



## ESG obligations in the defense industry, national regulation and international outlook

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### Abstract

The study analyzes the role and applicability of the Hungarian ESG (Environmental, Social and Governance) regulation in the defense industry, with special regard to the scope of the subject-obligation, the principle of gradualism and the expected impacts of the changes in the European Union's sustainability regulation (Omnibus package). The Hungarian ESG law does not provide any exemptions for defense sector actors, so these organizations are also obliged to comply with the due diligence and reporting obligations for sustainability purposes. However, national security considerations and the specificities of the defense sector require the development of specific compliance mechanisms. Regulatory relaxations at the European level, in particular the Stop the Clock Directive and the CSRD, CSDDD and ESRS amendments, are expected to transform the domestic regulatory environment. The aim of this paper is to provide a theoretical and practical contribution to the legal interpretation of ESG compliance in the defense sector, with a particular focus on the challenges of legal harmonization and the need to redefine the scope of the subject.

**Keywords:** ESG, sustainability, defense industry, mandatory reporting, Omnibus proposal package, ESG law, national security, sustainability reporting

### Introduction

ESG requirements have become a key regulatory area in the European Union in recent years. EU sustainability regulations have introduced reporting and risk management requirements that have a fundamental impact on the operations of companies operating in the European Union. The EU legislative dynamic took a new direction in 2025: the European Commission's "Omnibus" efforts aimed at reducing the scope of reporting and due diligence obligations, postponing compliance obligations and reducing administrative burdens.

EU regulation has a direct impact on Hungarian ESG policy. In Hungary, the basis for ESG regulation is Act CVIII of 2023.

The ESG Act does not provide any exemptions or sectoral exemptions from general ESG obligations for the defense sector. The study highlights the dilemma that the ESG requirements system requiring disclosure and data provision in the defense industry may also extend to information sensitive from the perspective of national security, confidentiality, or security of supply, and raises the justification for the inclusion of sectorspecific guarantees.

The examination of the sustainability dimension of the defense industry is also supported by domestic strategic documents. The National Security Strategy of Hungary identifies climate change as a systemic challenge that, in conjunction with other security risks (especially resource shortages and irregular migration pressure), can significantly influence the national security environment. According to the logic of this strategic

framework, sustainability is not only an economic and social policy issue, but also a factor with security policy relevance; this makes the legal analysis of the applicability of ESG obligations to the defense industry particularly justified.<sup>1</sup>

### The concept of subject liability in Hungarian ESG regulation

Act CVIII of 2023 on the rules of corporate social responsibility and the amendment of other related laws, which take into account environmentally conscious, social and social aspects serving to encourage sustainable financing and uniform corporate responsibility, and on the amendment of other laws (“ESG Act”) clearly defines the scope of those obliged to fulfill ESG obligations in Hungary, which includes the following enterprises with registered office in Hungary: a) a large enterprise qualifying as an economic operator of public interest, for which any two of the following three indicator values exceeded the following limit value on the balance sheet date in the two business years preceding the business year: aa) the balance sheet total is HUF 10,000 million, ab) the annual net sales revenue is HUF 20,000 million, ac) the average number of employees is 500; and b) a large enterprise whose main activity on the balance sheet date in the two business years preceding the business year can be classified in the sectors specified in Annex 1 – according to the Unified Sectoral Classification System of Economic Activities – and in its case the following indicator values exceed the following limit: ba) the annual net sales revenue is 90,000 million forints, and bb) the average number of employees is 500.[1]<sup>2</sup>

Based on the current regulations, it can be stated that the reporting obligation primarily applies to those enterprises that qualify as large enterprises<sup>3</sup> and meet the criteria for sales, balance sheet total and number of employees specified in the law. The ESG Act has been amended several times since its entry into force, which amendments resulted in a narrowing of the scope of obligations, primarily by raising the thresholds for sales, balance sheet total and number of employees.

