Invest Europe's response to the Sustainability Omnibus consultation by MEP Pascal Canfin

1. CSRD

- **What are your thoughts on dividing the reporting thresholds into three stages, as proposed by the European Central Bank, with a VSME stage (up to 500 employees), a stage with lightened ESRS and a simplified audit (from 500 to 1000 employees) and full ESRS (for over 1000 employees)?**

Answer:
Invest Europe supports a two-tiered approach to sustainability reporting, that strikes the right balance between proportionality and clarity, while avoiding unnecessary complexity. For the upcoming voluntary standard, a further graduated system helps preserve proportionality while providing smaller, high-growth companies with a stepping-stone toward full CSRD alignment, instead of mandating full ESRS disclosures prematurely.

Specifically, we favour the following approach:

- Companies above the updated CSRD threshold (measured over two consecutive balance-sheet dates, on a consolidated basis) should fall under a single, full reporting regime under the ESRS.
- Companies below that threshold should use the upcoming voluntary standard, which should be practical, scalable, and aligned with investor practices. In the PE/VC ecosystem, this aligns well with how fund managers already tailor ESG data collection to company size - as per Invest Europe ESG Reporting template, distinguishing between companies with fewer than 15, between 15 and 250, and more than 250 employees.

Creating a third, intermediate regime between would introduce unnecessary complexity and risk fragmenting implementation. A clear two-tiered system is more realistic for preparers and easier for investors to interpret and aggregate.

- **Can potential sector-specific ESRS help to simplify the analysis of dual materiality and reduce the number of datapoints?**

Answer:
The creation of sector-specific ESRS standards would lead to additional datapoints, contradicting the objective of reducing complexity and compliance costs.

Instead, we suggest establishing sector-wide guidance (on materiality and suggested disclosures - drawn from the ESRS), modelled on frameworks like GRI and SASB, to help streamline the application of the double materiality principle within the existing ESRS framework - without adding any new disclosure requirements.

This kind of guidance should:

- Identify which ESRS topics are material for companies in a given sector from both a financial and impact materiality perspective;
- Allow preparers and auditors to focus on validating company-specific deviations, rather than starting from a blank slate;

- Reduce the datapoints actually reported in practice, by avoiding over-disclosure for non-material topics;
- Cut audit costs and legal uncertainty by clarifying expectations at the outset.

Such guidance on the DMA would make the ESRS more usable, scalable, and proportionate - especially for PE/VC firms working across diverse portfolios.

- **Are the VSME standards sufficient to enable information to be aligned with the ESRS and their dual-materiality? In case of lack of information from the VSME standards, are you using proxies?**

Answer:
The current VSME standard is a useful first step, but it is not yet fully aligned with the upcoming ESRS revisions – particularly from the perspective of the PE/VC industry. As it stands, the VSME framework integrates multiple ESRS topics into broad, high-level categories, which makes it difficult to map disclosures clearly onto the ESRS, and places too much emphasis on narrative disclosures, which can be disproportionate and burdensome for smaller businesses with limited resources. Therefore, we welcome the Commission's and EFRAG's intent to recalibrate both the ESRS and VSME standards, with a stronger focus on quantitative, and decision-useful indicators. This would significantly improve usability, scalability, and interoperability with other frameworks – and make the standards more practical for portfolio companies and investors alike.

To support alignment and proportionality, we also continue to advocate for a tiered structure within the voluntary standard, as outlined in our response to Question 1, where expectations are scaled to company size and maturity. Better alignment

Additionally, ensuring interoperability with existing regulatory sustainability legislation (including the Sustainable Finance Disclosure Regulation (SFDR)), will reduce administrative burden. SFDR PAI indicators, especially those in Table 1 – although not perfect and also in need of revision – are widely used across the PE/VC industry. While the current VSME standard reflects many of these indicators in substance, we see clear opportunities to enhance their visibility and coherence within the voluntary standard with SFDR. For instance, Appendix C of the VSME ("Background information for financial market participants that are users of the information produced using this Standard (reconciliation with other EU regulations)") highlights mapping to existing relevant legislations. With regard to SFDR, indicator 6 ("Energy consumption intensity per high impact climate sector") from Table 1 of Annex I ("Statement on principal adverse impacts of investment decisions on sustainability factors") is not mapped to the standards (although Energy consumption, turnover, and the NACE code are requested from reporters and could be linked to this indicator).

- **Could a move to a' consistency check' audit for companies between 500 and 1 000 employees or for the dual materiality analysis for the first years of reporting be a useful learning phase?**

Answer:
The updated CSRD threshold for mandatory ESRS and assurance should be preserved.

For companies above this threshold, we recommend limiting assurance to quantitative, structured data only. In addition, unlisted companies should be allowed to opt out of assurance for the first three years, to give them time to build reporting capacity and internal systems.

Rather than introducing a new "light" audit obligation tied to an additional tier, the priority should be to ensure that assurance under CSRD remains proportionate, scalable, and focused, especially

for first-time reporters. This would also help prevent audit bottlenecks and reduce compliance burdens.

