Introduction

On June 1, 2023, after a period of intense negotiations, the EU Parliament adopted its amendments to the proposal for the Directive on Corporate Sustainability Due Diligence (CSDDD) presented by the EU Commission on February 23, 2022. The below is a summary of the most relevant changes introduced by the EU Parliament. Our team has focused on the following elements crucial for large enterprises:

(i) Companies in scope of CSDDD
(ii) Impact in the scope of the due diligence exercise
(iii) Obligation to adopt transition plans
(iv) Timeline for applicability of the new rules

Due to the ongoing legislative process, the below provisions might still change during negotiations between the EU Parliament and Council. Please note that due to significant divisions in the positions of members of Parliament (MEPs), the language of some of the amendments adopted by the EU Parliament may be inconsistent.

Obliged Entities

Main Changes Compared to EU Commission’s Proposal

The EU Parliament retained the applicability of the rules to companies established both in and outside the EU, but (i) modified the thresholds determining the obliged entities, (ii) eliminated the link to high-impact sectors, and (iii) slightly extended the types of contractual relationship to be taken into consideration for the calculation of the average number of employees.

Summary of the Rules Under Amendments of the EU Parliament

With regard to EU companies, the EU Parliament proposes to apply the CSDDD to two categories of companies meeting the following criteria:

<table>
<thead>
<tr>
<th>EU Companies</th>
<th>Net Worldwide Turnover*</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Employees on Average</td>
<td></td>
</tr>
<tr>
<td>1. &gt; 250 employees on average</td>
<td>&gt; €40 million</td>
</tr>
<tr>
<td>2. Company did not reach the thresholds above but is the ultimate parent company of a group that meets the thresholds below:</td>
<td>&gt; €150 million</td>
</tr>
</tbody>
</table>

* In the last financial year for which annual financial statements have been prepared

With regard to non-EU companies, the EU Parliament proposes to apply the CSDDD to, similarly to EU companies, two categories of companies meeting the following criteria:

<table>
<thead>
<tr>
<th>Non-EU Companies</th>
<th>Net Worldwide Turnover*</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Employees on Average</td>
<td></td>
</tr>
<tr>
<td>1. N/A</td>
<td>&gt; €150 million</td>
</tr>
<tr>
<td>≥ 500</td>
<td>≥ €40 million was generated in the EU**</td>
</tr>
</tbody>
</table>

* In the last financial year for which annual financial statements have been prepared
** Including turnover generated by third-party companies with whom the company and/or its subsidiaries has entered into a vertical agreement in the EU in return for royalties

In terms of calculating the company’s average number of employees, not only temporary agency workers, but also other workers in non-standard forms of employment shall be included in the calculations as if they were workers employed directly by the company for the same period of time.

Impact Subject to Due Diligence Obligations

Main Changes Compared to the EU Commission Proposal

The EU Parliament has proposed:

- Limiting due diligence obligations to impacts that are (i) caused, (ii) contributed to, or (iii) directly linked to company operations and certain related entities
- Narrowing the scope of non-subsidiaries whose impact it must monitor, specifying that apart from having established business relationships, it needs to form part of its value chain
Summary of the Rules Under Amendments of the EU Parliament

The EU Parliament’s negotiating mandate lays down the rules on due diligence obligations that companies will have to conduct in relation to:

- Actual and potential human rights adverse impacts
- Environmental adverse impacts

This will be applicable if they caused, contributed to or are directly linked to:

- Their own operations
- Operations of their subsidiaries
- Operations carried out by entities in their value chain whom the companies have a business relationship with

Transition Plans Tackling Global Warming and Steering Toward a Sustainable Economy

Main Changes Compared to the EU Commission Proposal

The EU Parliament extended the obligation to develop a plan aligning a company’s business model and strategy to various sustainability goals to all companies falling within the scope of CSDDD and provided specific elements the plan should contain.

Further, the EU Parliament specified that for companies with more than 1,000 employees on average, part of a director’s variable remuneration must be linked to the company's transition plan.

Finally, Article 26, which would have made company directors legally responsible for due diligence, was rejected by the EU Parliament. As the Council’s general approach was more lenient regarding directors’ duties in the proposed directive, it appears the legal requirements imposed on company directors would be limited after the end of the negotiations.

Summary of the Rules Under Amendments of the EU Parliament

Companies will be obliged to develop and implement a transition plan*** to ensure that their business model and strategy are aligned with the objectives of:

- The transition to a sustainable economy
- Limiting global warming to 1.5 degrees Celsius in line with the Paris Agreement
- Achieving climate neutrality as established in the European Climate Law as regards its operations in the EU, including its 2050 climate neutrality target and the 2030 climate target

This plan shall include a description of:

- The resilience of the company’s business model and strategy to risks related to climate matters
- Opportunities for the company related to climate matters
- Where appropriate, an identification and explanation of decarbonization levers within the company’s operations and value chain, including the exposure of the company to coal-, oil- and gas-related activities
- How the company’s business model and strategy take account of the interests of the company’s affected stakeholders and the impacts of the company on climate change
- How the company’s strategy has been implemented and will be implemented with regard to climate matters, including related financial and investment plans
- The time-bound targets related to climate change set by the company for scope 1, 2 and, where relevant, 3 emissions, including, where appropriate, absolute emission reduction targets for greenhouse gas for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence, and a description of the progress the company has made toward achieving those targets
- A description of the role of the administrative, management and supervisory bodies with regard to climate matters