Based on the original regulation of the ESG Act – especially the one currently in force and before the amendments pursuant to Act LI of 2025 – the circle of obliged entities included, for example, small and medium-sized enterprises classified as economic operators of public interest, as well as large enterprises for which any two of the following three indicator values exceeded the following limit on the balance sheet date of the business year preceding the business year: balance sheet total of HUF 10,000 million, annual net sales of HUF 20,000 million, average number of employees of 250.<sup>4</sup> The original regulation therefore brought a wider circle of companies under the scope of the law.

However, as a result of the legislative amendments, the system of conditions has become stricter: some groups of subjects have been completely excluded, while the threshold values for indicators relating to large enterprises are higher, a cumulative system of conditions has appeared instead of an alternative one, and as an additional requirement, the main activity must belong to a sector defined by law.

However, the ESG Act provides that an organization not covered by Section 1(1) of the ESG Act that voluntarily undertakes to provide ESG data under the ESG Act, in a unilateral declaration or contract, or for which a law makes ESG data provision mandatory (“other organization undertaking or obliged to provide ESG data”) is required to comply with the ESG Act.<sup>5</sup> However, an important transitional rule is that until 30 June

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<sup>1</sup> Government. (2020). *National Security Strategy of Hungary* (Government Resolution 1163/2020. (IV. 21.)).

Available: <https://net.jogtar.hu/jogszabaly?docid=A20H1163.KOR>

<sup>2</sup> ESG Act, Section 1 (1)

<sup>3</sup> ESG Act, Section 7, Point 26

<sup>4</sup> ESG Act, Section 1 (1) b) and c) (Official Gazette status)

<sup>5</sup> ESG Act, Section 1(3)

2027, micro or small enterprises may not be required to provide ESG data, and micro or small enterprises may not undertake to provide ESG data either in a contract or in a written declaration.<sup>6</sup>

Narrowing the scope of the obliged entities raises several problems. The original aim of the ESG regulation was to make corporate responsibility and risk profile public. However, if the scope of the obliged entities is narrowed to such an extent that the vast majority of Hungarian companies are exempt, the amount of information available to the market and society will also be radically reduced. Supplier questionnaires and supply chain transparency are an important part of the ESG system. However, if Hungarian SMEs are not required to provide data by 2027, one of the most important tools of the system will cease to function. As a result of the amendments in 2025, the subject scope of the ESG regulation has narrowed to such an extent that its normative function and regulatory weight have begun to decrease.<sup>7</sup>

Based on all this, the question can be raised as to how far the ESG system can fulfill its original purpose, especially the systemic management and transparency of corporate sustainability risks, despite the gradual narrowing of the scope of obligations. It is worth examining in the future whether the current direction of the regulation does not lead to a decrease in the practical efficiency of the system in the long term.

The ESG Act defines the basic concepts necessary for a clear classification of the subject group among its interpretative provisions. These provisions set out in detail what is meant by, among others, microenterprises, small enterprises<sup>8</sup>, medium-sized enterprises<sup>9</sup>, large enterprises<sup>10</sup>, and public interest entities when applying the ESG obligation system.<sup>11</sup> *In this way, the legislator*<sup>12</sup> promotes the closure and clear definition of the circle of affected organizations, which is of paramount importance for the practical applicability of ESG requirements.

The ESG Act also contains a negative scope definition among its interpretative provisions, which clearly states which enterprises, service providers and activities are not covered by the scope of the legislation. The legislator lists the following exceptions: 1. regulated financial service providers with their registered office or branch in Hungary, 2. the National Bank of Hungary and business companies under the majority control of the National Bank of Hungary pursuant to Section 8:2 of Act V of 2013 on the Civil Code (“Civil Code”).<sup>13</sup> At the same time, it is necessary to emphasize that the scope of the ESG Act also extends to regulated financial service providers subject to the exception rule, provided that they carry out ESG contributor activities, and exclusively in relation to these activities.<sup>14</sup>

