

Unpacking the Omnibus Simplification Package

Market Reactions of European Listed Firms to Omnibus Simplification
Package Announcements: An Event Study

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Abstract:

Using daily stock returns and trading volumes for European listed companies, this paper examines the market reactions to three different announcements related to the introduction of the European Commission's Omnibus Simplification Package. A classic event study method is applied to both return and liquidity analyses. Expected returns are generated using the Fama-French Three-Factor Model over a 7-day event window. The Amihud illiquidity ratio is used as a proxy for stock liquidity, and the historical mean liquidity is used to generate expected liquidity over the 13-day window. For Events 1 and 2, general return analyses are conducted across the full sample of firms, whereas Event 3 focuses on differences in return and liquidity responses between treatment and control firms affected by changes to the Corporate Sustainability Reporting Directive and the EU Taxonomy, respectively. Results show that all firms reacted negatively to the first two events. Event 3 reveals no significant difference in performance; however, treated firms exhibited higher liquidity around the EU Taxonomy. Industry-level analyses are also conducted to compare returns between firms in high- and low-emitting industries. Results reveal significant differences only for Event 2; high-emitting firms experience more negative returns than low-emitting firms.

Keywords: Omnibus Simplification Package, European Stock Market, Sustainability, Non-financial Disclosures, Event Study

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1. Introduction

In recent years, Environmental, Social, and Governance (ESG) considerations have become the center of decision-making and one of the top priorities in boardroom agendas. The concept of ESG itself is not new, however, heightened awareness of environmental issues, social challenges, and the need for stronger corporate governance has caught the attention of policymakers and societal groups. Therefore, ESG factors have increasingly become a vital part of firm valuations, as firms with superior sustainability ratings tend to have lower risk and perform better (Hartzmark & Sussman, 2019). Additionally, governments around the world are starting to introduce policies and frameworks aimed at advancing sustainability goals, such as the US's Inflation Reduction Act (IRA) or China's 14th Five-Year Plan, which work towards global zero-net transition (Damsté et al., 2024). The European Union (EU) is not a stranger to mandatory ESG policies either. In 2014, the EU introduced its first major standardized framework for mandatory sustainability reporting, the Non-Financial Reporting Directive (NFRD) (Directive 2014/95/EU). This was later followed by the European Green Deal, which tightened the EU's sustainability legislative environment to achieve climate neutrality by 2050 (European Commission, n.d.). However, in 2024, a report issued by former Italian Prime Minister Mario Draghi identified those stringent reporting policies as red tape hindering European firms' innovation and growth, further widening the competitive gap between the EU and the United States (US) & China (European Commission, 2025f)

To address this, the EU introduced the Competitiveness Compass, a framework aimed at reigniting Europe's economy and enhancing competitiveness (European Commission, 2025a). A part of this framework is the Omnibus Simplification Package, a plan to reduce bureaucratic burdens on all European companies, specifically Small and Medium-sized Enterprises (SMEs), to free up resources that can be invested into innovation (European Commission, 2025d).

Previous literature provides mixed evidence on the influence of sustainability disclosure on firms and financial markets. In theory, several frameworks can help explain how transparency, credibility, and investor expectations shape market outcomes. For example, Akerlof's (1970) introduction of information asymmetry, Dowling & Pfeffer's (1975) development of legitimacy theory, and Freeman's (1984) stakeholder theory highlight the importance of how firms communicate with and meet the expectations of their shareholders. This also provides a

justification for firms' sustainability disclosures. The emphasis on the role of information in financial markets is complemented by Fama's (1970) Efficient Market Hypothesis (EMH), suggesting that all available information is reflected in stock prices.

In practice, however, some studies find evidence that non-financial disclosures negatively affect firm values, particularly for firms operating in high-carbon-emitting industries (e.g., Constantinescu, 2021; Fatemi et al., 2018; Barbera & McConnell, 1990; Yoo & Heshmati, 2019). Whilst other researchers have found a positive relationship between CSR disclosure and market outcomes, as it contains value-relevant information for investors (e.g., Waddock & Graves, 1997; Clarkson et al., 2013; Plumlee et al., 2015; Van Linh et al., 2022; Roy et al., 2022; Kreuger et al., 2024; Wang et al., 2023b).

Mixed results are also exhibited when studying mandatory sustainability disclosures from a global standpoint. Research from the US and China indicates that stricter disclosure requirements lead to negative responses (Wang et al., 2023a; Guo et al., 2020). Cross-country evidence, however, suggests that mandatory disclosure is value-enhancing and can improve market outcomes (Ioannou & Serafeim, 2019). Within the EU, findings are similarly divided. While some studies indicate that mandatory disclosure in Europe is costly for firms (Mittelbach-Hörmanseder et al., 2021; Fiechter et al., 2022), others view the release of information increases firm value and improves performance (Vishnu Nampoothiri et al., 2024). Despite the presence of extensive literature covering sustainability disclosure, studies examining market reactions to regulations designed to *reduce* reporting burdens are limited, particularly given the recent introduction of the Omnibus Simplification Package.

Therefore, this paper aims to investigate how listed European companies react to announcements regarding the development of the Omnibus Simplification Package, focusing on three distinct event dates. Data on the daily stock returns and trade volumes of listed European companies spanning over a year are collected. To test the effects of the announcements, an event study approach is used. Expected returns are generated using the Fama-French Three-Factor (FF3) Model over a 7-day event window. The Amihud illiquidity ratio is used as a proxy for stock liquidity, and the historical mean liquidity is used to generate expected liquidity over the 13-day window. For Events 1 and 2, the study analyzes the reactions of the full sample of firms in the dataset by examining cumulative average abnormal returns (CAARs), as no distinction has yet

been made among affected firms. As for Event 3, the differences in CAARs and cumulative average abnormal liquidity (CAAL) between treatment and control firms are tested for both changes to the Corporate Sustainability Reporting Directive (CSRD) and to the EU Taxonomy. To further deepen the analysis, the difference in CAARs between firms operating in high- and low-emitting industries is tested.

The results of the main analyses show negative, statistically significant final CAARs for all firms when testing the impacts of Events 1 and 2, with a stronger impact in Event 1. Pre- and post-event analyses suggest a pre-negative trend for Event 1, indicating the possibility of an event clash. However, for Event 2, they go from slightly positive to negative. As for Event 3, the difference in CAARs between treatment and control firms for both the CSRD and EU Taxonomy is positive, however, statistically insignificant and therefore inconclusive. Positive CAALs are also generated, indicating that treatment firms' liquidity increased during the event window compared to control firms. Results are only conclusive for the EU Taxonomy. Lastly, the results of the industry analysis only provide evidence that Event 2 affected firms in high-emitting industries more negatively than those in low-emitting industries. It is suspected that the results obtained are attributable to the nature of the events themselves, confounding events, regulatory ambiguity surrounding the Omnibus framework, and the assumptions underlying the event study methodology, particularly the EMH.

The thesis is structured as follows: Section 2 provides details on the Omnibus Simplification Package, the source of its origin, the EU sustainability legislative environment, the package's details, and stakeholder reactions. Section 3 follows and introduces theoretical frameworks, previous literature on sustainability reporting and mandates, and how this paper contributes to existing literature. Section 4 introduces the data collection process, event study methodology, and chosen model for this paper. Section 5 presents the results generated for all three events. Lastly, section 6 discusses the results obtained, the limitations of this study, and suggests potential future research ideas.

2. The Omnibus Simplification Package

2.1 The EU Competitive Compass

In September 2024, Mario Draghi, the former President of the European Central Bank and former Italian Prime Minister, published a report titled “The Future of European Competitiveness,” introducing a new competitiveness strategy for the EU. Faced with increased competition from abroad, limited access to overseas markets, the loss of Russia as a major energy supplier, weaknesses in emerging technologies that drive future growth, and shrinking populations, the EU must rely on productivity to drive growth. Draghi proposed that closing the innovation gap with the US and China should be a main focus area (European Commission, 2025f). A key obstacle to fostering this innovation was found to be the costly regulatory burdens constantly introduced to European companies, which have proven to be a major problem for SMEs (European Commission, 2025f). To address this, the EU Commission set out to introduce strategies to reduce the bureaucratic burdens on European companies. Driven by this ambition, the EU introduced the Omnibus Simplification Package, a strategy aimed at improving EU competitiveness (European Commission, 2025d).

2.2 EU Sustainability Legislation Environment

As part of the strategy, the EU has been revising its existing sustainability legislation introduced in 2019 as part of the EU Green Deal. The deal aims to achieve climate neutrality by 2050, a plan to promote sustainable growth in the EU (European Commission, n.d.). This legislation includes the CSRD, the Corporate Sustainability Due Diligence Directive (CS3D), and the EU Taxonomy Regulation. The CSRD is the primary reporting directive under this deal. It replaced the previous NFRD, which only applied to about 6000 of the largest EU companies (Hahnkamper-Vandenbulcke, 2021). The CSRD, however, requires more companies than the NFRD to publish non-financial disclosures and tightens the requirements for detail and transparency. This broadened the reporting scope to include around 50,000 companies in the EU. The increase in bureaucracy is referred to as a reporting burden, which has led to the emergence of the Competitive Compass (European Commission, 2025a).

2.3 What is Omnibus?

As a result of this, EU Commission President Ursula von der Leyen announced the EU Commission's plan to streamline and consolidate ESG regulations at the end of 2024. Details on the legislation were released later in 2025. A part of this legislation is the Omnibus Simplification Package. The package aims to reduce complexity and costs for businesses and protect SMEs from trickle-down effects, whilst ensuring the EU remains committed to its sustainability goals (PriceWaterhouseCoopers, 2025). The Omnibus Simplification Package amends the regulations introduced by the EU Green Deal (European Commission, 2025d). The main changes are:

- Removing around 80% of companies from the CSRD scope. Only companies with more than 1000 employees and either a turnover above €50 million or a balance sheet total above €25 million remain subject to rules.
- Ensuring sustainability reporting requirements for large companies will not burden smaller companies in their value chains.
- Revising and simplifying existing European Sustainability Reporting Standards
- Removing the obligation for the Commission to issue sector-specific standards and keep assurance at the current "limited" level, without progressing to reasonable assurance.
- Limiting reporting obligations under the EU Taxonomy to the largest companies with at least 1000 employees and €450 million net turnover, while still allowing other large companies within the future scope of CSRD to report voluntarily.

