Made by: Albin Axelsson, Founder of A Triple C Consulting (A3C) and Head of Business Development at GreenTally.ai

Note: This document/analysis is not legal advice

Impact of EU Omnibus Simplification Proposals on Sustainability Reporting

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1. Introduction

When we're discussing today's policy landscape, especially in sustainability, it's vital to return to source material—reliable, grounded, primary evidence. The European Commission, for all its bureaucracy, continues to produce substantive reports across key policy domains. Amid the political shift in Parliament—marked by a strengthening of conservative forces—Commission President Ursula von der Leyen has had to pull back on several of the European Green Deal's more ambitious elements.

This retreat, however, is a political headline. If we zoom in—as we must—we see a different landscape on the ground. One of the most underappreciated perspectives is that of the SMEs. A recent report titled SME Disclosure on Taxonomy Alignment: Cost/Benefit offers an eyeopening look at how small and medium-sized enterprises engage (or don't) with sustainability disclosures.

The findings are sobering: most SMEs have little to no awareness of the EU Taxonomy. This isn't surprising—it highlights the gulf between the EU policy conversation and the actual lived experience of the European business base. That's why I wrote this white paper. Because the numbers matter. The cost matters. The capacity, the margins, the workload—they matter.

In early 2025 the European Commission introduced what it calls an **Omnibus Simplification Package**—a suite of proposals aimed at streamlining the European Union's ambitious sustainability reporting rules.

2. Background: EU Sustainability Framework and the Omnibus Proposal

Over the past decade, the EU has developed a comprehensive architecture for corporate sustainability reporting. The **Corporate Sustainability Reporting Directive (CSRD)** requires large companies to disclose their environmental and social impacts and to follow the European Sustainability Reporting Standards (ESRS). The **Corporate Sustainability Due Diligence Directive (CSDDD)** imposes a duty on companies to identify and mitigate negative impacts across their value chains. Complementing both is the **EU Taxonomy**, a classification system designed to define what constitutes a sustainable economic activity.

In April 2025 the European Commission announced a plan to reduce the reporting burden on businesses by at least **25 %** overall and **35 % for SMEs**spglobal.com. To achieve this, the Omnibus package proposes a significant narrowing of the CSRD's scope by raising the employee threshold from 250 to **1 000 workers**. The Commission estimates that this would remove about **80 %** of companies from mandatory reportingspglobal.com. Similar cuts and deferrals would apply to the CSDDD and the EU Taxonomygreencentralbanking.com. Proponents claim that such measures could save companies around **€6.3 billion** annually in administrative costsspglobal.com.

3. SME Reporting Realities

The debate over simplification is best informed by understanding how SMEs currently experience sustainability reporting. A recent survey of non-listed EU SMEs provides a window into their practices, costs and challenges.

a) Preparation of sustainability reports

- **Reliance on external help:** A significant share of non-listed EU SMEs that publish sustainability reports rely on external consultants or fully outsource the preparation. Overall, 18 % of firms used consultants and 21 % outsourced the report entirely; small firms mostly prepared reports in-house (72 %), whereas medium-sized firms more often partially (35 %) or fully (28 %) outsourced due to greater reporting complexity.
- **Impact of reporting frameworks:** Standards such as GRI and CDP frequently require external support; 87 % of SMEs using GRI and 70 % using CDP rely on consultants or outsourcing. In contrast, reports based on the GHG Protocol and UN-SDGs are drafted internally in most cases (67 % and 64 % respectively).
- **Costs:** The average cost of preparing a sustainability report is estimated at about €6.8 k (with a 95 % confidence interval of €4–9.6 k). Micro- and small-sized SMEs spend about €5.6 k on average, whereas medium-sized firms spend roughly €24.3 k, reflecting greater complexity and use of external consultants. Firms producing reports entirely in-house incur significantly lower costs (~€2.4 k). Using GHG-accounting standards can raise costs substantially; SMEs adopting CDP and GHG-Protocol frameworks reported average costs of €19 k and €25 k respectively.