It is important to note that among the exceptions listed in detail, economic operators in the defense sector have not yet been named, the specificities of the defense industry do not result in a general exemption when applying the Hungarian ESG Act. Consequently, companies in the defense sector that fall within the scope of subject obligations defined by the ESG Act are required to comply with the general requirements of

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<sup>6</sup> ESG Act, Section 54(5)

<sup>7</sup> M. Greff, “ESG Reporting: Obligations, Risks and Deadlines for Businesses”, *RSM Hungary*, 5, Sep. 2024, [Online] Available: <https://www.rsm.hu/blog/esg-beszamolo-keszitesek-kotelezettsegek-kockazatok-es-hataridok-avallalkozasok-szamara>

<sup>8</sup> ESG Act, Section 7, Point 17

<sup>9</sup> ESG Act, Section 7, Point 19

<sup>10</sup> ESG Act, Section 7, Point 26

<sup>11</sup> ESG Act, Section 7, Point 25

<sup>12</sup> ESG Act, Section 7, Point 20

<sup>13</sup> ESG Act, Section 1(5)

<sup>14</sup> ESG Act, Section 1 (6)

the ESG regulation. As a result, not all defense industry companies automatically become ESG-obligated, but only those that meet the increasingly strict subjective conditions described above.

ESG-obligated companies in the defense sector are also required to fully implement the sustainability obligations of the ESG Act, in particular: fulfilling sustainability due diligence obligations, establishing a risk management system in this regard, developing an internal responsibility strategy and system, conducting regular risk analyses, establishing preventive and corrective measures within their own business scope and towards direct suppliers, fulfilling ESG data provision obligations (by preparing an annual ESG report and

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auditing it with a certifier on the fulfillment of sustainability due diligence obligations for the previous business year)<sup>15</sup>, declaring direct suppliers regarding emerging ESG risks<sup>16</sup>, and developing an external or internal complaint management system<sup>17</sup>.

In the defense sector, there are also economic operators in Hungary that are classified as being of public interest. This includes, among others, companies listed on Hungarian regulated markets and engaged in defense-related industrial activities, such as Rheinmetall Hungary Zrt., as well as companies involved in defense and military supply chains and with a stock exchange presence. These companies are in a special situation, as they must simultaneously comply with the strict national security and defense requirements, as well as the sustainability requirements set out in the ESG Act. This dual compliance requirement necessitates the development and application of complex, coordinated compliance strategies.

For economic entities operating in the defense sector, the fulfillment of ESG obligations poses specific challenges arising from the operational characteristics of the sector. The source of these challenges is that the defense sector is characterized by strict national security regulations, the priority of which is given to sustainability aspects — in particular transparency and data provision obligations — requiring continuous consideration and coordination with legal requirements. When implementing ESG requirements, it is advisable to develop specific compliance mechanisms for the protection of sensitive data, which can ensure that data provision meets both sustainability and national security requirements.

The ESG assessment of the defense industry is interpreted in the literature as a normative tension. A fundamental contradiction can be perceived between the ESG framework and the defense industry: while investor and regulatory expectations strengthen environmental-social responsibility and transparency, the defense industry's activities simultaneously serve "socially beneficial" purposes and are directly linked to national security and collective defense. This duality in the design of compliance mechanisms means that reporting and due diligence obligations cannot be treated as mere corporate governance or communication tasks, but require legal and compliance solutions that also integrate aspects of confidentiality, security of supply and protection of defense capabilities.<sup>18</sup>

### **Critical infrastructure in the light of ESG legislation**

With regard to ESG regulation, it is important to address the protection of critical infrastructure, as the regulation required by the ESG Act also includes security and resilience risks related to critical infrastructure.

