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EU and Corporate Sustainability: Meeting the European Standards – CSRD and CSDDD Explained

Abstract

It is more and more obvious that multinational enterprises play a very important role in the international investment. We also believe that through international cooperation the foreign investment climate can be improved, and multinational enterprises can bring a positive contribution to economic, social and environment, minimising the bad effects brought by their operations.

Governments are interested in encouraging responsible trade and investment through responsible business conduct of enterprises, in order to achieve sustainable development outcomes: better jobs, better job conditions, skills development, creation and provision of products and services that improve living conditions, technology for digital and green transitions.

Therefore, through this study, we would like to explain the most recent directives in the area of corporate sustainability and to promote sustainable development in the European Union and worldwide, because we strongly believe that the EU legislation in this direction represents a good example for other continents. Environmental, social and governance (ESG[3]) policy coherence at the international level could foster responsible business conduct and protection of the environment.

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3 | For ESG official ratings, please see: https://tinyurl.com/mr3sax83.

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As expressly provided in the study, we consider that the Directives (EU) 2022/2464 (CSRD) and (EU) 2024/1760 (CSDDD), together with other international guidelines adopted by other international organizations represent the leading international instruments on responsible business conduct.
So time for applying these directives is ticking, but do not worry – we are here for you to help you in navigating the EU rules applicable. Please take into consideration that our study intends to be an overall presentation of the topic, and we could not pretend to be able to exhaust it, especially when in Brussels, it is currently discussed a Proposal for a Directive of the European Parliament and of the Council amending CSRD and CSDDD.
Keywords: companies, corporate sustainability, CSRD, CSDDD, due diligence, ESG, EU law, human rights, Omnibus.

1. Introductory considerations on the imperative of sustainable corporate governance

Corporate governance[4] is a set of rules on which the management system of an enterprise is based, which define its strategic objectives, while identifying the means to achieve them, including the ways in which economic performance is monitored.

Good corporate governance creates transparent practices and controls, helping to build trust among investors, customers, suppliers, community, authorities[5] and all stakeholders[6].

In a corporate context, a sustainability-focused approach implies that enterprises must devote time, energy and human resources to general societal and environmental concerns, since their long-term performance, resilience and even survival may depend on how well they respond to them. An example of this is the duty of care of directors towards their own enterprise, which we see defined not only in relation to short-term profit maximization but also in relation to sustainability concerns, among which we can mention the protection of ecosystems but

4 | According to a Romanian author, "*[t]he term corporate governance designates the system of administration and control of companies, the set of relations of a company with its shareholders, or, in an extended sense, with its partners (creditors, suppliers, customers, employees, administrative authorities). It involves a complex system of rights, obligations, attributions and control measures established with the aim of protecting shareholders and investors, viewed as a collective and ensuring the accountability of administrators and managers towards shareholders*" – please see Țurlea 2011, 55–57.

5 | Please see Investopedia 2025

6 | Please note that "*the notion of stakeholder should be interpreted broadly and include all persons whose rights and interests may be affected by the decisions of the enterprise, such as employees, trade unions, local communities, indigenous peoples, citizens' associations, shareholders, civil society and environmental organisations.*" – point 26 of the European Parliament Resolution of 17 December 2020 on sustainable corporate governance.

also of relevant stakeholders, including employees. Companies must also show a change of attitude in relation to long-term concerns, which implies the integration of sustainability interests and risks, impacts, opportunities and dependencies in their overall strategy.

Therefore, in the aforementioned context, the sustainability strategies of companies aim to identify and address, in accordance with their due diligence obligations, on the one hand, the significant aspects mentioned in the non-financial reporting requirements and, on the other hand, the significant impacts that these companies could have on the environment, climate, society and employees, arising from their business models.

Faced with these concerns to change the behaviour of companies and to direct them towards sustainability, the legislative bodies of the European Union have not remained indifferent, therefore they have constantly sought legislative solutions in response to the numerous international initiatives to promote sustainable corporate governance, but which have proven largely ineffective.

In this regard, a series of legislative initiatives are highlighted that have either corrected existing legislation or innovated in the matter, in an effort to promote a "sustainable approach to corporate governance" that takes into account both the legal obligation of enterprises to provide non-financial information on environmental, social and personnel aspects, but also the obligation to respect human rights, avoiding causing or taking part in the negative impact on human rights through their own activities or directly related to the activities of products or services through business relationships[7].

In its Resolutions of 6 February 2013 on *Corporate social responsibility: responsible and transparent business conduct and sustainable economic growth* and on *Corporate social responsibility: promoting the interests of society and a path towards a sustainable and inclusive economic recovery*, the European Parliament reaffirmed the need for companies to disseminate relevant non-financial information on sustainability, such as social, environmental, labour and human rights factors, in order to increase the trust of business partners in the economic chain and to ensure that consumers have easy access to information on the impact of companies on the society.

In this context, on June 26, 2013, the European Parliament and the Council adopted the Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council

7 | For further information, see paragraph 13 "*Business Responsibilities to Respect Human Rights*" of the UN *Guiding Principles on Business and Human Rights Implementing the Framework – Protect, Respect and Remedy*, Geneva, 2011.

and repealing Directives 78/660/EEC and 83/349/EEC[8] (hereinafter referred to as the "***Accounting Directive***") in response to the need for simultaneous coordination of legislative provisions regarding the presentation and content of annual financial statements and directors' reports for certain types of undertakings, without, however, solving the problem of reporting non-financial information, except to a very small extent.

