

INVESTOR BRIEFING

EU CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE (CSDDD)

April 2024

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United Nations
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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

On 24 April 2024, the European Parliament approved the [final text](#) of the European Directive on Corporate Sustainability Due Diligence (CSDDD). While the text still requires final sign off from the Council of the EU, and translation before it is published in the Official Journal it is unlikely to change further. This briefing note summarises the requirements of the CSDDD as understood on 24 April, with particular focus on how it will affect the investment sector. It also draws comparisons with existing legislation including the SFDR and CSRD.

PRI strongly welcomes this directive. Mandatory human rights and environmental due diligence supports investors' risk and impact analysis and enables better informed investee engagement. The final requirements are proportionate and practicable and should play a critical role in the achievement of the EU Green Deal which is fundamentally intertwined with EU competitiveness, security and resilience.

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INTRODUCTION

After encouragement from both the [European Parliament](#) and [Council of the EU](#), on 23 February 2022 the European Commission published a [proposal](#) for a corporate sustainability due diligence directive. Over two years later, the directive has finally reached provisional approval across all three EU institutions and is expected to be published in the Official Journal of the EU by latest September 2024. Member States will then transpose this directive into national law by September 2026 at the latest.

The Corporate Sustainability Due Diligence Directive (CSDDD) aims to ensure that companies active in the EU market contribute to the sustainable transition of economies and societies. It sets rules on:

- obligations for companies regarding actual and potential human rights and environmental adverse impacts, with respect to their own operations, the operations of their subsidiaries, and the operations carried out by their business partners in their chains of activities;
- liability for violations of the obligations mentioned above; and
- an obligation to adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, compatibility of the business model and strategy of the company with the limiting of global warming to 1.5°C.

Certain financial companies are in scope of the directive, although the due diligence requirements regarding their financial services is limited to actual or potential impacts from their upstream business partners (more information below). Furthermore, the employee and turnover thresholds for companies to be in scope of the directive are very high. Nevertheless, under PRI's 2023 reporting framework, 41% of European investors¹ said they used the UN Guiding Principles on Business and Human Rights and / or the OECD Guidelines for Multinational Enterprises to identify intended and unintended sustainability outcomes connected to their investment activities. Therefore, many investors are likely to continue to conduct full, risk-based due diligence and expect the same of their investees, given the benefits to risk and sustainability impact assessment.

This briefing note is accompanied by an annex with a glossary of key terms, as defined in the directive. These key terms are written in italics on their first use in the main part of this briefing. The annex also contains a comparative analysis of due diligence requirements under different pieces of EU sustainable finance legislation.

SCOPE

The directive applies to EU and non-EU companies operating in the EU, above certain thresholds (see table 1 below). A company is defined as:

- An undertaking in scope of the Corporate Sustainability Reporting Directive (CSRD); or
- A financial undertaking which is:
 - a credit institution as defined in Regulation (EU) No 575/2013;
 - an investment firm as defined in MiFID II;
 - an alternative investment fund manager (AIFM) as defined in AIFMD (including a manager of Euveca, EuSEF or ELTIF);
 - an undertaking for collective investment in transferable securities (UCITS);

¹ This includes non-EU countries and is based on PGS 47.1 from PRI 2023 R&A data for 2,047 European signatories.

- an insurance or a reinsurance undertaking as defined Solvency II;
- an institution for occupational retirement provision (IORPs) unless a Member State has chosen not to apply the IORPs Directive in whole or in parts to that institution in accordance with Article 5 of that Directive; or
- Others listed in Article 3, paragraph 1(iv) of the final text.

The CSDDD does not apply to pension institutions operating social security systems, nor to Alternative Investment funds (Article 4(1a) of Directive 2011/61/EU) or to UCITS funds (Article 1(2) of Directive 2009/65/EC).