Act LXXXIV of 2024 on the Resilience of Critical<sup>19</sup> Organizations (Kszetv.) According to the concept defined in Section 3, Section 28, critical infrastructure is any device, facility, equipment, network, system, or part thereof that is necessary for the provision of essential services.<sup>20</sup> It can be stated that critical infrastructure

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<sup>15</sup> ESG Act, Section 23 (1)

<sup>16</sup> ESG Act § 13

<sup>17</sup> ESG Act, Section 28 (1)

<sup>18</sup> D. Szabó, "Military Industry and Sustainability." *World Politics and Economics*, 2 (5), pp. 76–91., doi:

<https://www.doi.org/10.14267/VILPOL2023.05.09>

<sup>19</sup> Act LXXXIV of 2024

<sup>20</sup> Act LXXXIV of 2024, Section 3, Point 28

includes all vital elements, systems, and services that form the basis of our everyday lives. Therefore, the endangerment of this function can have a crippling effect on government operations, the economy, public safety, or even human lives.<sup>21</sup>

One of the primary goals of the Hungarian ESG Act is to manage corporate risks, to achieve which it primarily requires the examination of the sustainability of the economic organization. The first stage of the examination process is the requirement for companies to prepare ESG reports. This means that companies must provide detailed information on the environmental and social impacts, risks, internal processes and supply chain of the company's operations. The ESG Act primarily requires the examination of the sustainability of

economic organizations, not the security requirements of critical infrastructure.<sup>22</sup>In the case of the reporting obligation, it is also clear that the statutory regulation does not provide any sectoral exemptions for companies operating critical infrastructure or for actors in the defense industry, so the ESG Act does not differentiate between companies based on their strategic or national security significance. Only size criteria and sectoral (TEÁOR) classifications are relevant when establishing the obligation.<sup>23</sup>It follows that if a company operating critical infrastructure or belonging to the defense sector, which is a large company with a main activity of public interest or classified in a sector prescribed by the ESG Act, exceeds the threshold values of the indicators according to the ESG Act, the reporting and data provision requirements specified in the ESG Act fully apply to it.

This raises several problems. Critical infrastructures – such as energy supply networks, telecommunications systems, water utilities, IT centers, public transport and logistics hubs – work with data whose publication is restricted in the public interest. This is even more true in the case of the defense industry, as some of the data originating from the operations of arms and ammunition manufacturers, military technology developers or defense service providers is inherently subject to confidentiality or classified data protection rules. For example, in the case of both critical infrastructure and the defense sector, the preparation of an ESG report may conflict with national security interests, regulations on the protection of classified data, regulations prohibiting the disclosure of vulnerabilities of strategic infrastructures, EU and domestic confidentiality restrictions, and technical regulations guaranteeing the security of service processes.<sup>24</sup>

In Section 25 of the ESG Act, the legislator provides a limited “business interest” exception, which allows for the omission of certain information if its disclosure would seriously harm the business interest of the company.<sup>25</sup> However, this exception is not sufficient to ensure guarantees of national security or infrastructure protection. Despite the priority given to the protection of classified data, the limits of data filtering in the preparation of ESG reports are uncertain and require case-by-case consideration.

At the same time, practical trends can be identified in the defense sector that implement sustainability goals in a manner compatible with defense operations and within an institutional framework. Investments have also been made (for example, energy modernization of barracks) that contribute to reducing environmental burden and sustainable development. This domestic example suggests that improving sustainability performance in the defense sector is not necessarily contrary to the defense purpose, and energy efficiency can also serve to reduce operational exposures.<sup>26</sup>

<sup>21</sup> <https://itszotar.hu/kritikus-infrastruktura-critical-infrastructure-fogalmanak-definicioja/>

<sup>22</sup> Directive (EU) 2022/2464

<sup>23</sup> ESG Act Section 1

<sup>24</sup> Act CLV of 2009 on the protection of classified information, § 1-19

<sup>25</sup> ESG Act § 25

<sup>26</sup> T. Szilágyi, “Environment? Security! The Ministry of Defense’s Environmental and Energy Efficiency Developments for the 2014–2020 Period.” *Honvédségi Szemle*, vol. 150., no. 4, pp. 73–93., 2022, doi: 10.35926/HSZ.2022.4.6

