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Corporate Sustainability Due Diligence Directive (CSDDD)

On 24 May 2024, the CSDDD was adopted and came into effect on 25 july 2024. The CSDDD establishes on the one hand a corporate due diligence duty and reporting obligations to ensure prevention of (potential) adverse impacts on human rights and the environment for in-scope companies on its operations, subsidiaries and supply chains. On the other hand, the CSDDD imposes the obligation to adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of in-scope companies are compatible with the Paris Agreement.

Scope

EU companies		
Type of Companies	**Rated (net) turnover generated globally***	**Employees***
Individual companies (on a standalone basis)	More than EUR 450 million	More than 1,000
Ultimate parent company of a group (on a consolidated basis)**	More than EUR 450 million	More than 1,000
Companies that entered into or are the ultimate parent company of a group** that entered into franchising or licensing agreements	More than EUR 22.5 million for royalties provided that the ultimate parent company of that group had a worldwide (net) turnover of at least EUR 80 million	N/A

Non-EU Companies		
Type of Companies	**Rated (net) turnover generated in the Union***	**Employees***
Individual companies (on a standalone basis)	More than EUR 450 million	N/A
Ultimate parent company of a group (on a consolidated basis)**	More than EUR 450 million	N/A
Companies that entered into or are the ultimate parent company of a group** that entered into franchising or licensing agreements	More than EUR 22.5 million for royalties provided that the ultimate parent company of that group had a worldwide (net) turnover of at least EUR 80 million	N/A

* Thresholds to be met in two consecutive financial years (both to become subject to the CSDDD and to fall outside scope of the CSDDD)

** Where the ultimate parent company has as its main activity the holding of shares in operational subsidiaries and does not engage in taking management, operational or financial decisions affecting the group or one or more of its subsidiaries, it may be exempted from carrying out the obligations provided that one of its EU subsidiaries is designated to fulfil the obligations on behalf of the ultimate parent company. The ultimate parent company remains jointly liable with the designated subsidiary for a failure to comply

Exemptions

- **Regulated financial undertakings**
  - In scope, but due diligence obligations limited to their own operations and upstream business partners (*i.e.*, no obligation under the CSDDD to include clients in the scope of their due diligence)
  - Must prepare a Climate Change Transition Plan

- **Alternative Investment Funds (AIFs) and Undertakings for the Collective Investment in Tradeable Securities (UCITS) are exempted**

- **In-scope subsidiaries of an in-scope parent company**
  - In scope, but the in-scope parent company may fulfil the obligations on behalf of its in-scope subsidiaries, if this ensures effective compliance with the CSDDD
  - In-scope subsidiaries remain subject to the exercise of the supervisory authority's powers and civil liability

Timeline

The CSDDD contains a phased-in approach:

