



**ACCOUNTANCY  
EUROPE.**

# **CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE – WHAT THE ACCOUNTANCY PROFESSION SHOULD KNOW**

Factsheet

**FACTS.**

**CORPORATE GOVERNANCE  
SEPTEMBER 2024**

## **HIGHLIGHTS**

The global climate crisis threatens the environment, our health, and life on Earth. The EU aims to reach net-zero by 2050 to combat this. Meanwhile, global value chains have exposed severe human rights and environmental violations across the world. The active involvement of businesses will be paramount to address these challenges and achieve the necessary sustainability transition.

With the Corporate Sustainability Due Diligence Directive, the European Commission aims to trigger behavioural change in businesses; and hold them accountable. CSDDD introduces mandatory due diligence obligations to EU and non-EU large companies; and establishes liability in case of non-compliance. Small and medium-sized businesses (SMEs) will also be affected as they are part of value chains.

The accountancy profession will play a key role in supporting companies enforce the new law, including SMEs. This publication provides an overview of CSDDD's main provisions to assist the profession in this task.

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## INTRODUCTION

The European Commission's (EC) Corporate Sustainability Due Diligence Directive (CSDDD) aims to incentivise change in business operations. The new law will hold companies accountable for negative impacts of their operations on human rights and the environment.

CSDDD is a landmark legislation for Europe and beyond, changing business practices and supply chain management. Under this new piece of legislation, companies that operate in the European Union (EU) will have to identify actual or potential adverse impacts on human rights and the environment in their "chain of activities" and take the necessary measures to mitigate those impacts. They will also be required to align their business plans and strategies with the transition to a sustainable economy and the Paris Agreement objectives through 'transition plans' (see p.4). Companies will also have to put a complaints mechanism in place and engage meaningfully with affected stakeholders. Pecuniary sanctions and civil liability mechanisms will be put in place to ensure compliance with the provisions, and victims' compensation in case of violations.

Member States (MS) have until July 2026 to transpose the CSDDD into national laws. The EC may take infringement action against MS which fail to comply.

## BACKGROUND

The EC introduced the CSDDD in early 2022. The EC's objective was to improve human rights and environmental protection across companies' supply chains. Many European companies already have voluntary standards developed; and use international frameworks such as the one by the [OECD](#). Moreover, some countries such as France and Germany have national due diligence laws. The CSDDD therefore introduces a level-playing-field between companies across Europe and help avoid unnecessary fragmentation.

## OPERABILITY WITH EXISTING LEGISLATION

Since 2019, the EU has proposed several pieces of legislation that require companies to take action or report on their sustainability and human rights related performance and impacts. Worth mentioning are the [Deforestation Regulation](#), [Forced Labour Regulation](#) and [Corporate Sustainability Reporting Directive \(CSRD\)](#).

The purposes and interactions between the CSDDD and the above pieces of legislation can be summarised as follows:

- complementary roles: CSRD provides a transparency framework that supports the implementation and monitoring of compliance with the CSDDD, Forced Labour and Deforestation Regulations
- integrated approach: CSDDD offers a comprehensive due diligence framework that encompasses human rights (including forced labour) and environmental (including deforestation) impacts
- mutual reinforcement: specific Regulations on forced labour and deforestation reinforce the broader due diligence obligations under the CSDDD, ensuring a more focused and stringent set of measures in these critical areas

Together, these legislative initiatives create a robust and holistic framework to promote sustainability, protect human rights, and safeguard the environment within the corporate sector in the EU.

## RELEVANCY FOR THE ACCOUNTANCY PROFESSION

The accountancy profession should be aware of the Directive's main provisions to assist companies in complying with them across their chain of activities. The CSDDD will impact business decisions in relation to business line risks and supply chains. Companies will need help and expertise.

## **BUSINESS SUPPORT**

Professional accountants can support companies in the Directive's scope. They can help set up structures and procedures **to monitor, communicate, assess and ensure that their supply chains are free from human rights and environmental violations.**

For SMEs (see section below), accountants' role as their trusted advisors will be particularly important.<sup>1</sup> They will need to make SMEs aware of the CSDDD's potential impact, and help them identify sustainability related risks, advise on mitigating measures, communicate with their value chain partners, and much more.

