainability Reporting Directive (CSRD) and the EU Corporate Sustainability Due Diligence Directive (CSDDD). Following formal endorsement from the European Council (Council), the Detailed Directive was published in the Official Journal of the EU on 26 February 2026 and came into force on 18 March 2026.

The Detailed Directive materially amends the scoping for both the CSRD and CSDDD, resulting in focusing sustainability disclosures and related conduct obligations on the largest entities. It raises the CSRD thresholds so that mandatory reporting will apply only to EU companies with over 1,000 employees and €450 million net annual turnover (with separate, tailored rules for non-EU groups). In parallel, the CSDDD is refocused on only the largest companies, accompanied by the much-lobbied removal of the proposed obligation to adopt a climate transition plan, penalties for non-compliance being capped at 3% of worldwide turnover, and deferred application by one year to July 2029. Together, these changes are aligned with the EU's drive to simplify regulations and to increase competitiveness by reducing burden for businesses, and the Commission's perspective on preserving sustainability objectives.

The finalisation of the Detailed Directive resolves a period of uncertainty during which an earlier compromise faltered last October. We now have a clearer picture of the expected EU sustainability

landscape, with fewer entities in scope, streamlined reporting standards, and a risk-based approach to due diligence. In-scope or soon-to-be-in-scope businesses should therefore shift to focusing on implementation measures, for instance by refreshing scoping analyses against the new thresholds, refreshing any double materiality assessments, aligning reporting to the simplified European Sustainability Reporting Standards (ESRS) (when finalised), and planning supply-chain diligence around the revised CSDDD framework.

In this article, we give an overview of the impacted frameworks and key areas of change, before moving on to look at the key obligations and concepts going forward, as well as next steps.

Background to the Impacted Frameworks

The CSRD establishes a regime for corporate sustainability disclosures through reporting in accordance with the ESRS. The ESRS set out impacts, risks, and opportunities covering a spectrum of environmental, social, and governance topics. The CSRD is anchored in a double materiality approach (a principle that was retained as part of the Omnibus simplification process) and supported by digital, assured reporting. Its purpose is to improve the quality, comparability, and reliability of sustainability information so that investors and other stakeholders can allocate capital or other resources more efficiently, with increased transparency of reported information. As part of CSRD reporting, companies must also make disclosures under the EU Taxonomy Regulation (EU Taxonomy), which establishes a classification system defining when an economic activity is environmentally sustainable, using technical screening criteria aligned to six environmental objectives based on the EU Green Deal. The first “wave one” CSRD reporters have already commenced reporting in 2025 based on financial year (FY) 2024 data. Subsequently, however, the European Commission’s “stop the clock” proposal, which was adopted on 14 April 2025, introduced a two-year delay to the reporting deadlines for upcoming waves of in-scope companies.

The CSDDD focuses on corporate behaviour rather than disclosure. It requires in-scope companies to identify, prevent, mitigate, and remediate adverse human rights and environmental impacts in their own operations and aspects of their value chains, embedding responsible business conduct and governance into commercial decision-making. CSDDD complements CSRD by turning reported policies and risks into actionable due diligence duties and extending accountability into supply chains.

Key Areas of Change

CSRD

Scoping Significantly Reduced

A significant change to the CSRD is a substantial narrowing of scope, as set out below.

Issue	Original position	Revised position
Scope for EU companies and groups	Companies that met two of the following three thresholds (when consolidated with any subsidiaries): • Employees: 250 • Net turnover: €50 million • Balance sheet size: €25 million	Companies that meet both of the following thresholds (when consolidated with any relevant subsidiaries): • Employees: 1,000 • Net turnover: €450 million
Scope of global group (Article 40a) reporting	Non-EU headquartered groups with: • a large EU subsidiary or branch that generated over €40 million net turnover; and • net turnover of more than €150 million in the Union.	Non-EU headquartered groups with: • an EU subsidiary or branch that generated over €200 million net turnover; and • net turnover of more than €450 million in the Union.

These revised thresholds are anticipated to exempt all but the largest companies from CSRD reporting. The European Parliament (Parliament) argued for an even higher employee threshold during negotiations, but this higher threshold was not included in the final agreement. Under the Omnibus revisions, EU companies meeting the new thresholds will be required to report for FYs starting on or after 1 January 2027, with the first reports due in 2028.

Notably, although reduced in scope, the CSRD does still feature extra-territorial implications for multinational companies. Under the Omnibus revisions, non-EU companies meeting the revised thresholds will be required to report for financial years starting on or after 1 January 2028, with the first reports due in 2029.

