Catching Up On Simplified EU Sustainability Disclosure Rules

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On July 4, the European Commission adopted a new delegated regulation aimed at streamlining the implementation of the EU Taxonomy Regulation.[1]

The Taxonomy Regulation is a classification system that defines which economic activities can be considered environmentally sustainable. It is used by both financial and nonfinancial companies, including in support of classifying investments as environmentally sustainable.

The delegated regulation marks a significant milestone in the European Union's ongoing efforts to refine its sustainable finance framework. The commission's objective is to make the framework more practical and less burdensome while continuing to uphold the EU's climate and environmental goals.

The proposed reforms to the Taxonomy Regulation via the delegated regulation are designed to ease administrative requirements for both financial and nonfinancial companies, enhance the EU's global competitiveness, and preserve the integrity of the Taxonomy Regulation's core objectives.

This article provides an overview of the delegated regulation. It explains the background and objectives of the Taxonomy Regulation, highlights the key simplification measures introduced by the delegated regulation, and discusses the practical implications for both financial and nonfinancial companies. It also outlines the implementation timeline, the broader benefits of the reforms and some practical steps lawyers can take to help companies prepare for and comply with the new requirements.

Background on the Taxonomy Regulation

The Taxonomy Regulation, in force since 2020 with reporting requirements commencing in 2022, is a cornerstone of the EU's sustainable finance agenda. Its primary objective is to establish a unified classification system for environmentally sustainable economic activities.

This framework is designed to:

- Direct capital flows toward activities that make a substantial contribution to the EU's environmental objectives, including climate change mitigation and adaptation;
- Support the European green deal, helping the EU meet its 2030 climate and energy targets and achieve climate neutrality by 2050;
- Enhance clarity and transparency for investors, companies and policymakers by defining what qualifies as environmentally sustainable;
- Combat greenwashing through the use of clear criteria and technical screening standards; and
- Promote consistency across the EU financial system, reducing market fragmentation and improving the comparability of sustainability-related disclosures.

Despite these laudable aims, the Taxonomy Regulation has faced criticism for its complexity and the considerable administrative burden it imposes on companies — particularly those with limited resources or sustainability expertise.

A further challenge arose from the sequencing of regulatory instruments. The Sustainable Finance Disclosure Regulation — the EU's regime for transparency and disclosure of the sustainability profile of investments — was introduced before the Taxonomy Regulation's classification system was fully developed. This created a disconnect: Financial market participants and nonfinancial companies were required to disclose sustainability-related information without a clear, harmonized framework to define what constituted an environmentally sustainable activity.

Had the Taxonomy Regulation been published first, it would have provided a foundational reference point for disclosures under the Sustainable Finance Disclosure Regulation.

This sequencing would have enabled market participants to align their reporting with a consistent and authoritative set of criteria, reducing uncertainty, avoiding inconsistent interpretations, and fostering more meaningful and comparable sustainability disclosures across the EU.

Even following publication of the Taxonomy Regulation, both technical and political stakeholders have raised concerns about the usability and practicality of the framework.

In response, the commission introduced the delegated regulation to address these challenges — seeking to streamline implementation, improve clarity and ensure the taxonomy remains a workable tool for guiding sustainable investment.

Key Simplification Measures

The delegated regulation introduces several important simplification measures, each designed to make compliance more manageable for companies while preserving the Taxonomy Regulation's environmental integrity.

Materiality Thresholds Introduced

The revised Taxonomy Regulation introduces a 10% de minimis threshold, allowing companies to focus reporting on activities that materially affect revenue, capital expenditure or operating expenditure. Nonfinancial undertakings may exclude operating expenditure disclosures if deemed immaterial to their business model.

Financial institutions can omit taxonomy assessments for up to 10% of financial assets, particularly where the use of proceeds is known, such as loans and investments financing specific economic activities.

For general purpose instruments, companies may rely on counterparties' disclosures. Additionally, credit institutions subject to multiple key performance indicators may exclude reporting on metrics like their trading portfolio green asset ratio or nonlending fee income if those fall below the 10% threshold.[2]

Nonfinancial and financial companies should conduct a thorough review of their business activities to identify those that fall below the 10% threshold. By focusing reporting efforts on material activities, companies should be able to reduce administrative workload and allocate resources more efficiently.

It is advisable to document the rationale for classifying activities as nonmaterial to ensure transparency and facilitate any future audits or reviews.

Streamlined Reporting Templates

The delegated regulation significantly reduces the number of data points required in Taxonomy Regulation reporting — by 64% for nonfinancial companies and 89% for financial companies.

This streamlining is expected to make the reporting process less time-consuming and more user-friendly, for example, by removing the requirement to separately report on do-no- significant-harm and minimum safeguards.

Firms within scope should familiarize themselves with the new reporting templates as soon as they become available. Early adaptation of internal reporting systems and staff training can help ensure a smooth transition and minimize the risk of errors or omissions in future disclosures.

Opt-Out Option for Financial Companies

Financial companies may opt out of detailed Taxonomy Regulation KPI reporting for a transitional period of two years, until Dec. 31, 2027.

