

## Consolidating EU sustainability legislation: What the proposed change could mean for the sustainability industry

In remarks in Budapest late last year, European Commission President Ursula von der Leyen indicated plans to consolidate the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy Regulation into a single piece of legislation (the “Omnibus ESG legislation”).

She argued that this would streamline disclosures and make compliance less burdensome for companies. On the face of it, a streamlined approach will appeal to many companies struggling to manage complex and overlapping legislation. But what does this mean for companies who have already invested time and resources in navigating the existing regulation? Does “streamline” inevitably mean “dumb down”? Is this change an attempt to keep European businesses competitive, particularly faced with a new US administration that seems unlikely to be interested in raising the bar on climate and sustainability reporting? And what should you do if you’re already half way through (or even further along) preparing your first CSRD-compliant report?

Earlier this month, Claire and Giles sat down with our friend Dan Gray from [Mishcon Purpose](#) over a cup of coffee to discuss all this (and more!). This is the (lightly edited) transcript of our discussion.

**Dan:** Let’s get into it. The proposal to merge the alphabet soup of Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy Regulation may sound reasonable on the face of it, reducing complexity and duplication of effort. Who doesn’t want that? But I’m concerned. These regulations are complex precisely because they are trying to regulate disclosures and action around complex and interconnected issues. If we try to simplify, what may we lose in the process?

**Giles:** The principle - reducing administrative burdens – is a good one, if it can be achieved without compromising on the principles behind the directives. We shouldn’t underestimate the benefits of simplification. Many companies are finding it incredibly difficult to navigate these overlapping frameworks – different requirements, different parts of the business in scope, different dates of application. If the EU can create a single, coherent framework, surely that’s better for everyone?

And the EU also needs to look at what is happening elsewhere. They took a leadership position on sustainability disclosure, and that’s turned the dial a long way already. We’ve seen China indicate that they will be introducing similar legislation, there’s alignment on financial materiality at least via ISSB, and so on. But the mood music in the US is shifting on this – it’s not clear that their climate reporting rules will survive the next four years. The EU need to ensure – that this doesn’t come at the cost of competitiveness and that companies that are caught by the legislation aren’t spending so much time on disclosing that they are losing the opportunity to innovate and grow. I want good sustainability outcomes but less red tape.

**Dan:** I’m glad you raise competitiveness, Giles, because this goes to right to the heart of the matter, in my view – competitiveness on what terms? For me. the framing of a massive and unnecessary financial burden on business-as-usual – as if this was disclosure for disclosure’s sake – fundamentally misunderstands the purpose of these regulations. What about competitiveness in the sense of business-

as-needed, building the capacity to survive and thrive in a world already experiencing the worsening effects of ecological breakdown?

The first climate change disclosure requirement in the European Sustainability Reporting Standards (ESRS) should be informative. It's not about emissions, but about transition planning – what's your strategy for resilience? In fact, if you look across all 82 disclosure requirements, they're as much – if not more – about policies, actions and governance structures than about metrics and KPIs. And this is the basis of interconnections with CSDDD and the EU Taxonomy, too – understanding the robustness of due diligence to identify and address adverse impacts on the very resources business models rely upon to function, and the extent to which capital is being directed toward sustainable innovation.

**Claire:** It's a good point. Dan, you and I have spoken before about the fact that the companies that are finding this the hardest are those with the least to say. If you have a well drafted and thought-out transition plan, or an effective and robust environmental policy, then drafting compliant disclosures is more straightforward than if you don't. In fact in some ways, it's easier than before because it's so clear what is needed in terms of disclosures. It's those companies that have got less to say, but are reluctant to say that who are finding it harder.

I would say that we've seen some great examples of clients using this as a spur to really focus on what they need to actually do, rather than report – better governance, a more robust transition plan, better policies – but sometimes there's been a lot of heat and not a great deal of light where this is not the case.

And while I say, "more straightforward", this is still time consuming.

Even our clients who are well down the road in terms of preparing CSRD-aligned disclosures for publication this year are still trying to figure out the finer details of the requirements. It isn't easy for them, and they are the bigger companies with more resources to devote to this. The way the legislation is laid out – even if we just consider CSRD in isolation – means people spend a huge amount of time and effort working out what is required of them just to comply with the disclosure requirements. If the rules of the game change again, they will have to go back to the drawing board. We could end up with more confusion, rather than less, in the short term at least.