Exemptions and Timing Relief

The Detailed Directive introduces targeted exemptions alongside the narrower scope:

- “Wave one” companies, i.e., large undertakings that were originally required to report from FY 2024, but that now fall outside the revised CSRD scope under the new thresholds, may benefit

from an optional transitional exemption for FY 2025–2026, subject to Member State implementation decisions.

- Financial holding companies can be exempt for both EU company and global group reporting, subject to certain conditions.
- Assurance will remain at limited assurance, with earlier possibilities for moving to reasonable assurance removed.
- A previously stricter position on parent-company reporting exemptions for large, listed subsidiaries is relaxed, making the parent-company reporting exemption available to all entities, subject to certain conditions.
- Finally, rather than mandating sector-specific reporting standards through delegated acts, the Commission’s role shifts to the option of issuing sector-specific voluntary guidelines.

Value Chain Information Requests

A notable new concept set out in the Detailed Directive is the “value chain cap”. While the original CSRD contained no such mechanism, the Detailed Directive introduces safeguards for “protected undertakings” in the value chain with fewer than 1,000 employees. Legal limits are placed on reporting companies from seeking information from these protected undertakings beyond the scope of the voluntary sustainability reporting standards that the Commission may adopt, thereby intending to limit burdens on smaller partners in the in-scope entity’s value-chain.

CSDDD

Scoping Significantly Reduced

The revised CSDDD also shifts the focus to the largest companies.

Issue	Original position	Revised position
Scope for EU companies and groups	Companies that met the following thresholds (when consolidated with subsidiaries in the case of ultimate parent companies): • Employees: 1,000 • Net turnover: €450 million	Companies that meet the following thresholds (when consolidated with subsidiaries in the case of ultimate parent companies): • Employees: 5,000 • Net turnover: €1.5 billion
Scope for non-EU companies	Companies that produced net turnover in the EU of over €450 million (when consolidated with	Companies generating net turnover in the EU of over €1.5 billion (when

	subsidiaries in the case of ultimate parent companies).	consolidated with subsidiaries in the case of ultimate parent companies).
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Value Chain Information Requests

The introduction of a value chain cap, similar to the CSRD, limits information requests to what is “necessary”. For counterparties with fewer than 5,000 employees, information requests apply only when the information cannot reasonably be obtained by other means.

Removal of the Transition Plan Requirement

A notable change is the removal of the CSDDD’s mandatory obligation to adopt and implement a climate transition plan, as advocated for by the Parliament. Importantly, the CSRD still requires disclosure of a transition plan (if one exists); however, this CSRD provision is a disclosure-based obligation rather than a duty to adopt and implement a plan which was previously in place under the CSDDD.

Due Diligence Process Refocused

The updated due diligence process allows companies to first carry out a scoping exercise to identify general areas where adverse impacts are most likely to occur and to be most severe across (a) their own operations, (b) operations of subsidiaries, and, (c) where related to their chains of activities, those of business partners (whether direct or indirect). Following this, companies then carry out an “in-depth assessment” based on the scoping exercise. This contrasts with the previous requirement for an across-the-board, in-depth assessment across own operations, those of subsidiaries, and, where related to their chains of activities, those of their business partners in the areas where adverse impacts were identified to be most likely to occur and most severe.

Civil Liability, Penalties, and Timing

The Detailed Directive removes the harmonised EU-wide civil liability regime and the requirement that Member State rules be of overriding mandatory application when another law would otherwise apply, replacing this with a review clause on whether an EU-wide regime is needed in future. The penalty regime has also been adjusted: EU Member States must still set penalties for non-compliance, but the maximum cap is set at 3% of an ultimate parent company’s consolidated worldwide turnover. The Commission will issue penalty guidelines, which Member States may follow, but are not required to do so. Although not binding, such guidelines serve to promote consistency across Member States in how penalties are applied. Finally, the timeline for application is also eased. The requirement for transposition moves to 26 July 2028, with applicability from July 2029, providing an additional year for implementation.

For a tabular summary of the key changes to the CSRD and CSDDD, refer to our previous [article](#).

EU Taxonomy

In July 2025, the Commission adopted an Omnibus Delegated Act to amend the Taxonomy Disclosures Delegated Act and the Taxonomy Climate and Environmental Delegated Acts. The changes to reporting include the introduction of a materiality threshold for activities that account for less than 10% of turnover,

and simplification of the “Do No Significant Harm” (DNSH) criteria (which is connected to, but operates differently from, the DNSH concept under the EU’s Sustainable Finance Regulation (SFDR)), particularly concerning pollution and chemical hazards. The Delegated Act entered into force on 8 January 2026 and applies retroactively from 1 January 2026. The Commission published [draft Q&As](#) on 17 December 2025, intending to provide guidance on the implementation of the Delegated Act, rather than introduce any additional requirements. Formal adoption of the Q&As in all EU languages is expected in 2026, and will not have the force of law, although will likely be considered highly influential in their interpretations.

