MACEDO VITORINO

COMPLIANCE & ESG: THE OMNIBUS I PACKAGE

UNDERSTANDING THE “STOP-THE-CLOCK” DIRECTIVE

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BACKGROUND AND PURPOSE

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The "Stop-the-Clock" Directive (EU) 2025/794 delays CSRD and CSDDD obligations by one to two years, easing burdens. It ensures legal certainty while amendments are negotiated, supporting competitiveness.

The EU drives sustainability through the Corporate Sustainability Reporting Directive (CSRD), requiring comprehensive ESG reporting, and the Corporate Sustainability Due Diligence Directive (CSDDD, or CS3D), mandating due diligence on environmental, social, and governance impacts.

However, feedback from businesses, industry associations, and high-profile reports – such as Mario Draghi’s 2024 analysis on EU competitiveness – highlighted significant challenges. These included the complexity of compliance, high administrative costs, and the risk of overburdening companies, particularly small and medium-sized enterprises (SMEs) and those not yet fully prepared for the new requirements. In response, the European Commission introduced the Omnibus I Package on February 26, 2025, as a strategic initiative to recalibrate the EU’s sustainability agenda without compromising its long-term environmental and social goals.

The “Stop-the-Clock” Directive, formally published in the Official Journal of the European Union on April 16, 2025, serves as an immediate, pragmatic measure within this package. Its primary purpose is to provide temporary relief by postponing specific CSRD and CSDDD deadlines, particularly for companies categorized under Wave 2 (large non-public-interest entities) and Wave 3 (listed SMEs and certain small institutions), as well as certain CSDDD obligations for large companies.

This delay is not merely a pause but a strategic opportunity for companies to prepare more effectively, reducing the risk of non-compliance and associated penalties. The directive also ensures legal certainty during the interim period while the EU negotiates the Omnibus I Package’s “Content Directive,” which proposes substantive changes to the CSRD, CSDDD, and EU Taxonomy Regulation. These changes, potentially reducing the scope of in-scope companies by up to 80% and simplifying ESRS requirements, are under discussion, with a possible vote by July or October 2025.

This paper provides an overview of the directive’s scope, implications, and actionable steps for affected companies, ensuring they are well-equipped to navigate these regulatory changes.

KEY PROVISIONS OF
THE “STOP-THE-CLOCK” DIRECTIVE

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CSRD DELAYS

The CSRD mandates sustainability reporting for a wide range of companies, categorized into waves based on size and listing status.

The "Stop-the-Clock" Directive introduces the following modifications:

- **Wave 1 Companies**: No delays apply. Wave 1 companies (large public-interest entities with over 500 employees) must report in 2025 for the 2024 financial year.
- **Wave 2 Companies**: Large undertakings (non-public interest entities with over 250 employees, €50 million turnover, or €25 million in assets) originally required to report in 2026 for the 2025 financial year will now report in 2028 for the 2027 financial year.
- **Wave 3 Companies**: Listed small and medium-sized enterprises (SMEs), small and non-complex credit institutions, and captive insurance entities, initially due to report in 2027 for the 2026 financial year, will now report in 2029 for the 2028 financial year.
- **Wave 4 Companies**: No delays apply. Wave 4 (certain non-EU undertakings) must report in 2029 for the 2028 financial year.

CSDDD DELAYS

The CSDDD imposes due diligence obligations to address human rights and environmental impacts in corporate value chains.

The directive delays:

- **Transposition Deadline**: Member States now have until July 26, 2027, instead of 2026, to transpose the CSDDD into national law.
- **First Phase Application**: The largest companies (EU companies with over 5,000 employees and €1.5 billion turnover, or non-EU companies with equivalent EU turnover) will comply from July 26, 2028, instead of July 2027. Second-wave companies (EU companies with over 3,000 employees and €900 million turnover) maintain their original compliance deadline of July 26, 2028.

ENTRY INTO FORCE AND TRANSPOSITION

The "Stop-the-Clock Directive" entered into force on **April 17, 2025**, the day after its publication in the Official Journal. EU Member States must transpose it into national law by **December 31, 2025**, ensuring alignment with the delayed timelines.