Table 1. Thresholds for companies in scope of CSDDD

	Very large companies	Ultimate parent companies ²	Franchises
EU companies	<p>>1000 employees on average and net worldwide turnover >€450m in last financial year</p>	<p>Did not meet the very large company thresholds but is the ultimate parent company of a group that reaches these thresholds in the last financial year</p>	<p>The company entered into or is the ultimate parent company of a group that entered into franchising or licensing agreements in the Union where the royalties amount to >€22.5m in the last financial year, provided that the company had or is the ultimate parent company of a group that had a net worldwide turnover of >€80m in the last financial year</p>
Non-EU companies	<p>Net turnover >€450m in the Union in the financial year preceding the last financial year</p>	<p>Did not meet the very large company thresholds but is the ultimate parent company of a group that reaches these thresholds in the in the financial year preceding the last financial year</p>	<p>The company entered into or is the ultimate parent company of a group that entered into franchising or licensing agreements in the Union where the royalties amount to >€22.5m in the Union in the financial year preceding the last financial year, provided that the company generated or is the ultimate parent company of a group that generated a net turnover of >€80m in the Union in the financial year preceding the last financial year</p>

The companies above are only in scope if they met the conditions for each of the last two relevant financial years. The inclusion of smaller companies in “high risk sectors” was deleted in the final agreement.

² If a subsidiary does not fall under the scope, the parent company should cover operations of the subsidiary as part of its own due diligence obligations.

DUE DILIGENCE REQUIREMENTS

Under the CSDDD, companies must conduct risk-based³ human rights and environmental due diligence, by carrying out the following actions:

- **integrating** due diligence into their policies and risk management systems;
- **identifying and assessing** actual or potential *adverse impacts* and, where necessary, **prioritising** potential and actual adverse impacts;
- **preventing and mitigating** potential adverse impacts, and **bringing** actual adverse impacts **to an end** and minimising their extent;
 - **providing remediation** to actual adverse impacts;
 - carrying out **meaningful stakeholder engagement**;
- establishing and maintaining a notification mechanism and complaints procedure;
- **monitoring** the effectiveness of their due diligence policy and measures; and
- publicly **communicating** on due diligence.

It is important to note that the CSDDD will not require companies to guarantee that adverse impacts will never occur or that they will be brought to an end. Instead, it is an ‘obligations of means’ i.e. the company should take *appropriate measures* which are capable of effectively addressing adverse impacts, in a manner commensurate to the *severity* and likelihood of the impact. Companies should consider the circumstances of the specific case, the nature and extent of the adverse impact and relevant *risk factors*. Risk factors include the sector or geographical area in which *business partners* operate, the company’s power to influence its *direct and indirect business partners*, and whether the company could increase its power of influence. Companies are also entitled to share resources and information with other companies and legal entities to support their due diligence.

INTEGRATING DUE DILIGENCE INTO POLICIES AND SYSTEMS

Companies must integrate due diligence into all their relevant policies and risk management systems and have a due diligence policy in place. This due diligence policy must be developed in prior consultation with the company’s employees and their representatives, and contain:

- a description of the company’s approach, including in the long term, to due diligence;
- a code of conduct describing rules and principles to be followed throughout the company, its subsidiaries, and its direct or indirect business partners; and
- a description of the processes put in place to integrate due diligence into the relevant policies and to implement due diligence, including the measures taken to verify compliance with the code of conduct and to extend its application to business partners.

This due diligence policy must be updated without undue delay after a significant change occurs, and reviewed, and where necessary updated, at least every 24 months.

³ Companies may have very wide or long value chains. In such cases, the [OECD Guidelines](#) state companies are “encouraged to identify general areas where the risk of adverse impacts is most significant and, based on this risk assessment, prioritise [parts of their value chain] for due diligence”. This is commonly referred to as a risk-based approach.

IDENTIFYING AND ASSESSING ACTUAL OR POTENTIAL ADVERSE IMPACTS

Companies must take appropriate measures to identify and assess actual and potential adverse impacts arising from their own operations, those of their subsidiaries and, where related to their *chains of activities*, those of their business partners. This involves mapping out these operations, identifying general areas where adverse impacts are most likely to occur and to be most severe, and then carrying out an in-depth assessment in those areas.

It is noteworthy that the definition of chain of activities excludes the provision of services downstream. Therefore, **financial undertakings are required to carry out due diligence on their own operations and those of their subsidiaries. Regarding the financial services or products they develop or provide, this due diligence is limited to actual or potential impacts from their upstream business partners. No due diligence duties exist in relation to their customers.**

PRIORITISATION OF IDENTIFIED ADVERSE IMPACTS

Where it is not feasible to prevent, mitigate, bring to an end or minimise all identified adverse impacts at the same time to their full extent, companies should prioritise adverse impacts identified, based on their severity and likelihood. Once the most severe and most likely adverse impacts are addressed, the company should address other less severe / likely adverse impacts.