## **THIRD-PARTY VERIFICATION**

CSDDD includes the option for companies to voluntarily use independent third-party verification to support due diligence obligations' implementation mandated by the Directive. Independent third-party verification can be conducted by anyone who fulfils the criteria and requirements set in CSDDD. **Using independent third-party verification does not remove companies' liability for compliance or potential violations.**

The Directive requires the EC to provide guidance on independent third-party verification, setting out criteria and a methodology for companies to assess the fitness of third-party verifiers. It is also expected to issue guidance for monitoring the accuracy, effectiveness and integrity of third-party verification. The CSDDD does not explicitly clarify when this guidance should be made available. For further details, see section below about third-party verification.

## **CSDDD KEY FEATURES**

This section gives an overview of the Directive's main features and provisions. It does not aim to be comprehensive, and readers are invited to study the original Articles of the Directive, occasional reference to which are made in relevant sections below.

The provisions covered below are those that professional accountants should, as a minimum, be aware of to provide meaningful support for companies, including SMEs. Readers should not treat the below as a legally valid summary, and in case of doubt should always refer directly to the Directive.

## **COMPANIES IN SCOPE**

Only very large companies will have to fulfil the Directive's provisions. There is a phased-in approach for companies – both EU and non-EU based ones – starting from the entry into force of the Directive. The table below indicates the compliance dates for the companies covered.

The detailed provisions, conditions and timelines for the companies in scope are specified in Articles 2 and 37 of the Directive.

Non-EU companies falling under the Directive's scope (see table below) must designate an "authorised representative" to act as a point of contact and communicate with Member States' relevant supervisors. Notably Article 23 of the Directive sets the conditions out in more detail.

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<sup>1</sup> See Accountancy Europe's July 2020 publication on how accountants can support SMEs with sustainability matters, including those emerging from CSDDD's 'trickle down' impacts: <https://accountancyeurope.eu/publications/sme-risk-management-sustainability/>

Company categories	Features	Compliance dates
EU companies & ultimate parent companies of groups	5,000 + employees €1.5 + billion worldwide net turnover	26 July 2027
	3,000 + employees €900 + million worldwide net turnover	26 July 2028
	1,000 + employees €450 + million worldwide net turnover	26 July 2029
	Companies that entered into franchising or licensing agreements in the EU in return for royalties with independent third-party companies where: <ul style="list-style-type: none"> <li>the agreements ensure common identity, business concept and method</li> <li>royalties €22,5 + million</li> <li>the company itself or as head of a belonging group that generated a global net turnover €80 + million</li> </ul>	26 July 2029
Non-EU companies & ultimate parent companies of non-EU groups	€1,5 + billion EU net turnover	26 July 2027
	€900 + million EU net turnover	26 July 2028
	€450 + million EU net turnover	26 July 2029
	Companies that entered into franchising or licensing agreements in the EU in return for royalties with independent third-party companies where: <ul style="list-style-type: none"> <li>the agreements ensure common identity, business concept and method</li> <li>royalties in the EU €22,5 + million</li> <li>the company itself or as head of a belonging group that generated an EU net turnover €80 + million</li> </ul>	26 July 2029

**DUE DILIGENCE STEPS**



Companies falling under the Directive's scope must conduct due diligence on their business activities. According to the Directive, this consists of the following steps:

