POSITION PAPER

#FERMAFOCUS #SUSTAINABILITY

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FERMA's position on the Omnibus sustainability rules simplification package

Executive Summary

The Federation of European Risk Management Associations (FERMA) brings together 23 risk management associations in 22 European countries, representing more than 5600 risk managers active in a wide range of business sectors.

On 26 February 2025, the European Commission unveiled the long-awaited Omnibus Simplification Package (Omnibus I), introducing key amendments to the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D), among others. Risk Managers are important contributors to the sustainability reporting process of EU companies. They are responsible for identifying and assessing sustainability risks and opportunities, evaluating their effects and developing mitigation strategies - a necessary first step to enable effective sustainability reporting.

FERMA welcomes this package as a positive signal for companies. Sustainability is not just about compliance; it's about attractiveness, transparency and long-term resilience. Many businesses, large and small, will continue strengthening their sustainability risk management for these reasons. Regulatory simplification which maintains a risk-based approach can facilitate action on ESG matters and help bring concrete results that benefit businesses and society alike.

While FERMA is a strong supporter of the European Commission's Green Deal objectives, we acknowledge that simplification is needed to help the economy deliver on the green transition. Reporting requirements should be a compass guiding business towards effective sustainability risk management practices, which are critical to the resilience and competitiveness of the EU economy. To this end, we call on EU policymakers to:

- Ensure that reporting requirements focus on the data points that are the most relevant to a company's activities, taking into account its sector and size. In this respect sector-specific guidelines would be a helpful tool.

- Postpone the application of the CSRD – for companies that were due to report in 2026 and 2027 (i.e. waves 2 and 3) – and of the CS3D to 2028, in order to clarify the new regulatory requirements and give companies the time they require to adapt their governance and risk management processes and invest in reliable data-collecting solutions.

- Provide guidance on how to perform double-materiality Impacts, Risk and Opportunities (IRO) assessments, including through the definition of common materiality thresholds.

This guidance should be based on an Enterprise Risk Management (ERM) methodology and driven by the risk function.

- Ensure that the upcoming voluntary reporting standards for companies that are now out of scope of the CSRD result in effective sustainability risk management practices.

- Focus the due diligence obligations under the CS3D to direct business partners (i.e. tier 1), in order to reflect what is practically feasible under current circumstances.

- Provide guidance on the expectations for companies under the CS3D to ensure that businesses acting in good faith and to the best of their ability are not adversely affected, and to help prevent any potential over-interpretation of the directive's requirements by national supervisory authorities.

1 Sustainability Risk Management

FERMA advocates for sustainability risk management to be considered not as a compliance exercise but as a fundamental aspect of business strategy and governance. Strong environmental, social and governance (ESG) ambitions can coexist with – and even contribute to – European competitiveness, as they are an integral part of any risk-mature organisation.

The CSRD and CS3D require companies to assess and/or mitigate sustainability risks and opportunities. This is the reason why Risk Managers are important contributors to the sustainability reporting process – although it must be stressed that they considered such risks well before the introduction of the directives. Indeed, from Risk Managers' perspective, sustainability risks and opportunities are considered no differently to the other risks and opportunities they are responsible for assessing and mitigating.

Managing sustainability risks and opportunities is crucial because they impact company value, either directly or indirectly. It is not in the interest of EU businesses to have their physical assets damaged or destroyed by natural catastrophes or climate change-induced extreme weather events, nor to be associated with suppliers using child labour. In this regard, sustainability risks are not substantially different to other types of risk and, therefore, need to be addressed through an enterprise risk management (ERM) approach. Furthermore, strong ESG commitments can actively contribute to competitiveness, as consumers prefer products and services that respect human rights and the environment. It must be stressed that many businesses, from large multinationals to SMEs, will continue to voluntarily invest in sustainability risk management and reporting regardless of their legal obligations a, precisely because they understand that it will improve their resilience and financial sustainability in the long run.

Reporting requirements can help businesses know where to direct their risk management efforts but are not by themselves a substitute for action. Companies should strive to meet the requirements set by the CSRD and CS3D, not merely as a "tick-box" exercise, but because these directives are an opportunity to improve upon their existing governance and ERM frameworks and processes, so that regulatory compliance flows naturally.

FERMA's view is that the EU needs to maintain a high level of ambition regarding its ESG goals but should at the same time adopt a more pragmatic approach to ensure that the CSRD and CS3D produce effective and meaningful effects.

2 Proposed changes to the CSRD

FERMA welcomes the European Commission's decision to preserve double materiality for the Impact, Risk and Opportunity (IRO) assessments required under the CSRD. Double materiality is the cornerstone of the CSRD, a key process in guiding sustainability reporting towards strategically relevant matters, which promotes good risk management practices. Indeed, Risk Managers have noted that in practice, applying an ERM methodology has helped companies perform double-materiality assessments and achieve compliance with the CSRD. However, the directive itself doesn't provide any methodological guidance on how to perform double-materiality assessment, which leads some companies to adopt practices which run counter to good ERM practices. Our view is that IRO assessments should be driven by the risk function using an ERM methodology, as the entire scope of sustainability risk and opportunities can be addressed through an ERM framework – although it may need to be complemented by ad hoc risk management techniques and processes in some cases (i.e. climate change risk assessment, etc.). This would ensure comparability while preserving the methodological flexibility necessary to address the differences between companies and industries.