On 17 March 2026, the Commission set out potential revisions to the EU Taxonomy criteria in order to make the framework simpler and easier to use. The proposals, set out in two draft Delegated Regulations, include streamlined criteria and clarifications on how to demonstrate compliance. Significantly, the proposals include revisions to clarify the technical screening criteria (TSC), including the DNSH criteria, which has faced criticism for its complexity. These changes follow the Commission’s broader review of all TSC during 2025 and are aligned with the Omnibus objectives of simplifying rules and reducing burden. The feedback period is open until 14 April 2026, with the revised Delegated Acts planned to apply from 1 January 2027.

Future Obligations and Key Concepts

CSRD

Now that the Detailed Directive has entered into force, companies can begin to prepare their sustainability reporting processes based on the amended CSRD framework. First, companies should reassess whether they fall within scope under the revised thresholds.

In-scope undertakings must include in CSRD reporting information necessary to understand both: (a) the undertaking’s impacts on sustainability matters (impact materiality); and (b) how sustainability matters affect the undertaking’s development, performance, and position (financial materiality). This double materiality approach has been expressly retained under the Omnibus.

As discussed in our [previous article](#) on the Omnibus and Corporate Sustainability Regulation, the Commission instructed EFRAG (the technical advisor that produced the initial set of ESRS) to revise the ESRS, with the intention to substantially reduce the number of datapoints and streamline the reporting process. EFRAG delivered its [final technical advice](#) to the Commission on 3 December 2025. The Commission must now deliver the revised, simplified ESRS by delegated act, with adoption currently expected in June 2026. This would be ahead of an ambition to adopt by September 2026 (within six months of the Omnibus entering into force), so companies can apply the new ESRS for FY 2027 (optionally from FY 2026).

Further, EFRAG is also in the process of developing the Non-EU Sustainability Reporting Standards (NESRS), which are designed to apply to non-EU parent undertakings that fall within the scope of the CSRD. The delivery of this advice from EFRAG to the Commission is currently expected by the end of

January 2027, following a public consultation process in Q3 2026. EFRAG have set out that the NESRS text will reflect the content of the simplified ESRS as issued by Delegated Act.

In parallel, the Commission must finalise the voluntary reporting standard that underpins the “value-chain cap” limiting requests to smaller counterparties, through delegation legislation that is expected in June 2026. Going forward, the Commission will adopt limited assurance standards by 1 July 2027 (the Detailed Directive has confirmed that there will be no transition to reasonable assurance).

For CSRD “wave one” reporters that fall out of scope under the new thresholds, Member States have the option to provide the optional transition exemption for FY 2025–2026, and so this remains to be clarified during the transposition process, as do national transpositions potentially affecting exemptions for financial holding undertakings and expanded subsidiary exemptions.

CSDDD Obligations

As with the CSRD, companies should first determine whether they meet the revised in-scope thresholds for the CSDDD. The significantly narrowed scope means only the largest companies will be subject to CSDDD obligations.

Turning to due diligence methodology, the refocused approach allows companies to concentrate efforts on areas of their chains of activities where actual and potential adverse human rights and environmental impacts are most likely to occur. Companies could therefore consider developing risk-mapping and prioritisation methodologies to support this targeted approach.

The Due Diligence Process

Core due diligence obligations for the CSDDD remaining relatively unchanged following the Omnibus. Companies are required to conduct risk-based human rights and environmental due diligence by:

- integrating due diligence into their policies and risk management systems;
- identifying and assessing actual or potential adverse impacts;
- preventing and mitigating potential adverse impacts, and bringing actual adverse impacts to an end;
- providing remediation for actual adverse impacts;
- carrying out meaningful engagement with stakeholders;
- establishing notification mechanisms and complaints procedures;
- monitoring the effectiveness of their due diligence measures; and
- publicly communicating on due diligence.

While the fundamental structure is retained, the Omnibus has introduced notable refinements to the detailed mechanics of the due diligence process. Elements of the core obligations under the CSDDD, due diligence process, and amendments made in the Omnibus process are discussed in more detail below.

