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CSRD and the Omnibus Proposal – Implications for Fund Managers

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The EU's law-making institutions have moved with impressive speed to approve a key element of the European Commission's ("**Commission**") Omnibus Proposal, which postpones the application of the Corporate Sustainability Reporting Directive ("**CSRD**") by two years. Following through on commitments outlined in the EU's Competitiveness Compass relating to the Commission's aim to reduce drastically the regulatory and administrative burden, the Omnibus Proposal significantly reduces the scope of the Corporate Sustainability Reporting Directive ("**CSRD**") and aims to simplify sustainability reporting. While this will no doubt be welcomed by EU companies, it potentially poses some challenges for fund managers already dealing with significant data challenges in meeting their obligations under the Sustainable Finance Disclosure Regulation ("**SFDR**") and the Taxonomy Regulation.

What is the Omnibus Proposal?

The Omnibus Proposal includes the following initiatives of relevance to the funds industry:

- a directive amending the CSRD, including by reducing its scope significantly, reducing the number of companies that are subject to the CSRD by 80%;
- a directive amending the Corporate Sustainability Due Diligence Directive ("**CSDDD**");
- a directive postponing the application of the CSRD by two years (the "Stop the Clock Directive") for all EU companies, other than those that are already due to report for their 2024 financial year, and postponing the transposition deadline and first wave of application of the CSDDD by one year to 2028; and
- a consultation on a delegated act amending the Level 2 measures under the Taxonomy Regulation.

Our earlier briefing note provides details on the proposed changes to the CSRD. A key amendment is that the scope of application of the CSRD would be significantly reduced by taking EU companies or groups with less than 1,000 employees out of scope. If the Commission's proposals become law, a company would be in-scope for CSRD reporting if the company (including when consolidated with any subsidiaries) has more than 1,000 employees on average and either: (i) turnover in excess of €50m; or (ii) a balance sheet total (ie, total assets) in excess of €25m. The amendments would take large fund management companies, which had already commenced preparations for reporting from 1 January 2026 for the 2025 financial year, out of scope.

What has been Agreed under the Stop the Clock Directive?

The Stop the Clock Directive provides for a two year postponement of the application of the sustainability reporting requirements under the CSRD to allow for a window for the EU to finalise the more substantive proposals and for member states to implement the new rules, before most in-scope companies are required to start reporting for their 2027 financial year. The Council of the EU agreed its position on the directive on 26 March 2025 and the European Parliament voted on 3 April 2025, paving the way for the directive to be finalised and published in the Official Journal of the EU in early summer.

The Irish Government has welcomed the Omnibus Proposal and the Stop the Clock Directive. Ireland met the transposition deadline for the CSRD, but will now amend the Irish legislation to further clarify and reduce the scope of companies covered and will quickly implement the Stop the Clock Directive, with the aim of delivering certainty for business at all levels in Ireland. It is expected that the amending Irish legislation will address certain issues with respect to the transposition, including provisions that deemed many regulated entities to be "large entities" and therefore within scope of sustainability reporting, although this was not envisaged by the CSRD. These issues were described in our earlier briefing note on the Irish regulations.

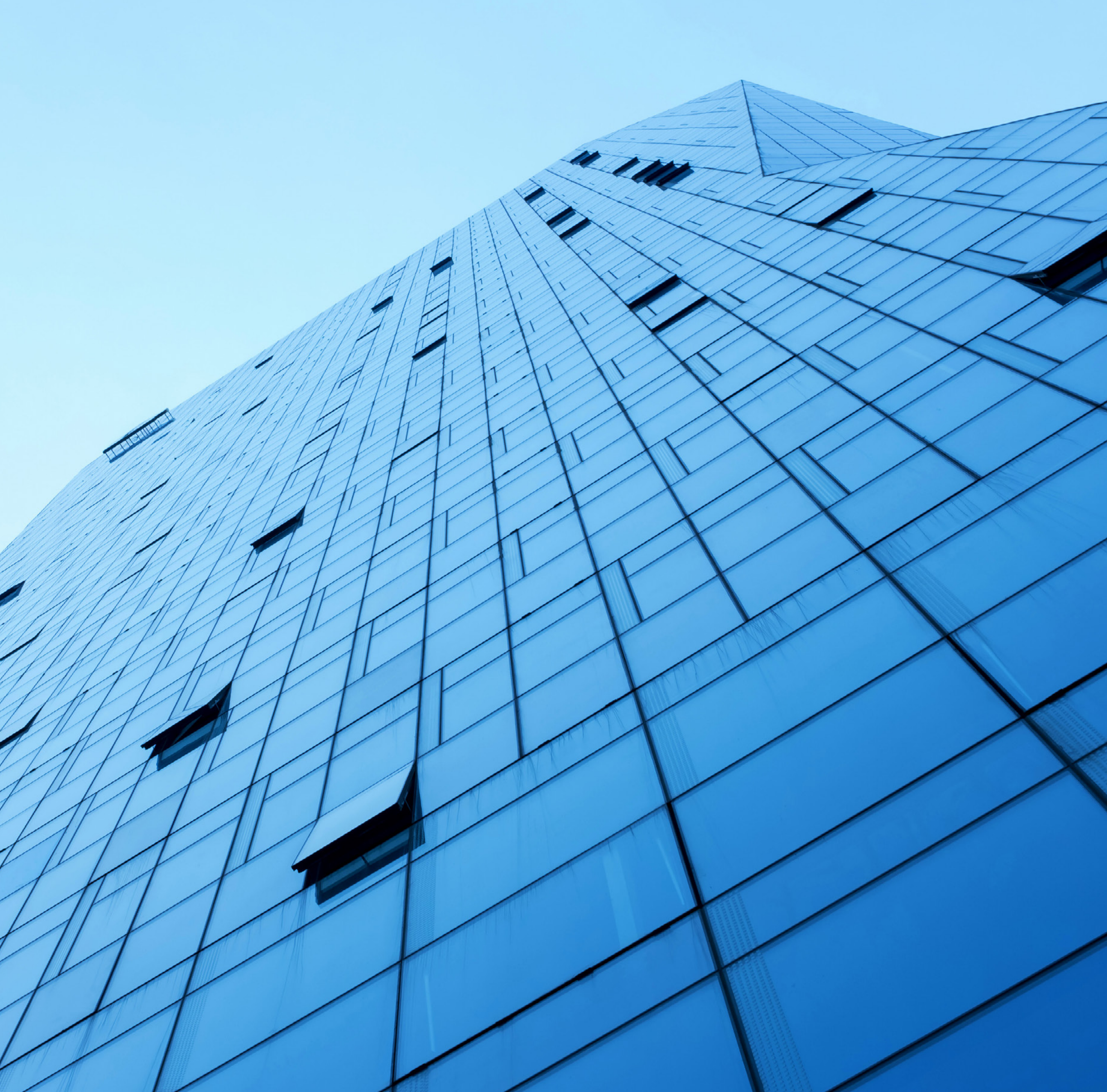
What Changes are Proposed for the Taxonomy Regulation?