The need for special regulation of the defense industry is also reflected in the international literature. According to Mitkow, Antczak and Roszkiewicz, the sector has so far remained partly peripheral in the ESG system due to its strategic characteristics, but these characteristics justify a differentiated approach. The authors conclude that the security objectives of NATO and the European Union, as well as the public interest in maintaining defense capabilities, may justify the establishment of a “special status” for the defense industry in the sustainability assessment framework.<sup>27</sup>

In summary, both critical infrastructure companies and certain actors in the defense sector are required to comply with ESG obligations, if their large company status and sector classification so warrant. However, fulfilling this obligation carries a specific risk, as ESG data made available to the public may involve potentially sensitive information that may conflict with national security and infrastructure operational

interests. It would be appropriate to develop a sector-specific exemption system or a separate procedural guarantee system that can align sustainability transparency requirements with national security considerations. Its implementation could contribute to reducing the structural tensions resulting from the current regulation, thereby reducing legal interpretation difficulties, data protection conflicts and the risk of compliance with certain obligations.

### **The EU Omnibus legislative package and its expected impact on Hungarian ESG regulation**

and Omnibus II )<sup>28</sup> presented by the European Commission on 26 February 2025<sup>29</sup> is to simplify the European Union's sustainability regulatory environment and to postpone the implementation of certain obligations. The package of proposals aims in particular to reduce the burdens, primarily administrative, on small and medium-sized enterprises, to prevent negative economic impacts and to provide adequate preparation time for market participants. In addition, the detailed rules of the Omnibus package of proposals aim to significantly simplify sustainability compliance requirements while preserving the fundamental objectives of EU regulation - the integration of environmental, social and corporate governance aspects. amendments to the Corporate Sustainability Reporting Directive (CSRD)<sup>30</sup>, the Corporate Sustainability Due Diligence Directive (CSDDD),<sup>31</sup> the EU Taxonomy Regulation (EUTR)<sup>32</sup> and the European Sustainability Reporting Standards Regulation (ESRS).<sup>33</sup>

Regulatory changes at EU level will directly impact the application of Hungarian ESG regulations, necessitating their amendment, given that the Hungarian ESG Act is fundamentally based on the fulfilment of EU transposition obligations. The changes particularly affect the definition of the scope of companies subject to sustainability reporting and due diligence obligations, as well as the timetable for fulfilling the obligations, making a comprehensive review of the domestic implementation rules inevitable.

The amendments proposed by the package do not affect businesses to the same extent, which means that SMEs and large companies can expect very different effects. A significant number of SMEs can obtain a

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<sup>27</sup> S. Mitkow, J. Antczak, & M. Roszkiewicz, "Challenges for the defense industry against the background of ESG (Environmental, Social, Governance) concepts.", *European Research Studies Journal*, vol. 25., no. 4, pp. 177–194, 2022, doi: DOI: 10.35808/ersj/3074

<sup>28</sup> [https://commission.europa.eu/publications/omnibus-ii\\_en](https://commission.europa.eu/publications/omnibus-ii_en) (downloaded: 2025.03.27.)

<sup>29</sup> [https://commission.europa.eu/publications/omnibus-i\\_en](https://commission.europa.eu/publications/omnibus-i_en) (downloaded: 2025.03.27.)

<sup>30</sup> <https://eur-lex.europa.eu/legal-content/HU/TXT/?uri=CELEX:32022L2464> (download: 2025.02.26.)

<sup>31</sup> [https://eur-lex.europa.eu/legal-content/HU/TXT/?uri=OJ%3AL\\_202401760](https://eur-lex.europa.eu/legal-content/HU/TXT/?uri=OJ%3AL_202401760) (download: 2025.02.26.)

<sup>32</sup> <https://eur-lex.europa.eu/legal-content/HU/TXT/?uri=CELEX:32020R0852> (download: 2025.02.26.)