In practice, these proposals simplify sustainability reporting procedures mainly for companies with under 1000 employees, whilst delaying reporting obligations for larger companies to adapt to the new changes. Details on the exact proposed changes are presented in Appendix A.

2.4 Stakeholder Reactions

The Omnibus Simplification Package sparked debate among stakeholder groups. Questions have emerged regarding who will benefit from this legislative change and how the European Commission will stick to its commitment to achieving climate neutrality, particularly given that over 80% of firms will be exempt from mandatory sustainability reporting. The reactions to Omnibus have been divided.

The European Banking Federation (EBF) has expressed a positive outlook on the regulation (Rico, 2025), welcoming the package and claiming it aligns with the Clean Industrial Deal, a plan by the EU Commission to turn decarbonisation into a driver of growth for European industries (European Commission, 2025b). Industry associations such as BusinessEurope have also endorsed the measures, while the center-right European People's Party (EPP) argues it would help lower compliance costs and streamline processes. Some political groups even welcomed the idea of more extensive deregulatory measures (Bogart, 2025).

Nevertheless, the backlash Omnibus received largely outweighs its support. Despite its initial support, the EBF has warned that this might leave banks without standardized data, potentially creating data gaps that could complicate the environmental risk assessments. Numerous civil society organizations, including the European Coalition for Corporate Justice, the World Wildlife Fund, and the European Trade Union Confederation, have voiced opposition. They argue that the regulation represents a setback to the EU's environmental and social objectives and could undermine human rights due diligence (Bogart, 2025). Additionally, in response to the regulation announcements, over 170 organizations signed a joint statement under the hashtag #NoToOmnibus (Bogart, 2025). Moreover, following a complaint submitted by eight civil society organizations filed on the 18th of April, the European Ombudswoman opened an inquiry into the EU Commission's decision-making process, investigating how this legislation came to be adopted by the EU Commission in the first place (European Ombudsman, 2025).

While Omnibus is presented as a measure to simplify reporting and reduce administrative burdens, it has reignited the debate over the balance between regulatory efficiency and

corporate accountability. The strong reactions faced highlight the complexity of achieving economic competitiveness whilst maintaining sustainable practices.

3. Theoretical Frameworks & Literature Review

3.1 Theoretical Frameworks

3.1.1 Information asymmetry & Adverse Selection

Information asymmetry is one of the most prevalent concepts that helps explain investors' behavior. Using the automobile market as an example, Akerlof (1970) first introduced the concepts of information asymmetry and adverse selection. He defines information asymmetry as a situation where sellers have more information than buyers, leading to imbalances in decision-making. This poses a risk of creating market inefficiencies, as uninformed traders risk engaging in a transaction with informed traders, a phenomenon known as adverse selection. Glosten & Milgrom (1985) show that adverse selection leads to wider bid-ask spreads, reducing liquidity in the market and increasing trading costs. For these reasons, information asymmetry is a central concern in financial markets and directly relevant to understanding liquidity and investor reactions to regulatory announcements.

3.1.2 Legitimacy Theory and Stakeholder Management

Legitimacy theory is derived from the concept of organizational legitimacy, introduced by Dowling & Pfeffer (1975). They view legitimacy as a vital source for an organization's survival. Suchman (1995) defines legitimacy as the idea that an organization's actions are appropriate within some socially constructed system of norms, values, beliefs, and definitions. Deegan (2000) states that legitimacy theory is dependent on the existence of a "social contract," and if this contract is breached, the organization's survival is threatened. Hence, organizations must ensure they operate within the bounds of the contract. The legitimacy theory is most widely used to explain environmental and social disclosures, as they serve to narrow the legitimacy "gap" between firms and their stakeholders (Campbell et al., 2003). This is highly relevant in stock markets, as investors often look at legitimacy to assess firm performance.

This goes hand-in-hand with Freeman's (1984 stakeholder theory, claiming that organizations should consider the interests of all parties affected by their operations, not solely the shareholders. Donaldson & Preston (1995) expand on the concept, arguing that it is an organization's moral obligation to consider the interests of all stakeholders. This suggests that stakeholder management may be necessary for organizations to prove their legitimacy. Non-financial disclosure is one way to do it.

3.1.3 Efficient Market Hypothesis

The modern version of the EMH is a financial theory introduced by Eugene F. Fama (1970), which claims that "prices at each moment incorporate all available information about future values." The EMH ultimately states that asset prices reflect all available information. This phenomenon suggests that abnormal returns are essentially impossible to achieve consistently. Additionally, the EMH holds that all subsequent price series represent random departures from prior prices, implying that future asset prices are unpredictable (Malkiel, 2003). This is referred to as the Random Walk Hypothesis. The EMH comes in three forms: weak, semi-strong, and strong. Each form is based on the type of information incorporated: public or privately held (Fama, 1970).

There is a plethora of literature testing the validity of the EMH and the predictability of stock markets. Some studies support the EMH. For example, Malkiel (2005) conducted another study to understand whether the EMH holds. The study showed that despite their high incentives to outperform, professional investors have not managed to beat the market. This indicates the unpredictability of prices and the market's ability to reflect all available information. Narayan & Smyth (2006) tested the stock price indices of 22 countries and found that the random walk hypothesis holds in 19 of the 22 countries.

However, other studies have criticized or questioned the market's efficiency. Contrary to Narayan & Smyth's (2006) findings, Worthington & Higgs (2004) found that the random walk hypothesis does not hold for the weak form of the EMH in the European equity market. Glickman (1984) drew a comparison between announcements and information and claimed that an event needs to be interpreted before it becomes "information". He concluded that the EMH rests on a conceptual mistake, assuming that information is unambiguous, when in fact a lot of

information is ambiguous when first exposed to. This creates uncertainty, which can lead to pessimistic investor behavior (Bird & Yeung, 2012). De Bondt & Thaler (1985) studied whether market reactions to unexpected and dramatic events affect stock prices. The conclusion was that stock markets do indeed overreact, leading to predictable reversals, which is evidence against the EMH. Finally, papers by Lekovic (2018) and Durusu-Ciftici et al. (2019) present a range of studies that have tested the EMH to see whether it holds and showed that no consensus has been reached on its validity.

3.2 Literature Review

3.2.1 Sustainability Disclosure and Market Outcomes

This section reviews studies examining how sustainability disclosures influence market outcomes. Existing research employs diverse methodologies, variables, and samples, leading to mixed conclusions.

Constantinescu (2021) investigated how ESG-related non-financial disclosure affects firm value in Europe's energy and health sectors. While no relationship was observed for the firms in the health care sector, a negative and significant correlation was identified between the two variables in the energy sector. This suggests that sustainability disclosure may be perceived as a cost in industries with high environmental exposure. Similarly, Fatemi et al. (2018) analyzed the moderating role of ESG disclosure in the relationship between a firm's ESG activities and valuation. They found that disclosure can, in some cases, amplify perceived risks rather than enhance firm value. Barbera & McConnell (1990) examined the impact of environmental regulations on five manufacturing industries, all considered highly carbon-emitting. They concluded that environmental regulations reduce productivity growth in those industries by diverting resources. Yoo & Heshmati (2019) also investigated the effects of environmental regulations on manufacturing industries, focusing on carbon-emitting sectors in South Korea. They found negative effects on industries' labor productivity and employment, with polluting industries bearing a higher cost burden than non-polluting industries.

Nevertheless, a majority of the literature on this topic indicates a positive relationship between CSR disclosure and firm value. Waddock & Graves (1997) showed that strong social

performance and strong managerial practices may be linked and, in turn, lead to strong financial performance. Clarkson et al. (2013) demonstrated that voluntary environmental disclosures contain value-relevant information that helps improve investors' ability to assess a firm's future performance. Supporting this is Plumlee et al.'s (2015) research, which examined the relationship between disclosure quality and components of firm value, finding that higher-quality environmental disclosures are associated with higher firm valuations. Another study showing consistency with these findings is Van Linh et al. (2022). They conducted a study on non-financial firms listed on the Vietnamese stock exchange, and their results also showed a positive relationship between sustainability disclosure and firm value. Wang et al. (2023b) concluded that strong ESG performance increases firms' stock liquidity by reducing risk and gaining stakeholder support, providing support for the stakeholder theory. Roy et al. (2022) and Kreuger et al. (2024) also documented that CSR information disclosure is associated with better stock liquidity.

Overall, while some papers provide evidence of short-term costs or mixed effects, the predominant view in the literature is that sustainability disclosure enhances market outcomes by increasing firm valuations or improving stock liquidity. This occurs through mechanisms such as greater transparency, reduced information asymmetry, and stronger stakeholder trust.

3.2.2 Firm Reactions to Sustainability Reporting Mandates

In recent years, corporate sustainability practices have been subject to increasing regulatory scrutiny and oversight. This reflects rising global concerns over ESG issues. Legislative and institutional initiatives have sought to enhance transparency and encourage responsible business conduct. This has spurred academic interest in understanding how sustainability reporting mandates influence firm performance and market valuation.

From a global standpoint, several studies have examined market responses to mandatory sustainability-related disclosures and environmental regulations. Wang et al. (2023a) examined the stock market reactions to the enactment of the ESG Disclosure Simplification Act of 2021, passed by the US House of Representatives. They found negative equity market reactions to the act's passage one day after the event, specifically among firms with high carbon emissions. Guo

et al. (2020) analyzed Chinese firms' reactions to the announcement of new environmental protection policies issued by the Chinese central government between 2014 and 2017. They showed that more stringent environmental regulations were associated with negative abnormal stock returns, especially for firms operating in highly polluting industries. In contrast, Ioannou and Serafeim (2019) conduct a cross-country study. Their findings show that, on average, mandating sustainability reporting is value-enhancing, particularly in jurisdictions with strong institutional frameworks and effective enforcement mechanisms.