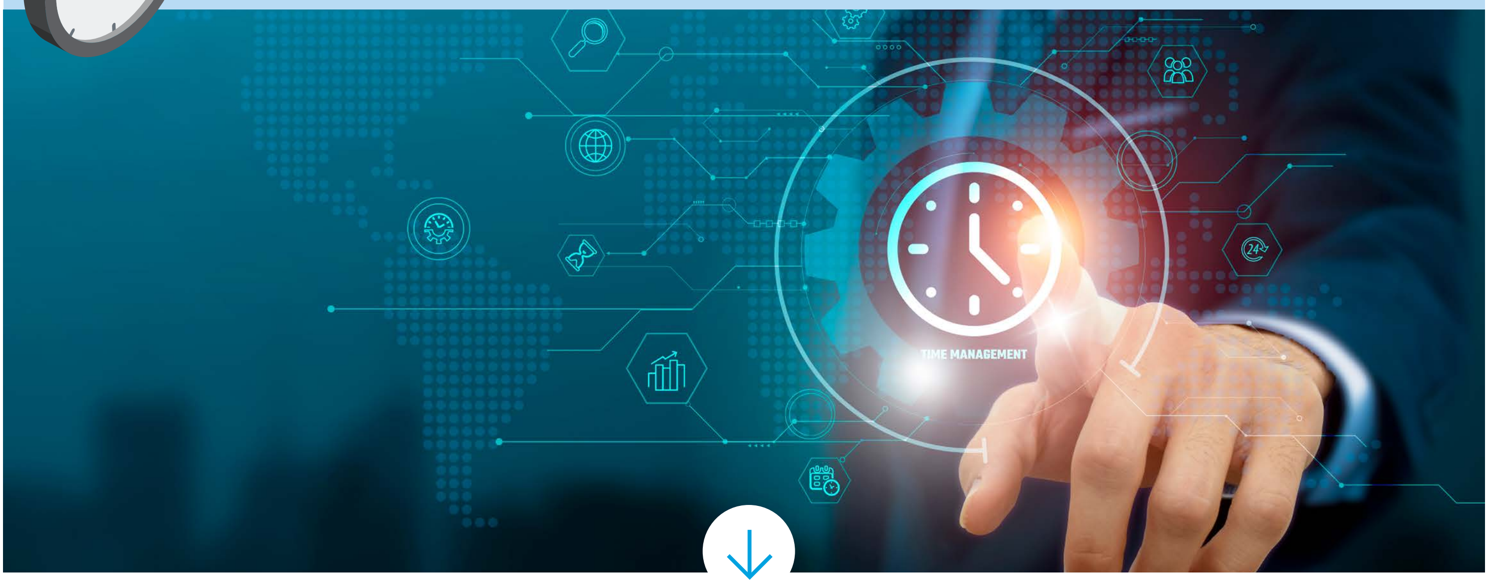
2024
The CSDDD is adopted and published in the Official Journal of the EU on 5 July 2024. Consequently, the CSDDD came into effect on 25 July 2024

2026
EU Member States should transpose the CSDDD ultimately on 25 July 2026 into national legislation

2027
Compliance for companies with more than 5,000 employees (if relevant) and EUR 1,500 million (net) turnover

2028
Compliance for companies with more than 3,000 employees (if relevant) and EUR 900 million (net) turnover

2029
Compliance for companies with more than 1,000 employees (if relevant) and EUR 450 million (net) turnover



Main obligations

Human Rights and Environmental Due Diligence

In-scope companies must conduct risk-based human rights and environmental due diligence by carrying out the following actions:

- Integrating due diligence into policies and risk management systems
- Identifying and assessing actual or potential adverse impacts and, where necessary, prioritising actual and potential adverse impacts
- Preventing and mitigating potential adverse impacts and bringing actual adverse impacts to an end and minimising their extent
- Providing remediation for actual adverse impacts
- Carrying out meaningful engagement with stakeholders
- Establishing and maintaining a notification mechanism and a complaints procedure
- Monitoring the effectiveness of their due diligence policy and measures
- Publicly communicating on due diligence

Climate Change Transition plan

In-scope companies must ensure, through best efforts, that the business model and strategy of the company are compatible with:

- The transition to a sustainable economy
- The limiting of global warming to a maximum of 1.5 °C in accordance with the Paris Agreement
- The objective of achieving climate neutrality in 2050

To this end a Climate Change Transition Plan must be drawn up containing in any event (to be updated annually):

- Time-bound targets related to climate change for 2030 and in five-year steps up to 2050
- A description of decarbonisation levers
- An explanation and quantification of the investments and funding
- A description of the role of the administrative, management and supervisory bodies

Control systems

Administrative supervision and sanctions

- Pecuniary penalties may be imposed by the supervisory authority (maximum limit shall not be less than 5% of the (net) worldwide turnover)
- In-scope companies that do not comply with the decision imposing a pecuniary penalty payment may face the risk of a public statement indicating the company responsible and the nature of the infringement

Civil liability

- In-scope companies may be held liable for damages caused to a (legal) person, provided that the in-scope company intentionally or negligently failed to comply with the obligations under the CSDDD
- In-scope companies cannot be held liable for damages caused only by a company's business partners in its chain of activities
- The Climate Change Transition Plan may entail greenwashing risks and/or potential prospectus liability risks

For more information, feel free to contact us

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