

Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive and European Taxonomy

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Connect Europe



INTRODUCTION

Telecom operators are deeply committed to advancing sustainability across all dimensions, environmental, social, and economic, and are actively implementing strategies and actions to, amongst other things, become net-zero and manage supply chains responsibly. Disclosure of sustainability data and performance can be helpful for investors and customers through increased transparency and comparability. Additionally, it can help spur new business models, such as those focused on circular products. If the regulatory framework sets the right incentives for a lean sustainability approach, Europe could gain a competitive advantage. However, the current regulatory framework could have a negative effect on this transition, potentially turning what should be a strategic compass into a mere compliance exercise.

This is why Connect Europe welcomes the Commission's proposal for an Omnibus procedure on the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D) and the European Taxonomy, that aims to reduce the administrative burden for companies resulting from sustainability reporting obligations while remaining committed to their ambitious sustainability targets. Connect Europe members strongly support the objectives of these legal frameworks, however, the overlapping, at times inconsistent, as well as extensive sustainability reporting requirements, have proven too burdensome. Although the proposed changes of the European Commission are going into the right direction, we believe more could be done to truly set the right incentives for companies to continue their sustainability transition.

1. GENERAL COMMENTS AND OP-PORTUNITIES FOR IMPROVEMENT

1.1. Freezing of the phase in points for the second year of reporting for Wave 1 companies:

First and foremost, the Omnibus proposal entirely overlooks companies that are already reporting under the CSRD (Wave 1) or are currently preparing to do so. Ensuring legal certainty for companies is crucial if the regulatory framework is to be revised. In light of this, we urgently call on the European Commission to rapidly freeze the phase-in of data points required for the second year of reporting for Wave 1 companies. As stipulated in Appendix of Commission Delegated Regulation 2023/2772 of 22 December 2023, the reporting of all data points in 2025 and subsequent financial years is mandated due to phase-in provisions. This additional reporting entails a significant number of extra CSRD datapoints, including challenging social aspects (S1) and sensitive anticipated financial effects, requiring the mobilisation of additional resources starting as early as 2025.

1.2. Compliance timelines:

Compliance timelines should foresee longer implementation periods to secure enough time to optimise compliance efforts and resources throughout value chains, ultimately improving the quality and consistency of reported information.

1.3. Achieving fair level playing field:

Connect Europe members support more harmonisation in the implementation and transposition of the CSRD across Europe. This will ensure a level playing field, especially when it comes to the publication timeline of the first CSRD reports, which currently varies from





country to country.

Achieving a level playing field is necessary also between Small and Medium-sized Enterprises (SMEs) and large companies. Consistent simplification and extension of timelines should be applied uniformly to all actors under the 'once only' principle for reporting and standardised information requests, thereby enhancing competitiveness across the entire value chain.

1.4. Consistency with the Sustainable Finance Disclosure Regulation (SFDR):

We welcome the European Commission's call for evidence to improve the usability and impact of the current SFDR framework. However, we regret that the Commission has not taken the opportunity to review the SFDR together with the Omnibus I package as the two legislative frameworks are closely linked to each other but lack consistency and should therefore be aligned. Even though listed companies are not directly legally obliged to report according to the SFDR, they are indirectly required to report data points due to capital market requirements (e.g. ratings and direct investor dialogues). It is therefore essential that any future changes to the SFDR are fully consistent with existing frameworks and the revisions introduced through the Omnibus process to ensure coherence and avoid duplicative or misaligned reporting expectations.

1.5. CSRD-Scope: Alignment of definitions of addressed "undertakings" with CS3D:

We regret that the European Commission missed the opportunity to further align the CSRD and CS3D regarding the thresholds for companies within the scope of their obligations. Such alignment would enhance consistency between the CSRD and CS3D, especially since the results of the CS3D are reported within the CSRD.

1.6. Information from SMEs/value chain cap:

Both CSRD and CS3D specify that companies

should not seek to obtain information from smaller companies that exceeds the information specified in voluntary reporting standard for SMEs (VSME). While CSRD sets limit at companies with fewer than 1 000 employees, CS3D sets limit at companies with fewer than 500 employees. There should be an alignment between the two directives. Some data are not available as they are held by suppliers, who are often not subject to the CSRD (e.g. product reparability rate).

1.7. Data redundancy:

Certain information is requested repeatedly across different data points, creating risks related to redundant disclosures, fragmented understanding, and potential input errors. We recommend consolidating and simplifying the requirements, for example, by introducing a single section that presents all policies on one side and all targets on the other, with references to the corresponding European Sustainability Reporting Standards (ESRS) topics.