The Omnibus Proposal includes amendments that would reduce the number of companies that are obliged to report their Taxonomy alignment. Companies within the future scope of the CSRD (large companies that have more than 1,000 employees) with a net turnover of up to €450 million would be permitted to voluntarily opt in to Taxonomy reporting. Companies that have made progress towards sustainability targets, but only meeting certain EU Taxonomy requirements, would be permitted to choose to voluntarily report on their partial Taxonomy-alignment.

The Commission has also published for consultation draft amendments to the Taxonomy Regulation Level 2 measures – the Taxonomy Disclosures Delegated Act[1] and the Climate[2] and Environmental[3] Delegated Acts – which:

- simplify the reporting templates, leading to a reduction of data points by almost 70%; and
- exempt companies from assessing Taxonomy-eligibility and alignment of their economic activities that are not financially material for their business (eg, those not exceeding 10% of their total turnover, capital expenditure, or total assets).

1. Commission Delegated Regulation (EU) 2021/2178
2. Commission Delegated Regulation (EU) 2021/2139
3. Commission Delegated Regulation (EU) 2021/2486



What are the Challenges for Fund Managers?

Many aspects of the Omnibus Proposal are welcome, such as maintaining double materiality assessments, not increasing the reporting burden by introducing sector-specific European Sustainability Reporting Standards, and deleting the review clause for financial services from the CSDDD. However, the delayed implementation of the CSRD and the partial "opt-in" regime for EU Taxonomy reporting means fund managers must wait longer for the corporate ESG data needed to make sustainable investment decisions. To fill this data gap, fund managers will have to continue to rely on ESG data and ratings sold by third-party providers.

The changes proposed for the CSRD will also have direct and foreseeable implications for compliance with the SFDR. Fund managers must have access to standardised sustainability data from corporates to fulfil their own risk management and reporting obligations, and so the legislative framework must ensure the availability of such data and the alignment of the various pieces of EU legislation designed to progress the EU Green Deal. As the Commission is expected to issue a legislative proposal amending the SFDR later this year, consistency and alignment of reporting requirements across the regulatory framework should be a material consideration in the Commission's review.

Please get in touch with your usual Asset Management and Investment Funds Department contact or any of the contacts listed in this publication should you require further information in relation to the material referred to in this update.

Full details of the Asset Management and Investment Funds Department, together with further updates, articles and briefing notes written by members of the Asset Management and Investment Funds team, can be accessed at www.matheson.com.

Asset Management and Investment Funds Department

Matheson

Tara Doyle
Partner
T +353 1 232 2221
E tara.doyle@matheson.com

Dualta Counihan
Partner
T +353 1 232 2451
E dualta.counihan@matheson.com

Shay Lydon
Partner
T +353 1 232 2735
E shay.lydon@matheson.com

Philip Lovegrove
Partner
T +353 1 232 2538
E philip.lovegrove@matheson.com

Liam Collins
Partner
T +353 1 232 2195
E liam.collins@matheson.com

Michelle Ridge
Partner
T +353 1 232 2758
E michelle.ridge@matheson.com

Barry O'Connor
Partner
T +353 1 232 2488
E barry.oconnor@matheson.com

Donal O'Byrne
Partner
T +353 1 232 2057
E donal.o'byrne@matheson.com

Catriona Cole
Partner
T +353 1 232 2458
E catriona.cole@matheson.com

Anthony Gaskin
Partner
T +353 1 232 3043
E anthony.gaskin@matheson.com

Eunan Hession
Partner
T +353 1 232 2402
E eunan.hession@matheson.com

Orlaith Finan
Partner
T +353 1 232 2351
E orlaith.finan@matheson.com

Sarah O'Meara
Partner
T +353 1 232 2701
E sarah.omeara@matheson.com

Brónagh Maher
Professional Support Lawyer
T +353 1 232 3757
E bronagh.maher@matheson.com

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