<sup>33</sup> [https://eur-lex.europa.eu/legal-content/HU/TXT/HTML/?uri=OJ:L\\_202302772&qid=1723404220094](https://eur-lex.europa.eu/legal-content/HU/TXT/HTML/?uri=OJ:L_202302772&qid=1723404220094) (download: 2025.02.27.)

full exemption, which will result in a very significant reduction in administrative burdens. The European Commission's aim is not to support climate considerations or the green transition, but primarily to reduce administrative burdens. Furthermore, the exemption of smaller companies provides an opportunity to improve competitiveness, as they can devote most of their resources to business activities without complicated reporting obligations.<sup>34</sup>

Large companies would receive a deferral as a result of the amendment proposal, which means that they have the opportunity to prepare for their reporting obligation, including the establishment of internal processes and the development of the data collection system. Providing additional time gives them the opportunity to provide more accurate data later, and in the case of costs, they are more likely to avoid developing hasty, more expensive solutions to meet the obligation.<sup>35</sup>

As a first milestone in the implementation of the Omnibus package, on 3 April 2025 the European Parliament adopted the so-called “Stop the Clock” Directive, officially known as Directive (EU) 2025/794 of the European Parliament and of the Council.<sup>36</sup> With the adoption of the Directive, it became certain that the deadline for the application of corporate sustainability reporting obligations would be significantly changed. Under the “Stop the Clock” Directive, the reporting obligation for second-tier large companies subject to the CSRD (Corporate Sustainability Reporting Directive) was postponed by two years, meaning that the companies concerned would only have to report on the data for the 2027 financial year instead of the 2025 financial year. Similarly, listed small and medium-sized enterprises of public interest (third round) have been granted a two-year grace period, so they will have to publish their first sustainability report in 2028 instead of 2026. In addition, the entry into force of the CSDDD (Corporate Sustainability Due Diligence Directive), which requires the sustainability due diligence of large corporate value chains, has also been postponed by one year, and will come into force in July 2028 instead of 2027.

The Omnibus package of proposals envisages several key changes:

**Amendment to the timing of reporting obligations:** For companies in the second and third reporting waves – i.e. large companies and small and medium-sized enterprises listed on EU regulated markets – the sustainability reporting deadline would be postponed by two years, requiring these companies to first report data for the 2027 financial year in 2028.

- **Narrowing the scope of companies subject to the CSRD:** The Omnibus package also includes proposals to narrow the scope of application. For large companies, the current 500 employee threshold would be increased to 1,000 employees, while for companies based outside the European Union but with significant economic activity in the EU market, the net turnover threshold would be increased from EUR 150 million to EUR 450 million – i.e. three times. This would reduce the number of companies subject to the CSRD by around 80%. In November 2025, the European Parliament discussed the Omnibus proposals and proposed a stricter threshold for large companies, raising the headcount threshold to 1,750 employees and the turnover threshold to EUR 450 million.<sup>37</sup>
- **CSRD reporting requirements:** The Omnibus package also includes streamlining reporting requirements. The proposals would reduce the number of data points that companies are required to disclose under the Sustainability Reporting Standards (ESRS). A new simplified ESRS draft was published on 3 December 2025. The amendments in the document further reduce the overall reporting burden by

<sup>34</sup>

<https://jogaszvilag.hu/cegvilag/az-omnibus-csomag-hatasa-a-vallalatok-mukodesere/>

(downloaded:2025.12.04.)

<sup>35</sup>

<https://jogaszvilag.hu/cegvilag/az-omnibus-csomag-hatasa-a-vallalatok-mukodesere/> (downloaded:

2025.12.04.)

<sup>36</sup>

<https://eur-lex.europa.eu/legal-content/HU/ALL/?uri=CELEX:32025L0794> (downloaded: 20.04.2025.)