Given that this thesis focuses on firms within the EU, the European context warrants closer examination. The EU's first major piece of legislation on non-financial reporting, the NFRD (Directive 2014/95/EU), represents a significant milestone in sustainability regulation. Findings in this area suggest a negative relationship between mandates and market outcomes. Mittelbach-Hörmanseder et al. (2021) studied the CSRD and found a negative relationship between share prices and CSR disclosure once firms became legally required to report ESG information. Studying the same directive, Fiechter et al. (2022) show that EU firms increased CSR transparency even before the mandate took effect, with stronger responses among those more directly affected by the regulation. In contrast, Vishnu Nampoothiri et al. (2024) studied the effect of NFRD on firm value and found that the additional costs of mandatory disclosure are offset by a proportional increase in firm value.

These findings show different market responses to mandatory sustainability disclosure. While increased transparency can improve legitimacy and reduce long-term risk, initial compliance costs and uncertainty may generate short-term negative valuation effects.

3.2.3 Contribution to Existing Literature

This paper aims to examine the stock market reactions of listed firms in the EU to public announcements regarding the EU Commission's proposed Omnibus Simplification Package. This paper will contribute to the existing literature in several ways. Firstly, empirical research on the financial implications of sustainability reporting mandates is quite recent and remains limited, particularly within the EU, where the NFRD (Directive 2014/95/EU) marked the first major legislative framework in this area. Secondly, while prior studies have primarily focused on the

introduction or tightening of sustainability reporting mandates, this study is the first to study market reactions to a regulatory initiative aimed at reducing bureaucratic burdens to promote the EU's economic competitiveness. This provides a unique opportunity to assess whether investors perceive the streamlining of ESG disclosure requirements as value-enhancing, cost-saving, or potentially as a signal of weakened transparency. Thirdly, given the novelty of the Omnibus Simplification Package, there is currently little to no empirical evidence assessing its impact, making this study among the first to provide insights into how markets respond to regulatory simplification in the sustainability context.

4. Data Compilation and Methodology

4.1 Data Collection

As previously mentioned, this paper focuses on investigating stock market reactions to the primary changes made by the Omnibus Simplification Package (European Commission 2025d). The difference in reactions between companies that are now exempt from obligatory reporting and companies that continue to be obligated to report under the CSRD and the EU Taxonomy is tested. Data is collected from S&P Capital IQ (Pro S&P Capital IQ Pro, n.d.) to run the tests.

To start, the screening tool provided by S&P Capital IQ Pro was used to identify the companies relevant to this study. The selected screening criteria were: *Company Name*, *Country/Region Name*, *Company Type*, *Company Status*, *Industry Type*, *Total Employees*, *Total Revenue*, and *Total Assets*. The selected countries are all present EU members, as they are affected by this legislation. The company type was filtered for public companies. Company status was filtered to include only operating companies and operating subsidiaries. Finally, all firm characteristics were obtained for fiscal year 2023, since at the time of the last event, financial statements for fiscal year 2024 were not publicly available for most firms in the dataset. After filtering for this, 1994 companies from twenty-seven EU countries remained to conduct tests. Using the S&P Capital IQ Pro Excel Plug-in, closing stock prices and stock trading volumes were downloaded for the selected companies. The dates of the stock prices and volumes downloaded ranged from

the 22nd of April 2024 to the 25th of April 2025, keeping in mind the estimation window, event windows, and event dates.

Several datasets were created for the respective events, omitting firms with many NA values. Figure 1 shows an overview of the number of stocks collected for the main analysis. For both Event 1 & 2, tests are conducted across all companies, as they are all equally affected and no distinct comparison can be made. For Event 3, the primary changes introduced by the Omnibus Simplification Package create two distinct comparisons: firms that become exempt (Treat) versus firms that remain subject (Control) to the CSRD and EU Taxonomy. For both groups, return and liquidity analyses are conducted. The difference between those groups is labeled as “Size_Diff”. For Size_Diff, return and liquidity analyses are conducted. The same stock count for Event 3 is applied in the liquidity analysis.

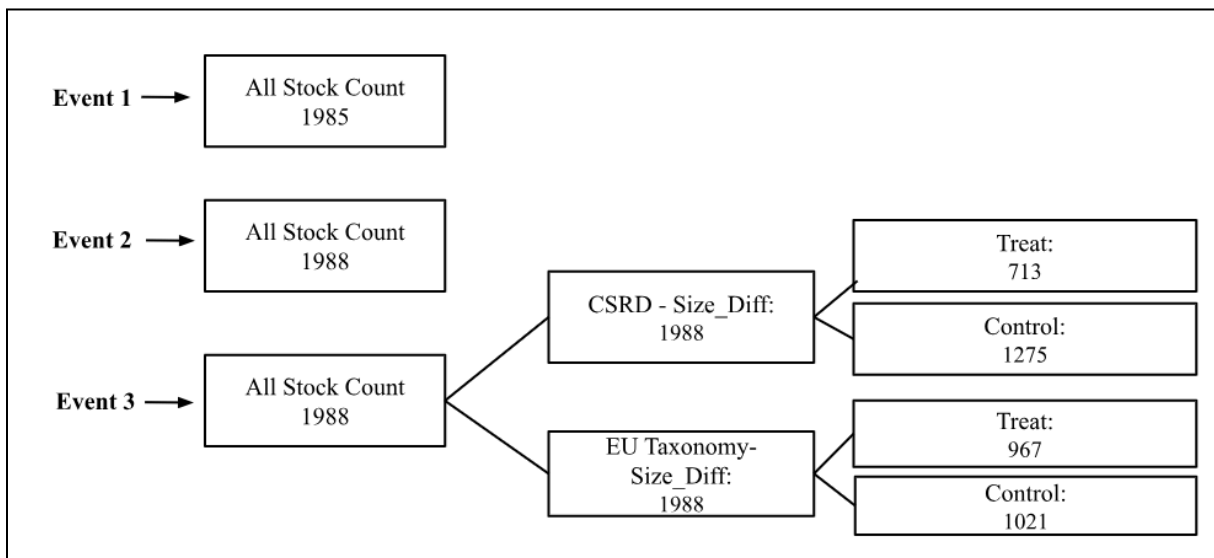


Figure 1: Data Count Main Analysis

An industry analysis is conducted to deepen the analysis. The dataset is split into firms in high-versus low-carbon-emitting industries (Figure 2). This classification follows the breakdown of sectors classified as the main sources of greenhouse gas emissions in the EU (European Parliament, 2024). Firms in the dataset that operate in the sectors that are the main source of emissions are classified as “High_Emit,” and the rest are classified as “Low_Emit”. The difference between them is labeled as “Emit_Diff”.

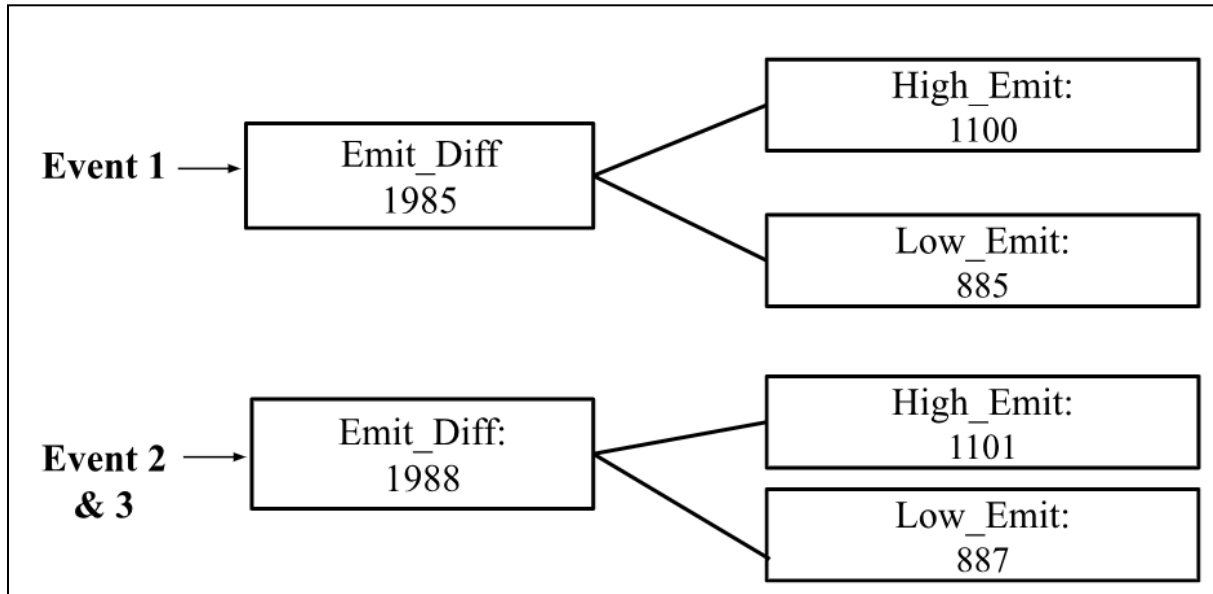


Figure 2: Data Count Industry Analysis

4.2 Methodology

This paper follows the even study methodology used by MacKinlay (1997). This section will therefore present the chosen event dates, estimation window, event window, and the regressions used to analyze reactions surrounding the events.

4.2.1 Event Definitions

To identify the effects, this study considers various dates. The Omnibus Simplification Package has been slowly developing and continues to develop since it was first announced in 2024. Three different event days related to the Omnibus were chosen. Only events representing official public announcements related to the legislation were considered, motivated by the efficient market hypothesis presented in Section 3.1. The following are the chosen event dates:

8 November 2024

This date marks when EU President Ursula von der Leyen first introduced the Omnibus Simplification Package as part of the EU’s Competitiveness Compass strategies (Council of the European Union, 2024). No details were given about what the package entails.

