



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

## THOUGHT LEADERSHIP ARTICLES



*Issue 3 (June 2026)*

## **EU ESG regulations update: Navigating CSRD, CSDDD, and the Omnibus simplifications**

The global landscape of sustainability reporting is rapidly evolving. Standards developed by the International Sustainability Standards Board (ISSB) are being adopted across many jurisdictions, while the European Union (EU) continues to refine its sustainability reporting framework.

Against this backdrop, recent revisions to EU sustainability regulation may give the impression of a reduced reporting and due diligence burden. The reality is more nuanced: the EU has simplified parts of the framework through its Omnibus package, but the core direction remains intact, and will still profoundly impact global supply chains, including businesses operating in Hong Kong and the Chinese Mainland.

### **Understanding CSRD and CSDDD**

EU's approach to corporate sustainability is driven by two distinct but complementary directives under the European Green Deal: the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).

In broad terms, the CSRD is focused on transparency and standardized reporting. It requires companies to disclose sustainability information across environmental, social and governance (ESG) topics in accordance with the European Sustainability Reporting Standards (ESRS), with the precise disclosures depending on the company's material topics. It also introduced double materiality, requiring companies to assess both how sustainability issues affect the business financially and how the business affects people and the environment. Sustainability reporting under the CSRD must form a dedicated section of a company's consolidated management report, and the reported information is subject to external assurance, starting with limited assurance. This may require clearer reporting boundaries, more robust documentation and systems to support structured sustainability reporting.

In parallel, the CSDDD is aimed at embedding responsible business conduct into corporate processes. It establishes a due diligence duty requiring companies to identify, assess, prevent, mitigate and address adverse human rights and environmental impacts throughout

# THOUGHT LEADERSHIP ARTICLES

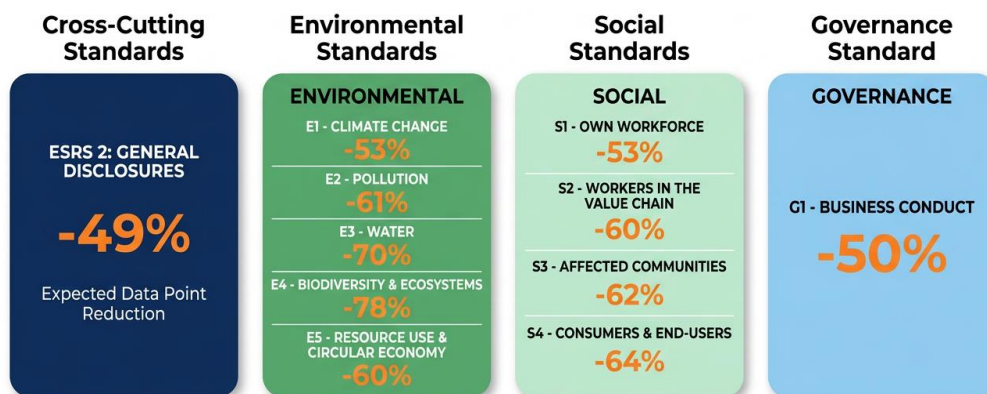


their chain of activities. For businesses with complex supplier networks, this can require much closer oversight of subsidiaries, suppliers and other business partners than many organizations have previously applied and may involve in-depth assessments, corrective action plans and ongoing monitoring where risks are material.

## The Omnibus Simplifications

In response to concerns about corporate competitiveness and the administrative burden of sustainability reporting, the EU introduced a series of Omnibus-related simplification measures in 2025. These included Omnibus I, stop-the-clock measures, a quick-fix delegated act, and a July 2025 ESRS simplification exposure draft. While the original ESRS framework could require companies to disclose more than 1,000 data points, these measures are expected to reduce that burden by approximately 49% to 78% across various topical standards, depending on materiality.

### IMPACT OF ESRS SIMPLIFICATION: ESTIMATED REDUCTIONS IN EXPECTED DATA POINTS



As the chart above illustrates, the Omnibus package reduced the expected data points significantly—by up to 78% for biodiversity and 53% for climate change.

# THOUGHT LEADERSHIP ARTICLES



Furthermore, it elevated the financial thresholds defining which companies fall under the scope of these directives and delayed the mandatory reporting timelines for subsequent waves of companies.

Despite these changes, simplification does not mean exemption. The core of the CSRD remains intact. Companies are still required to report on material issues, existing policies, controls, and future targets.

## Who needs to report, and when?

The CSRD rolls out in “Waves” based on company size, listing status and geography. The table below gives a simplified overview of the current direction following Omnibus updates:

Wave	Type of company	First reporting year
1	Large EU listed companies (PIEs) with 1,000+ employees and €450M+ turnover	FY2024 (already reporting)
2	Other large EU companies with 1,000+ employees and €450M+ turnover	FY2027 (Reporting in 2028)
3	Listed SMEs, small credit institutions and captive (re)insurance entities	Not currently in scope
4	Non-EU parent companies with €450M+ EU turnover and a qualifying EU subsidiary or branch	FY2028 (Reporting in 2029)

*For Wave 4, a qualifying EU subsidiary generally means meeting two out of three criteria: a balance sheet over €25M, net turnover over €50M, or more than 250 employees. If no subsidiary meets those thresholds, a branch generating €50M net turnover in the EU may also be relevant. Non-EU parents below the €450M EU turnover threshold are not currently in scope.*

## The ripple effect on As



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

## THOUGHT LEADERSHIP ARTICLES



Although these directives originate in Europe, their reach extends well beyond the EU. Asian businesses may not be directly based in Europe, but they can still be affected in two important ways. Non-EU parent companies with significant EU operations, or those holding large EU subsidiaries, may find themselves directly subject to the CSRD and CSDDD, while other businesses may be affected indirectly through commercial relationships with EU customers.

In particular, the CSDDD's supply chain requirements mean EU companies may increasingly request ESG data, emissions metrics and human rights compliance documentation from global suppliers. As a result, a Hong Kong or Chinese enterprise operating exclusively in Asia may still face strong pressure to align with EU sustainability expectations in order to retain European clients.

Failures to meet these supply chain expectations could lead to lost contracts, strained business relationships and growing regulatory and commercial pressure over time, including potential penalties under applicable national laws and, in some cases, civil liability. In practice, this means suppliers that once viewed ESG as mainly a communications exercise may now need to treat it as a data, controls and risk-management issue.

### Where to start?

Organizations should not wait for every detail to settle before taking action. To prepare for evolving reporting and due diligence expectations, organizations should consider taking the following steps:

- **Know your wave:** Conduct a comprehensive gap analysis to determine if your corporate group structure triggers direct reporting obligations under the CSRD.
- **Run a double materiality assessment:** Identify the sustainability issues that are financially material to the business, as well as those reflecting the company's most significant impacts on people and the environment.
- **Review governance and internal controls:** Check whether current board oversight, internal controls and data ownership are fit to support structured sustainability reporting, given that individual directors bear personal liability.
- **Engage with your supply chain:** Map your supply chain to identify and mitigate potential human rights or environmental vulnerabilities. Start conversations with suppliers now to mitigate these risks rather than when a client or regulator asks.
- **Make documentation audit-ready:** Establish robust documentation processes



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

## THOUGHT LEADERSHIP ARTICLES



to ensure all ESG data, methodologies, and remediation plans are audit-ready for regulators and major clients.

Although parts of Europe's ESG framework have been simplified, core reporting and due diligence obligations remain in place. Organizations that strengthen governance, data and controls during this period will be in a stronger position to respond.

This article was contributed by Cyrus Cheung, Chairperson of the Institute's Sustainability Committee.