*** The plan must be compatible with the reporting requirements in Article 19a of Regulation (EU) 2021/0104 (CSRD)

Applicability of the CSDDD Rules

Main Changes Compared to the EU Commission Proposal

The EU Parliament modified the dates the rules enter into effect for different categories of obliged entities. These will be deliberated in the upcoming negotiations between the Council and EU Commission. In any case, once the rules are published, Member States will be required to transpose the rules into national law.
Summary of the Rules Under Amendments of the EU Parliament

(a) Three years from the entry into force of CSDDD

Under the Parliament proposal, new rules will be applicable three years from entry into force of CSDDD to companies that meet the following criteria:

- For two categories of EU companies established*

<table>
<thead>
<tr>
<th>No. of Employees on Average</th>
<th>Net Worldwide Turnover**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. &gt; 1,000 employees on average</td>
<td>&gt; €150 million</td>
</tr>
<tr>
<td>2. Company is the ultimate parent company of a group that meets the thresholds above.</td>
<td>**In the last financial year</td>
</tr>
</tbody>
</table>

*The companies above first need to meet the criteria outlined in the first table (EU Companies) of point 2 “Obliged entities.”

- For two categories of non-EU companies*

<table>
<thead>
<tr>
<th>No. of Employees on Average</th>
<th>Net Worldwide Turnover**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. N/A</td>
<td>&gt; €150 million</td>
</tr>
<tr>
<td>2. Company is the ultimate parent company of a group that meets the financial thresholds above.</td>
<td>** In the financial year preceding the last financial year</td>
</tr>
</tbody>
</table>

*The companies above first need to meet the criteria outlined in the second table (Non-EU Companies) of point 2 “Obliged entities.”

(b) Four years from the entry into force of CSDDD

Under the Parliament proposal, new rules will be applicable four years from entry into force of CSDDD to companies that meet the following criteria:

- For two categories of EU companies*

<table>
<thead>
<tr>
<th>No. of Employees on Average</th>
<th>Net Worldwide Turnover**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. &gt; 500 employees on average</td>
<td>&gt; €150 million</td>
</tr>
<tr>
<td>2. Company is the ultimate parent company of a group that meets the thresholds above.</td>
<td>** In the last financial year</td>
</tr>
</tbody>
</table>

*The companies above first need to meet the criteria outlined in point 1 of the first table (EU Companies) of point 2 “Obliged entities.”

- For two more categories of EU companies*

<table>
<thead>
<tr>
<th>No. of Employees on Average</th>
<th>Net Worldwide Turnover**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. &gt; 250 employees on average</td>
<td>&gt; €40 million</td>
</tr>
<tr>
<td>2. Company is the ultimate parent company of a group that meets the thresholds above.</td>
<td>** In the last financial year</td>
</tr>
</tbody>
</table>

- For two categories of non-EU companies*

<table>
<thead>
<tr>
<th>No. of Employees on Average</th>
<th>Net Worldwide Turnover**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. N/A</td>
<td>&gt; €150 million</td>
</tr>
<tr>
<td>2. Company is the ultimate parent company of a group that meets the financial thresholds above.</td>
<td>** In the financial year preceding the last financial year</td>
</tr>
</tbody>
</table>

*The companies above first need to meet the criteria outlined in the second table (Non-EU Companies) of point 2 “Obliged entities.”

(c) Five years from the entry into force of CSDDD
(by way of derogation; requires notification to supervisory authorities)

- For one category of EU companies*

<table>
<thead>
<tr>
<th>No. of Employees on Average</th>
<th>Net Worldwide Turnover*</th>
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</thead>
<tbody>
<tr>
<td>1. &gt; 250 employees on average</td>
<td>&gt; €40 million but ≤ €150 million</td>
</tr>
<tr>
<td>2. Company is the ultimate parent company of a group that meets the thresholds above.</td>
<td>** In the last financial year</td>
</tr>
</tbody>
</table>

*The companies above first need to meet the criteria outlined in point 1 of the first table (EU Companies) of point 2 “Obliged entities.”
Next Steps

The proposal is currently subject to the inter-institutional negotiations (trilogues).

• If a compromise is reached, it would need to be approved separately by both the EU Parliament and the Council.

• After approval by the EU Parliament and the Council, the directive would be published in the Official Journal of the European Union and would come into force on 20th day after its publication.

• No later than two years from its entry into force (subject, however, to change as negotiations progress), member states would be required to adopt and publish national acts incorporating provisions of the CSDDD into their national legislation.

How We Can Help

As a full-service global law firm, we provide insight at the point where law, business and government meet, giving our clients a voice, supporting their ambitions and achieving successful outcomes. Our multidisciplinary team of more than 1,500 lawyers and public policy experts in over 40 offices across four continents provides unrivaled access to expertise and invaluable connections on the ground. It is a seamless service that operates on any scale – locally or globally. It encompasses virtually every matter, jurisdiction and market. And we place our clients at the center.

We combine sound legal counsel with deep knowledge of our clients’ businesses to resolve their legal, public policy and political challenges. We care about the quality of our services, the success of our clients and the relationships that are forged through those successes. Our client base spans every type of business, both private and public, worldwide. We advise a diverse mix of clients, from Fortune 100 and FTSE 100 corporations to emerging companies, and from individuals to local and national governments.

Leveraging local connections, while exerting global influence, we are commercial, connected and committed. Our Public Policy Practice Group works with clients to make sure they are heard, at the right time, by the right people, with the right message, in Washington DC, Brussels, London, Canberra and other major capitals around the world. Visit our European Public Policy and International Policy webpages for more information on our team and capabilities.

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