1. Integrate due diligence into companies' policies and risk management systems, including by developing a due diligence policy in consultation with employees and their representatives. The specific requirements of this policy are set out in Article 7 of the Directive. These policies must be reviewed and, if needed, updated at least every 24 months or without undue delay after a "significant change" occurs.
2. Identify and assess actual and potential human rights and environmental adverse impacts in the company's operations, that of its subsidiaries and those of its business partners. More details are specified in Article 8, and consist for example of the following:
  - map out the company's own operations, and those of its subsidiaries and business partners, in order to identify general areas where adverse impacts are most likely to occur and to be most severe
  - carry out an in-depth assessment in the areas where adverse impacts were identified in the mapping to be most likely to occur and most severe
3. Prioritise the identified adverse impacts based on their likelihood and severity, if it is not feasible to prevent, mitigate or end all the identified impacts at the same time. According to the Directive, the EC will need to publish guidelines on this prioritisation process by 26 January 2027.
4. Implement appropriate measures to prevent or mitigate potential impacts, and to end or minimise actual adverse human rights and environmental impacts, as specified in Articles 10 and 11 of the Directive. This should include the following measures:
  - develop and implement a prevention action plan
  - seek contractual assurances from direct business partners that they will adhere to the company's code of conduct
  - in case the adverse impacts cannot be prevented or mitigated, as a last resort, the company shall refrain from renewing or extending existing relations with a business partner
5. Provide remediation in case the company has caused or jointly caused an actual adverse impact, as specified in Article 12
  - "remediation" is defined in the Directive as restoring the affected person or persons, communities or environment to a situation equivalent or as close as possible to the situation they would have been in had the actual adverse impact not occurred
6. Engagement: carry out meaningful engagement with stakeholders, as specified in Article 13
  - stakeholders should be provided with comprehensive information and ongoing consultation, enabling meaningful dialogue at appropriate levels and intervals. Engagement must address barriers, protect against retaliation, maintain confidentiality, and prioritise the needs of vulnerable groups, considering overlapping vulnerabilities and intersecting factors"
7. Establish an effective notification mechanism and complaints procedure for persons and organisations to submit legitimate concerns regarding the company's operations. The details of this are specified in Article 14 of the Directive, notably including the category of persons and entities that may submit complaints
8. Monitor and assess the effectiveness of the taken measures by carrying out assessments at least every 12 months and otherwise "*without undue delay after a significant change occurs*"
9. Report publicly on the matters covered by CSDDD by publishing an annual statement on the company's website, in accordance with Article 16 of the Directive:
  - this obligation does not cover companies falling under the scope of CSRD that already comply with relevant sustainability reporting requirements
  - for companies that fall under CSDDD's scope but not under CSRD's scope, the EC shall adopt by 31 March 2027 a delegated act laying down the content and criteria for the annual statement reporting obligation

Companies will need to retain documentation on the actions carried out to fulfil their due diligence obligations for at least 5 years from the moment the documentation was produced or obtained. The purpose is to be able to demonstrate compliance, including with relevant supporting evidence.

## CLIMATE TRANSITION PLANS

Companies in the CSDDD's scope must also put in place a climate transition plan to ensure that their business model and strategy are aligned with the transition to a sustainable economy. The obligation to comply with Article 22 is based on **best efforts** – meaning it is an obligation of means not of results.

As per Article 22 (1) of the text, the transition plan shall contain:

- time-bound targets related to climate change for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence and including, where appropriate, absolute emission reduction targets for greenhouse gas for scope 1, scope 2 and scope 3 greenhouse gas emissions for each significant category
- identified decarbonisation levers' description, and key actions planned to reach the targets referred to above, including where appropriate changes in the undertaking's product and service portfolio and the adoption of new technologies
- an explanation and quantification of the investments and funding supporting the transition plan's implementation
- a description of the role of the administrative, management and supervisory bodies on the plan

The climate transition plan must be updated every 12 months and include a report that describes the progress the company has made towards complying with the targets described above.

### EXCEPTION: COMPANIES IN CSRD'S SCOPE

Companies that fall under the scope of CSRD and that report a transition plan, or that are included in their parent company's transition plan, are deemed to be compliant with the obligation to adopt a transition plan under Article 22. For such companies, CSDDD's additional obligations include expectations to put the plan into effect and to update it every 12 months.

## EXTENT OF DUE DILIGENCE OBLIGATIONS

The companies in the scope shall identify and assess actual and potential adverse impacts stemming from:

- the company's own operations
- its subsidiaries' operations
- operations by its business partners in the 'chain of activities' – divided into upstream and downstream business partners – which are defined in CSDDD's Article 3 (1) (g) as follows:
  - activities of a company's **upstream business partners** related to the production of goods or the provision of services by the company, including the design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, products or parts of the products and development of the product or the service, and
  - activities of a company's **downstream business partners** related to the distribution, transport and storage of the product, where the business partners carry out those activities for the company or on behalf of the company<sup>2</sup>

<sup>2</sup> But **excluding** the distribution, transport, storage of the product being subject to the export control under the Regulation (EU) 2021/821 of the European Parliament and of the Council or the export control relating to weapons, munition or war materials, after the export of the product is authorised



CSDDD makes a differentiation between a “direct” and “indirect” business partner. This differentiation is important, as for a company the due diligence rules covering its direct or indirect business partners in its value chain differ somewhat. Article 3 defines a “direct business partner” as an entity with which the company:

- has a commercial agreement related to the operations, products or services of the company, or
- to which the company provides downstream activities as part of the “chain of activities”

By contrast, Article 3 defines an “indirect business partner” as an entity that is not a “direct business partner” as defined above, but which performs business operations related to the operations, products or services of the company.

