

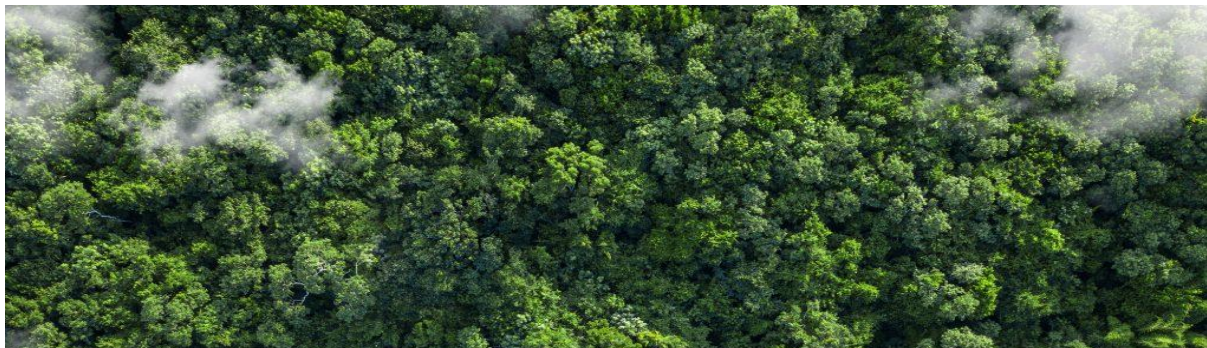
Long-awaited publication of the Corporate Sustainability Due Diligence Directive (CSDDD)

Supply chain due diligence obligations finally get clear implementation date

After long negotiations, the Corporate Sustainability Due Diligence Directive (CSDDD) was finally adopted on 13 June and was published in the Official Journal of the European Union (EU) on 5 July 2024.

What scope does the final text set forth? And what are the obligations for companies within the scope? This newsletter sets out what became the outcome of the lengthy negotiations on the CSDDD.

Objective of the CSDDD



The Directive aims to ensure that large companies operating in the internal market contribute to sustainable development and the transition to more sustainable economies and societies. Companies should identify, prioritize, prevent, and mitigate any actual or potential negative impacts on human rights and the environment linked to their operations, their subsidiaries, and their business partners. Additionally, the Directive ensures that anyone affected by a company's failure to meet these responsibilities has access to justice and legal remedies.

Which entities are covered by the scope?

The CSDDD applies, on the one hand, to **EU companies** which meet one of the following conditions:



Either the company itself has more than 1,000 employees and a net worldwide turnover or more than EUR 450,000,000 in the last financial year, or it is the ultimate parent of a group that reached those thresholds in the last financial year



The company entered into or is the ultimate parent company of a group that entered into franchising or licensing agreements in the EU in return for royalties with independent third-party companies

- where those agreements ensure a common identity, a common business concept and the application of uniform business methods, and
- where those royalties amounted to more than EUR 22 500 000 in the last financial year, and
- provided that the company had or is the ultimate parent company of a group that had a net worldwide turnover of more than EUR 80 000 000 in the last financial year

In addition, the CSDDD also applies to **third country companies** that meet one of the following conditions:



Either the company generated a net turnover of more than EUR 450 000 000 in the EU in the financial year preceding the last financial year or it is the ultimate parent of a group that reached that threshold on a consolidated basis in the financial year preceding the last financial year



The company entered into or is the ultimate parent company of a group that entered into franchising or licensing agreements in the EU in return for royalties with independent third-party companies,

- where those agreements ensure a common identity, a common business concept and the application of uniform business methods, and
- where those royalties amounted to more than EUR 22 500 000 in the EU in the financial year preceding the last financial year; and
- provided that the company generated, or is the ultimate parent company of a group that generated, a net turnover of more than EUR 80 000 000 in the EU in the financial year preceding the last financial year.

Due diligence obligations

Companies covered by the CSDDD must establish and implement proper due diligence measures for their own activities, their subsidiaries, and their direct and indirect business partners. They should take steps to meet due diligence objectives by effectively addressing negative impacts in proportion to their severity and likelihood.