b) Awareness and uptake of the EU Taxonomy

- **Very low awareness:** The EU Taxonomy is barely known among EU SMEs. Roughly 84 % of non-listed SMEs surveyed had never heard of it and another 9 % had only superficial knowledge. Only about 3 % believed some of their activities might be Taxonomy-eligible and another 3 % planned future Taxonomy reporting. Awareness is slightly higher for small/medium firms, but still only 9–10 % know whether their activities are eligible and about 13–15 % plan voluntary reporting.
- **Reasons for low uptake:** SMEs tend to adopt environmental standards reactively rather than proactively, partly to avoid fines and reputational risks. The Taxonomy Regulation was designed with large companies in mind and remains complex; combined with a shortage of consultants with technical/engineering expertise, this limits SME uptake.
- **Limited SME-focused services:** Most commercial Taxonomy solutions (e.g., Sustainalytics' EU Taxonomy Solution, Moody's Alignment Screening) are designed for investors and use algorithms to estimate missing data. Only a handful of SME-focused

platforms offer environmental impact measurement and partial Taxonomy reporting—examples include Italy's KnowShape, the UK's ESGgen, Finland's ESG-Resilience and Germany's Plan A.

- **Weak incentives:** SMEs generally do not receive Taxonomy-alignment requests from larger companies, so there is little supply-chain pressure to report. Awareness of sustainable finance products is also limited—around 65 % of SMEs said they are unfamiliar with such products—and few financial instruments are currently linked to the Taxonomy.

c) Requests for sustainability disclosure

- **How often requests are made:** About 9 % of non-listed EU SMEs were asked to provide ESG information in 2022. Requests are more common for medium-sized (around 43 %) and small firms (31 %), and less frequent for micro-enterprises (8.5 %). SMEs that already published sustainability reports were more likely to receive a request (about 30 % of such firms).
- **Geographical and sectoral patterns:** Requests are more frequent in Belgium and Romania and much less common in Nordic countries, the Netherlands and France. Sectors such as accommodation, water/sewerage/waste management and electricity/gas/steam supply see above-average request rates, whereas arts, recreation and professional services see fewer requests.
- **Who asks for information:** Sources of ESG requests are fairly evenly distributed. Banks are the most common source, accounting for roughly 24 % of requests (both routine and loan-related). Corporate buyers of SMEs and insurance companies each account for about 20.5 %, and public administration (including for finance and procurement) accounts for about 18 %. In contrast, the Eurochambres survey—which is not extrapolated to the EU level—found a stronger dominance of corporate buyers.
- **Number and nature of requests:** Most SMEs receiving ESG requests only got one request (70 %). About 23 % received two, and 7 % received more than two requests.Multiple requests are more common in manufacturing, waste-management and utilities sectors. Approximately half of multiple requests were similar; however, 20 % of cases involved very different information demands, reflecting the absence of harmonised reporting tools.

- **Topics requested:** Energy consumption/performance is the most frequently requested information (28 %), followed by the use of clean energy sources (19 %). Water use, the use of electrical/electronic equipment or batteries, and social topics such as gender pay gap and working conditions are also common. Requests relating to environmental management systems or hazardous substances appear mainly for medium-sized firms. In contrast, physical climate-risk data and corporate governance metrics are seldom requested (only 7 % of enquiries), and even data on greenhouse-gas emissions are requested in just 8 % of cases, particularly rarely from micro-enterprises.

d) Disclosure Requests

Contrary to the popular narrative of pervasive ESG scrutiny, only **9 %** of non-listed SMEs reported being asked to disclose social or environmental data in 2022. Requests were more frequent among medium-sized firms but remained rare for micro-enterprises. Where requests were made, they often originated from banks, corporate customers and insurers. The majority of SMEs that received a request received only one, and most requests focused narrowly on **energy consumption** and the **use of clean energy**. Topics such as physical climate risks or board diversity were rarely asked about. These patterns suggest that current reporting demands on SMEs are specific and episodic rather than pervasive.