This definition may appear ambiguous and not provide sufficient clarity on their intent from a legal perspective. The EC published in July 2024 a [guidance document](#) on the CSDDD, which gives the following example of this direct versus indirect business partner dynamic: “*For a car manufacturer, a direct upstream business partner might be a tyre producer, an indirect upstream business partner might be a producer of rubber that is used in the production of those tyres.*”

The guidance document does not have legal standing, but on a practical level it can help companies and their advisors to better map who could be considered their direct or indirect business partners.

## **FINANCIAL SERVICES**

Financial undertakings are included in the scope, but they need to apply due diligence only to their **upstream chain**. The downstream chain which involves their clients is excluded from the scope. As per CSDDD, this approach will be re-considered on the basis of a report to be published by the EC no later than in 2026. Depending on the review’s conclusions, a separate legislative proposal for financial undertakings might be introduced.

## **INDEPENDENT THIRD-PARTY VERIFICATION**

Independent third-party verification is an option that companies can use to verify compliance with the CSDDD’s requirements in their own operations or parts of its chain of activities.

The use of verification is not mandatory, and companies can use it to help ensure their operations and chain of activities are free from human rights and environmental violations. Nevertheless, companies in scope maintain the responsibility of complying with the Directive’s obligations and cannot shift their liability to external verifiers.

## **SERVICE PROVIDERS**

As per the Directive’s definition, the independent third-party verification services can be provided by an expert who in accordance with Article 3 (1) (h) is:

- objective
- completely independent from the company
- free from any conflicts of interests and from external influence
- has experience and competence in environmental or human rights matters, according to the nature of the adverse impact
- is accountable for the quality and reliability of the verification

The criteria as well as definitions set out in the text are not further elaborated. However, it leaves the door open for different service providers that meet these criteria to enter the market.

## EC GUIDANCE

According to Article 14 (4a), the EC shall:

“in collaboration with Member States, (...) issue guidance setting out fitness criteria and a methodology for companies to assess the fitness of third-party verifiers, and guidance for monitoring the accuracy, effectiveness and integrity of third-party verification”.

This guidance is not specified in the Directive to have a legally binding status. However, it may provide signals for MS on how to introduce the provisions around independent third-party verification into national law. The text does not specify when the guidance should be made available, although for all the other ‘guidelines’ specified in the Directive the deadlines are set as either 30 months or 36 months after date of entry into force of the Directive – meaning from July 2024 onward.

## ENFORCEMENT MECHANISMS

### SUPERVISORY AUTHORITIES

Each MS is required to assign compliance supervision to one or more national authorities (‘supervisory authority’). The competent supervisory authority for a company will be that of the MS in which the company has its registered office. For non-EU companies, the competent authority shall be the one where the company generated most of its net turnover in the EU.

The supervisory authorities will have the power to carry out investigations, after substantiated concerns reported by stakeholders or on their own initiative. Site inspections can also be conducted as part of an investigation and in case an inspection must take place in another MS’s territory, assistance from the competent authority shall be asked.

According to Article 25 (5), supervisory authorities shall have at least the powers to:

- order the company to:
  - cease infringements of CSDDD by taking relevant action or ceasing a conduct
  - abstain from repeating the relevant conduct; and
  - provide remediation proportionate to the infringement and necessary to bring it to an end
- impose penalties in accordance with Article 27; and
- adopt interim measures in case of imminent risk of severe and irreparable harm

Judicial remedies against a decision by the authorities shall be provided for any concerned natural or legal person.

### PENALTIES

If a company does not comply with the Directive’s obligations, MS’s supervisory authorities can impose penalties based on the company’s net worldwide turnover. The penalties shall be effective and proportionate based on the infringement’s nature, gravity and duration and other criteria set out in the Directive’s Article 27.

When pecuniary penalties are imposed, as per Article 27 (3), “*the maximum limit of pecuniary penalties shall be not less than 5% of the net worldwide turnover of the company in the financial year preceding that of the decision to impose the fine*”.