<sup>37</sup>

[https://www.europarl.europa.eu/news/en/press-room/20251106IPR31296/sustainability-reporting-and-due-diligence-meps-back-simplification-changes?utm\\_source=chatgpt.com](https://www.europarl.europa.eu/news/en/press-room/20251106IPR31296/sustainability-reporting-and-due-diligence-meps-back-simplification-changes?utm_source=chatgpt.com) (downloaded: 2025.12.04.)

making more data points optional and removing the mandatory explanation requirement for non-material topics in the ESRS. The draft also provides companies with some relief in the production of metrics, thus moving reporting towards a system that allows for more flexible data substitution and gradual data collection in practice. The data collection obligation would also be relaxed, introducing the principle that companies should obtain data that is reasonably and proportionately available, thus linking the data collection obligation to the principle of proportionality. Overall, these amendments further reduce the administrative and compliance burdens imposed on companies by the ESRS system, while still preserving the substantive content of the objectives of the CSRD.<sup>38</sup>

- **Simplification of corporate due diligence obligations (CSDDD):** The Omnibus package would extend the interval of regular due diligence assessments by four years. In parallel, the requirements for stakeholder engagement would be streamlined, while the comprehensive due diligence obligation would be limited to direct business partners operating in high-risk areas only. In the case of small and medium-sized enterprises and smaller private equity firms, the information obligations would be fulfilled exclusively under the voluntary sustainability reporting standards. However, the simultaneous narrowing of the scope of the CSRD - which excludes the vast majority of SMEs from the scope of the reporting obligations - and the limitation of the due diligence requirements only to direct, high-risk business partners means that the vast majority of SMEs are effectively exempt from any mandatory reporting obligations.

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The "voluntary standard" functions in practice as an optional compliance option without any real obligation.<sup>39</sup>

- **Simplifying taxonomy disclosure requirements:** In order to simplify reporting templates, more than half of the current data points would be deleted, and the concept of financial materiality threshold would be introduced, according to which activities of companies that do not exceed 10% of their sales, capital expenditure or total assets would not be subject to the reporting obligation. In addition, reporting related to taxonomy requirements would also be made easier by using simplified ESRS standards.<sup>40</sup>
- **Amendment of the sanctions regime for breaches of sustainability obligations:** under the Omnibus package, the European Commission would abolish the previous provision that set the level of fines at 5% of companies' global turnover. This change would give Member States greater discretion in setting sanctions, which would have to be determined in line with the nature and gravity of the infringement. It would also remove the obligation to establish a uniform civil liability regime, whereby Member States would regulate the civil liability of companies under their own national legal systems.

The European Commission would also initiate the development of EU-wide guidelines to facilitate the uniform and proportionate application of administrative sanctions. Taken together, these amendments would allow for the development of a more flexible sanctioning system in the European Union, better adapted to national specificities, while still upholding the principles of effectiveness and proportionality.

The Omnibus package of proposals is of particular importance for the Hungarian ESG law, as the rescheduling and simplification of EU sustainability regulation has a direct impact on the domestic legal environment. Hungary, as an EU member state, will be obliged to amend its national ESG regulation following the adoption of certain elements of the Omnibus package of proposals, with particular regard to the timing of sustainability reporting and due diligence obligations and the clarification of the scope of subject obligations.

It cannot be ignored that the narrowing of the scope of obligations and the relaxation of compliance requirements could potentially jeopardize the achievement of the original objectives of the ESG system in the longer term. It is justified to continuously monitor and evaluate the practical effects of the amendments.

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<sup>38</sup> <https://www.efrag.org/en/draft-simplified-esrs> (downloaded:2025.12.04.)

<sup>39</sup> (EU) 2025/1710 paragraph (13)

<sup>40</sup> <https://ado.hu/cegvilag/halasztott-jelentesteteli-hataridok-magasabb-kuszobertekek-es-egyszerubb-esgszabalyok-varhatoak/> (downloaded: 2025.04.27.)

### Main content elements of the 2025 ESG Act amendments

In 2025, Hungarian ESG regulation moved in a direction that simultaneously serves the realities of corporate preparation and the need to adapt to the EU trends presented in the previous chapter. The ESG Act underwent a comprehensive review in 2025. In March 2025, the Ministry of National Economy submitted the draft amendment to the law for public consultation, the text of which and the justification clearly show that the goal is to further optimize the ESG reporting framework for domestic companies that examines sustainability aspects, strengthen competitiveness, and reduce reporting and administrative burdens. The public consultation was concluded on March 29, 2025, and <sup>41</sup>the amending provisions have since been adopted, so they are part of the current ESG legislation.