Although the importance of Directive 2013/34/EU on the business environment was recognized, the European legislator felt the need to amend the aforementioned legislative framework, in the context of which it highlighted the benefits offered to companies by reporting reliable, comparable and relevant information on risks, opportunities and impacts in terms of sustainability.

Thus, on October 22, 2014, it was adopted the Directive 2014/95/EU of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups[9] (hereinafter referred to as the "***Non-Financial Reporting Directive***" or "***NFRD***").

Specifically, the NFRD introduced the obligation for companies to report information on at least environmental, social and personnel aspects, respect for human rights and the fight against corruption and bribery, taking into account reporting areas such as: business model; policies, including due diligence processes; risks and risk management; key performance indicators relevant to the company's activity, etc.

The European Union's unconditional commitment to the "sustainability imperative" was achieved with the adoption on November 22, 2016, by the European Commission of the Communication entitled "*Next steps towards a sustainable European future: European action for sustainability*"[10], a reference document that represents an "extension" at the European Union's level of the Resolution of 25 September 2015 adopted by the United Nations (UN) General Assembly and entitled "*Transforming the world we live in: the 2030 Agenda for Sustainable Development*"[11] (hereinafter the "***2030 Agenda***") and which materializes a "bridge" between the UN sustainable development goals and the sustainability policy framework at the European Union level.

8 | Published in the OJ L 182, 29.06.2013, pp. 19–76, current consolidated version: 28.05.2024. The adoption of the Directive 2013/34/EU was achieved in line with the objective assumed by the European Commission in the Communication entitled "Single Market Act", adopted in April 2011, which proposed to simplify the Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54, paragraph (3), letter (g) of the Treaty on the annual accounts of certain types of companies and the Seventh Council Directive 83/349/EEC of 13 June 1983 based on Article 54, paragraph (3), letter (g) of the Treaty on consolidated accounts (hereinafter the "***Accounting Directives***") as regards financial reporting obligations and to reduce administrative burdens, with particular regard to micro, small and medium-size undertakings (SMEs").

9 | Published in the OJ L 330, 15.11.2014, 1–9, current consolidated version: 05.12.2014.

10 | European Commission 2016

11 | United Nations 2015

In the following years, the Union co-legislator has shown interest in developing reporting requirements for reliable, comparable and relevant non-financial information on sustainability risks, opportunities and impacts, relevant in this regard being the Council Conclusions on the deepening of the Capital Markets Union of 5 December 2019 and the European Parliament Resolution of 17 December 2020 on sustainable corporate governance, inviting at each opportunity the Commission to consider developing a standard for non-financial reporting in the European Union.

Faced with these realities, the European Commission has not remained indifferent, so in December 2020, the President of the European Commission, Mrs. Ursula von der Leyen, presented an ambitious plan to transform Europe into the first climate-neutral continent by 2050.

In recent years, the European legislator has shown a strong commitment to sustainability, especially when it launched the plan called the European Green Deal[12], which reaffirms the Commission's commitment to review the provisions on the reporting of non-financial information in Directive 2013/34/EU. Thus, the Green Deal comprises a package of laws and policies (to be) adopted for enhancing sustainability in three major directions: environmental, social and governance (hereinafter "***ESG***").

Two of these pieces of legislation are the following directives (hereinafter the "***Directives***"):

- **i.** the Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting[13] (hereinafter the "***CSRD***"), and
- **ii.** the Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859[14] (hereinafter the "***CSDDD***").

The effect of the Directives is that the companies covered are obliged to gather all the relevant information and report it accordingly, therefore they cannot anymore cherry-pick the sustainability information they want to share outside the organization.

12 | For more information regarding the Green Deal, please see European Commission 2025, and Zębek 2024, 329–350.

13 | Please see Directive 2022/2464/EU of the European Parliament and of the Council of 14 December 2022 amending Regulation no. 537/2014/EU, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU with regard to corporate sustainability reporting, OJ L 322, 16.12.2022.

14 | Please see Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive 2019/1937/EU and Regulation 2023/2858/EU, OJ L, 2024/1760, 5.7.2024.

In this respect, please note that the Directives are closely interrelated, and they complement each other. In this study, we shall present them and we shall explain how the Directives work together and where they part.

2. What Is the CSRD?

2.1. Background to the adoption of the CSRD

The European Commission report of April 21, 2021 on the review clauses provided for in Directives 2013/34/EU, 2014/95/EU and 2013/50/EU and the related fitness check of the EU framework for public reporting by companies (hereinafter the "***Commission report on the review clauses and the accompanying fitness check***") identified gaps in the implementation of the Directive 2014/95/EU.

Thus, the report highlighted, among others, the common practice of many companies not to disclose significant information on sustainability-related topics, including climate-related information, factors affecting biodiversity. In addition, the European Commission identified in the reference document as specific issues to the topic under review, the limited comparability and reliability of sustainability information.

In the same context, the European Commission found that many companies were not providing users with sustainability information, even though they needed it, because, under the applicable legal framework, those companies were not required to report such information.