- **In light of the latest developments in the United States and China, are you encountering conflicting regulatory requirements when it comes to reporting? If so, how can we avoid this pitfall while maintaining our sovereignty over ESG data?**

Answer:
Global investors and groups are increasingly facing overlapping or divergent sustainability reporting requirements – particularly between the EU and other jurisdictions. This creates uncertainty, increases compliance costs, and risks duplicative reporting for companies operating across borders.

To avoid this pitfall while safeguarding the EU's regulatory autonomy, the priority should be to further harmonise or align ESRS and, where appropriate, recognise equivalence with global standards, including:

- ISSB's IFRS S1 and S2, which are increasingly adopted outside the EU for financial materiality;
- GRI standards, which remain the global reference for impact materiality.

Formal guidance on equivalence and substitution should be provided, making clear that companies reporting under ISSB (S1/S2) or GRI can cross-reference or omit overlapping ESRS disclosures. This is particularly important for undertakings operating across borders, who otherwise risk being subject to duplicated or conflicting obligations under CSRD.

In parallel, greater regulatory discretion should be granted to companies when determining which topics and disclosures to report under the ESRS, in line with established principles such as the business judgment rule. It is essential that companies retain the flexibility to apply their expertise and understanding of their own operations when assessing what constitutes a material impact or risk. This discretion would offer much-needed legal clarity and protection, and would reduce pressure on companies to over-disclose in order to mitigate legal risk – a trend that increases complexity but does not necessarily improve transparency.

- **What should be the priorities for EFRAG's review of the ESRS?**

Answer:
First, narrative disclosures should be streamlined and clearly distinguished from quantitative indicators that are relevant for investment decisions and should be prioritized.

Second, as noted in our response to Question 2, the burden of the double materiality assessment (DMA) must be significantly reduced. In addition to introducing sector-level materiality guidance, the ESRS revision should:

- Clarify aggregation levels and granularity expectations for investors, especially based on the type and depth of the investment relationship, to avoid requiring double materiality assessments at the individual portfolio company level where not proportionate.
- Clarify the treatment of value chain data, particularly when data availability is limited;
- Provide practical guidance on assessing impact materiality, including its relationship to financial materiality, and how to proceed when standardised measurement is lacking.

Third, the concept of entity-specific topics should either be removed entirely from the ESRS and the DMA process, or accompanied by structured guidance and concrete examples that define when and how these topics should be reported. The current approach lacks clarity and creates avoidable complexity for preparers.

Finally, if duplicative reporting under the ESRS for PE/VC fund managers and investors, who are already subject to the SFDR, is not addressed within the Sustainability Omnibus proposal, the ESRS must be updated to align with other EU and global frameworks (e.g., ISSB) that already reflect specific obligations and operational challenges of the industry, particularly on complex topics such as Scope 3 category 15 Greenhouse Gas (GHG) emissions, to avoid overlapping and inconsistent reporting obligations.

2. CSDDD

- **Could the withdrawal of a European civil liability regime (art29 of the CSDDD) fragment your activities on the EU market?**

Answer:
We do not consider the withdrawal of a European civil liability regime to be a source of fragmentation for our industry.

While we recognise that this may lead to some differences across jurisdictions, in this context, a requirement for Member States to ensure access to recourse appears to be a more balanced and proportionate approach. The revised approach allows Member States to implement the Directive in a way that aligns with their existing legal traditions, while still upholding its core objectives, as businesses will continue to assess liability risks under individual Member State regimes.

Importantly, a harmonised EU civil liability regime – particularly one that includes joint liability for parent companies – could incentivise speculative litigation against parent entities for impacts occurring deeper in the supply chain, rather than holding accountable those more directly involved. It is therefore important that companies retain the ability to contractually limit or exclude certain liabilities, where appropriate.

- **Does the European Commission's 'tier 1' approach reduce the administrative burden for companies?**

Answer:
Requiring companies to undertake rigorous, stand-alone due diligence on tier 1 partners – many of whom have already been assessed through internal procurement, onboarding, or risk management systems – risks creating a duplicative and disproportionate burden. Severe adverse impacts are also less likely to arise in these direct relationships.

To address this, we would support a risk-based approach exempting certain tier 1 relationships automatically based on categorisation of risk – drawing inspiration from existing EU frameworks such as the Conflict Minerals Regulation or the EU Deforestation Regulation. The EU could help operationalise Article 8(2) on behalf of businesses by identifying high-risk countries, and/or business activities, allowing companies to focus due diligence efforts where they are most needed.

This could be complemented by a more structured "plausible information" mechanism, potentially integrated into the complaints process – whereby affected stakeholders or third parties could submit substantiated concerns (supplying plausible information in support of these). However, clearer guidance is needed on what qualifies as plausible, and how far downstream or upstream companies are expected to investigate. Without such clarity, businesses may adopt a defensive, over-compliant approach – effectively reintroducing the burden the proposal is aiming to reduce.