4. The Omnibus Simplification Package

a) Summary of Proposed Changes

The Omnibus package makes sweeping changes to three core EU sustainability laws:

- **CSRD:** The employee threshold would jump to 1 000 and the turnover/balance-sheet criteria would be raised, removing roughly four-fifths of companies from reportingspglobal.com. Companies that do fall out of scope could still report voluntarily using the **Voluntary Sustainability Reporting Standard for non-listed SMEs**.
- **CSDDD:** Due-diligence requirements would focus on direct suppliers rather than entire value chains, and the frequency of mandatory reporting would be reduced from annually to once every five yearsspglobal.com.
- **EU Taxonomy:** Reporting would become voluntary for companies with revenues under €450 million; firms could disclose partial alignment, and tables would be simplifiedspglobal.com.

b) Rationale: Simplification and Competitiveness

The Commission's rationale is grounded in competitiveness. Supporters argue that overlapping reporting rules impose unnecessary costs, especially on smaller firms, and that Europe risks losing ground to regions where regulators are rolling back ESG obligationsthomsonreuters.com. The **Budapest declaration**—a political pledge to cut reporting burden by 25 %—underpins the push for red tape reductiongreencentralbanking.com. Simplification would, in this view, free resources for innovation and allow European companies to compete with peers in jurisdictions that have adopted a more deregulatory stance.

5. Arguments for Simplification

1. **Cost relief for SMEs.** The data show that sustainability reporting is not costless: even micro-enterprises spend several thousand euros per report, and medium-sized firms can spend more than €24 k. By raising thresholds and making taxonomy reporting voluntary, the Omnibus could spare many SMEs from costs that they may perceive as disproportionate to their size and resources.
2. **Reducing duplicative requests.** SMEs often face multiple, inconsistent disclosure requests from various business partners. Limiting the ability of large companies to demand extensive supplier data and aligning reporting timelines across directives could reduce these "trickle-down" pressuresgreencentralbanking.com.
3. **Streamlined reporting options.** The introduction of a voluntary standard for non-listed SMEs (VSME) and simplified taxonomy tables would give smaller firms a proportionate framework rather than a binary choice between full compliance and non-disclosurespglobal.com. Given that 80 % of SMEs already provide some taxonomy-related informationspglobal.com, many may continue to report voluntarily when it is material to their business.
4. **Boosting competitiveness.** Proponents argue that easing regulatory demands could free up capital and managerial attention, improving Europe's ability to attract investment and compete globallythomsonreuters.com. The Commission's estimate of **€6.3 billion** in annual savingsspglobal.com underscores the scale of the potential relief.

6. Arguments Against Simplification

1. **Data scarcity and transparency risks.** Reducing the CSRD's scope would more than halve the number of reporting companiesspglobal.com. Analysts warn that coverage would drop especially sharply in high-impact sectors such as finance (–71 %) and energy (–66 %)spglobal.com. This would deprive investors, banks and regulators of the data needed to assess climate and social risks, potentially fuelling greenwashinggreencentralbanking.com.
2. **Undermining the green transition.** The CSRD and EU Taxonomy are pillars of the EU's sustainable finance architecture. Accountancy Europe notes that mid-sized companies (500–1 000 employees) play a significant role in value chains and that excluding them could hinder the flow of information and capital needed for industrial transformationaccountancyeurope.eu. Regulators such as the European Central Bank emphasise that robust data is essential to unlock finance for the green transitiongreencentralbanking.com.
3. **Questioning the cost narrative.** Critics argue that framing sustainability reporting as a drag on competitiveness is misleading. Scholars interviewed by the Thomson Reuters Institute note that compliance costs typically decline over time as firms learn and that the benefits of transparency—better risk management, innovation opportunities, lower capital costs—can outweigh the initial outlaysthomsonreuters.comthomsonreuters.com. Simplification, they contend, should aim at clearer guidance and proportionality rather than wholesale retreatthomsonreuters.com.
4. **Regulatory uncertainty and fragmentation.** Frequent changes to reporting rules may create confusion and deter investment. Some companies have already invested in systems to comply with the CSRD and CSDDD; delaying or diluting the requirements could waste these efforts and encourage a patchwork of voluntary approachesgreencentralbanking.com. Accountancy Europe cautions that focusing solely on employee headcount ignores firms' actual environmental footprintaccountancyeurope.eu.

