EU CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE: A GLOBAL MILESTONE THAT WILL NEED FURTHER CLARITY

Accountancy Europe welcomes the much-expected proposal for a Corporate Sustainability Due Diligence Directive. The Commission shows the necessary leadership by being the first policymaker in the world to take concrete initiative and we call on world leaders to follow this example.

We are still analysing the proposed Directive which represents significant and much needed steps toward a sustainable business system. Some will see the glass half empty and others half full, and the European Parliament and the Council will need to improve clarity on certain aspects of the proposal. We stand ready to share our expertise to make this proposal operational and contribute to its success.

At this stage, we would like to share the following points on the proposed Directive:

BUSINESS' IMPACTS TAKE PLACE THROUGHOUT THE ENTIRE VALUE CHAIN

CLARIFY THE CONCEPT OF 'ESTABLISHED BUSINESS RELATIONSHIPS'

To measure their impact throughout their entire value chain, companies will need more clarity on the extent of their responsibility and the concept of 'established business relationships' that seems to underpin the depth of the due diligence obligation.

INFORMATION FROM SUPPLIERS

Companies with parts of their supply chain outside of the EU will need access to reliable information on their suppliers. Clarity and legal certainty will be essential for directors and assurance practitioners.

We support the accompanying measures that Article 14[1] proposes e.g. websites, portals, and joint stakeholders' initiatives. We also encourage the Commission, in cooperation with the Member States, to provide specific guidance and support to companies to fulfil their due diligence obligations.

SECURE A LEVEL PLAYING FIELD

We support the Commission's efforts to include key third country companies in the proposal and create a level playing field for EU businesses. Value chains are global, and companies integrating sustainability in their operations should not face unfair competition from companies (third country or EU) who do not take this responsibility.

RELIABLE DUE DILIGENCE WILL REQUIRE EXTERNAL VERIFICATION

Businesses need to assess their processes and internal controls so they can address the adverse impacts in their own operations and supply chains. Due diligence verification by independent third parties (be it the statutory auditor or another service provider) will be crucial to strengthen stakeholders' confidence in this process.

[1]Accompanying measures supporting companies and actors across the global supply chain. Such support can range from the operation of dedicated websites, portals or platforms to financial support to SMEs, and facilitation of joint stakeholder initiatives.

Accountancy Europe has recently published a paper *Supply Chain Sustainability Assessment* in cooperation with EGIAN [2] which provides examples of supply chain assurance practices by smaller accountancy firms.

The proposed Corporate Sustainability Reporting Directive (CSRD) and Green Bonds proposals require mandatory external verification and assurance. It would be preferable that the different assurance requirements are high-quality and consistent and provided by independent competent professionals.

CONSISTENCY WITH THE CSRD

We support the Commission's intention to align the Due Diligence proposal with the CSRD. The two initiatives are closely interrelated.

We note that the scope and implementation dates of the two directives are significantly different, and we fear that this may cause implementation difficulties and costs.

DIRECTORS NEED CLARITY ON THEIR DUTY OF CARE

Human rights, environmental and climate objectives need to be integrated into corporate decisions. We believe it is in directors' interest to have clarity and legal certainty regarding their duties of care. While the principle-based approach of Article 25[3] (Directors' duty of care) and 26[4] (Setting up and overseeing due diligence) on directors' duty of care is useful, corporate directors may need clearer indications.

Tools and standards to help companies assess their sustainability decisions are not yet fully developed and Article 25 may still prove difficult to put in practice. References to, and consistency with, the EU Taxonomy and the CSRD need to be more precise.

Boards play a crucial role. The board's composition and directors' experience, competences and continued professional development on sustainability matters will be instrumental to help meet the directive's objectives.

SUPPORT AFFECTED SMES

We support the Commission's initiative to develop guidelines and supporting mechanisms for SMEs that are affected along supply chains. These guidelines will need to be targeted and clear. We expect the Commission to follow the implementation procedure closely and keep up the dialogue with those affected to ensure supporting mechanisms correspond to their needs.

COMBATTING CLIMATE CHANGE REQUIRES DRASTIC AND CONCRETE MEASURES

We believe that fighting climate change requires radical measures and incentives. Therefore, we stand behind the Commission's proposal to connect directors' remuneration with sustainability targets (Art 15.3). We all have a collective responsibility to meet the Paris agreement. Companies have an important role to play in this respect, however the parties to the Agreement - governments – have a prime responsibility.

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[2] European Group of International Accountancy Networks and Associations (EGIAN) representing mid-tier accountancy networks and associations.

[3] Article 25 Directors' duty of care: 1. Member States shall ensure that, when fulfilling their duty to act in the best interest of the company, directors of companies referred to in Article 2(1) take into account the consequences of their decisions for sustainability matters, including, where applicable, human rights, climate change and environmental consequences, including in the short, medium and long term. 2. Member States shall ensure that their laws, regulations and administrative provisions providing for a breach of directors' duties apply also to the provisions of this Article.

[4] Article 26 Setting up and overseeing due diligence 1. Member States shall ensure that directors of companies referred to in Article 2(1) are responsible for putting in place and overseeing the due diligence actions referred to in Article 4 and in particular the due diligence policy referred to in Article 5, with due consideration for relevant input from stakeholders and civil society organisations. The directors shall report to the board of directors in that respect. 2. Member States shall ensure that directors take steps to adapt the corporate strategy to take into account the actual and potential adverse impacts identified pursuant to Article 6 and any measures taken pursuant to Articles 7 to 9.