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REVISITING THE CSRD AND CS3D DIRECTIVES: A STRATEGIC RECALIBRATION FOR THE EU BY REVISITING THE CSRD AND CS3D DIRECTIVES AND THE OBLIGATIONS THEY IMPOSE ON BUSINESSES, THE EUROPEAN UNION IS IN FACT ENGAGING IN A BROADER REASSESSMENT OF ITS STRATEGIC, ECONOMIC, AND POLITICAL PRIORITIES.

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Prompted by the Draghi Report's findings that European companies are losing competitiveness—particularly due to overregulation and bureaucratic burdens—and in light of the practical challenges companies face in complying with the sustainability mandates set out in these directives, the European Commission announced at the start of the year its commitment to a simplification initiative. In February, it unveiled a first set of “omnibus” measures, including a one-year deferral of the original reporting timelines for all affected businesses. It also proposed a number of substantive clarifications and simplifications to the directives’ core provisions. While the European Parliament and the Council have already ratified the delay, negotiations are ongoing to finalize the legislative updates to each directive by the end of the year, in an effort to resolve the legal uncertainty created by these changes.

This initiative cannot be dismissed as mere administrative housekeeping, nor as a simple technical extension for compliance. It raises several major issues, which we outline below.

1. Are Climate Goals Being Reassessed Under the Guise of Simplification?

While the Green Deal—which integrates the EU’s commitments to the 1.5°C global warming limit and carbon neutrality by 2050—has raised concerns regarding its feasibility and cost, the EU remains broadly committed to its environmental objectives. A majority of member states and European Parliament members appear unwilling to deviate from this path.

However, the Commission has now emphasized the need to align these climate ambitions with competitiveness and growth. This recalibration is significant. Criticism had emerged globally suggesting that Europe, by overburdening its businesses with constraints, might be sacrificing economic growth in pursuit of its climate and social goals. The Commission’s repositioning signals a more balanced approach.

2. Regulatory Sovereignty vs. Transatlantic Divergence

Another key issue is the EU’s regulatory independence from the United States. Once characterized by aspirations of normative alignment in areas such as financial, banking, and tax regulation, the transatlantic regulatory relationship has diverged sharply since the return of a Trump administration. The U.S.’s waning leadership in anti-corruption—evidenced by the (temporary?) halt in FCPA enforcement—has further distanced the two jurisdictions.

Despite threats from the U.S. administration against EU regulations, particularly in the digital economy, the EU rightly refuses to cede control over its internal standards. Still, while Europe need not adopt a deregulatory posture, streamlining its regulatory framework is crucial to avoid disproportionate burdens on European businesses. Otherwise, the market-access rules targeting non-EU companies will not be enough to mitigate the imbalance in regulatory exposure.

3. Tailoring Obligations to Company Size



A third consideration is the proportionality of obligations based on company size. The Commission has proposed limiting the CSRD's scope to companies with over 1,000 employees (up from the original 250), a change expected to reduce the number of affected businesses by 80%. Discussions in the European Parliament have even floated a 3,000-employee threshold. The omnibus proposal also includes safeguards to prevent smaller firms—excluded from the directive due to their size—from being indirectly required to provide full disclosures simply because they supply or subcontract for companies subject to the directive. Further revisions may narrow the value chains for which companies must assess risks and impacts, easing the burden relative to the initial directive.

4. Safeguarding Legal Cohesion Within the Internal Market

Lastly, legal consistency across the internal market is critical—both for ensuring fair competition and for simplifying compliance for companies operating in multiple member states. Given the diverse views on the scope of these reforms, compromises may emerge via flexibilities for member states or for individual companies. Such flexibilities must be tightly circumscribed, especially given the current patchwork landscape: some countries have already transposed the original CSRD into national law, and many companies have begun implementing the related reporting frameworks. In revising the CS3D, maximum harmonization should be the goal to avoid disparate national implementations.

France, having led the way in CSRD transposition, will need to align its domestic legislation once the revised directive is finalized—and must resist the temptation to “gold-plate” the CS3D through overtransposition.