7. Insights and Discussion

The SME survey underscores that sustainability reporting imposes real costs and often requires external help. Yet it also shows that requests for ESG information remain relatively sporadic and focused on a narrow set of topics such as energy use. Many SMEs are not yet familiar with the EU Taxonomy, nor do they see strong market incentives to align with it. Against this backdrop, an outright retreat from mandatory reporting may not be necessary to alleviate burdens.

Several alternative strategies emerge:

- **Proportionality over exemption.** Instead of raising thresholds dramatically, policymakers could adopt a tiered approach that adjusts reporting depth to company size and sector. The proposed VSME standard is a step in this direction; further guidance on materiality assessments could prevent companies from spending resources on immaterial topicsspglobal.com.
- **Streamlining data requests.** Harmonising data collection tools and templates across banks, insurers and corporate buyers would address one of SMEs' biggest pain points: receiving multiple, uncoordinated ESG questionnaires. The EU could encourage standardised supplier questionnaires to limit duplication.
- **Building capacity and awareness.** With 84 % of SMEs unaware of the taxonomy, simplification alone will not lead to better reporting. Targeted training programmes, grants for digital reporting tools and the development of SME-friendly consultancy services could raise awareness and reduce costs over time.
- **Maintaining transparency for high-impact sectors.** Given the significant reduction in data that broad exemptions would causespglobal.comaccountancyeurope.eu, policymakers might retain reporting requirements for sectors with outsized environmental footprints or systemic importance, while offering simplified disclosure for others.

8. Appendix: SME Survey Figures

The statistics and figures related to the SME Survey in this paper are derived from publicly available research and data. Please see the following link: https://op.europa.eu/en/publication-detail/-/publication/8ad71b3e-0b65-11ef-a251-01aa75ed71a1/language-en

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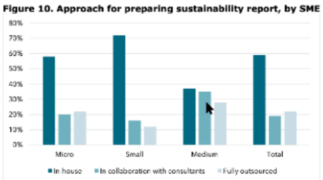
3.1.3 Approach taken and costs incurred by SMEs to prepare sustainability reports

Consistent with the complexity of the sustainability reporting standards used, a significant share of non-listed EU SMEs that published a sustainability report resorted to the help of external consultants (18%) or completely outsourced the reporting (21%). For small companies, these percentages are 16% and 12%, respectively, which means that sustainability reporting was overwhelmingly done in-house (72%). An opposite situation characterises medium-sized companies, where outsourcing is relatively more common (35% partially and 28% fully outsourced), in line with the greater complexity of reporting and greater financial resources. In addition to company size, the type of reporting standards/frameworks also influence the internal/external approach adopted by SMEs. GRI and the CDP are the two standards that most often require the support from external consultants or the complete outsourcing of reporting (for 87% and 70% of SMEs, respectively). In contrast, in the case of the GHG Protocol and the UN SDGs, reports were mostly drafted internally, by 67% and 64% of SMEs respectively.

Figure 10. Approach for preparing sustainability report, by SME size



Source: SME Survey.

According to the results of the SME Survey, the average cost incurred by non-listed EU SMEs for the preparation of a sustainability report was estimated at around EUR 6 800, with the upper and lower bounds of the 95% confidence interval being EUR 4 000 and EUR 9 600. This amount was calculated by taking into account the number of hours of in-house staff, converted into monetary values on the basis of the weighted average hourly wages of professionals and clerical support workers[75], external consultancy costs and, in rare cases, the cost of third-party certification.

The analysis of reporting costs by size class reveals a statistically significant increase in cost with company size: sustainability reporting costs an average of EUR 5 600 for micro and small companies, and EUR 24 300 for medium-sized companies. This difference is largely attributable to the greater complexity of reporting by medium-sized companies and their greater reliance on external consultants, as mentioned above. In fact, SMEs that prepare their reporting in-house reported significantly lower reporting costs, in the range of EUR 2 400. **The type of standards adopted also affects the sustainability reporting costs incurred by SMEs**. In particular, SMEs adopting corporate GHG accounting and reporting standards (which can also cover value chain emissions), such as the CDP and the GHG Protocol, reported significantly higher reporting costs of EUR 19 000 and EUR 25 000 on average, respectively[76].