In summary, the Commission concluded that there is a pressing need to legislate for a robust and accessible reporting framework, accompanied by effective auditing practices to ensure the reliability of data and to avoid environmental misinformation and double counting.

The issue of "*recalibrating the legislative framework*" beyond the institutional perspective is also based on contextual elements of the economic market, the social, environmental and climate aspects. Thus, in the context of the adoption of the CSRD, there was a significant increase in the demand for sustainability[15] information provided by companies, especially in the field of investments, determined by the financial risks generated by climate change. The level of awareness of citizens and consumer preferences for products subject to sustainability standards also represented a basis for reflection for requesting information.

Last but not least, companies themselves have found that they can benefit from the presence of coherent bases for sustainability reporting, which facilitate

15 | Ensuring consistency with the objectives of the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on December 12, 2015 (hereinafter the "***Paris Agreement***"), the UN Convention on Biological Diversity and the Policies of the Union.

the identification and implicit management of their own risks and opportunities related to sustainability issues.

Therefore, better reporting of sustainability information presented in annual reports will facilitate the main categories of users to achieve their own objectives:

i. *as regards the business partners of enterprises in the value chain*, they will be able to rely on sustainability information to understand and, if necessary, to disseminate the risks and impacts related to this phenomenon within their own value chains;
ii. *in the case of non-governmental organisations and social partners*, the non-rigour of sustainability information will give them the possibility to trigger corporate liability actions regarding their impact on people and the environment.

As underlined in the legal doctrine, "*preambular paragraph 6 of Directive 2022/2464 (CSRD) constitutes the link between the quasi-federal 'EU' type quasi-federal norm and the international or inter-state norm*."[16].

In conclusion, the CSRD is part of the EU strategy to support the transition to a sustainable and climate-neutral economy, amending the Non-Financial Reporting Directive (NFRD) by introducing new standards and requirements for enterprises to disclose information on their ESG impacts and risks.

2.2. General Information Regarding the CSRD

We totally agree that:

> "*Within the framework of the EU Green Deal, the Corporate Reporting Directive (CSRD) emerges as a pivotal EU legislation aimed at improving the quality and consistency of sustainable development reporting for companies operating in the EU. The CSRD is set to replace the Non-Financial Reporting Directive (NFRD), and it has introduced new standards and requirements for companies to disclose information on their environmental, social and governance (ESG) impacts and risks.*"[17].

When discussing about the sustainable development[18] in the European Union, special attention should be given to the CSRD which introduced significant changes to the reporting practices existing in the European Union, and focuses on expanding sustainability reporting.

In January 2023 the CSRD came into effect, becoming mandatory for approximately 50,000 companies operating in the European Union who became obliged to adhere to a new sustainability reporting requirements.

16 | Please see Bobei 2025
17 | Please see Ernst & Young 2025
18 | For more information on sustainable development, please see Csák & Jakab 2012, 50–78, and Jakab 2016, 28–33.

2.3. Personal and Material Scope of the CSRD

If the scope of the NFRD included entities with over 500 employees during the financial year, with the obligation to present some non-financial information, the CSRD provides that the sustainability reporting requirements apply to large enterprises and small and medium-sized enterprises with securities admitted to trading on a regulated market in the European Union as well as to the parent undertakings of large groups, as defined in the Directive 2013/34/EU.

Under the provisions of the CSRD, these sustainability requirements also apply to enterprises regulated by the laws of third countries, which either have securities admitted to trading on a regulated market in the European Union (with the exception of micro-enterprises) or which have activities in the territory of the Union above certain thresholds[19].

Returning to the typologies of enterprises entering within the scope of the CSRD, they can be summarized as follows:

i. ***large undertakings*** within the meaning of Article 3, paragraph (4) of the Directive 2013/34/EU as amended by Article 1, paragraph (4) of the Delegated Directive 2023/2775/EU[20] are defined as those "*undertakings which, on the balance sheet date, exceed the limits of at least two of the following three criteria:*
   (a) balance sheet total: EUR 25 000 000;
   (b) net turnover: EUR 50 000 000;
   (c) *average number of employees during the financial year: 250*";
ii. ***large groups*** within the meaning of Article 3, paragraph (7) of the Directive 2013/34/EU as amended by Article 1, paragraph (2) of the Delegated Directive 2023/2775/EU are "*groups consisting of parent undertakings and subsidiaries to be included in the consolidation which, on a consolidated basis, exceed the limits of at least two of the following three criteria at the balance sheet date of the parent undertaking:*
   (a) balance sheet total: EUR 25 000 000;
   (b) net turnover: EUR 50 000 000;
   (c) *average number of employees during the financial year: 250*";
iii. ***small enterprises*** within the meaning of Article 3, paragraph (2) of the Directive 2013/34/EU as amended by Article 1, paragraph (2) of the Delegated Directive 2023/2775/EU are defined as those "*undertakings which, on the*

19 | Relevant reporting requirements for undertakings governed by the law of a third country are found in Article 4, paragraph (5) of the CSRD, which cross-references Articles 19a and 29a and 40a of the NFRD.