Identification and Assessment of Impacts

Whilst the requirement to identify and assess actual and potential adverse impacts remains, the method of the exercise has been reviewed in the Omnibus. The original requirement for companies to “map” their operations and chains of activities has been replaced with a requirement to conduct a “scoping exercise, based solely on reasonably available information”, to identify general areas where adverse impacts are most likely to occur and be most severe. This process allows in-scope companies to focus diligence efforts on areas identified to be at higher risk of adverse impacts, rather than mandating an across-the-board, in-depth assessment.

Value Chain Information Requests

The Omnibus introduces new protections for business partners in the value chain regarding information requests. For the purposes of the in-depth assessment discussed above, companies may request information from business partners only where that information is “necessary”. Furthermore, in the case of business partners with fewer than 5,000 employees, companies may request information only when it cannot reasonably be obtained by other means (i.e. publicly available information). If information can be obtained from different business partners, companies should prioritise requesting information from the business partner or partners where the adverse impacts are most likely to occur.

Prioritisation of Adverse Impacts

Following the scoping and in-depth assessment exercise, adverse impacts should then be prioritised based on severity and likelihood.

Prevention and Remediation

The core obligations to prevent and mitigate potential adverse impacts, and to bring actual adverse impacts to an end, remain substantively unchanged. However, the original CSDDD required companies to suspend or, as a last resort, terminate business relationships with non-compliant partners. The revised text removes the mandatory termination requirement. Instead, companies must now, as a last resort and until the impact is addressed: (a) refrain from entering into new, or extending existing, relationships with the relevant business partner; (b) suspend the business relationship with respect to the activities concerned, including with a view to using or increasing its leverage; and (c) adopt and implement an enhanced prevention or corrective action plan.

Stakeholder Engagement

While stakeholder consultation remains a key step, the engagement requirements have been revised. The stages at which companies must consult relevant stakeholders have been changed. Notably, the requirement to consult stakeholders when deciding to terminate or suspend a business relationship has been removed, consistent with the removal of the mandatory termination obligation. Companies are still

required to consult stakeholders when gathering information on adverse impacts, developing prevention and corrective action plans, and adopting remediation measures.

Notification Mechanism and Complaints

Companies should implement a complaints procedure enabling persons and entities to submit complaints regarding actual or potential adverse impact of the company's operations and in the chain of activities. Complainants should be entitled to receive information in relation to the complaint. There should also be an accessible mechanism for the submission of "notifications" on information or concerns regarding actual or potential adverse impacts.

Monitoring

The monitoring requirements remain, but have been reduced. The original CSDDD required periodic assessments of due diligence effectiveness at least every 12 months. Under the Omnibus, this has been extended to at least every five years, though assessments must still be carried out without undue delay after a significant change occurs or whenever there are reasonable grounds to believe that the measures are no longer adequate or effective, or that new risks have arisen. This change should reduce the ongoing compliance burden for in-scope companies.

Communicating

An annual statement must be published on the website on the matters covered by CSDDD (with an exemption for companies subject to sustainability reporting under the CSRD).

Guidance and 2031 Review

On CSDDD, the focus will shift to operational guidance with the delayed timelines. The Commission will issue guidance on penalties, reflecting the revised maximum cap of 3% of global turnover, and intends to produce detailed guidelines on the content and criteria for companies' due diligence statements.

The Sustainability Omnibus also includes review clauses for both the CSRD and CSDDD, requiring the Commission to assess by 26 July 2031 whether the scope thresholds should be revised (either up or down) and whether a sector-specific approach is needed for "high-risk sectors".

Next Steps for Companies

Companies currently in scope should reassess their reporting and due diligence obligations against the revised thresholds as Member States proceed with national transposition. Supply chain due diligence and climate risk assessment increasingly depend on data from across value chains, and companies not directly subject to EU sustainability law may still find that their largest business partners are. Further, understanding exposure to energy price volatility, tariffs, raw material scarcity, or supply chain risks is relevant to business planning, and robust sustainability disclosures can reduce the friction cost of supplier assessments, financing applications, and investor inquiries.

The Detailed Directive signals a pivot from expanding sustainability-related reporting requirements to simplification-narrowing scope and easing mechanics whilst seeking to maintain the EU's sustainability objectives. With the finalisation of the Detailed Directive, companies now have the clarity to move from monitoring regulatory developments to implementation and execution.

This article was prepared with assistance from Samantha Banfield at Latham & Watkins.

Latham's European ESG Practice has experience advising on a broad range of EU sustainability and global ESG topics. If you have questions about this article, please contact one of the authors listed below or the Latham lawyer with whom you normally consult.

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