29 January 2025

This marks the date when the EU Commission officially published the Competitiveness Compass, which includes the Omnibus Simplification Package (European Commission, 2025a). Here, they introduce the reduction in reporting burdens and administrative costs for all companies, specifically SMEs, yet no details are given.

26 February 2025

On this day, the EU Commission published the first two Omnibus packages, including legislative proposals to postpone reporting deadlines and reduce the scope of reporting companies (European Commission, 2025e).

4.2.2 Estimation and Event Window

The estimation window is the period of time before the event. It is used to measure the collected stocks' "normal" performance, assuming the event studied has not occurred. MacKinlay (1997) suggests that in an event study using the market model, and in its extensions, the model's parameters could be estimated over the 120-day period prior to the event. This estimation window should not overlap with the event window. Therefore, this study will set the estimation period to 120 days, including only trading days, and end at $t-7$ for the return analyses and $t-12$ for the liquidity analyses. As for the event window, this is typically a couple of days before and after the event day. There are several factors to consider when determining the size of the event window. Konchitchki and O'Leary (2011) warn that the longer the event window, the greater the risk of contamination from other events occurring during it, affecting the share prices studied. Brown and Warner (1985) find that the longer the event window, the weaker the power of the test statistic. MacKinlay (1997) states that the event window should at least cover the day before and the day after the event. Therefore, given the nature of this study, a shorter event window of $[-3, +3]$ is chosen to study the impact of each event on the firms' returns. However, for the liquidity analysis, a longer event window of $[-6, +6]$ is chosen, as in Ibrahim et al. (2019), because liquidity adjusts gradually to regulatory changes, unlike returns. Tests using other event windows are also conducted as robustness checks; however, this is presented in Appendix B.

Figure 3 illustrates the event and estimation windows. The time variable τ represents different days within the event and estimation windows; the event day is represented by $\tau = 0$. $L_1 = T_1 - T_0$ represents the estimation window, with T_0 being the estimation window start date and T_1 being the estimation window end date. $L_2 = T_3 - T_2$ denotes the event window, with T_2 being the event window start date and T_3 being the event window end date.

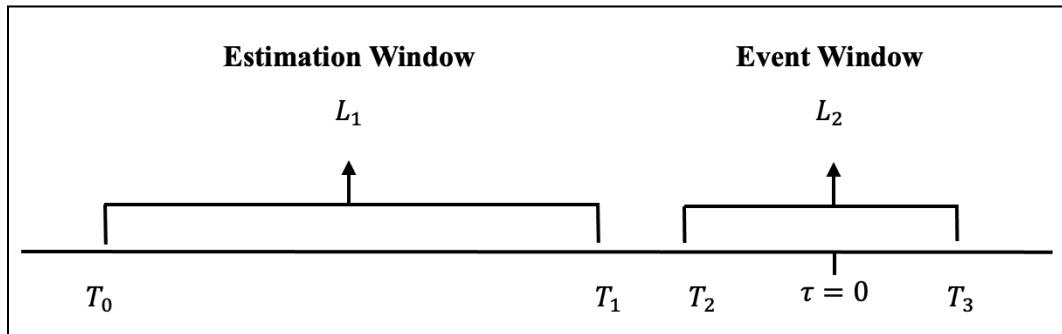


Figure 3: Event Timeline

4.2.3 Studying Firm Stock Returns

Normal, Abnormal Returns, and Cumulative Abnormal Returns

MacKinlay (1997) defines the abnormal return as the actual ex post return of the security over the event window minus the firm's normal return over the same window. In order to determine abnormal returns over the event window, log daily returns for all securities and the market index chosen were calculated using this formula:

$$R_{it} = \ln\left(\frac{P_{it}}{P_{it-1}}\right) \quad (1)$$

Where P_{it} represents the price of a security or the index on day t , and P_{it-1} represents the price of the same security i on day $t-1$. After finding the daily log returns, the Abnormal Returns (AR_{it}) are calculated for each security i at time τ :

$$AR_{i\tau} = R_{i\tau} - E(R_{i\tau}) \quad (2)$$

The actual excess daily return of security i on day τ is denoted by $R_{i\tau}$, and $E(R_{i\tau})$ represents the expected excess daily return of security i on day τ , which is obtained using the prediction model. The baseline model used to calculate the daily excess returns is the following:

$$R_{i\tau} = \alpha_i + \sum_k \beta_{ki} f_{k\tau} + \epsilon_{i\tau} \quad (3)$$

The fitted regression used to calculate the expected returns, testing different factor models, is the following:

$$E(R_{i\tau}) = \hat{\alpha}_i + \sum_k \hat{\beta}_{ki} f_{k\tau} \quad (4)$$

The variables presented in (3) and (4) are denoted as k , which is the total number of factors in the study, f represents the factors that are used in this study; excess market return (MKT), size (SMB), firm value (HML), profitability (RMW), investment (CMA), and lastly a momentum factor (WML). Values for all the factors on each day t are obtained from Kenneth R. French's library (French n.d.-a & n.d.-b). After computing Abnormal Returns, they are summed up for each event window to compute Cumulative Abnormal Returns. The following equation shows how it is summed up:

$$CAR_i(T_2, T_3) = \sum_{\tau=T_2}^{T_3} AR_{i\tau} \quad (5)$$

The abnormal returns generated in equation (2) are regressed on a treatment dummy for Event 3, to test the difference between treatment and control group reactions. The same is done for the industry-level analyses. To ensure valid statistical inference, standard errors are clustered at the firm level for all regressions.

Average Abnormal Returns and Cumulative Average Abnormal Returns

To finally determine the effect of the Omnibus Simplification Package on different listed European stocks, the average of the abnormal returns of all securities on day τ is computed. This is referred to as Average Abnormal Returns (AARs). Equation (6) shows how they are generated:

$$AAR_{\tau} = \frac{1}{N} \sum_{i=1}^N AR_{i\tau} \quad (6)$$

“N” represents the number of securities used in the study, all given equal weights. The following step is to calculate the sum of the AARs for each event window. Equation (7) shows the average abnormal returns summed for all τ over the event window L2:

$$CAAR_{\tau}(T_2, T_3) = \sum_{\tau=T_2}^{T_3} AAR_{\tau} \quad (7)$$

4.2.4 Studying Firms Stock Liquidity

Studying stock liquidity is inspired by Wang et al. (2023b), as introduced in Section 3.2. This paper will therefore follow MacKinlay’s (1997) event study methodology, combined with Wang et al.’s (2023b) measurement of stock liquidity. This is only applied to Event 3, as the other events provide no distinction of treatment and control groups.

To compute a liquidity measure, I start by computing the Amihud illiquidity ratio, first introduced by Amihud (2002). It is used to proxy for liquidity from a price-impact perspective and is one of the most widely used measures of liquidity. It is measured as follows:

$$ILLIQ_{it} = \frac{|R_{it}|}{Volume_{it}} \quad (8)$$

Where $|R_{it}|$ represents the absolute values of the stock returns generated as presented in the section above, and $Volume_{it}$ is the dollar value traded of stock i at time t . Considering that this measures illiquidity, a measure for liquidity is generated, as Wang et al. (2023b) did:

$$LIQ_{it} = \ln\left(1 + \frac{1}{ILLIQ_{it}}\right) \quad (9)$$

Log liquidity is generated, and values are winsorized at the 1% and 99% levels to eliminate the effects of extreme values. This is done to ensure that results are not affected by liquidity skew. After computing the log of liquidity, Abnormal Liquidity (AL_{it}) is calculated for each security i at time t :

$$AL_{it} = LIQ_{it} - E(LIQ_{it}) \quad (10)$$

$E(LIQ_{it})$ in equation (10) is calculated using a mean-adjusted (market-adjusted) model. After computing Abnormal Liquidity, as with stock returns for Event 3, it is regressed on the treatment dummy to test the difference between the treatment and control firms. Abnormal Liquidity is then summed up to produce the following:

$$CAL_i(T_2, T_3) = \sum_{\tau=T_2}^{T_3} AL_{it} \quad (11)$$

As with stock returns, the Average Abnormal Liquidity and Cumulative Average Abnormal Liquidity are calculated throughout the event window. Both are presented in equations (12) and (13):

$$AAL_{\tau} = \frac{1}{N} \sum_{i=1}^N AL_{it} \quad (12)$$

$$CAAL_{\tau}(T_2, T_3) = \sum_{\tau=T_2}^{T_3} AAL_{\tau} \quad (13)$$

4.2.5 Hypotheses and Significance Testing

The primary objective of this study is to examine CAARs across different event windows for listed European companies to test whether the market reacts to regulatory changes. Different tests are conducted for different event windows based on the event characteristics. Statistical significance of AARs and CAARs is assessed using regression-based t-tests with standard errors clustered at the firm level.

For all three events, the following hypotheses are being analyzed:

Null Hypothesis

$$H_0: CAAR = 0$$

Alternative Hypothesis

$$H_1: CAAR \neq 0$$

For Event 3, the main hypotheses being analyzed are the following:

Null hypothesis 1- CSRD:

H_0^{CSRD} : The difference in CAARs (CAALs) for companies that remain in the scope of CSRD and companies that no longer remain within the scope of the CSRD is not statistically different from 0 in the EU for the main event window [-3, +3] ([-6,+6]).

Null hypothesis 2- the EU Taxonomy:

H_0^{TAX} : The difference in CAARs (CAALs) for companies that remain in the scope of the EU Taxonomy and companies that no longer remain within the scope of the EU Taxonomy is not statistically different from 0 in the EU for the main event window [-3, +3] ([-6,+6]).

To further deepen the analysis of all events, the difference in CAARs between low- and high-carbon-emitting firms is tested, following the same logic for the hypotheses of Event 3.