20 | Please see the Commission Delegated Directive 2023/2775/EU of October 17, 2023 amending the Directive 2013/34/EU of the European Parliament and of the Council as regards the adjustment of the size criteria for micro, small, medium-sized and large undertakings or groups, published in the OJ L, 2023/2775, 21.12.2023.

balance sheet date, do not exceed the limits of at least two of the following three criteria:
(a) balance sheet total: EUR 5 000 000;
(b) net turnover: EUR 10 000 000;
(c) *average number of employees during the financial year: 50*";

iv. ***medium-sized enterprises*** within the meaning of Article 3, paragraph (3) of the Directive 2013/34/EU as amended by Article 1, paragraph (3) of the Delegated Directive 2023/2775/EU are defined as those "*undertakings which are not micro or small enterprises and which, on the balance sheet date, do not exceed the limits of at least two of the following three criteria:*
(a) balance sheet total: EUR 25 000 000;
(b) net turnover: EUR 50 000 000;
(c) *average number of employees during the financial year: 250*.".

2.4. Applicability of the CSRD

The date of application of these sustainability reporting requirements varies depending on the specific reporting requirement and the category of undertaking, so the legislator indicates in Article 5 of the Directive 2022/2464/EU, as follows:

(a) from 1 January 2024:

(i) for large undertakings within the meaning of Article 3, paragraph (4) of the Directive 2013/34/EU, which are public-interest entities as defined in Article 2, paragraph (1) of the same Directive and which exceed, on the balance sheet date, an average number of 500 employees during the financial year;

(ii) for public-interest entities[21] as defined in Article 2, paragraph (1) of Directive 2013/34/EU, which are parent undertakings of a large group within the meaning of Article 3, paragraph (7) of the same Directive, which exceed, on the balance sheet date, on the basis of consolidated, the average number of 500 employees during the financial year[22];

(b) from 1 January 2025:

(i) for large undertakings within the meaning of Article 3, paragraph (4) of the Directive 2013/34/EU, other than those referred to in point (a) (i) above;

21 | "Public-interest entities" means, according to Article 2 point 13 of the Directive 2006/43/EC, "*entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions as defined in point 1 of Article 1of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions (16) and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC. Member States may also designate other entities as public-interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees;*".
22 | Please see in this regard, Article 5, paragraph (2), letter (a) of the CSRD.

(ii) for parent undertakings of a large group within the meaning of Article 3, paragraph (7) of the Directive 2013/34/EU, other than those referred to in point (a)(ii) above[23].

(c) from 1 January 2026:

(i) for small and medium-sized undertakings within the meaning of Article 3, paragraphs (2) and (3) of the Directive 2013/34/EU, which are public-interest entities as defined in point (a) of Article 2 of the same Directive and which are not micro-enterprises[24] as defined in Article 3, paragraph (1) of the Directive;

(ii) for small and less complex institutions as defined in point (145) of Article 4(1) of Regulation (EU) no 575/2013[25], provided that they are large undertakings within the meaning of Article 3, paragraph (4) of the Directive 2013/34/EU or small and medium-sized undertakings within the meaning of Article 3, paragraphs (2) and (3) of the same Directive, which are public-interest entities as defined in point (a) of Article 2, paragraph (1) of the Directive and which are not micro-undertakings as defined in Article 3, paragraph (1) of the Directive;

(iii) for insurance undertakings as defined in point (2) of Article 13 of the Directive 2009/138/EC[26] and captive reinsurance undertakings as defined in point (5) of Article 13 of the same Directive, provided that they are large undertakings within the meaning of Article 3, paragraph (4) of the Directive 2013/34/EU or small and medium-sized undertakings within the meaning of Article 3, paragraphs (2) and (3) of the Directive, which are public-interest entities as defined in point (a) of Article 2, paragraph (1) of the Directive and which are not micro-undertakings as defined in Article 3, paragraph (1) of the Directive[27].

Given the relevant texts mentioned above, some clarifications are required, namely, the date of January 1, 2024, is identified as ***a first stage of transposition*** of the provisions of the directive, for large enterprises that were previously subject

23 | Please see in this regard, Article 5, paragraph (2), letter b of the CSRD.

24 | Under Article 3, paragraph (1) of the CSRD as amended by Article 1, paragraph (3) of the Delegated Directive 2023/2775/EU, micro-enterprises are defined as "*undertakings which, at their balance sheet date, do not exceed the limits of at least two of the following three criteria:*
(a) *balance sheet total: EUR 450 000;*
(b) *net turnover: EUR 900 000;*
(c) *average number of employees during the financial year: 10*".

25 | Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012, published in the OJ L 176, 27/06/2013, pp. 1–337, current consolidated version: 01.01.2025.

26 | The Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast), published in the OJ L 335, 17.12.2009, pp. 1–155, current consolidated version: 17.01.2025.

27 | Please see in this regard, Article 5, paragraph (2), letter (b) of the CSRD.

to the Non-Financial Reporting Directive (NFRD), large enterprises listed on a regulated market, credit institutions or large insurance enterprises – all if they have more than 500 employees, as well as for large companies listed on the stock exchange outside the European Union that have over 500 employees. In their case, the reports are due for the first time in 2025.

Also from the text of Article 5, ***a second stage of transposition*** emerges, namely, January 1, 2025, the relevant date for other large undertakings not subject to the Non-Financial Reporting Directive (NFRD) and having more than 250 employees and/or EUR 50 million in turnover and/or EUR 25 million in total assets; the reports are due for the first time in 2026.