PREVENTING AND MITIGATING POTENTIAL ADVERSE IMPACTS AND BRINGING TO AN END AND MINIMISING THE EXTENT OF ADVERSE IMPACTS

The requirements for these two steps are almost identical. Green text is for prevention and mitigation of potential adverse impact whereas blue text has been added for bringing actual adverse impacts to an end and minimising.

Companies must take appropriate measures to prevent, or where prevention is not possible or not immediately possible, adequately mitigate potential / to bring actual adverse impacts that have been, or should have been, identified to an end. Due account should be taken of:

- whether the potential / actual adverse impact may be / is caused only by the company; caused jointly by the company and its subsidiary or business partner, through acts or omissions; or caused only by the company's business partner in the chain of activities;
- whether the potential / actual adverse impact may occur / occurred in the operations of the subsidiary, direct business partner or indirect business partner; and
- the ability of the company to influence the business partner that may cause or jointly cause the potential adverse impact / causing or jointly causing the actual adverse impact.

Companies must take the following appropriate measures, where relevant:

- immediately bring the adverse impact to an end, or if not possible, minimise its extent (in a manner proportionate to the severity of the adverse impact and to the company's implication in the adverse impact);
- where necessary, due to the nature or complexity of the measures required for prevention / fact that the adverse impact cannot be immediately brought to an end, without undue delay develop and implement a prevention / corrective action plan, with reasonable and clearly defined timelines for the implementation of appropriate measures and qualitative and quantitative indicators for measuring improvement;

- seek contractual assurances from a direct business partner that it will ensure compliance with the company's code of conduct and, as necessary, its **prevention / corrective** action plan. This must be accompanied by appropriate measures to verify compliance - companies may refer to independent third- party verification, including through industry or multi- stakeholder initiatives;
- in compliance with EU law, including competition law, collaborate with other entities, including, where relevant, to increase the company's ability **to prevent or mitigate the adverse impact / to bring the adverse impact to an end or minimise the extent of such an impact**; and
- other elements - see Articles 7 and 8 for full details.

TERMINATION OF CONTRACTS

The requirements for these two steps are almost identical. Green text is for prevention and mitigation whereas blue text has been added for bringing actual adverse impacts to an end and minimising.

In addition to the above, companies may, where relevant, engage with a business partner about their expectations with regard to **preventing and mitigating the potential adverse impacts / bringing adverse impacts to an end or minimise the extent of such impacts**.

If none of the above measures **prevent or adequately mitigate potential adverse impacts / bring actual adverse impacts to an end or adequately minimise them** then the company may seek contractual assurances with an indirect business partner. Again, contractual assurances must be accompanied by appropriate measures to verify compliance.

If it is still the case that the **potential / actual** adverse impact(s) could not be **prevented or adequately mitigated / brought to an end or adequately minimised**, as a last resort, the company must refrain from entering into new or extending existing relations with business partners in connection with the impact. The company should also, where the law entitles them to, take the following actions, as a last resort:

- adopt and implement an enhanced **prevention / corrective** action plan for the specific adverse impact without undue delay, by using or increasing the company's leverage through the temporary suspension of business relationships, as long as there is reasonable expectation that these efforts will succeed.
- if there is no reasonable expectation that these efforts would succeed, or if the implementation of the enhanced **prevention / corrective** action plan failed to **prevent or mitigate / bring to an end or minimise the extent of** the adverse impact, terminate the business relationship with respect to the activities concerned if the **potential / actual** adverse impact is severe.
 - Prior to temporarily suspending or terminating the business relationship, the company must assess whether the adverse impacts of doing so can be reasonably expected to be more severe than the original adverse impact. If so, the company is not required to suspend or to terminate the business relationship but must report the reasons of its decision to the supervisory authority.
 - If the company decides to temporarily suspend or terminate the business relationship, it must take steps to prevent, mitigate or bring to an end the impacts of suspension or termination, provide reasonable notice to the business partner and keep that decision under review.
 - If the company decides not to temporarily suspend or terminate the business relationship, the company must monitor the **potential / actual** adverse impact and periodically reassess its decision and whether further appropriate measures are available.