4.2.6 Model Selection

To facilitate a simpler presentation and discussion of results in this paper, a robust model is chosen to predict normal returns during the event window. According to Konchitcki & O’Leary (2011), abnormal returns from short-horizon event studies are not highly sensitive to model choice. Therefore, market, Fama-French-adjusted, or Fama-French-Carhart returns can be used. All of the models tested are presented in Appendix C. The model chosen as a base for this study is the FF3 Factor model (Fama & French, 2018). This is because it yielded results with similar levels of statistical significance to those of the other models (Appendix D). The results presented and discussed in the next section will therefore be using this model.

5. Empirical Findings

5.1 Event 1

Table 2 presents the results for Event 1 for the main and industry analysis. Figures 4 and 5 provide visual representations of the main and industry results, respectively. For the main analysis, the AARs fluctuate between positive and negative values throughout the event window; despite this, all CAARs are negative and significant at the 1% level, indicating that firms reacted negatively to the announcement. Therefore, the null hypothesis $H_0: CAAR = 0$ can be rejected at the 1% significance level for the event window. As for the industry analysis, the differences between high- and low-emitting firms are small and statistically insignificant; therefore, the null hypothesis can not be rejected.

Table 2: Results for Event 1

t	Main Analysis		Industry Analysis	
	AAR All	CAAR All	AAR Emit_Diff	CAAR Emit_Diff
-3	-0.0047*** (-9.85)	-0.0047*** (-9.85)	0.0011 (1.18)	0.0011 (1.18)
-2	-0.0089*** (-13.1)	-0.0136*** (-17.2)	-0.0010 (-0.757)	0.0001 (0.0511)

-1	0.0059*** (10.0)	-0.0077*** (-8.26)	0.0014 (1.24)	0.0015 (0.811)
0	0.0037*** (5.98)	-0.0041*** (-3.70)	-0.0021* (-1.68)	-0.0005 (-0.242)
1	-0.087*** (-14.5)	-0.0127*** (-10.6)	-0.0022* (-1.89)	-0.0028 (-1.14)
2	-0.0033** (-2.38)	-0.0161*** (-8.22)	-0.0017 (-0.650)	-0.0045 (-1.18)
3	0.0029* (1.65)	-0.0131*** (-6.15)	-0.00003 (-0.00996)	-0.0045 (-1.09)

Note: T-statistics (clustered at firm level) presented in parentheses & significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

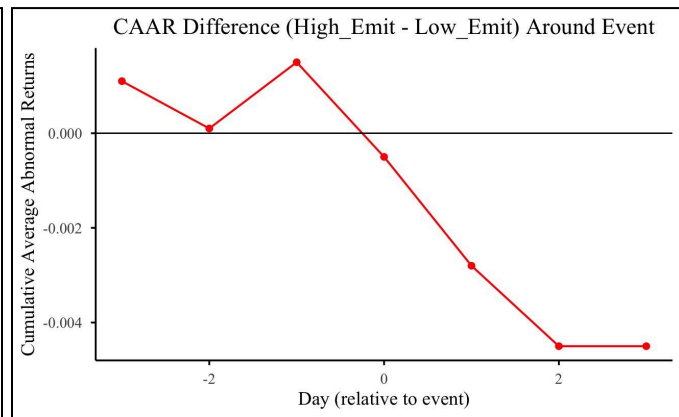
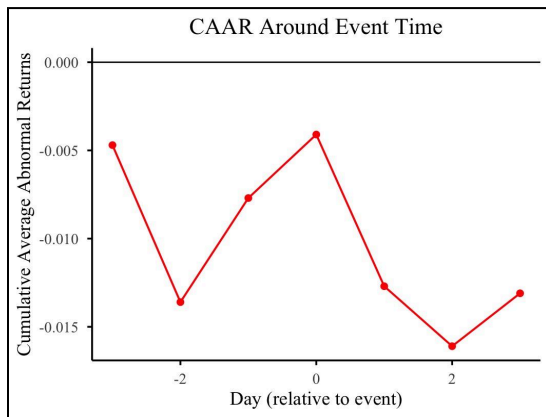


Figure 4: CAARs [-3, +3] - Main Analysis

Figure 5: CAARs [-3, +3] - Industry Analysis

To better understand the effects of the event, pre- and post-event periods are presented in Table 3. For the main analysis, CAARs are negative at the 1% level before and after the event, with smaller negative CAARs post-event. The industry analysis shows positive CAARs pre-event, followed by a negative post-event response, indicating that high-emitters reacted negatively to the announcement. This is, however, statistically insignificant; therefore, the null hypothesis can not be rejected when comparing high- and low-emitting firms.

Table 3: Pre & Post Event CAARs - Event 1

	Main Analysis	Industry Analysis
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Period	CAAR All	CAAR Emit_Diff
Pre	-0.0077*** (-8.26)	0.00152 (0.81)
Post	-0.0054*** (-2.74)	-0.0060 (1.61)

*Note: T-statistics (clustered at firm level) presented in parentheses & significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.*

5.2 Event 2

Table 4 presents the results for Event 2 for the main and industry analysis. Figures 6 and 7 provide visual representations of the main and industry results, respectively. The main analysis results show that the CAARs are overall positive and significant at the 1% level on days -3, -2. CAARs on day -1 and 0 remain positive, but insignificant. The market continues to react positively, with significance at the 1% level up to day +2. A negative shift of 1.08 percentage points between days 2 and 3 is seen, indicating a reversal of the initial positive reaction. Overall, the null hypothesis $H_0: CAAR = 0$, can only be rejected on days -3 to -2 and 1 to 3. There is no evidence of clear abnormal movement on the other days; hence, the inability to reject the null hypothesis for the rest of the window. The results indicate that the market may have overreacted early and corrected sharply, or interpreted the event as unfavorable after more room for interpretation was made.

As for the industry analysis, AARs show fluctuations between negative and positive values; the results are statistically insignificant, except for day 2 post-event, which is significant at the 5% level. CAARs are inconclusive on days -3 and -2, from day -1 onwards, they are consistently negative and statistically significant at levels between 1% and 10%. The final cumulative effect indicates that high-emitting firms react more negatively than low-emitting firms, which is statistically significant at the 1% level.

Table 4: Results for Event 2

t	Main Analysis		Industry Analysis	
	AAR All	CAAR All	AAR Emit_Diff	CAAR Emit_Diff
-3	0.0043*** (8.49)	0.0043*** (8.49)	0.0007 (0.684)	0.0007 (0.684)
-2	0.0050*** (8.16)	0.0093*** (12.5)	-0.0018 (-1.49)	-0.0011 (-0.742)
-1	-0.0080*** (-5.73)	0.0014 (0.929)	-0.0039 (-1.55)	-0.0051* (-1.81)
0	-0.0009 (-0.525)	0.0004 (0.283)	-0.0011 (-0.338)	-0.0062** (-2.10)
1	0.0044*** (3.23)	0.0049*** (4.40)	0.0024 (0.913)	-0.0038* (-1.70)
2	0.0019*** (3.50)	0.007*** (5.45)	-0.0023** (-2.10)	-0.0062** (-2.42)
3	-0.0127*** (-22.0)	-0.0059*** (-4.41)	-0.0012 (-1.07)	-0.0074*** (-2.72)

*Note: T-statistics (clustered at firm level) presented in parentheses & significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.*

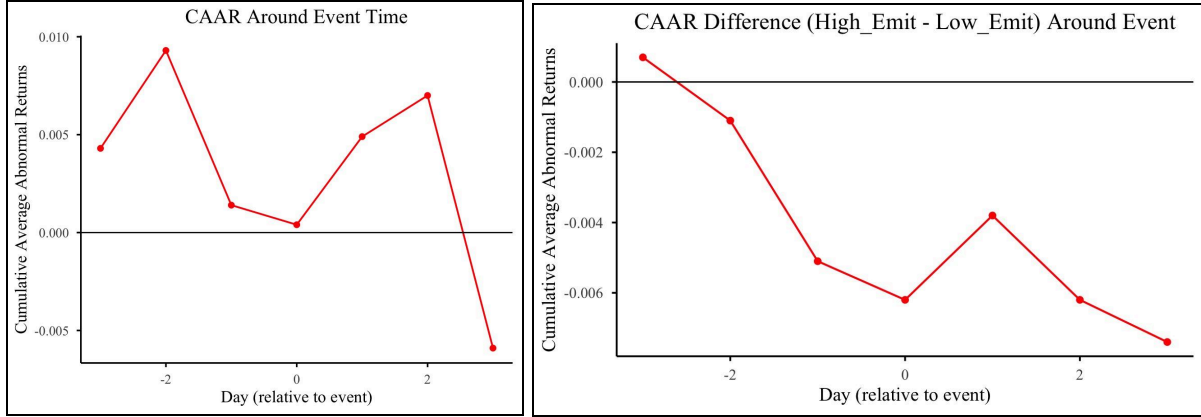


Figure 6: CAARs [-3, +3] - Main Analysis **Figure 7:** CAARs [-3, +3] - Industry Analysis

Analyzing the pre- and post-event periods for Event 2 yields different results, as shown in Table 5. For the main analysis, pre-event CAARs are positive and statistically insignificant. This is followed by a negative CAAR statistically significant at the 1% level. There is a shift from a slightly positive pre-event pattern to a negative reaction, suggesting the market may have responded once information became public. The industry analysis indicates high-emitting firms had a negative CAAR prior to the event, statistically significant at the 10% level, which continues into the post period, although this effect becomes insignificant.