We support the proposed postponement of reporting to 2028 for companies that were not already subject to it for fiscal year 2024. Delaying the application date by two years will ensure: (i) that EU policymakers can decide on the new requirements; and (ii) that companies have the time and resources to effectively adapt to them. Indeed, the CSRD requires companies to make important investments in their governance structures and risk management processes; businesses need to create or adapt their ERM frameworks, break silos between different functions (risk management, sustainability, compliance etc.) to facilitate cooperation and also to invest in data collecting tools etc.

We welcome the reduction of the scope of the directive to companies with more than 1000 employees only, while preserving the possibility for companies out-of-scope to continue reporting on a voluntary basis. Indeed, EU policymakers should aim to encourage businesses that sustainability risk management and reporting is in their best interest. Ultimately, the CSRD will produce better results if companies focus on taking meaningful actions to manage sustainability risk rather than on achieving mere compliance.

Similarly, we support the proposed reduction in the number data points to ensure that reporting is useful, reliable and accurate. One of the purported aims of the CSRD is to facilitate comparison between companies on sustainability matters. However, it is unclear whether the numerous qualitative data points are in practice useful to this end. On the other hand, quantitative data points can suffer from accuracy and reliability issues, especially when data collection relies on SMEs and/or companies based in developing countries which may not possess the means or expertise to accurately measure certain indicators. This is further complicated by the currently excessive number of data points which makes collecting, processing and auditing them all challenging. EU policymakers should therefore focus on fewer meaningful data points that can be reliably audited to ensure their accuracy.

Sector-specific guidelines can help ensure that sustainability reporting produces meaningful and effective results. We acknowledge that the European Commission's proposal to abandon sector-specific reporting standards is motivated by concerns that such additional standards would increase the reporting burden on companies. FERMA's perspective is that different industries face different realities, and that guidelines would help companies identify IROs that are most relevant to them and facilitate meaningful comparison between companies operating in the same sector. In any case, sector-specific guidance should be developed in cooperation with industry stakeholders and should also consider the size of the business, to ensure relevance and practicality.

3 Proposed changes to the CS3D

FERMA welcomes the Commission's proposal to limit in-depth adverse impact assessment to direct business partners only, as this reflects the reality of what is currently feasible. To assess risk across the value chain, Risk Managers rely on third-party data-collecting platforms. These platforms do not currently provide information on all existing businesses; where they have data, it generally is based on self-reporting and/or open-source information, which is not necessarily complete nor independently verifiable. In practice, this means that: (i) in-depth third-party risk assessments are a resource intensive exercise due to this information gap; and (ii) going beyond tier 1 (i.e. direct business partners) is practically unfeasible, especially where small and/or non-EU companies are involved. Conducting in-depth third-party risk assessments may pose a significant burden on those direct business who are SMEs or small mid-caps, and proportionality measures should be introduced to address this concern. We therefore welcome the proposal by the Commission to limit the information that can be requested of companies with fewer than 500 employees to the information contained in the CSRD voluntary reporting standard for SMEs (VSME). We would recommend that such information be accessible in a public repository, such as national business registers, to limit the burden on all parties involved.

Moreover, Risk Managers need greater clarity on what can be expected of their company under the CS3D. The directive requires companies to take appropriate measures to prevent, mitigate, eliminate or minimise risks that have been, or should have been, identified. FERMA's understanding is that the intention of EU policymakers was to introduce an obligation of means, requiring companies to do the most they can to address sustainability risks across their chain of activities. This is a commendable objective, however in the event of an actual adverse impact, it could always be argued that a company should have done more and/or better to anticipate, prevent or mitigate it, thus exposing the company to legal or administrative proceedings even when it was acting in good faith and to the best of its ability. This is not simply a theoretical concern, as French and German Risk Managers currently must conduct supply-chain risk assessment and mitigation under national law and companies have been subject to lawsuits for alleged breaches of their obligations. Even when such proceedings do not result in a guilty verdict, they still constitute an important reputational risk for the company. It is therefore crucial that the Commission clarifies what can be reasonably expected of companies under different circumstances. The Commission should also provide guidance to national supervisory authorities to avoid the risk of over-interpretation of the CS3D requirements.

For the above reasons, FERMA welcomes the postponement of the application of the CS3D to 2028. This will give EU policymakers the time to adopt and clarify the new requirements, and companies and Risk Managers the time they need to adapt their governance and risk management processes and to invest in supply-chain data-collecting technologies. Additionally, it will allow for the technologies that they rely upon to improve and proliferate, which means that the requirements of the CS3D may become easier to meet in the future.

FERMA

The Federation of European Risk Management Associations brings together 23 risk management associations in 22 European countries, representing over 5600 risk managers active in a wide range of organisations. FERMA provides the means of co-ordinating risk management and optimising the impact of these associations outside their national boundaries on a European level.

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