1.8. Sensitive business information:

Sensitive business information such as forward-looking information related to financial risks should be better protected. Therefore, required disclosures by ESRS that encompass strategic-sensitive information should either be removed or guaranteed an exemption, e.g. the amount of credit carbon absorption.

1.9. Stakeholder involvement:

To ensure applicability, business stakeholders subject to the CSRD and ESRS should be closely involved in the further development of ESRS and related guidance documents. Their experience is crucial to avoid imposing unnecessary administrative burdens.

1.10. Alignment with financial statements:

The scope of reporting units for sustainability reporting (i.e. ESRS) should align with that of financial reporting (management report) within the annual report.



1.11 Review the digitalisation requirements according to the XRBL tagging system:

Even though the Commission's proposal delays the application of the digital tagging, we believe that this system should be reviewed to be less burdensome for companies (especially since it is not used by all investors).

2. SPECIFIC COMMENTS ON THE PROPOSED AMENDMENTS TO EACH LEGISLATIVE PROPOSAL

2.1. Comments on the proposed amendments to the CSRD

Connect Europe welcomes the fact that reasonable assurance obligations for the audit is not expected anymore. Given the complexity of the reporting process and data points, it is already challenging for auditors to provide companies with limited assurance. It is therefore unrealistic to require auditors to provide reasonable assurance by 2027. Keeping the system of limited assurance requirements will ensure a fair representation of the required disclosure requirements, and avoid a mere check-the -box exercise against all mandatory disclosure requirements.

Today, companies experience different interpretations of the ESRS by auditors within the same Member State and across Member States. We would like to ensure that auditors are aligned in their ESRS interpretations and materiality.

Furthermore, we support the proposition of reducing the number of data points by adopting a delegated act to revise the first set of ESRS and that the Commission has halted the work on the sector specific standards until the current set of standards is fully consolidated. This will be an important opportunity to focus the reporting on what really matters for investors while providing companies with strategic information for their internal governance. We urge the Commission to initiate the ESRS review process without delay.

In particular, we call for the upcoming work to take the following points into consideration:

- Keep the double materiality assessments but investigate options for streamlining material topics through further clarifications and more stringency of methodology;
- Prioritise quantitative data points over narrative text/qualitative data in line with the Commission analysis;
- Simplify the description of the data points, align the approach within the ESRS standards and provide guidance for a better interpretation of the standards;
- Better align the ESRS metrics with disclosure requirements of other EU legislations and ensure interoperability of ESRS standards with international standards such as SASB, ISSB, GRI;
- For corporations and their reporting subsidiaries, we would welcome further guidance which clarify how the group specifies the double materiality assessment and its Impacts, Risks and Opportunities (IROs) for the group. This should function as the baseline, but the reporting subsidiaries should be allowed to adapt their local double materiality assessment and their IROs according to local circumstances. In addition, the Commission should, in cooperation with EFRAG, further clarify the standards and improve their business relevance to minimize the room for interpretation for auditors. At the moment, we see different interpretations across Europe.
- Ensure that subsidiaries that are part of or consolidating within the group are always exempted from reporting in all cases, regardless of their characteristics (number of employees, being a public interest entity, being public, etc.). Member States should also accept a consolidated sustainability report of the parent company translated into English. A translation into a language determined by the Member State is unnecessarily burdensome for companies and thus should not be required.



2.2. Comments on the proposed amendments to the CS3D

We welcome the key amendments introduced by the Commission to the CS3D proposal, such as the postponement of the due diligence requirements from one year. However, further harmonisation is needed in the area of the civil liability regime, as there will not be a level playing field among companies depending on the European country in which they operate. Further clarification may also be required with regard to the restriction of due diligence obligations along the supply chain. We highlight, below, some specific comments.

Scope –Restriction of the scope of due diligence obligations within group

The CS3D due diligence obligations also comprise group subsidiaries. Following the example of the German Supply Chain Due Diligence Law¹, the duty to enforce due diligence obligations within group subsidiaries should be limited to affiliates over which the parent company exercises decisive influence in the sense of effective control². Otherwise, the parent company would run into an obligation which it legally cannot meet.