Table 5: Pre & Post Event CAARs - Event 2

	Main Analysis	Industry Analysis
Period	CAAR All	CAAR Emit_Diff
Pre	0.0014 (0.929)	-0.0051* (-1.81)
Post	-0.0073*** (-5.19)	-0.0023 (-0.858)

*Note: T-statistics (clustered at firm level) presented in parentheses & significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.*

5.3 Event 3

Table 6 is divided into three parts based on the tests conducted. Figures 8, 9, and 10 provide visual representations of the main, industry, and liquidity results, respectively. The first part shows the difference in CAARs and CAALs between the treatment and control firms affected by the CSRD. Size_Diff yielded almost zero to positive CAARs throughout the event window; none are statistically significant. Whether firms affected by the CSRD reacted similarly or differently to control firms is inconclusive. The same applies to the liquidity tests; CAALs fluctuate but have a small, final positive cumulative effect, all statistically insignificant. The second part shows the difference for firms affected by the EU Taxonomy. Size_Diff exhibited positive results throughout the window, except for a negative CAAR on days -2 and 0; the results are all inconclusive. CAALs tested under the EU Taxonomy showed positive, statistically significant results across the majority of the event window. The final cumulative effect is positive and statistically significant at the 5% level, providing evidence of a larger increase in liquidity for treatment firms around the event date than for control firms. The last part presents the results of the industry-level analysis. The CAARs fluctuate with a negative final cumulative effect; none are statistically significant. Overall, the results suggest that the event generated no difference for any of the groups tested, only liquidity increases for the firms affected by changes to the EU Taxonomy around the event.

Table 6: Results for Event 3

t	CSRD		EU Taxonomy		Industry Analysis
	CAAR_Size _Diff	CAAL_Size _Diff	CAAR_Size _Diff	CAAL_Size _Diff	CAAR_Emit _Diff
-6	-	-0.023 (-.310)	-	0.0278 (0.669)	-
-5	-	0.0212 (0.373)	-	0.141*** (2.82)	-
-4	-	0.0196 (0.392)	-	0.0800* (1.83)	-
-3	-0.00004 (-0.00199)	-0.0006 (-0.0131)	0.0034 (1.26)	0.0516 (1.30)	0.0033 (1.36)

-2	0.0022 (0.854)	0.0455 (1.01)	-0.0012 (-0.407)	0.105*** (2.71)	-0.0009 (-0.341)
-1	0.0030 (1.04)	0.0395 (0.933)	0.0050 (1.62)	0.0886** (2.42)	0.0025 (0.883)
0	0.0033 (1.01)	0.0576 (1.40)	-0.0041 (-1.15)	0.107*** (3.02)	0.0011 (0.338)
1	0.0015 (0.434)	0.0417 (1.06)	0.0006 (0.188)	0.0979*** (2.86)	0.0030 (0.921)
2	0.0026 (0.676)	-0.0026 (-0.0676)	0.0014 (0.366)	0.0447 (1.36)	0.0020 (0.555)
3	0.0058 (1.41)	0.0021 (0.0555)	0.0030 (0.720)	0.0528 (1.65)	-0.0017 (-0.411)
4	-	-0.0002 (-0.0069)	-	0.0505 (1.63)	-
5	-	0.0193 (0.554)	-	0.0633** (2.10)	-
6	-	0.0218 (0.642)	-	0.0625** (2.11)	-

Note: T-statistics (clustered at firm level) presented in parentheses & significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

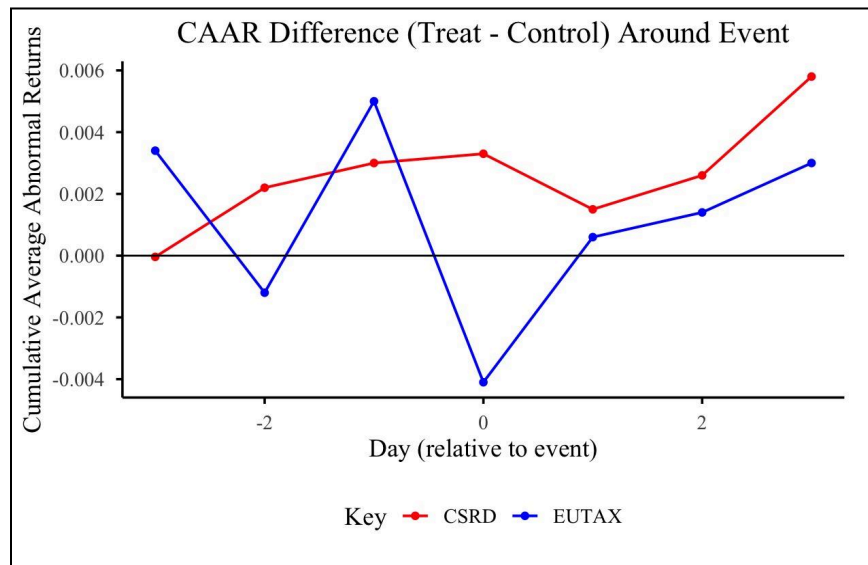


Figure 8: CAARs [-3, +3] Main Return Analysis - CSRD & EU Tax

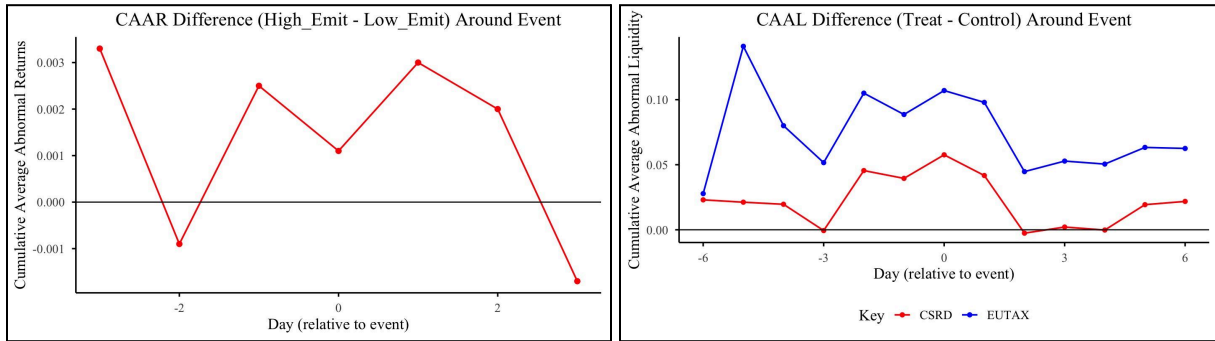


Figure 9: CAARs [-3,+3] - Industry Analysis **Figure 10:** CAALs [-3,+3] - Liquidity Analysis

Table 7 exhibits the pre- and post-event analyses for Event 3. For the CSRD, treatment firms exhibit higher CAARs than control firms. For the EU Taxonomy, CAAR shifts from positive to negative. CAARs for both CSRD and EU Taxonomy are, however, all statistically insignificant, hence the inability to reject the null hypothesis. As for the liquidity analysis of CSRD changes, liquidity is more positive for treatment firms pre-event, this drops to a negative value for treatment firms post-event. Results are once again inconclusive. For the EU Taxonomy, the liquidity analysis suggests positive liquidity for treatment firms pre-event, at the 5% significance level. This drops post-event but is very close to 0 and insignificant. Lastly, CAARs for the industry analysis show a shift from a positive difference in CAARs for treatment firms compared to control firms, to a negative CAAR post-event. Results are, however, statistically insignificant.

Table 7: Pre & Post Event CAARs & CAALs - Event 3

Period	CSRD		EU Taxonomy		Industry Analysis
	CAAR_Size_Diff	CAAL_Size_Diff	CAAR_Size_Diff	CAAL_Size_Diff	CAAR_Emit_Diff
Pre	0.0030 (1.04)	0.0593 (1.12)	0.0050 (1.62)	0.0971** (2.08)	0.0025 (0.883)
Post	0.0028 (1.01)	-0.0541 (-1.17)	-0.0020 (-0.742)	-0.0008 (-0.0191)	-0.0042 (-1.59)

*Note: T-statistics (clustered at firm level) presented in parentheses & significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.*

6. Discussion and Analysis

6.1 Main Discussion

For the main return analysis, one can conclude that the baseline event window chosen for examining CAARs across firms, [-3, +3], exhibits significant results at the 1% level for Events 1 and 2. Event 3 yielded positive CAARs throughout the event window when testing for differences in returns between treatment and control firms affected by changes to the CSRD and the EU Taxonomy. All CAARs were statistically insignificant. Therefore, the results provide a basis for rejecting the null hypothesis $H_0: CAAR = 0$ for Events 1 and 2, but not 3. It is worth noting inconsistencies when analyzing CAARs day by day. CAARs produced for Event 1 are negative and statistically significant on all days. CAARs produced for Event 2 are mixed; however, the final cumulative effect is negative. Event 1 shows a stronger negative reaction than Event 2.

Observing stock liquidity in Event 3 shows fluctuations between positive and negative CAALs for the CSRD, the final cumulative effect is negative and statistically insignificant. As for the EU Taxonomy, positive CAALs are higher than those for the CSRD. The final cumulative effect is positive and statistically significant at the 5% level. This could be attributed to a larger number of firms in the treatment group than for the CSRD's treatment group. The baseline event window chosen for studying liquidity, [-6,+6], provides evidence to reject the null hypothesis and to conclude that treatment firms experience statistically different increases in liquidity relative to control firms under the EU Taxonomy. When conducting the industry analysis, negative final CAARs are generated for all three events. Only Event 2 exhibits a statistically significant final CAAR at the 5% level. Therefore, the null hypothesis can be rejected for Event 2 but not Events 1 and 3, concluding that high-emitting firms generate negative CAARs statistically differently from low-emitting firms.

To interpret these findings more effectively, it is useful to consider earlier empirical studies. Wang et al. (2023a), Guo et al. (2020), and Mittelbach-Hörmanseder et al. (2021) studied sustainability disclosure mandates and found a negative relationship between share prices and CSR disclosure once it becomes mandatory. Contrastingly, Ioannou and Serafeim (2019)

conclude that mandating sustainability reporting is value-enhancing. The majority of the literature reports negative reactions to increased reporting burdens; one would therefore expect a reduction in reporting burdens to generate positive abnormal returns. However, results from Events 1 and 2 align with Ioannou and Serafeim's (2019) findings, indicating that stripping away the burden might have led investors to believe the legislation was value-diminishing instead. In contrast, Event 3 aligns with the majority of the literature on abnormal returns, as firms respond more positively to a simplification in reporting. The statistical insignificance for Event 3 means no relationship can be established between the announcement and the positive CAARs.