January 2026 is another deadline given by the legislator to the business environment, specifically to small and medium-sized enterprises listed on regulated markets, including those listed on stock exchanges outside the European Union. In their case, reports must be submitted for the first time in 2027 (small and medium-sized enterprises can choose not to participate until 2028).

Finally, the provisions of the CSRD apply from 1 January 2028, to enterprises outside the European Union that generate more than EUR 150 million per year in the Union and that have either a branch with a turnover of more than EUR 50 million, or a subsidiary that is a large company or an SME[28] listed on the stock exchange. In their case, reports are due for the first time in 2029[29].

2.5. General Principles and Duties Established by the CSRD

(a) Sustainability requirements. Individual sustainability statement – consolidated sustainability statement

(a1) Pursuant to Article 19a of the CSRD, undertakings must include in a dedicated section of the management report the necessary information on the undertaking's impact on sustainability aspects, adopted in accordance with the sustainability reporting standards starting from the financial year indicated in Article 5, paragraph (2) of the CSRD, for each category of undertaking.

The information is included in the *individual sustainability statement* which must comply with the following requirements:

(i) it must be included in a dedicated section of the undertaking's management report;

28 | By "SME", the European legislator understands "*a micro, small or a medium-sized undertaking, irrespective of its legal form, that is not part of a large group, as those terms are defined according to Article 3(1), (2), (3) and (7) of Directive 2013/34/EU;*" according to Article 3, paragraph (1), letter (i) of the CSDDD.
29 | Please see SAP 2025

(ii) it must be designed in accordance with the Union Sustainability Reporting Standards (ESRS)[30];
(iii) it must be in accordance with a digital taxonomy[31] adopted by an amendment to the Commission Delegated Regulation on the European Single Electronic Format (ESEF) [32] and the management report including the sustainability statement shall be prepared in XHTML format[33];
(iv) it must be subject to assurance by statutory auditors or independent assurance[34] service providers (IASPs).

SMEs (except micro-enterprises) with securities admitted to trading on a regulated market in the EU may waive these requirements until financial years starting before January 1, 2028, provided that they briefly state in the management report why sustainability reporting has not been provided.

In the same context, the undertaking is exempted from the obligation to publish an individual sustainability statement where the information is included in the consolidated sustainability statement of a parent undertaking, with the requirement that certain conditions are met regarding the content of the exempted undertaking's management report and the publication of sustainability information by the parent undertaking[35].

30 | Please see in this regard Article 29b of the CSRD. The European sustainability reporting standards include a set of *sector-agnostic ESRS* adopted by Commission Delegated Regulation 2023/2772/EU as well as *sector-specific ESRS* to be adopted by the European Commission by 30 June 2026; https://tinyurl.com/52dvvsmz.

31 | According to https://www.sap.com/romania/products/sustainability/csrd-guide.html#faq – "*The EU taxonomy defines a general framework for what economic activities qualify as 'environmentally sustainable', based on six objectives: (1) climate change mitigation, (2) climate change adaptation; (3) promoting the sustainable use and production of water and marine resources; (4) transition to a circular economy; (5) pollution prevention and control; and (6) protection and restoration of biodiversity and ecosystems. To qualify as "environmentally sustainable", companies must assess the extent to which their economic activities make a substantial contribution to at least one of the six environmental objectives, do not cause "significant harm" to any of the environmental objectives, comply with robust technical and scientific screening criteria, and comply with minimum social and governance safeguards. The EU taxonomy provides industry-specific criteria and key performance indicators (KPIs) related to turnover, capital expenditure (CapEx) and operational expenditure (OpEx) that non-financial companies must report in relation to their economic activities. By analysing these KPIs, companies can determine the percentage of each KPI that aligns with the EU taxonomy, allowing them to communicate their level of compliance with the taxonomy criteria.*". A "digital taxonomy" is a set of rules to be adopted through an amendment to Commission Delegated Regulation 2019/815, which will establish the way to mark up the information in the sustainability statement that will be included in a management report prepared in XHTML format.

32 | Commission Delegated Regulation 2018/815/EU of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards for the specification of a single electronic reporting format, published in the OJ L 143, 29.5.2019, p. 1–792, current consolidated version: 01.01.2025.

33 | See for more details, Article 29d of the CSRD.

34 | See for more details, Article 34 of the CSRD.

35 | These conditions are set out in Article 19a, paragraph (9) of the CSRD.

As regulated by the legislator in Article 19a, paragraph (9) of the CSRD, large undertakings with transferable securities admitted to trading on a regulated market in the EU, including small and non-complex institutions, captive insurance undertakings and captive reinsurance undertakings and including undertakings from third countries – cannot benefit from this exemption.

(a2) Consolidated sustainability statement. A distinct situation is regulated in Article 29a of the CSRD, which requires a parent undertaking of a large group to report sustainability information at consolidated level on how sustainability aspects affect the development, performance and position of the parent undertaking. And in the specific case of the parent undertaking of a large group, the consolidated sustainability statement must meet the same requirements as identified for the individual sustainability statement.