Based on the 2025 amendment package (including amendments pursuant to Act LI of 2025), the following main changes have been outlined:

- The system of ESG obligations of large companies has been transformed: the range of subjects has narrowed compared to the situation when the ESG Act came into force, and the obligations are primarily concentrated on companies with higher financial and employment indicators.<sup>42</sup>
- Small and medium-sized enterprises of public interest were excluded from the scope of obligations of the ESG Act.
- Voluntary ESG data providers are exempt from the mandatory public disclosure of the ESG report and the related certificate and from sending it to the Supervisory Authority for Regulated Activities (SZTFH) until the end of the 2026 business year.<sup>43</sup>
- The rule requiring businesses to sever business relationships with their direct suppliers has been amended instead of being repealed. The current regulation provides for a temporary pause, which provides an opportunity to minimize risks. The law states that businesses are required to suspend business relationships with direct suppliers for 30 days instead of the previous 3 months if their activities pose an increased risk of adverse effects.<sup>44</sup>
- No obligation to provide ESG data may be imposed on micro, small and medium-sized enterprises until 30 June 2027.
- When determining the contractual terms and conditions pursuant to Section 132(1) of Act CXLIII of 2015 on Public Procurement, the ESG report on the fulfillment of the sustainability due diligence obligations for the business year starting in 2026 and the related ESG certificate may be taken into account for the first time, and the ESG report and the related certificate may be taken into account in public procurement procedures initiated after 31 August 2027.<sup>45</sup>
- In September 2025, Government Decree 276/2025. (VIII.21.) related to the ESG Act was published, which, as a so-called fine decree, details the amount of fine the authority can impose on the obligated enterprise in the event of failure to perform certain related activities.<sup>46</sup>

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<sup>41</sup> <https://kormany.hu/dokumentumtar/2023-evi-cviii-tv-es-a-2021-evi-xxxii-tv-mod-szolo-tv-esg-tv-mod>

(download (2025.04.27.))

<sup>42</sup> ESG Act Section 1 (1)

<sup>43</sup> ESG LAW Section 54 (4)

<sup>44</sup> ESG Act Section 21 (3)

<sup>45</sup> ESG Act Section 54 (7) a)-b)

<sup>46</sup> Government Decree No. 276/2025 (VIII. 21.)

## Summary

The implementation of sustainability considerations is now not only an expectation, but also an integral part of long-term strategic planning and the operation of market players. The amendment of the Hungarian ESG regulation and the transformation of the European Union framework create new opportunities and new responsibilities for businesses, especially those in the defense industry.

In this dynamically changing environment, sustainability compliance is not only a legal obligation, but also a determining condition for organizational resilience, long-term competitiveness, and successful integration into international value chains.

For companies operating in the defense sector, conscious, timely and strategic compliance with ESG requirements is crucial to maintaining and strengthening future market positions.

The presented regulatory path carries a dilemma: the narrower the circle of obliged entities and the simpler the compliance obligations that are introduced, the greater the risk that the risk management objectives of the system will only be implemented to a limited extent, which raises the risk of a “functional vacuum” of the regulation. This dilemma is also amplified by EU efforts: the Omnibus package and the already effective “Stop the Clock” directive move regulation towards burden reduction, while, while formally maintaining the sustainability goals, the actual feasibility of the desired goals remains questionable.

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This dilemma is particularly evident in the defense industry: in the defense industry, ESG compliance is not simply a reporting task, but a complex phenomenon that requires both the systemic management of sustainability risks and the protection of sensitive data and strategic capabilities.

It is justified to examine what guarantees could be introduced in the current legislative environment to harmonize sustainability expectations and constraints arising from national security interests.

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