The literature examining industry effects indicates that stringent environmental regulations lead to negative consequences for firms in highly polluting or carbon-intensive industries (e.g., Yoo & Heshmati, 2019; Guo et al., 2020). Therefore, one would expect highly emitting firms to respond more positively to the Omnibus package, but this is not the case. For all three events, high-emitting firms react more negatively to the announcements; however, the effect is weakest for the last event. However, only a direct relationship between the announcements and their effects on highly emitting firms can be established for Event 2.

On the other hand, the liquidity results for Event 3 do not align with the majority of the literature. Glosten & Milgrom (1985) report that under the concept of information asymmetry, reduced disclosure requirements increase the risk of adverse selection and thereby reduce liquidity. Roy et al. (2022), Kreuger et al. (2024), and Wang et al. (2023b) all found a positive relationship between CSR disclosure and stock liquidity. It is therefore expected that when treatment firms are no longer obligated to report, they would face negative liquidity, possibly due to an increase in perceived risk. However, the results indicate the opposite, as Event 3 yields positive CAALs.

According to the EMH, stock prices reflect all available information. Therefore, abnormal returns observed in this study represent the market's collective interpretation of each announcement. This implies that the differences in reactions across events reflect the level of information available to the market during the event windows. That, in line with the characteristics of the events, could help explain the observed patterns. Investors first heard about Omnibus in Event 1. During this Event, it was merely mentioned as a step to be introduced later

on to help achieve the goals of the Competitiveness Compass, but no details were disclosed. Since the announcement revealed the intentions but not the strategy, investors faced uncertainty. Bird & Yeung (2012) confirm that in times of uncertainty, investors are often pessimistic and react strongly to bad news rather than good news. This could explain why the market viewed this as value-diminishing. It might also explain why high-emitting firms experienced a stronger negative reaction. They face higher exposure to regulatory and reputational risks; ambiguous policy signals may therefore be more costly for them. However, examining the pre- and post-event trends in Table 5, it is evident that the negative trend in returns began prior to the event and persisted after the event in the main analysis. This indicates a possible lack of reaction to the event, despite the statistical significance. The event study methodology assumes the results are driven solely by the event in question. In reality, it is difficult to isolate. A reason for the negative trend prior to Event 1 might be that it coincided with a major, globally relevant event: the US presidential election on the 5th of November 2024. Although this is not directly related to Europe, the US's status as the world's strongest economy makes the EU's relationship with it vital, especially for trade, since the US is the EU's top trading partner (European Commission, 2025c). Such events can contaminate the event window by influencing investor expectations, which is why shorter event windows are chosen.

During Event 2, the EU Commission provided additional details on the Omnibus Simplification Package, alongside the introduction of the EU Competitiveness Compass. They stated that reporting burdens were expected to fall by 25% for all companies and by 35% for SMEs. In theory, this should benefit firms by signalling lower compliance costs. The results align with this expectation, as CAARs per day were positive across the event window. However, a sudden drop between days 2 and 3 indicates a reversal of the reaction. The industry analysis shows a persistent negative reaction for high-emitting firms pre- and post-event.

Based solely on the information firms received from the announcement, a simplification and reduced reporting burdens do not imply an end to reporting obligations. Firms, especially high emitters, continue to face stakeholder pressure for transparency. Firms may have initially reacted positively to this news, only to later reassess and realize its impact. This points back towards Glickman's (1984) criticism of the EMH, as markets need time to interpret an announcement

such as this. The reversal may be attributed to either additional information received afterwards or a lingering ambiguity surrounding the package. It is important to note that the announcement included other elements related to the Competitiveness Compass, which firms could have reacted to. This means the event window contains more than just Omnibus-relevant information, which may have influenced firm reactions. Overall, the reactions suggest the announcement did affect the firms.

Event 3 differs from the first two, as the EU disclosed more details about the regulation's content. The announcement outlined concrete actions planned by the EU Commission. It should be emphasised that the Omnibus Simplification Package is an ongoing, complex legislative process that is still under active development by the EU Commission. The three event dates were chosen as they represent milestones in its development. However, it is highly likely that more information on this was released through media coverage, meaning some effects might already have been priced in. This is supported by the pre- and post-event analysis, as *Size_Diff* trends are positive in both periods. The consistently positive CAARs and CAALs suggest that investors may have already incorporated some expectations, with the announcement serving as confirmation rather than a surprise.

Several mechanisms could explain the positive CAARs and CAALs, despite the insignificance (except for CAALs related to the EU Taxonomy). First, the announcement reduced uncertainty surrounding the legislation by clarifying regulatory expectations. Second, markets might have anticipated stricter or more burdensome requirements, given the ambiguity surrounding the legislation in Events 1 & 2. The simplification may have acted as a positive regulatory surprise. Lastly, the legislation implies reduced compliance costs and regulatory burdens, which investors often perceive as value-enhancing. However, the post-event industry analysis shows CAARs turning negative toward the end of the window. While the simplification may be positive news, the strong stakeholder reactions mentioned previously may limit the perceived benefits, as firms may have to continue to provide the same level of ESG information to preserve legitimacy. As with Event 1, there is a major confounding factor: the 2025 German federal elections, held three days before Event 3. Given Germany's dominant economic role in the EU, changes in political leadership may have influenced market sentiment across Europe. Under the EMH, public

information (including macro-level shocks) is immediately incorporated into share prices, increasing the risk of contaminating the event window and thereby influencing the results.

To summarize, the main results from Events 1 and 2 suggest that the announcements had an impact on European firms' returns. However, the small magnitude of the impact and the large dataset indicate that it might not have a major economic impact. For Event 3, only evidence of a positive effect on treatment firms' liquidity is observed. As for the remaining analyses, the results are statistically insignificant, indicating that the effect of the events can't be distinguished from other factors that may have affected the variables in question.

6.2 Limitations and Possibilities for Future Research

As discussed, a few limitations apply to this paper. One limitation is the model chosen in this study: the FF3 factor model. The factors are all obtained from Kenneth R. French's data library, which is based on European equity data. However, some of the countries used by the database to generate the factors are not in the EU, such as the United Kingdom and Switzerland, and some EU countries are missing, including Bulgaria and Croatia. However, this is unlikely to majorly affect the results. The FF3 factors are designed to capture broad regional risk premia rather than country-specific dynamics, and the UK and Switzerland remain among the largest and most liquid markets in Europe. Excluding the smaller EU markets, like Croatia, accounts for a small share of the European market, deeming this a minor issue.

Another limitation is the characteristics of the legislation. The Omnibus Simplification Package unfolds over a long period, and in today's technological landscape, news travels fast. It is likely that information was already priced in before the events through other forms of communication, such as articles or political discussions. Considering it was introduced fairly recently and has not yet been implemented by firms, the number of available variables one can test to determine its effect is very limited at this point. Additionally, the results for Event 3 and the analysis behind them are quite hypothetical, as treatment firms have yet to decide whether to continue reporting under the Omnibus, and this can only be studied once the legislation is implemented.

The final limitation concerns the assumptions of the event study. It assumes that there are no confounding effects; however, it is clear that the results of Events 1 & 3 are contaminated as

major macro-events occur during the event window. The EMH states that public information is immediately incorporated into prices. It is therefore difficult to isolate the event's effect on share prices, making the results difficult to rely on despite their significance.

The limitations indicate that further studies could be conducted to test the effect of the legislation on firms. One could examine firms' cost structures and how they change in response to the alleviated reporting burdens once the legislation is implemented. This can provide insight into whether reduced administrative burdens translated into efficiency gains and whether the package achieved its purpose. A range of firm-level financial indicators can also be examined, such as return on assets, return on equity, and asset turnover, to assess operational efficiency. Capital structure dynamics can also be examined to see whether the legislation affected firms' financing decisions. Methods other than the event study can be used to test the other variables, such as the Difference-in-Differences method. It would also be interesting to investigate whether the firms in the treatment groups continue to report voluntarily or whether they stopped after the legislation was implemented. How would that affect their overall performance, and how would stakeholders react? One could even conduct another industry analysis by focusing on firms in polluting industries. Did they stop reporting, or did they increase their carbon intensity? How did their response affect their relationship with stakeholders? Qualitative research can also be conducted, such as interviewing different companies with different characteristics to learn their views on this legislation.

7. Conclusion

This study set out to determine how the European market responded to changes in sustainability reporting mandates within the European Union. Three announcement effects were tested using the event-study methodology presented by MacKinlay (1997); the first two examine general market reactions, and the third uses a treatment approach, testing both stock returns and liquidity. Industry-level analyses were conducted for all three events to test the differences in returns between firms operating in high- and low-emitting industries. A 120-day estimation window is used to forecast expected returns across the event window. The results from one prediction model, the FF3 Factor Model, are evaluated over one main event window, [-3, +3]. For the liquidity analysis, the Amihud illiquidity ratio is used as a proxy for stock liquidity, and the

historical mean liquidity is used to generate expected liquidity over the 13-day window. Robustness checks on the outcomes are performed to test whether the resulting inference holds for additional event windows.

Empirical results for Event 1 suggest a collective negative reaction to the introduction of the legislation. The industry analysis found no evidence of difference in reaction across industries. It is suspected that the event's characteristics, such as the details disclosed, created uncertainty for investors, leading to a negative reaction. Nevertheless, the event window was clearly contaminated by other events, which is an important limitation in this study.

For Event 2, results show more positive reactions, followed by a drop into negative returns at the end of the window, across all firms. Industry analysis shows that firms in high-emitting industries reacted more negatively than those in low-emitting industries. The reason could, once again, be due to the information conveyed by the EU. More details were disclosed about the Omnibus legislation, indicating a reduction in reporting burdens for all companies, sparking an initial positive reaction. However, uncertainty still surrounds the legislation. The legislation is part of the EU Competitiveness Compass; details regarding this were also disclosed, making it difficult to isolate the market reaction specifically to the Omnibus legislation.