This measure is intended to give financial companies more time to adapt to the new requirements and focus on the most relevant aspects of their business while the commission is finalizing its review. In this interim period, financial companies must not claim that their activities are taxonomy aligned and must publish a statement to that effect in their management reports.

Financial companies should evaluate whether they should take advantage of the two-year opt-out period. During this time, they can focus on strengthening internal processes and data infrastructure to ensure readiness for full taxonomy KPI reporting.

It is advisable to document the rationale for opting out and maintain transparency in management reports to support future audits and regulatory reviews.

Simplified Do-No-Significant-Harm Criteria

The do-no-significant-harm criteria, particularly those related to pollution prevention and control associated with the use and presence of chemicals, have been simplified. This change is meant to make it easier for companies to assess and demonstrate compliance with the do-no-significant-harm requirements.

Companies should review the updated do-no-significant-harm criteria and update their internal compliance checklists accordingly. Engaging with environmental experts or consultants may be beneficial to ensure that all relevant aspects are adequately addressed.

Implementation Timeline

The delegated regulation will be submitted to the European Parliament and the Council of the European Union for review. Following a scrutiny period, it will enter into force 20 days after publication in the Official Journal.

The new rules are expected to apply from Jan. 1, 2026, covering the 2025 financial year. However, companies may opt to defer application and continue using the existing rules for 2025, applying the new measures only from the 2026 financial year onward.

Companies should monitor the progress of the delegated regulation through the European legislative process. Meanwhile, they should assess the pros and cons of deferring implementation and following the existing Taxonomy Regulation versus following the simplified Taxonomy Regulation from the earliest opportunity.

Further Implications

While the practical tips above outline key actions and highlight the reduced reporting and compliance requirements, the delegated regulation also brings broader benefits, such as the following.

Enhanced Internal Clarity and Usability

Simplified templates and criteria make it easier for companies to interpret and apply the Taxonomy Regulation. This reduces the risk of errors and inconsistencies in reporting.

Improved Investor Confidence

More consistent and transparent sustainability disclosures can strengthen investor trust in a company's sustainability profile.

Support for Transition Planning

By easing the reporting burden, the new rules may encourage companies to better track and communicate their transition activities, thereby supporting the EU's wider climate and environmental goals.

Practical Steps for Lawyers

Lawyers can take a number of practical steps to support financial and nonfinancial clients affected by the delegated regulation.

These include advising on materiality assessments, reviewing and updating reporting frameworks, providing targeted training, assisting with stakeholder communications, monitoring legislative developments, and engaging data or ESG specialists. Each of these actions are explained in more detail below.

An important aspect of legal support is reviewing and updating reporting frameworks. The revised taxonomy templates and data requirements may require substantial changes to existing systems.

Lawyers should work closely with compliance and finance teams to align reporting practices with the new standards, ensuring disclosure obligations are met and minimizing enforcement or reputational risks.

Lawyers also deliver targeted training. Tailoring training sessions for a client's legal, compliance and sustainability teams can ensure that those responsible for implementation understand the new requirements and how to apply them in practice.

Training should cover both the substance of the rules and practical steps for embedding compliance into everyday operations, with content adapted to the client's specific context.

Clear communication with stakeholders is another area where lawyers can assist clients. Companies will need to explain to investors, regulators and others how they are responding to the changes. It is important to ensure these communications are accurate, compliant and aligned with strategic positioning, thereby reducing the risk of misrepresentation or omission under close regulatory or market scrutiny.

Lawyers should also encourage clients to engage sustainability consultants or data providers to support taxonomy alignment.

While legal teams are overseeing compliance with disclosure obligations, consultants can contribute technical expertise in sustainability metrics and EU Taxonomy requirements. This collaboration enhances the accuracy and defensibility of disclosures and helps clients anticipate regulatory expectations and investor scrutiny.

Ongoing monitoring of legislative developments is critical. Lawyers should track the delegated regulation through the EU process and provide timely updates on amendments or guidance. This enables clients to adjust compliance strategies promptly and respond proactively to evolving requirements.

Finally, with respect to materiality assessments, clients must review their business activities against revised thresholds.

Lawyers can assist in designing robust, defensible methodologies and ensuring the process is properly documented. Lawyers can also encourage good recordkeeping to support transparency and readiness for audits.

Conclusion

The commission's adoption of the new delegated regulation represents a significant step forward in making the EU's sustainable finance framework more practical and effective.

By reducing administrative burdens, simplifying reporting requirements and maintaining a strong focus on environmental integrity, the reforms are expected to benefit companies, investors and the broader EU economy.

As the EU continues to refine its sustainable finance framework, further updates may follow — making ongoing monitoring essential.

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[1] https://webgate.ec.europa.eu/regdel/#/delegatedActs/2859.

[2] A metric that measures the proportion of a bank's trading book (portfolio of financial assets held for short-term trading) that is aligned with environmentally sustainable activities defined by the Taxonomy Regulation.

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