CSRD WAVE COMPANIES

The CSRD categorizes companies into different "waves" based on their size, listing status, and other criteria, determining when they must start complying with sustainability reporting requirements using the European Sustainability Reporting Standards (ESRS). Below is a clear distinction between Wave 1, Wave 2, Wave 3, and Wave 4 companies.

Wave 1: Large Public-Interest Entities (PIEs)

Definition:

- Companies classified as public-interest entities (e.g., listed companies, credit institutions, insurance companies) with more than 500 employees.
- Includes entities already subject to the Non-Financial Reporting Directive (NFRD).

Scope:

- Large EU companies or groups meeting the PIE criteria.

Key Obligations:

- Prepare sustainability reports per ESRS, including double materiality assessments, covering environmental, social, and governance data.
- Reports must be included in the management report and digitally tagged for inclusion in the European Single Access Point (ESAP).

Wave 2: Other Large Undertakings

Definition: large companies (or parent companies of large groups) that are not public-interest entities and meet at least two of the following criteria:

- More than 250 employees (average over the financial year).
- €50 million net turnover.
- €25 million total assets.

Scope: Non-listed large companies, including subsidiaries of non-EU companies meeting the thresholds.

Key Obligations: same ESRS reporting requirements as Wave 1, but with additional time to prepare data collection systems and processes due to the delay.

CSRD WAVE COMPANIES

Wave 3: Listed SMEs and Other Small Entities

Definition:

- Listed small and medium-sized enterprises (SMEs) on EU-regulated markets, excluding micro-undertakings (fewer than 10 employees and €0.7 million turnover or €0.35 million assets).
- Small and non-complex credit institutions (as defined by EU banking regulations).
- Captive insurance undertakings (insurance entities serving a parent group).

Scope:

- Smaller listed entities subject to lighter, proportionate ESRS requirements (simplified SME standards).
- Option to opt out of reporting until 2028 (originally 2026), with a statement explaining the decision.

Key Obligations:

- Use simplified ESRS tailored for SMEs, with reduced disclosure requirements.
- Prepare for potential stakeholder pressure to report voluntarily despite the delay.

Wave 4: Non-EU Undertakings

Definition: Non-EU companies with major EU operations, defined as:

- Generating €150 million annual net turnover in the EU for each of the last two financial years, and
- Having at least one EU subsidiary (large or listed SME) or a branch with €40 million net turnover in the EU.

Scope: Non-EU parent companies reporting at a consolidated group level through an EU subsidiary or branch.

Key Obligations:

- Report sustainability information for the entire group using ESRS or equivalent standards (if accepted by the EU).
- Ensure EU subsidiaries or branches are equipped to handle group-level reporting.

SUMMARY TABLE

WAVE	COMPANY TYPE	CRITERIA	ORIGINAL REPORTING	UPDATED REPORTING	KEY NOTES
WAVE 1	Large PIEs	>500 employees, listed/credit/insurance	2025 (for 2024)	2025 (for 2024)	No delay; immediate compliance required
WAVE 2	Other Large Undertakings	≥2 of: >250 employees, €50M turnover, €25M assets	2026 (for 2025)	2028 (for 2027)	Two-year delay; use time to prepare systems
WAVE 3	Listed SMEs, Small Institutions	Listed SMEs, small credit/insurance entities	2027 (for 2026)	2029 (for 2028)	Two-year delay; simplified ESRS applies
WAVE 4	Non-EU Undertakings	€150M EU turnover + EU subsidiary/branch	2029 (for 2028)	2029 (for 2028)	No delay; group-level reporting required

IMPACT ON BUSINESSES

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IMMEDIATE RELIEF FOR WAVE 2 AND WAVE 3 COMPANIES

Companies in Wave 2 and Wave 3 benefit from a two-year reprieve, allowing additional time to prepare for CSRD compliance.

This is particularly advantageous for companies that were in the early stages of developing reporting frameworks, as it reduces immediate compliance costs and resource allocation. However, companies advanced in their preparations may choose to voluntarily report to maintain stakeholder trust and competitive positioning.

EXTENDED PREPARATION FOR CSDDD COMPLIANCE

The one-year delay in CSDDD transposition and application provides large companies with extra time to establish due diligence processes, particularly for complex global supply chains. This delay mitigates the risk of rushed implementation, which could lead to non-compliance or inefficiencies.