REMEDIATION OF ACTUAL ADVERSE IMPACTS

Where a company has caused or jointly caused an actual adverse impact, it must provide remediation. If it is caused only by the company's business partner, the company may provide voluntary remediation and/or use its ability to influence the business partner to enable remediation.

CARRYING OUT MEANINGFUL ENGAGEMENT WITH STAKEHOLDERS

Companies must carry out effective engagement with stakeholders, providing relevant and comprehensive information. This should inform the due diligence steps described above. In consulting stakeholders, companies must identify and address barriers to engagement and ensure that participants are not the subject of retaliation or retribution, including by maintaining confidentiality or anonymity. Companies are allowed to fulfil these obligations through industry or multi-stakeholder initiatives, as appropriate, except for consultation of own employees and their representatives.

Notification mechanism and complaints procedure

Companies must enable natural (i.e. a human being) or legal persons (e.g. a company), their legitimate representatives, trade unions and other workers' representatives, and civil society organisations to submit complaints if they have legitimate concerns regarding actual or potential adverse impacts with respect to the companies' own operations, the operations of their subsidiaries or the operations of their business partners in the companies' chains of activities.

The procedure for dealing with complaints must be fair, publicly available, accessible, predictable and transparent. Where the complaint is well-founded, the adverse impact is deemed to be 'identified' and the company must take 'appropriate measures' to prevent it or bring it to an end.

MONITORING

Companies must carry out periodic assessments of their own operations and measures, those of their subsidiaries and, where related to their chains of activities, those of their business partners, to assess the adequacy and effectiveness of their due diligence. These assessments should be based, where appropriate, on qualitative and quantitative indicators and be carried out without undue delay after a significant change occurs, and at least every 12 months. Where appropriate, the due diligence policy, the identified adverse impacts and the derived appropriate measures shall be updated.

COMMUNICATING

Companies not in scope of the CSRD must publish on their website an annual statement on their compliance with the directive, no later than 12 months after the balance sheet date of the financial year for which the statement is drawn up. The Commission will adopt a delegated act no later than 31 March 2027 concerning the content and criteria for this reporting, aligned as appropriate with CSRD and ensuring there is no duplication in reporting requirements with Article 4 of the SFDR. These annual statements will be accessible on the ESAP from 1 January 2029.

GUIDANCE

In order to provide support to companies or to Member State authorities on how companies should fulfil their due diligence obligations in a practical manner, and to provide support to stakeholders, the Commission, in consultation with other EU and international bodies, will issue guidelines including:

- To be published by March 2027 (assuming CSDDD entry into force by September 2024), guidance on:
 - how to conduct due diligence in line with the CSDDD obligations, particularly on identification, prioritisation, appropriate measures for remediation and to adapt purchasing practices, responsible disengagement, and how to identify and engage with stakeholders;
 - the assessment of risk factors (e.g. at company-level and in business operations, based on geography, context, and specific products, services and sectors); and
 - data, information sources, digital tools and technologies that could support compliance.
- To be published by September 2027 (based on the same assumption):
 - practical guidance on mandatory climate mitigation transition plans;
 - information on how to share resources and information among companies and other legal entities ; and
 - information for stakeholders and their representatives on how to engage throughout the due diligence process.
- Sector specific guidance (timing undetermined in the final text).

HARMONISATION

Member States are not permitted to introduce, in their national law, due diligence provisions which reduce the level of protection of human, employment and social rights, or of protection of the environment or the climate. But they are allowed to introduce more stringent provisions or provisions that are more specific in order to achieve a higher level of protection of human, employment and social rights, the environment or the climate.

MANDATORY CLIMATE TRANSITION PLANS

All companies in scope must *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 the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement and the EU's objective of achieving climate neutrality, including its intermediate and 2050 climate neutrality targets. The design of the transition plan must 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 scope 1, scope 2 and scope 3 greenhouse gas emissions;
- a description of identified decarbonisation levers and key actions planned to reach targets, 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 implementation of the transition plan; and

- a description of the role of the administrative, management and supervisory bodies with regard to the plan.