[75] Eurostat Earning Statistics (2018). In line with the SCM methodology, the salary includes 25% overheads.
[76] Differences between the other types of standards exist but are not statistically significant.

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As far as Taxonomy reporting is concerned, the degree of knowledge, let alone voluntary use, among EU SMEs is practically nil. According to the SME Survey, 84% of non-listed EU SMEs had never heard of the EU Taxonomy[77] and another 9% said they had only a superficial knowledge of it. A marginal 3% said that some of their company's activities could be Taxonomy-eligible and another 3% said they would report on Taxonomy alignment in the future. The degree of awareness of the EU Taxonomy is somewhat higher among small and medium-sized companies, with about 9-10% stating that they know whether their business is Taxonomy-eligible and about 13-15% planning to do voluntary Taxonomy reporting in the future. These results are largely to be expected, considering the recent adoption of EU Taxonomy legislation, which is still evolving, and the well-known propensity of SMEs, confirmed by numerous studies[78], to be more reactive than proactive when it comes to adopting environmental standards and practices, as they seek to avoid fines and reputational impacts from non-compliance once the standards are in place. This is compounded by the inherent complexity of the Taxonomy Regulation, which is designed with large companies in mind, and the current shortage of external consultants and service providers offering Taxonomy reporting solutions to SMEs, as illustrated in Box 3.

Box 3. Market of Taxonomy reporting services for SMEs

At present, the external consultants that usually assist SMEs in financial and sustainability reporting (such as professional accountants) do not possess the knowledge and wide range of skills, especially of a technical/engineering nature, necessary to assist SMEs wishing to complete Taxonomy alignment disclosures. Similar considerations apply to the availability of digital platforms to assist SMEs, as a recent JRC study clearly shows[79]. This initial screening indicates that although there are many solutions available for companies for ESG reporting, **only a few platforms have a clear SME focus and are aligned with the EU Taxonomy**. The main solutions, such as Sustainalytics' EU Taxonomy Solution or Moody's EU Taxonomy Alignment Screening, are investor-focused and use algorithms to approximate missing data (e.g. data not reported by companies) to ensure completeness of data. There are only a handful of SME-focused environmental impact measurement platforms that extend their support to the preparation of Taxonomy reporting (or part of it), including, among others, Italy's KnowShape, the UK's ESGgen, the Finnish esg-Resilience and Germany's plan A. Their services are offered at variable prices, determined on a case-by-case basis, depending on variables such as company size, data availability and number of users.

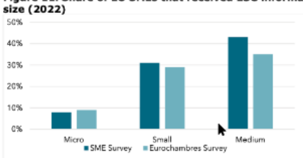
Furthermore, the lack and low awareness by SMEs of the potential benefits associated with Taxonomy reporting reduce the incentives for this type of reporting. On the one hand, providing information on their Taxonomy alignment does not appear to be a request that SMEs receive from large companies and that could influence their participation in the value chain, for the time being, as described in Section 3.2. On the other hand, SMEs' awareness of sustainable finance products is still limited (according to the SME Survey, about 65% of non-listed EU SMEs are not familiar with this type of products) and the offer of financial instruments based on the Taxonomy criteria is currently marginal, as illustrated in Section 3.3.

3.2 *Sustainability disclosure requests received by SMEs*

3.2.1 Key features of sustainability disclosure requests

According to the SME Survey, 9% of EU non-listed SMEs were requested to disclose social or environmental information by different types of counterparts in 2022. The share is highest among medium-sized and small enterprises (43% and 31%, respectively), and much lower in the case of micro enterprises (8.5%). As shown by Figure 11, these results are largely consistent with those of the Eurochambres Survey, which indicates the shares of the sample of SMEs subject to indirect ESG reporting requirements as 9%, 29% and 35% for micro, small and medium-sized enterprises, respectively.