• Sector initiative versus ban on cartels

The CS3D provides for the involvement of industry initiatives in several places in fulfilling due diligence obligations. The ban of cartels prohibits agreements and concerted practices between companies that restrict competition. Industry initiatives that bring together many competitors must ensure that exchanges and practices comply with the requirements of Art. 101 TFEU. This may hinder the efficient fulfillment of due diligence obligations. In the agricultural sector, there is an exception to the prohibition of cartels. This exception is enshrined in Art. 210a Regulation (EU) 1308/2013. It concerns sustainability standards for agricultural products. According to this, Art. 101(1) TFEU does not apply under certain conditions to concerted practices of agricultural producers who want to apply higher sustainability standards. A similar exception should be created for industry initiatives to fulfill due diligence obligations.

• Risk-based analysis and monitoring

We support a consistent implementation of the risk-based approach; without any indication of timeframes for conducting the risk analysis, monitoring the effectiveness of measures, or ensuring an appropriate risk management system.

• Definition of plausible information

Furthermore, we call on co-legislators to clearly define within the legal text what constitutes 'plausible information' that could necessitate conducting an "in-depth assessment" pursuant to Article 8.2a.

Legal Certainty and Predictability

Prolonged negotiations on the new Omnibus and/or an extended pause in the transposition process of the CS3D would create significant legal uncertainty and disrupt ongoing efforts. Many companies have already invested significant resources in setting up due diligence systems and would benefit rather from further clarity through helpdesk/guidelines than indefinite delays.

3. COMMENTS TO THE TAXONOMY DELEGATED ACTS ON REPORTING AND CLIMATE AND ENVIRONMENTAL TAXONOMY

We welcome the efforts of the EU Commission to increase the usability of the EU Taxonomy framework by simplifying some obligations. If the sustainable finance framework brought by the CSRD, CS3D and taxonomy is to be an essential tool in the green transition of EU companies, it is crucial to strike the right balance between this objective and that of remaining



competitive.

First, we would like to make some general comments on the proposal for the Commission's consideration.

Legal Certainty

Companies have been reporting according to the EU Taxonomy for four years. Therefore, ensuring legal certainty for companies is crucial particularly when the regulatory framework is set to be opened up. The current proposal includes pending future developments about TSC, DNSH and partial alignment. We urge the European Commission to finalise all modifications at the earliest opportunity, ensuring they are implemented in time for the next report.

Link with other regulatory pieces impacting sustainable finance not included in Omnibus

Although we welcome the simplifications initiated with first Omnibus procedure, we fear that closely linked regulatory frameworks such as the SFDR may be insufficiently aligned with the Omnibus proposal due to different timing, as the SFDR is only expected by end of 2025. Those closely related regulatory frameworks could have an impact on the taxonomy reporting decisions which is why we urgently request that updates are done with a focus on regulatory consistency.

Scope of EU Taxonomy

The more economic activities are adequately covered by the EU Taxonomy, the greater the informative value, and consequently, the relevance and usage by investors. The EU Taxonomy currently still overlooks business activities that significantly impact achieving the set climate targets. Therefore, we call for the inclusion of electronic communication networks as a Taxonomy-eligible economic activity. The telecom sector is a cornerstone for further digitalization, which can substantially contribute to sustainability through increased efficiency. At

the same time, the telecom sector also faces a significant investment challenge in advancing network expansion due to the increased penetration brought about by digitalization.

• Review of TSC and DNSH criteria:

We also welcome the mention of an upcoming systematic and thorough review of all the technical screening and DNSH criteria. Simplifying these requirements will make the reporting more efficient and accurate for companies as certain TSC are not fit for reporting.

Specific comments on Taxonomy Delegated Acts:

Connect Europe would like to highlight some specific points that need to be addressed in more detail below and in our response to the consultation:

1. Materiality thresholds:

We welcome the materiality thresholds as it allows us to omit non-significant reporting information. We regret that the EU Commission did not take the opportunity to remove completely the Operating Expense (OpEx) KPI in the EU Taxonomy as it lacks a clear definition under IFRS, making it an artificial metric that cannot be reconciled with financial statements. Moreover, it is extremely difficult to identify and to align according to its definition, leading to unnecessary complexity without added value. However, the current proposal still generates some doubts about the implementation of the materiality thresholds.

2. Simplification of Templates

Connect Europe appreciates the efforts of the European Commission regarding the simplification of templates.

However, we would like to highlight there is a lack of understanding of the new templates that should be addressed.

3. Simplification of DNSH Appendix c (Annexes from VI to X)

³ https://connecteurope.org/insights/position-papers/connect-europe-gsma-response-taxonomy-delegated-acts-consultation