

# Everything You Need to Know About the Corporate Sustainability Due Diligence Directive (CSDDD)

Prepare for compliance by learning the ins and outs of the newest EU legislation



The concept of 'sustainability' extends beyond environmental concerns, encompassing broader issues like human rights. Recognizing the pivotal role businesses can play in this realm, politicians, investors, consumers, and other stakeholders are increasingly attentive. On March 15th 2024, the European Council approved the [Corporate Sustainability Due Diligence Directive \(CSDDD\)](#), aiming to establish a legislative framework requiring companies to demonstrate their efforts in safeguarding the environment and upholding human rights.

## What is CSDDD?

The Corporate Sustainability Due Diligence Directive (CSDDD) is a new piece of legislation that will require both EU and non-EU companies to conduct environmental and human rights due diligence across their operations, subsidiaries, and value chains. The purpose of the legislation is to oblige companies to demonstrate what action they are taking to protect the environment and human rights. This does not just fall onto their own operations, either, but also onto the activities of any other entities within their value chains with which they have direct and indirect established business relationships.



## Scope of Application

### Companies Covered

The CSDDD will directly apply to EU companies and non-EU companies operating in the EU internal market that meet certain employee and turnover thresholds. The directive includes EU companies with more than 1,000 employees and a worldwide net annual turnover of more than 450 million euros. Non-EU companies with a net turnover within the EU of more than 450 million euros are also impacted. A company that is the ultimate parent company of a group that reaches the above-mentioned thresholds will also be covered by the directive.

### Timeline

December 2023

**Trilogue negotiations ended**

May 2024

**Final Directive** enters into force\*

*\*this could be later, depending on how elections go.*

April 24, 2024

**Parliament vote**, which is expected to go through with a large majority\*

*\*with elections coming up in the European Parliament, there is a possibility of another vote on the official version with the next Parliament, and then the council has to approve again.*

2026

**Transposition** into national law

First Corporate Sustainability Reporting Directive (CSRD) Report for 250+ employees and 50M+ turnover

*Note: The CSRD requires companies to report on the impact of corporate activities on the environment and society, and requires the audit (assurance) of reported information. The CSDDD looks to dovetail this initiative.*

### 3-Year Phase Period

2027

**Phase 1: in force:** 5,000+ employees and 1,500M+ turnover

2028

**Phase 2: in force:** 3,000+ employees and 900M+ turnover

2029

**Phase 3: in force:** 1,000+ employees and 450M+ turnover

## Financial Penalties

Maximum sanction at least **5% of revenues**

## Civil Liability



**YES**

- For proven damages a company caused to a natural or legal person
- Only through intent or negligence
- Burden of proof with plaintiff
- NGOs may bring cases into court on behalf of victims based on member state law

The CSDDD believes that companies should be held liable if they cause damage that is connected to their risk assessment. The definition of causality will be done within member state law. So, for example, the German Civil Code will still prevail for German companies.

## Due Diligence Obligations

Under the proposed rules, companies will be required to identify and address potential and actual adverse human rights and environmental impacts across their own operations, subsidiaries, and value chain. To do this, the Directive requires companies to follow six specific steps

- **Policies and Management System:** Integrating risk-based due diligence into corporate policies that outline an approach to due diligence and a code of conduct. Update these annually.
- **Risk Assessment:** Identify actual and potential adverse human rights and environmental impacts arising from your operations, subsidiaries, and direct and indirect business relationships within your value chain.
- **Measures to Cease, Prevent, or Mitigate:** Prevent or mitigate potential adverse impacts, and end or minimize real adverse impacts. Develop and implement a prevention action plan, seek contractual assurances from business partners, make necessary investments and, if required, terminate business relationships.
- **Complaints Procedure:** Establish a complaint procedure to enable affected persons and organizations to submit complaints relating to real or potential adverse impacts.
- **Monitoring:** Conduct regular assessments of the implementation and effectiveness of the due diligence measures, at least annually or after significant change.
- **Documentation and Reporting:** Companies in scope of the CSDR must communicate relevant due diligence information via their annual reports under the CSDR's requirements. Companies not subject to the CSDR must publish an annual statement on their website.

## Climate Transition Planning

The CSDDD stands out as the first EU legislation directing companies to embrace a climate transition plan. According to the proposed regulations, companies falling within its scope would need to adopt a plan that ensures their business models and strategies are aligned with limiting global warming to 1.5°C, in turn forcing them to devise and implement key changes to the way they operate. These requirements are anticipated to complement the transition planning stipulations outlined in the CSRD, ensuring regulatory coherence is maximized.

## How Will CSDDD Impact Your Organization?

The compliance challenges for companies within scope of the CSDDD are significant, especially for large organizations with extensive, multinational value chains that span several countries. Being cognizant of your supplier network's sustainability management practices will enable companies to effectively conduct supply chain due diligence and showcase compliance. The 2027 implementation date will come quickly, so it is imperative companies start to prepare their regulatory responses now, if they have not already.

Companies can kickstart their readiness efforts by beginning with proactive steps that entail minimal risk. These actions can include:

- Mapping out current due diligence policies and procedures
- Outlining the value chain
- Pinpointing both direct and indirect business collaborator
- Assessing new or potential environmental and human rights risks.

Armed with this data, companies can take action now to initiate a gap analysis, gauge their regulatory preparedness, identify areas where further action is needed, and evaluate necessary changes to implement.

## Could you use a little help staying compliant with CSDDD?

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