Figure 11. Share of EU SMEs that received ESG information requests, by SME size (2022)



Source: SME Survey (EU extrapolated shares), Eurochambres Survey (sample shares).

There is a strong positive correlation between sustainability reporting and ESG disclosure requests: the share of non-listed EU SMEs that received a request reaches 30% among those that published a sustainability report in the previous year. **Consequently, there are broad similarities in terms of both geographical and sectoral distribution**. As in the case of the adoption of sustainability reporting practices, the percentage of non-listed EU SMEs that have been asked about ESG information is lower than average in the Netherlands (7.5%) and France, and much lower in the Nordic countries (below 5%), while higher shares are found in Belgium (13%) and, especially, Romania (23%). From a sectoral point of view, the likelihood of receiving requests to provide ESG information is less common among SMEs active in arts, entertainment and recreation activities, and in professional, scientific and technical activities, while it is higher in accommodation activities, in water, sewerage, waste management and remediation activities, and in the supply of electricity, gas, steam and air conditioning (although for the latter two sectors the differences are not statistically significant).

The sources of sustainability enquiries received by EU SMEs seem to be widely diversified, coming in a fairly balanced way from a range of actors. Based on the SME Survey, banks play a primary role in driving information requests, both routinely and in the event of a loan application, accounting for some 24% of all requests received by SMEs in 2022. Only a slightly smaller share of enquiries came from other sources, including corporate buyers of SMEs and insurance companies (both with a share of 20.5%), and public administration, both in relation to financing and procurement activities (18%). This distribution deviates from the results of the Eurochambers Survey, which found a significantly stronger trickle-down through corporate buyers (accounting for 41.7% of all ESG enquiries). This variation seems to be largely attributable to

differences in sample composition[80], and the fact that the Eurochambers Survey results refer to the sample and are not extrapolated to the EU level.

Figure 12. Sources of ESG information requests to SMEs

Note: The sum of the single shares for the different sources exceeds 100% as some SMEs received more than one ESG information request from different sources.
Source: SME Survey.

The majority of SMEs that received a request to provide ESG information in the 2022 received only one request (70%), but there were also some cases of multiple requests (23% two requests, 7% more than two). Multiple requests were comparatively more common among SMEs active in manufacturing, water, sewage, waste management and remediation, and electricity, gas, steam and air conditioning supply. In about half of the cases, these multiple requests were similar to each other (8% practically identical and 41% broadly similar). In 30% of the cases some of the requests were different, while in the remaining 20% the requests were quite or very different, focusing on different information/metrics. This is attributable to both the different origin of the requests and the lack of harmonised tools for collecting ESG information even among the same type of actors, as further elaborated below.

In general, ESG enquiries received from EU SMEs appeared to be quite specific, focusing on a relatively narrow range of topics: 75% of all requests covered no more than three different topics, and two topics in the case of micro-enterprises. According to the results of the SME Survey, **energy consumption/performance is by far the most frequently requested information from non-listed EU SMEs (28%), followed by the use of clean energy sources (19%), regardless of the SME size class and the source of the request**. Water consumption, the use of electrical and electronic equipment/batteries (especially in the case of requests from corporate buyers) and social aspects (e.g. gender pay gap, working conditions, diversity, equity and inclusion, etc.) are also topics often covered by ESG requests to SMEs. Information on the adoption of environmental management systems, as well as on pollution prevention and on hazardous/dangerous substances, is mainly requested from medium-sized companies only.

In contrast, information on physical climate risks and corporate governance (board composition, anti-corruption policy, supplier conduct, data security and privacy) is the least frequently requested, being covered by only 7% of ESG requests received by non-listed SMEs. **Even data on GHG emissions are still rarely requested** (8%), especially from micro-enterprises, despite their importance for several actors, such as for banks that are members of the Net Zero Alliance, and for the reporting purposes of Pillar 3 and the CSRD (as detailed below). This could be due to

[80] There is an over-representation of German, non-micro and manufacturing SMEs in the Eurochambers Survey sample.

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