The risk-based approach should also be supported by regulatory discretion in how companies apply and prioritise due diligence. Businesses should be able to rely on their existing internal risk frameworks and apply their professional judgment when determining which partners merit further investigation. This would ensure that the Directive is both effective in identifying real risks and practical to implement.

- **Is the SME shield and the derogation proposed by the Commission in the Omnibus a good compromise?**

Answer:
Invest Europe considers the SME shield and derogation proposed in the Omnibus to be a balanced and proportionate compromise within the CSDDD framework, as without a protective mechanism, this would lead to a de facto extension of due diligence requirements onto SMEs.

This is provided that the above-mentioned shield and derogation are implemented in a way that delivers real relief for smaller companies in practice, but does not restrict ongoing investment information needs. From an investment perspective, it must be ensured that our members retain the ability to request additional sustainability-related information from portfolio companies for purposes other than CSDDD compliance – including stewardship, risk management, and performance monitoring.

- **Do you think it makes sense to move from an annual assessment to one every 5 years?**

Answer:
It is important to distinguish between light-touch annual updates (e.g. monitoring for significant changes) and full reassessments. While annual monitoring remains useful, it should not require companies to repeat resource-intensive assessments every year, which can be lengthy processes involving extensive data collection, engagement, and validation. Repeating such exercises every year is often impractical.

A five-year reassessment cycle, especially for full or deep-dive exercises, is a more proportionate and realistic approach, particularly for PE/VC-backed portfolio companies, where sustainability practices and reporting capacity are still being built up.

- **Today there is an obligation of means, not of results, regarding transition plans. Do you think the Commission's new approach on this point in the Omnibus is relevant? How can the CSRD and CSDDD approaches be reconciled?**

Answer:
In our view, this is essential to avoid duplication and ensure consistency across regulatory frameworks. However, the recent amendments to Article 22 of CSDDD have created uncertainty as to whether this is still the case, particularly due to the new references to "implementation actions" and financing plans.

Explicit confirmation that there is no change in substance to the obligation, and that companies publishing a CSRD-compliant plan remain fully covered under CSDDD is needed.

3. Taxonomy

- **Do you think the European Commission's proposal for a partial and voluntary taxonomy for companies under €450m is relevant? Could it hinder the redirection of investment towards sustainable products?**

Answer:
A voluntary, partial Taxonomy alignment regime can offer a proportionate and pragmatic path for companies that are in early stages of sustainability maturity or operate with limited resources, and that may not yet have the capacity to complete a full Taxonomy assessment – it creates a workable entry point.

However, the option to report on partial alignment should be extended to companies above the €450 million turnover threshold, which may also face structural or technical limitations that make full alignment disclosures difficult, particularly those operating across diverse geographies or in sectors where Taxonomy screening criteria remain limited or evolving.

For this partial alignment regime to be effective, clear technical parameters are, however, needed. It is currently unclear what "partial alignment" entails in practice (e.g., whether it refers to failing to meet some Technical Screening Criteria (TSC), or meeting all TSCs but lacking full evidence for Do No Significant Harm (DNSH) or Minimum Safeguards). To ensure meaningful uptake, especially given the market demand for simpler alignment pathways, which elements are required, and how partial alignment will be interpreted and disclosed should be clarified.

Additionally, the success of a partial alignment regime depends on its interoperability with other EU frameworks, especially the SFDR. As it stands, the SFDR reporting templates do not accommodate partial Taxonomy alignment. Without updates to the SFDR RTS, investors would be unable to reflect partial alignment at fund level, even where portfolio companies voluntarily report it – defeating the purpose of the reform. To avoid fragmentation and maximise usability, the SFDR RTS templates should be updated accordingly, to reflect partial alignment in both pre-contractual and periodic disclosures. This alignment is essential to maintain the integrity of the EU sustainable finance agenda and avoid conflicting requirements that would undermine investor confidence and hinder the redirection of capital.

The proposed partial Taxonomy alignment regime will not hinder the redirection of investment towards sustainable products. PE/VC investors and fund managers already engaging with investee companies to collect alignment data will continue to do so, particularly when alignment is central to the fund's sustainability strategy. As such, reduced or voluntary reporting at the investee level does not prevent investors from obtaining and using this information.

In fact, making Taxonomy reporting voluntary for smaller companies, particularly those whose main business activities fall outside the scope of the Taxonomy, is another step to reduce administrative burden without impeding investor demand. It avoids forcing reporting obligations on companies where the relevance of Taxonomy alignment is low, or where alignment is difficult to assess under current criteria.

Ultimately, a more proportionate approach may encourage broader participation in the sustainability framework – including by high-growth or early-stage companies – supporting long-term investment in sustainable activities.

4. Other

- **Any other comments?**

Answer:
Please refer to our position paper on the Sustainability Omnibus published on 28 April.