(b) On reporting standardization and proportional application under the CSRD

Regarding reporting standards, we find relevant information in Article 29b of the CSRD, thus in paragraph 2, the European legislator provides that in order to ensure the quality of the reported information, it must be "*understandable, relevant, verifiable, comparable and represented in a faithful manner*".

Therefore, we can state that, for the detailed assessment of responsible behavior but also for the assessment of the sustainability or performance of an enterprise, information will be taken into account regarding:

(a) environmental factors:
- *(i) "climate change mitigation, including as regards scope 1, scope 2 and, where relevant, scope 3 greenhouse gas emissions;*
- *(ii) climate change adaptation;*
- *(iii) water and marine resources;*
- *(iv) resource use and the circular economy;*
- *(v) pollution;*
- (vi) *biodiversity and ecosystems;*"[36].

(b) social and human rights factors:
- *(i) "equal treatment and opportunities for all, including gender equality and equal pay for work of equal value, training and skills development, the employment and inclusion of people with disabilities, measures against violence and harassment in the workplace, and diversity;*
- *(ii) working conditions, including secure employment, working time, adequate wages, social dialogue, freedom of association, existence of works councils, collective bargaining, including the proportion of workers covered by collective agreements, the information, consultation and participation rights of workers, work-life balance, and health and safety;*

36 | Please see for more information Article 29b, paragraph (2), letter (a) of the CSRD.

(iii) respect for the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, including the UN Convention on the Rights of Persons with Disabilities, the UN Declaration on the Rights of Indigenous Peoples, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the fundamental conventions of the International Labour Organization, the European Convention for the protection of Human Rights and Fundamental Freedoms, the European Social Charter, and the Charter of Fundamental Rights of the European Union;"[37].

(c) governance factors:

(i) "the role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters, and their composition, as well as their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;

(ii) the main features of the undertaking's internal control and risk management systems, in relation to the sustainability reporting and decision-making process;

(iii) business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers and animal welfare;

(iv) activities and commitments of the undertaking related to exerting its political influence, including its lobbying activities;

(v) *the management and quality of relationships with customers, suppliers and communities affected by the activities of the undertaking, including payment practices, especially with regard to late payment to small and medium-sized undertakings."*[38].

In the same context, the European legislator ensures that the information reported by companies meets the needs of users and does not create a disproportionate burden in terms of effort and costs for reporting companies, or for those indirectly involved as part of the value chain of those companies.

Sustainability reporting standards must also take into account the possible difficulties that companies may face in collecting information from actors throughout their value chain, with particular regard to those who are not subject to sustainability reporting requirements.

Last but not least, to minimize the "imbalances" that may occur for companies that already report sustainability information, reporting standards should take into account, where appropriate, "*existing standards and frameworks for sustainability reporting and accounting (...) include the Global Reporting Initiative, the*

37 | Please see for more information Article 29b, paragraph (2), letter (b) of the CSRD.
38 | Please see for more information Article 29b, paragraph (2), letter (c) of the CSRD.

Sustainability Accounting Standards Board, the International Integrated Reporting Council, the International Accounting Standards Board, the Task Force on Climate-related Financial Disclosures, the Carbon Disclosure Standards Board, and CDP, formerly known as the Carbon Disclosure Project"[39].

(c) Standardization of reporting through ESRS (European Sustainability Reporting Standards)

The CSRD provides in Article 29b, paragraph 1, subparagraphs (6) and (7), the use of the European Sustainability Reporting Standards (ESRS)[40], developed by the European Financial Reporting Advisory Group (EFRAG)[41].

Therefore, a first set of ESRS standards was published in the form of the Commission Delegated Regulation 2772/2023/EU of July 31, 2023, supplementing the Directive 2013/34/EU of the European Parliament and of the Council with regard to sustainability reporting standards[42], applicable to all companies falling under the CSRD, regardless of their sector of activity.

The objective of the EU Sustainability Reporting Standards (ESRS) is to specify the relevant information that an enterprise must disclose on its significant impacts, risks and opportunities in relation to environmental, social and governance sustainability aspects.

Specifically, references to the triptych of standard categories can be found in Annex I[43], point 1.1, part of the Delegated Regulation, which are classified into *cross-cutting standards*, *topical standards* (environmental, social and governance – ESG standards) and *sector-specific standards*.

The cross-cutting standards (ESRS1 and ESRS2) set out the disclosure requirements that an enterprise must provide at a general level on all significant sustainability aspects of the reporting areas, namely governance, strategy, management of impacts, risks and opportunities, as well as on indicators and targets.

39 | Please see for more information Recital 43 of the CSRD.

40 | According to the NFRD, entities may rely on national, Union or international frameworks when presenting non-financial information, without being obliged to use a specific reporting framework or format.

41 | According to Recital 39 of the CSRD, "*The European Financial Reporting Advisory Group (EFRAG) is a non-profit association established under Belgian law that serves the public interest by providing advice to the Commission on the endorsement of international financial reporting standards. EFRAG has established a reputation as a European centre of expertise on corporate reporting and is well placed to foster coordination between Union sustainability reporting standards and international initiatives that seek to develop standards that are consistent across the world.*".

42 | Published in the JO L, 2023/2772, 22.12.2023, current consolidated version: 22.12.2023.

43 | Commission Delegated Regulation 2023/2772/EU of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council with regard to sustainability reporting standards.