**Giles:** Businesses should be able to live with some short-term disruption if we end up with a framework that is easier to implement and understand. The EU has an opportunity to show that sustainability and simplicity can coexist. I know it's not something we've seen from them so far but you have to live in hope. If they can make this clear, comprehensive and robust then everyone wins. It's a tall order, but I'm optimistic.

**Claire:** I'm inclined to agree with Dan – the EU would have to work hard, and really smartly, to make sure that they preserve the integrity of the regulations if they go down this route. I'm just not sure that will happen if you put it all back on the table for discussion again.

**Dan:** Yeah, and beyond the more ideological points I already mentioned, there are serious practical issues as well, like how the heck do you harmonise CSRD and CSDDD when their scopes are so radically different? A recent letter from German ministers to the Commission, calling for CSRD thresholds to be increased and application dates to be delayed, indicates where all this could very easily lead. There is a real risk that revisiting the regulations becomes a Trojan horse for watering down the scope and substance of all of them.

**Giles:** When you have a lot of competing requirements, people don't know where to focus their efforts. We know – because clients tell us – that their organisations are so focused on compliance that they are not really thinking about what all this new legislation was designed to do, which was get companies to improve what they are doing and the decisions they make. Having three separate pieces of legislation makes it hard for sustainability professionals to engage with their boards and other internal stakeholders effectively – one law to rule them all surely makes that internal engagement piece easier? And if you can take some of the friction out of the process, there's more bandwidth internally to do what we all want to see happen, which is meaningful and transformative change.

**Claire:** Only if you believe that everyone is committed to doing better. Even outside of discussions about reporting specifically, a lot of clients tell me that their boards are pushing back on “unnecessary” sustainability activity. They want to be laser focused on just a small number of issues that will make a difference to the bottom line. I’m not confident that everyone is committed to that kind of change and that the only thing holding them back is the complexity of regulation. I worry that if you take away some of the demands, some will use this as an opportunity to do less.

**Giles:** But that’s what enforcement mechanisms are for. This could be an opportunity to change that – simplify, get rid of the costly complexity and build in some strong enforcement provisions to make sure there’s accountability.

**Dan:** Maybe but look at the way in which CSDDD eventually made it on to the statute books. The original proposal that was put forward was much tougher than the one we are now working with because businesses lobbied so hard to reduce its scope and to remove some of the more demanding provisions, including imposing a duty of care on company directors to oversee due diligence obligations. Resulting changes to thresholds meant that around 70% of companies that were originally in scope for CSDDD were excluded in the end.

Who knows where we will end up, but I think there’s a good chance that it will be with fewer companies being in scope for CSRD, using the CSDDD thresholds, and that is a problem. I have no interest in disclosure for the sake of disclosure, but I do really want to see all businesses being encouraged to take action on climate change, nature loss, and social inequality at the pace and scale required to preserve the possibility of a safe and just future for all. One way to do that is to shine a light on what they are doing by requiring them to report on it publicly.

**Claire:** So what’s the best advice for those sustainability leaders who have their heads in their hands right now wondering what to tell their internal stakeholders?

**Dan:** I’d say hold the line. Don’t assume anything will change until you know that it has. Uncertainty is challenging but these three pieces of legislation are already enacted at an EU level and many companies are already in scope and well underway with preparing their first CSRD-aligned disclosures for publication. Waiting for clarity will mean you’re behind the curve when you should be preparing already.

**Claire:** I would also add that an effective double materiality process just makes a lot of sense, regardless of whether it’s required by law. It’s important that boards understand both financial and impact materiality, and how they interact. For example. what are your dependencies and impacts on particular resources, and how might this affect their quality and availability over time? Double materiality is foundational to understanding business model resilience and promoting the success of the company over the medium and long term. It’s something boards should *want* to know, and actively interested in, rather than just seeing it as something that is done to comply.

**Giles:** And let’s remember what all of this was intended to do, which was raise the bar on performance. You made this point earlier, Dan, but it’s so true. The whole point of more transparency and more disclosure isn’t to just create work for sustainability teams, it was to deliver better social and environmental outcomes. Any business should be thinking about double materiality – where are its material impacts, risks and opportunities – and deciding what it does about them, as well as thinking about where risks arise in its value chain. If you’re doing those things, which are the basic building blocks of sustainability done well, you’re half-way to compliance with this even in its current form.

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