For Event 3, results from the return analysis show no difference between treatment and control firms for both the CSRD and the EU Taxonomy. Liquidity tests show increased liquidity for treatment firms relative to control firms, but only for the EU Taxonomy. Details have finally been released on how the EU plans to reduce reporting burdens, and the uncertainty has therefore been lifted. However, the nature of the framework makes it highly likely that firms were exposed to information prior to the event, hence similar pre- and post-event trends. Confounding effects from a major event are also present in the event window. Industry analysis shows high-emitting firms reacting negatively, but this is inconclusive.

To conclude, this study provides evidence of partial and distinct reactions to announcements regarding the Omnibus Simplification Package. The results, however, are constrained by several limitations. The data obtained model selected includes factors that are estimated using countries outside the EU, whilst excluding some EU markets. Additionally, the legislation is still under development and has not yet been implemented, making expectations difficult to measure.

Lastly, the assumptions behind the event study methodology do not hold in full, particularly regarding the presence of confounding effects and the inability to isolate information. Future research can revisit this study and test the firms' reactions once the legislation has been fully implemented, as other variables will be available for testing and will provide better tests. One could also focus on conducting a deeper industry analysis and testing whether firms changed their behavior after the simplification.

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Appendices

Appendix A. Details of Changes Proposed by the Omnibus Simplification Package

The following are the changes introduced (PriceWaterhouseCoopers, 2025):

The Corporate Sustainability Reporting Directive (CSRD)

- Companies subject to reporting in 2024 that have more than 1.000 employees remain in scope.
- Large companies and parents of large groups that have more than 1000 employees and a net turnover exceeding €50M or a balance sheet total exceeding €25M, remain in scope, reporting on 2027 in 2028.
- Non-EU-headquartered companies, the revenue threshold is increased from €150 million to €450 million.

The Corporate Sustainability Due Diligence Directive (CS3D)

- Largest companies with more than €1.5 billion in global turnover, and more than 5,000 employees, were originally supposed to start complying with the CSDDD in July 2027; this is now postponed to July 2028.
- Novel approach to the in-depth assessments that prioritises direct business partners. Indirect supplier subject to engagement if deemed necessary.
- Requests for information for SMEs will also be limited to the data requested by the voluntary sustainability reporting standard.
- Each EU member state will define the financial penalties for non-compliance, removing the 5% minimum cap of worldwide turnover and deferring to further guidance by the EC in collaboration with Member States.
- Member states will not be able to introduce more ambitious measures with regards to due diligence obligations

- Member states will not be able to introduce more ambitious measures with regards to due diligence obligations.

The EU Taxonomy

- Large companies with over 1,000 employees on average and a net revenue above €450 million still in scope.
- Taxonomy reporting will be voluntary for large undertakings with more than 1,000 employees, but with a net turnover not exceeding €450 million.
- For credit institutions, the Trading Book and Fees & Commissions KPIs are delayed until 2027.

The delaying of certain reporting deadlines under the CSRD and the CS3D is referred to as the “Stop-the-Clock” mechanism. Table 8 summarises the shifts in reporting deadlines and who they apply to.

Table 8: “Stop-the-Clock” mechanism deadline changes

Previous Deadline	Companies Concerned	New Deadline
2025	CSRD reporting for FY2024 (already under NFRD)	None
2026	CSRD reporting for FY2025 (not previously under NFRD)	2028
2027	CS3D first phase of application for large companies	2028
2027	CSRD reporting for FY2026 (listed SMEs, small credit institutions, and captive insurance)	2029
2029	CSRD reporting for non-EU companies falling under scope	None

Appendix B. Event Window Robustness Checks

Tables 9 and 10 below show the robustness checks conducted to see if the event windows chosen for the return [-3, +3] and liquidity [-6, +6] analyses were appropriate. Chosen windows suggest some of the highest levels of significance (with the exception of CSRD CAARs, where a longer window would have been appropriate), indicating they are the appropriate choice for this study.

Table 9: CAARs across different event windows- Return Analysis

	Event 1		Event 2		Event 3		
	CAAR_All	CAAR_Emit_Diff	CAAR_All	CAAR_Emit_Diff	CAAR_Size_Diff	CAAR_Size_Diff	CAAR_Emit_Diff
					CSRD	EU Tax	
[-6,+6]	-0.018***	-0.0029	0.0166***	-0.0069	0.01057*	-0.0015	0.0087
[-5,+5]	-0.015***	-0.0030	0.0159***	-0.0040	0.0119**	-0.0015	0.0046
[-4,+4]	-0.020****	-0.0028	-0.0020	-0.0052	0.0135***	0.0071*	-0.0012
[-3,+3]	-0.0131***	-0.0045	-0.0059***	-0.0074***	0.0058	0.0030	-0.0017
[-2,+2]	-0.0113***	-0.0056	0.0025**	-0.0068***	0.0026	-0.0020	-0.0013
[-1,+1]	0.0009	-0.0028	-0.0045***	-0.0027	-0.0007	0.0018	0.0039
[-3, -1]	-0.0077***	0.00152	0.0014	-0.0051*	0.0030	0.0050	0.0025
[0, 3]	-0.0054***	-0.0060	-0.0072***	-0.0023	0.0028	-0.0020	-0.0042
[-2,0]	0.0006	-0.0017	-0.0039**	-0.0069**	0.0034	-0.0074	-0.0022
[-2,1]	-0.0080***	-0.0039*	0.0006	-0.0045**	0.0015	-0.0027	-0.0003

Note: significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 10: CAARs across different event windows- Liquidity Analysis

Event 3		
	CSR	EU Tax
Window	CAAL_Size_Diff	CAAL_Size_Diff
[-9,+9]	0.0218 (0.642)	0.0625** (2.11)
[-6,+6]	0.0218 (0.642)	0.0625** (2.11)
[-5,+5]	0.0231 (0.644)	0.0666** (2.14)
[-3,+3]	-0.00546 (-0.137)	0.0412 (1.18)
[-1,+1]	0.0355 (0.700)	0.0864* (1.92)
[-3, -1]	0.0593 (1.12)	0.0971** (2.08)
[0, +3]	-0.0541 (-1.17)	-0.0008 (-0.0191)
[-2, 0]	0.134** (2.50)	0.181*** (3.83)
[-2,+1]	0.0829* (1.72)	0.144*** (3.37)

*Note: T-statistics (clustered at firm level) presented in parentheses & significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.*

Appendix C. The Market and Fama-French Factor Models

OLS Market Model:

$$E(R_{it}) = \hat{\alpha}_i + \hat{\beta}_i R_{m\tau}$$

Fama-French 3-Factor Model:

$$E(R_{it}) = \hat{\alpha}_i + \hat{\beta}_{1i} R_{m\tau} + \hat{\beta}_{2i} SMB_{\tau} + \hat{\beta}_{3i} HML_{\tau}$$

Carhart 4-Factor Model:

$$E(R_{it}) = \hat{\alpha}_i + \hat{\beta}_{1i} R_{m\tau} + \hat{\beta}_{2i} SMB_{\tau} + \hat{\beta}_{3i} HML_{\tau} + \hat{\beta}_{4i} WML_{\tau}$$

Fama-French 5-Factor Model:

$$E(R_{it}) = \hat{\alpha}_i + \hat{\beta}_{1i} R_{m\tau} + \hat{\beta}_{2i} SMB_{\tau} + \hat{\beta}_{3i} HML_{\tau} + \hat{\beta}_{4i} RMW_{\tau} + \hat{\beta}_{5i} CMA_{\tau}$$

Fama-French 6-Factor Model:

$$E(R_{it}) = \hat{\alpha}_i + \hat{\beta}_{1i} R_{m\tau} + \hat{\beta}_{2i} SMB_{\tau} + \hat{\beta}_{3i} HML_{\tau} + \hat{\beta}_{4i} RMW_{\tau} + \hat{\beta}_{5i} CMA_{\tau} + \hat{\beta}_{6i} WML_{\tau}$$

Appendix D. Robustness Checks for Model Choice

Table 8 shows robustness checks conducted for the different factor models used to estimate parameters for the estimation window. CAAR values in the main event window are shown, [-3,+3]. Values reveal that the model chosen, Fama French 3 Factor Model, give similar if not higher levels of significance.

Table 11: Robustness Checks for Different Factor Models

Event 1		Event 2			Event 3	
Main	Industry	Main	Industry	CSRD	EU Taxonomy	Industry

	CAAR [-3, +3]	CAAR_ Emit_ Diff [-3,+3]	CAAR [-3, +3]	CAAR_ Emit_Diff [-3,+3]	CAAR_ Size_ Diff [-3,+3]	CAAR_ Size_Diff [-3,+3]	CAAR_ Emit_Diff [-3,+3]
Market Model	-0.012***	-0.0042	-0.0028**	-0.0076***	0.0036	0.0019	-0.0015
FF3	-0.013***	-0.0045	-0.0059***	-0.0074***	0.0058	0.0030	-0.0016
FF4	-0.013***	-0.0053	-0.0062***	-0.0074***	0.0055	0.0026	-0.0015
FF5	-0.014***	-0.0047	-0.0060***	-0.0072**	0.0060	0.0029	-0.0023
FF6	-0.014***	-0.0054	-0.0063***	-0.0073**	0.0059	0.0030	-0.0023

*Note: significance level shown as *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$*

Appendix E. AI Tool Usage

This section discloses which AI tools have been used in this study and how they were used. Limited use of ChatGPT was made to facilitate the writing and coding process. For the writing process, all content was written by myself. ChatGPT helped in improving the flow of the text and providing some extra vocabulary to avoid repetition. When providing larger texts to ChatGPT, it often provided invalid responses and distorted the content and message the text attempted to originally convey. Therefore, the output generated was implemented very selectively. As for the coding process, ChatGPT was only used to help facilitate the process. Asking it for help with complicated codes always generated errors that confused the author, it could often also lead to mindless coding without understanding parts of the script. Therefore, it was only used to help provide alternatives and more simplified codes, understand certain lines in codes created, but mainly with debugging errors that appeared when attempting to run certain codes.