While the [ESRS transition plan disclosure requirements](#) for companies in scope of the CSRD are more detailed, there is close alignment with the above requirements. In fact, companies in scope of the CSRD that choose to report a transition plan (or those included in their parent undertaking's CSRD transition plan disclosures) shall be deemed to have complied with the CSDDD obligation to adopt but not to 'put into effect'. The transition plan must be updated every 12 months and contain a description of the progress the company has made towards achieving the targets.

SUPERVISORY AUTHORITIES, POWERS AND PENALTIES

Each Member State will designate one or more supervisory authority to supervise compliance with all the requirements on due diligence and adoption and design of the transition plan. Supervisory authorities must publish an accessible, online annual report on their activities under this directive.

Supervisory authorities will be given adequate powers and resources, including the power to require companies to provide information and to impose penalties. If a supervisory authority identifies a failure to comply with requirements, it shall grant the company an appropriate period of time to take remedial action, if such action is possible. Taking remedial action does not preclude the imposition of penalties or the triggering of civil liability in case of damages.

Rules on penalties are determined at Member State level. They must be effective, proportionate and dissuasive. In deciding whether to impose penalties and, if so, in determining their nature and appropriate level, supervisory authorities will take due account of (amongst other points):

- the nature, gravity and duration of the infringement, and the severity of the resulting impacts;
- where relevant, the extent to which prioritisation decisions were made;
- any relevant previous infringements by the company; and
- the extent to which the company carried out any remedial action.

At least the following penalties shall be provided for in the national transposition of the CSDDD:

- Pecuniary penalties based on net worldwide turnover. The maximum limit of pecuniary penalties must not be less than 5% of the net worldwide turnover of the company in the financial year preceding the fining decision.
- A public statement indicating the company responsible and the nature of the infringement. This occurs if the company fails to comply with the decision imposing a pecuniary penalty within the applicable time-limit.

Any decision containing penalties will be published and publicly available for at least 5 years. Natural and legal persons will be entitled to submit substantiated concerns, through easily accessible channels, to any supervisory authority when they have reasons to believe, on the basis of objective circumstances, that a company is failing to comply with the CSDDD requirements. Supervisory authorities will assess the substantiated concerns in an appropriate period of time and, where appropriate, exercise their powers.

CIVIL LIABILITY OF COMPANIES AND A RIGHT TO FULL COMPENSATION

A company can be held liable for intentionally or negligently failing to prevent potential adverse impacts or bring actual adverse impacts to an end, and as a result causing damage to a natural or legal person. This includes damages linked to laws of a third country where the actual harm occurred.

The civil liability does not cover a failure to meet other obligations such as impact identification or adoption of the climate mitigation transition plan. A company cannot be held liable if the damage was caused only by its business partners in its chain of activities. Companies that have participated in industry or multi-stakeholder initiatives, or used third-party verification or contractual clauses to support the implementation of due diligence obligations can still be held liable. When the damage was caused jointly by the company and its subsidiary, direct or indirect business partner, they will be liable jointly and severally.

If a company is held liable the natural or legal person has the right to full compensation for the damage occurred. The limitation period (the period within which a natural or legal person, who has a right to make a claim, must start court proceedings to establish that right) must be at least 5 years and not lower than the limitation period laid down under general civil liability national regimes. Limitation periods shall not begin to run before the infringement has ceased and the claimant knows or can reasonably be expected to know of the behaviour and the fact that it constitutes an infringement; of the fact that the infringement caused harm to it; and the identity of the infringer. Further details on civil liability and the rights of the claimant are given in Article 22 of the final text.

TIMELINE AND REVIEW

Assuming entry into force is September 2024, Member States will transpose this directive into national law by September 2026 at the latest, applying the provisions as set out in table 2.

Table 2. Timeline for introduction of CSDDD requirements for different types of companies in scope.