Topical standards establish indicators and requirements for reporting on environmental, social and governance (ESG) aspects with a focus on comparability and transparency of information, reducing the risk of *greenwashing*[44].

Unlike cross-cutting and topical standards that apply to all companies, regardless of the sectors in which they operate, sector-specific standards are applicable only to companies in a specific sector and target the most relevant topics for that sector, the objective being to identify impacts, risks and opportunities that are likely to be significant for all these companies and that are not or insufficiently covered by thematic standards.

(d) Introduction of the principle of double materiality as the basis for the presentation of sustainability information ("double materiality")

According to Article 19a, paragraph (1) of the CSRD, companies must include in a separate section, within the management report, "*information necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position*".

Thus, they must assess and report the impact of their activities from two perspectives:

(i) the "significance of the impact" (inside-out) impact perspective: this focuses on the effects that the company's activities generate in the short, medium and long term, on people and the environment. It analyzes how the decisions taken at the company level but also its business relationships[45] influence the climate, biodiversity, natural resources, local communities and other social and environmental elements;

(ii) the "financial significance" (outside-in) financial perspective: it concerns the way in which sustainability issues, such as climate change, access to resources or environmental regulations, can generate risks or opportunities "*that have a significant influence or that can be reasonably expected to have a significant influence on the development of the enterprise, its financial position, its financial performance, its cash flows, access to financing or the*

44 | As Acaroglu puts it in her work *"What is Greenwashing? How to Spot it and Stop it" — "when companies invest more time and money on marketing their products or brand as "green" rather than actually doing the hard work to ensure that it is sustainable — this is called greenwashing"*. Also, as the concept is defined in Cambridge Dictionary, greenwashing is designed *"to make people believe that your company is doing more to protect the environment than it really is"*; Many companies use greenwashing as a way to improve public perception of their brand. Disclosure by companies is done in a biased manner to maximize the perception of legitimacy. However, there is a growing number of social and environmental audits that take a stand and expose fraud in the absence of external public oversight and verification. For more details, see Laufer 2003, 253–261, Seele & Gatti 2017, 239–252.

45 | Business relationships include relationships in the upstream and downstream value chain of the undertaking and are not limited to direct contractual relationships". For more details, see point 3.5. (43) of Annex 1 to Delegated Regulation 2772/2023/EU.

cost of capital in the short, medium or long term" [46]. Therefore, financial significance is not limited to issues under the control of the enterprise but takes into account reference information regarding opportunities but also significant risks circumscribed by business relationships outside the scope of consolidation used in the preparation of the financial statements.

(e) Statutory audit and assurance opinion circumscribed by the CSRD

Pursuant to Article 34, paragraph (1) of the Accounting Directive as amended by the CSRD, the financial and sustainability statements of large undertakings, SMEs including parent companies subject to the requirements set out in Article 29a, shall be audited by one or more statutory auditors[47] or audit firms[48] authorised by the Member States to carry out statutory audits pursuant to Article 1 of Directive 2006/43/EC[49] according to which:

> "*This Directive establishes rules concerning the statutory audit of annual and consolidated accounts and the assurance of annual and consolidated sustainability reporting.*".

Specifically, in light of Article 34, paragraph (1) of the Accounting Directive as amended by the CSRD we find provisions according to which statutory auditors or audit firms have the powers to verify the financial statements and the management report, in this regard expressing an opinion on:

(i) "whether the management report is consistent with the financial statements for the same financial year, and

(ii) whether the management report has been prepared in accordance with the applicable legal requirements".

The remit of statutory auditors or audit firms, in the new circular context, therefore also includes ensuring sustainability reporting in order to help ensure

46 | For more details, see point 3.5., subpoint 49 of the Annex I to the Delegated Regulation 2023/2772.

47 | As regulated in Article 2, point (2) of the Directive 2006/43/EC as amended by Directive 2023/2864/EU of the European Parliament and of the Council of 13 December 2023 amending certain directives as regards the establishment and operation of the European single access point: "statutory auditor" means " *natural person who is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits and, where applicable, the assurance of sustainability reporting*".

48 | As regulated in Article 2, point (3) of the Directive 2006/43/EC as amended by Directive 2023/2864/EU of the European Parliament and of the Council of 13 December 2023 amending certain directives as regards the establishment and operation of the European single access point: "audit firm" means "*a legal person or any other entity, regardless of its legal form, that is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits and, where applicable, the assurance of sustainability reporting*".

49 | Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, published in the OJ L 157, 09.06.2006, p. 87, current consolidated version: 09.01.2024.

the coherence of financial and sustainability information, such *professional engagement* contributing to ensuring the information of users on sustainability.

According to Article 34, paragraph (1), second subparagraph, point (aa) of the CSRD, any undertaking subject to sustainability reporting under Articles 19a and 29a must obtain *an assurance opinion on the sustainability reporting*, which must be included in its management report[50].

The assurance opinion must be based on an assurance engagement with reference to the compliance of the sustainability statement with the following requirements: the sustainability reporting requirements set out in the CSRD (including the compliance of sustainability reporting with the ESRS adopted under Articles 29b/29c; the reporting requirements set out in Article 8 of the Taxonomy Regulation[51].