### CIVIL LIABILITY

A major difference between CSDDD and equivalent national due diligence laws in place (e.g. in France and Germany) is the establishment of a civil liability regime. Civil liability is a legal concept which requires a natural or legal person to compensate for damaging another person’s health, business or property.

In the case of CSDDD, according to Article 29 (1) a company can be held liable under the following circumstances:

- the company intentionally or negligently failed to comply with the obligations laid down in Articles 10 (preventing potential adverse impacts) and 11 (bringing actual adverse impacts to an end); and
- a damage to the natural or legal person's legal interest protected under national law was caused as a result of the above point

If a company is held liable, a natural or legal person shall have the right to full compensation for the damage. A company shall not be held liable for damage caused only by its business partners in its chain of activities. If the damage is caused jointly by the company and its subsidiary, or a direct or indirect business partner, they shall be liable jointly and severally, taking into account relevant national laws.

## IMPACT ON SMES

SMEs are excluded from Directive's scope. However, SMEs are found as direct and indirect business partners throughout the chain of activities of larger companies that are in the Directive's scope. This means that large companies will be asking their SME business partners to ensure alignment with the larger businesses' policies and practices based on the Directive's provisions. Therefore, SMEs should prepare to be more transparent on their activities, how to share this information with their business partners effectively and, if needed, take mitigating measures.

CSDDD acknowledges this 'indirect impact' on SMEs, and therefore includes many references to how large companies, MS and EC can support SMEs with the administrative and financial burdens stemming from this Directive. The supportive measures in the Directive include the following:

- companies should offer tailored support to SME partners, including capacity-building and management system upgrades. If compliance threatens SME<sup>3</sup> viability, companies should provide targeted financial assistance, such as direct financing, low-interest loans, or guarantees of continued sourcing
- companies should use fair, reasonable and non-discriminatory requirements and contractual terms when dealing with SME business partners
- companies should bear the cost of independent third-party verification when contractual assurances are agreed with an SME
- MS with the support of the EC should set up dedicated user-friendly websites or portals and include information and support to companies and particularly SMEs
- MS may financially support SMEs to foster their capacity, in line with the applicable EU state aid rules

It is important that SMEs are not overflowed with different questionnaires from companies in their supply chain. The request for information should be done efficiently and by using technological/digital means to ease the administrative burden and facilitate the information sharing.

## NEXT STEPS

### SUPPORTING MEASURES

#### GUIDELINES

The EC will provide supporting "guidelines" for companies and MS authorities to apply the Directive. These guidelines are specified under Article 19, and cover notably the following (non-exhaustive list):

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<sup>3</sup> 'Jeopardising the viability of an SME' is defined in the Directive as "possibly causing a bankruptcy of the SME or putting the SME in a situation where bankruptcy is imminent", but does not specify how and by whom this assessment should be conducted. SMEs are likely to need support of their trusted advisors in this assessment.

- best practices for conducting due diligence, including on the identification of due diligence risks, prioritisation of the impacts, remediation etc.
- climate transition plans under Article 22
- sector-specificities
- assessment of risk factors at the level of the company and business operations, as well as geographic and contextual, product and service, and sectoral risk factors, including those associated with conflict-affected and high-risk areas

These guidelines will be available in all official EU languages. Depending on the guideline, they are either to be expected within 30 or 36 months after July 2024. More details on the difference pieces of guidelines and their timing are specified in Article 19 (3).

### **SINGLE HELPDESK**

According to the Directive, the EC will need to set up a single pan-EU helpdesk where companies may seek information, guidance and support to fulfil their obligations under the Directive. Relevant national authorities in each MS must collaborate with the single helpdesk to help tailor the information and guidance to national contexts and promote it. The Directive does not specify by when the single helpdesk should be operational.

### **REVIEWING CSDDD'S EFFECTIVENESS**

In 2030 and every three years after, the EC shall publish a report on the Directive's performance in reaching its objectives. The report can be accompanied by a legislative proposal. This process is especially relevant for companies that were left out of scope of the CSDDD's provisions before the report as they may be brought into scope following this review process.

The first report is due in 2030, and shall address at least the following aspects:

- impacts on SMEs, and effectiveness assessment of the SME support tools and measures
- the Directive's scope in terms of companies covered, including whether the employee number and turnover thresholds should be revised and a differentiated approach for "high-risk sectors" should be introduced
- whether the *chain of activities* definition needs to be revised



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