Provisions apply from	In-scope very large EU companies and ultimate parent companies	In-scope very large non-EU companies and ultimate parent companies
September 2027	> 5000 employees on average and generated a net worldwide turnover of >€1500m in the last financial year preceding September 2027 for which annual financial statements have been or should have been adopted...	Generated a net turnover of >€1500m in the Union , in the financial year preceding the last financial year preceding September 2027...
FY starting on or after 1 January 2028	...with the exception of the measures necessary to comply with Article 11 (communication)	
September 2028	> 3000 employees on average and generated a net worldwide turnover of >€900m in the last financial year preceding September 2028 for which annual financial statements have been or should have been adopted...	generated a net turnover of >€900m in the Union , in the financial year preceding the last financial year preceding September 2028...
FY starting on or after 1 January 2028	...with the exception of the measures necessary to comply with Article 11 (communication)	
September 2029	All others in scope... (and for in-scope EU and non-EU companies in franchising or licensing agreements)	
FY starting on or after 1 January 2029	...with the exception of the measures necessary to comply with Article 11 (communication)	

REVIEW CLAUSE FOR FINANCIAL UNDERTAKINGS

The Commission will submit a report to the European Parliament and the Council on the necessity to lay down additional sustainability due diligence requirements tailored to regulated financial undertakings with respect to the provision of financial services and investment activities, and the options for such due diligence requirements as well as their impacts. The report will take into account other EU laws that apply to regulated financial undertakings.

It will be published at the earliest possible opportunity after the date of entry into force of this directive, but no later than two years after that date i.e. on the same assumption as above, no later than September 2026. It will be accompanied, if appropriate, by a legislative proposal.

Other elements for review won't be published in a report until six years after entry into force (2030) looking at:

- Impact on SMEs;
- Scope of application including type of company, thresholds and “high risk sectors”;
- Definition of ‘chain of activities’;
- Annex I – in particular to include aspects of good governance;
- Article 15 on transition plans and the powers of supervisory authorities in relation to these rules;
- Enforcement, penalties and civil liability; and
- Harmonisation across the EU.

The effectiveness of the CSDDD in reaching its objectives, in particular in addressing adverse impact, will be reviewed and published in a report by the Commission every three years after this first report.

ANNEX

GLOSSARY

‘adverse environmental impact’ means an adverse impact on the environment resulting from the breach of the prohibitions and obligations listed in Part I, points 18 and 19, and Part II of Annex I.

‘adverse human rights impact’ means an impact on persons resulting from:

- an abuse of one of the human rights listed in Annex I, Part I, Section 1; or
- an abuse of a human right not listed in Annex I, Part I, Section 1 but included in the human rights instruments listed in Annex I, Part I Section 2 provided that a) the human right can be abused by a company or legal entity; b) the human right abuse directly impairs a legal interest protected in the human rights instruments listed in Annex I, Part I Section 2; and c) the company could have reasonably foreseen the risk that such human right may be affected, taking into account the circumstances of the specific case, including the nature and extent of the company’s business operations and its chain of activities, characteristics of the economic sector and geographical and operational context.

‘appropriate measures’ means measures that are capable of achieving the objectives of due diligence by effectively addressing adverse impacts in a manner commensurate to the degree of severity and the likelihood of the adverse impact, and reasonably available to the company, taking into account the circumstances of the specific case, including the nature and extent of the adverse impact and relevant risk factors.

‘chain of activities’ means

- 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, excluding the distribution, transport and storage of the product subject to the export control under the Regulation (EU) 2021/821 or the export control relating to weapons, munition or war materials, after the export of the product is authorised.

‘direct business partner’ means an entity with whom the company has a commercial agreement related to the operations, products or services of the company or to whom the company provides services.

‘indirect direct business partner’ means an entity which is not a direct business partner but which performs business operations related to the operations, products or services on behalf of the company.

‘risk factors’ means facts, situations or circumstances that relate to the severity and likelihood of an adverse impact, including company-level, business operations, geographic and contextual, product and service, and sectoral risk factors.

‘severity of an adverse impact’ means the scale, scope and irremediable character of the adverse impact, taking into account the gravity of an adverse impact, including the number of individuals that are or will be affected, the extent to which the environment is or may be damaged or otherwise

affected, its irreversibility and the limits on the ability to restore affected individuals or the environment to a situation equivalent to their situation prior to the impact within a reasonable period of time.