The Directive outlines a due diligence process consisting of six steps, as defined in the guidelines on corporate responsibility, to help companies identify and address adverse human rights and environmental impacts. These include:



Integration of due diligence into policies and management systems



Identification and assessment of adverse human rights and environmental impacts



Prevention, elimination or minimisation of actual and potential adverse human rights and environmental impacts



Monitoring and assessment of the effectiveness of measures



Communication



Provision of redress

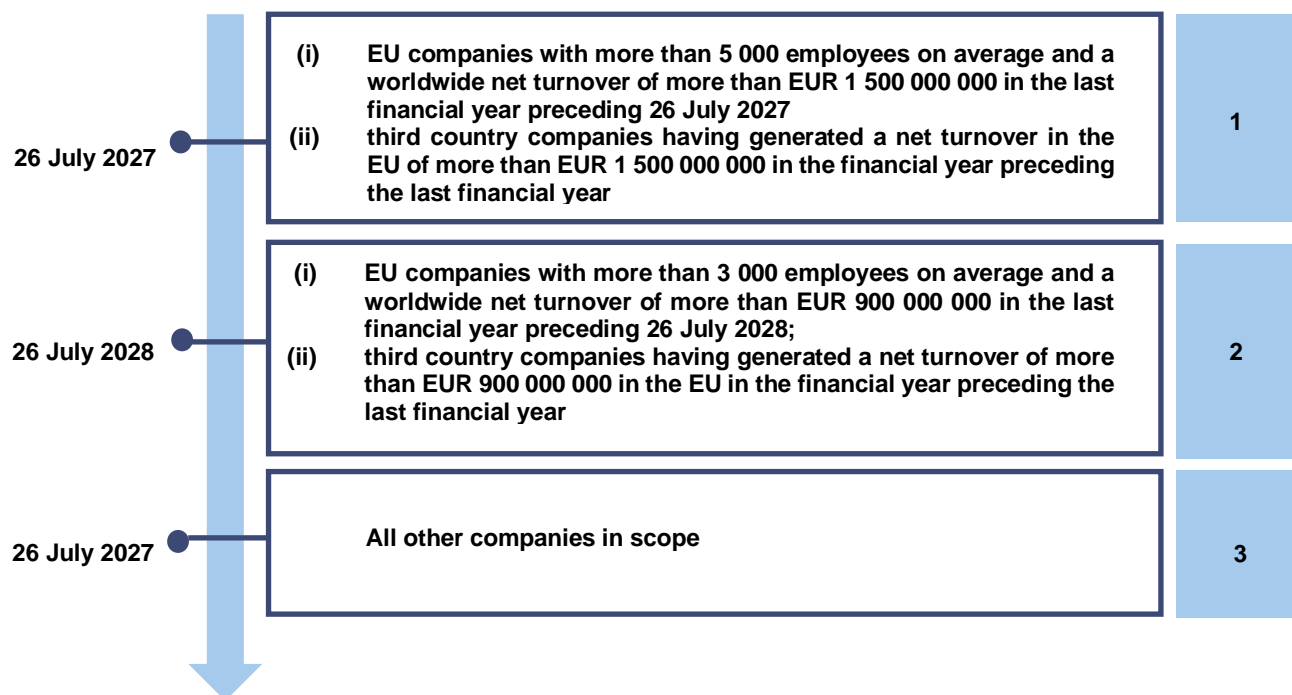
How will the new rules be enforced?

The rules on corporate sustainability due diligence will be enforced through:

- administrative supervision: member states will designate an authority to supervise and enforce the rules, including through injunctive orders and effective, proportionate and dissuasive penalties (in particular fines). A European Network of Supervisory Authorities will bring together representatives of the national bodies to ensure a coordinated approach.
- civil liability: member states will ensure that victims get compensation for damages resulting from an intentional or negligent failure to carry out due diligence.

Entry into force

Member states now have until 26 July 2026 to transpose the Directive into national law. Once transposed, the CSDDD will enter into force with a gradual phase-in starting with the largest companies:



How should companies prepare?

The first step is to determine if a particular company falls within the scope of the CSDDD. If it does, it's crucial to identify the timing: which application wave applies to the company in question?

Once the timing is established, the necessary analysis and information gathering can begin. This includes identifying what information is already available, what gaps need to be filled, and how to map the entire supply chain. Specifically, you should:

1. **Conduct a preliminary assessment:** Review existing documentation and data to understand current compliance status.
2. **Identify key stakeholders:** Determine who within the organization and supply chain will be involved in the compliance process.
3. **Gather supply chain data:** Collect detailed information about suppliers, subcontractors, and other partners.
4. **Perform a risk assessment:** Analyze potential risks within the supply chain related to human rights, environmental impact, and governance.

With a clear understanding of the company's organization and supply chain, and after conducting the necessary gap analyses, the company can then develop and implement due diligence processes to comply with CSDDD requirements. This should involve:

1. **Developing policies and procedures:** Create comprehensive policies that address identified risks and outline due diligence processes.
2. **Training and capacity building:** Train employees and key stakeholders on new compliance requirements and procedures.
3. **Monitoring and reporting:** Establish systems for ongoing monitoring of compliance and regular reporting mechanisms.
4. **Engagement and communication:** Maintain open communication channels with all stakeholders to ensure transparency and address any issues promptly.

For any questions regarding the CSDDD, our sustainability advisory team is here to assist you.

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