ONGOING OBLIGATIONS FOR WAVE 1 AND NON-EU FIRMS

Wave 1 companies and non-EU undertakings (Wave 4) face unchanged timelines, requiring immediate focus on compliance. For Wave 1, this means finalizing 2024 sustainability reports for 2025 submission. Non-EU companies must prepare for 2028 reporting, ensuring EU subsidiaries are equipped to handle group-level disclosures.

UNCERTAINTY PENDING SUBSTANTIVE AMENDMENTS

The “Stop-the-Clock” Directive is a temporary measure, with substantive changes to the CSRD and CSDDD proposed in the Omnibus I Package’s “Content Directive.”

These changes, potentially reducing the scope of reporting companies by 80% and simplifying European Sustainability Reporting Standards (ESRS), are under negotiation, with a possible vote by July or October 2025. This creates uncertainty, as some companies currently in scope may be excluded, affecting long-term compliance strategies.

STRATEGIC RECOMMENDATIONS

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1. ASSESS YOUR COMPANY'S STATUS

- Determine Your Wave: Confirm whether your company falls under Wave 1, 2, 3, or 4 of the CSRD, and assess CSDDD applicability based on employee count and turnover thresholds.
- Evaluate Preparation Stage: Review existing sustainability reporting and due diligence frameworks to gauge readiness and identify gaps.

2. LEVERAGE THE DELAY STRATEGICALLY

- Wave 2 and Wave 3 Companies: Use the two-year delay to refine data collection systems, train staff, and align with ESRS requirements. Consider voluntary reporting to enhance transparency and stakeholder engagement.
- CSDDD First-Wave Companies: Develop robust due diligence processes, focusing on high-risk supply chain areas, to ensure compliance by July 2028.
- Wave 1 and Wave 4 Companies: Prioritize immediate compliance, ensuring 2024 reports (Wave 1) or 2028 preparations (Wave 4) meet current standards.

3. MONITOR ONGOING LEGISLATIVE DEVELOPMENTS

- Monitor Ongoing Legislative Developments
- Track Content Directive Negotiations: Stay informed on the Omnibus I Package's substantive amendments, as changes to company thresholds or ESRS data points could alter compliance obligations.
- Engage with EFRAG Updates: The European Financial Reporting Advisory Group (EFRAG) is revising ESRS by October 31, 2025. Monitor these revisions to anticipate simplified reporting requirements.

4. MITIGATE RISKS AVOID OVER-RELIANCE ON DELAYS

- Continue compliance preparations, as national laws may vary, and some Member States may enforce stricter timelines.
- Consult ESG Legal Experts: Engage professionals to navigate the evolving regulatory landscape and ensure alignment with both current and proposed rules.

CONCLUSION

CONCLUSION: TURN DELAY INTO ADVANTAGE

The “Stop-the-Clock” Directive offers significant relief for many EU and non-EU companies by delaying CSRD and CSDDD obligations, providing breathing room to adapt to complex sustainability requirements.

The "Stop-the-Clock" Directive marks a significant moment in the EU’s journey toward sustainable governance, reflecting a pragmatic approach to balancing ambitious environmental and social goals with the practical realities faced by businesses operating in a competitive global market.

By granting a temporary reprieve from certain CSRD and CSDDD obligations, this directive not only alleviates immediate pressures but also underscores the EU’s responsiveness to stakeholder concerns, fostering a regulatory environment that prioritizes both sustainability and economic resilience.

However, unchanged timelines for Wave 1 and Wave 4 companies and the potential for substantive changes in the Omnibus I Package necessitate proactive planning.

By assessing their company’s status, leveraging the delay strategically, and staying informed on legislative developments, businesses can ensure compliance, strengthen resilience, and gain a lasting competitive edge in a rapidly evolving regulatory landscape.

ABOUT US

WHO WE ARE &WHAT WE DO

ABOUT US

MACEDO VITORINO is a leading Portuguese law firm. We advise domestic and foreign clients in a wide range of business sectors, including banking, distribution, industry, energy, TMT and projects. We are known for our professional and client-oriented approach to complex and difficult matters.

Since the foundation of our firm in 1996 we have been involved in several high-profile transactions in all the firm's fields of practice, including banking and finance, capital markets, corporate and M&A, employment law, ESG, etc.. We have also acted on many complex disputes and restructurings.

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