‘severe adverse impact’ means an adverse impact that is especially significant by its nature such as impact that entails harm to human life, health and liberty, or by its scale, scope and irremediable character, taking into account its gravity, including the number of individuals that are or may be affected, the extent to which the environment is or may be damaged or otherwise affected, its irreversibility and the limits on the ability to restore affected individuals or the environment to a situation equivalent to their situation prior to the impact within a reasonable period of time;

‘stakeholders’ means the company’s employees, the employees of its subsidiaries, trade unions and workers’ representatives, consumers; and other individuals, groups, communities or entities whose rights or interests are or could be affected by the products, services and operations of that company, its subsidiaries and its business partners, including the employees of the company’s business partners, trade unions and workers’ representatives, national human rights and environmental institutions, civil society organisations whose purpose includes the protection of the environment, and the legitimate representatives of those individuals, groups, communities or entities;

COMPARISON WITH OTHER EU LEGISLATION REFERENCING DUE DILIGENCE

Due diligence is already referenced in a number of pieces of EU sustainable finance legislation. However, no other introduces mandatory sustainability due diligence requirements, which are (almost) in line with international standards for due diligence set out in the UNGPs and OCED Guidelines.

Regarding sustainability due diligence *requirements*, under:

- [AIFMD delegated act](#), AIFMs must consider sustainability risks and principal adverse impacts (PAIs, if they are considered under SFDR), while applying a “high standard of diligence in the selection and ongoing monitoring of investments” and when they “establish, implement and apply written policies and procedures on due diligence”.
- [UCITS delegated act](#), a management company under UCITS must consider sustainability risks and PAIs (if they are considered under SFDR) when ensuring a “high level of diligence in the selection and ongoing monitoring of investments” and when “exercising due skill, care and diligence when entering into, managing or terminating any arrangements with third parties”.

Regarding sustainability due diligence *disclosure*, under:

- [Article 4 of the SFDR](#), investors are required to consider the PAIs of their investment decisions and to publish and maintain a due diligence statement. This statement must include a description of the actions taken to address adverse impacts, including a description of engagement policies with investees where applicable. Investors must also provide a reference to their adherence to internationally recognised standards for due diligence.
- [Under Article 1\(3\) of CSRD and throughout the ESRS \(see paragraph 61, page 10\)](#), investors must disclose information about their due diligence process, including the identification of material impacts, sustainability risks and opportunities.
- [Article 3g of SRD II](#), investors, on a comply or explain basis, must develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement in their investment strategy. The policy must describe how they monitor investee companies on relevant

matters, including (inter alia) social and environmental impact and corporate governance; conduct dialogues with investee companies; exercise voting rights and other rights attached to shares; and cooperate with other shareholders etc.

	CSDDD	AIFM	UCITS	SFDR	CSRD	SRD II
Requirement to disclose	Y	N	N	Y	Y	Y
Requirement to conduct	Y	Y	Y	N	N	N
Integrating due diligence into their policies and risk management systems	Y	Y	Y	Y	Y	~
Identifying and assessing actual or potential adverse impacts and, where necessary, prioritising potential and actual adverse impacts	Y	Y	Y	Y	Y	~
Preventing and mitigating potential adverse impacts, and bringing actual adverse impacts to an end and minimising their extent	Y	N	N	Y	Y	~
Providing remediation to actual adverse impacts	Y	N	N	N	Y	N
Carrying out meaningful stakeholder engagement	Y	N	N	N	Y	N
Establishing and maintaining a notification mechanism and complaints procedure	Y	N	N	N	Y	N
Monitoring the effectiveness of their due diligence policy and measures	Y	Y	Y	N	Y	N
Publicly communicating on due diligence	Y	N	N	Y	Y	~

There are also recently adopted real economy policies which should complement the CSDDD including:

- [EU critical raw materials act](#) which requires large companies operating in the EU to conduct supply chain audits and develop strategies to mitigate potential supply disruptions of 34 CRMs.
- [EU Deforestation regulation](#) which requires any EU company dealing with in-scope products (palm oil, soya, wood, cocoa, coffee, cattle, and rubber, or derived products) to conduct due diligence to ensure their supply chains do not contribute to deforestation.
- [EU Forced Labour regulation](#) which will apply to all companies, in all sectors prohibiting the sale and export of products made inside or outside the EU in whole or in part with forced labour.