From the study of the text of Article 34 of the CSRD, we conclude that sustainability reporting can be carried out by the following categories of assurance providers:

(a) the statutory auditor who audits the financial statements of the relevant undertaking[52];
(b) a statutory auditor other than the one who audits the financial statements[53];
(c) an Independent Assurance Service Provider "IASP" (where the Member State allows it)[54].

50 | "*The statutory auditor(s) or audit firm(s) shall also: [...] (aa) where applicable, express an opinion based on a limited assurance engagement on the compliance of the sustainability reporting with the requirements of this Directive [...].*".

51 | "*The statutory auditor(s) or audit firm(s) shall also: [...] (aa) where applicable, express an opinion based on a limited assurance engagement as regards the compliance of the sustainability reporting with the requirements of this Directive, including the compliance of the sustainability reporting with the sustainability reporting standards adopted pursuant to Article 29b or Article 29c, the process carried out by the undertaking to identify the information reported pursuant to those sustainability reporting standards, and the compliance with the requirement to mark up sustainability reporting in accordance with Article 29d, and as regards the compliance with the reporting requirements provided for in Article 8 of Regulation (EU) 2020/852;*".

52 | Article 34, paragraph (1), first subparagraph of the CSRD:
"*Member States shall ensure that the financial statements of public-interest entities, medium-sized and large undertakings are audited by one or more statutory auditors or audit firms authorised by the Member States to carry out statutory audits in accordance with Directive 2006/43/EC.*"

53 | Article 34, paragraph (3) of the Accounting Directive:
"*Member States may allow a statutory auditor or an audit firm other than the one carrying out the statutory audit of the financial statements to express the opinion referred to in point (aa) of the second subparagraph of paragraph 1.*".

54 | Article 34, paragraph (4), sixth subparagraph of the Accounting Directive:
"*Where a Member State, pursuant to the first subparagraph, decides to allow an independent assurance service provider to express the opinion referred to in point (aa) of the second subparagraph of paragraph 1, it shall also allow a statutory auditor other than the one carrying out the statutory audit of the financial statements as provided for in paragraph 3*".

From this perspective, the European legislator, in Recital 61 of the CSRD, draws attention to the risk of increasing audit fees or fees related to ensuring sustainability reporting in the context of the new challenges generated by conferring additional tasks on statutory auditors or audit firms located on the relevant European Union market.

Faced with this concern, the European Commission announced that it would create a more open and diversified audit market, precisely in order to guarantee the proper implementation of the CSRD.

(f) Introduction of the single electronic reporting format

The CSRD promotes, under Article 29d, digital reporting using the European Single Electronic Format (ESEF), in order to facilitate access to sustainability data by investors and other stakeholders. This format also supports the objectives of the European Commission to create a single database of ESG information at the European Union level.

Specifically, large enterprises and SMEs including parent companies subject to the requirements set out in Article 29a, except micro-enterprises that do not have securities traded on the markets, are obliged, pursuant to Article 29 paragraphs (1) and (2) of the CSRD, to draw up the management report, respectively the consolidated management report, in the electronic reporting format[55] regulated by the Commission Delegated Regulation 2018/815/EU.

We believe that the obligation to draw up the management report must be analysed by placing it within the scope of the provisions of Article 33, paragraph (1) letters (a) and (b) of the CSRD in the sense that the administrative, management and supervisory bodies of an undertaking, among those established by the legislator in Articles 19a and 29a:

> "[...] *have collective responsibility for ensuring that the following documents are drawn up and published in accordance with the requirements of this Directive and, where applicable, with the international accounting standards adopted pursuant to Regulation (EC) No 1606/2002, with Delegated Regulation (EU) 2019/815, with the sustainability reporting standards referred to in Article 29b or Article 29c of this Directive, and with the requirements of Article 29d of this Directive:*
>
> *(a) the annual financial statements, the management report and the corporate governance statement when provided separately; and*
>
> *(b) the consolidated financial statements, the consolidated management reports and the consolidated corporate governance statement when provided separately.".*

55 | As provided for in Article 3 of the Delegated Regulation 2018/815/EU:
"*Issuers shall prepare their annual financial reports in their entirety in XHTML format". As clarified in recital 2 of the Delegated Regulation "Extensible Hypertext Markup Language (XHTML) does not require specific mechanisms to be rendered in a human-readable format. As it is an electronic reporting format that is not subject to intellectual property rights, XHTML can be used free of charge*".

(g) Integration with financial reporting: **Regarding the terminological versions "non-financial reporting" versus "sustainability reporting", we welcome the intervention of the European legislator who opts for the second version in the CSRD. In this context, we consider that the term "non-financial" is not in line with the practical reality in the sense that it suggests that the reported information has no financial relevance in the context of sustainability. Or such an approach is not viable since such information has increasingly more financial relevance.**

The CSRD also requires that sustainability information be integrated into companies' annual reports, providing an overview of the impact of ESG on financial performance. This approach promotes the integration of sustainability aspects into the overall business strategy.

2.6. What is the Impact of the CSRD?

Accessibility and comparability for investors: the CSRD facilitates comparability of sustainability information across companies. Investors and other stakeholders will have easier access to standardized and verifiable data and will better understand the risks and opportunities that sustainability aspects present for their investments and the impact of those investments on people and the environment.

Impact on the supply chain: the CSRD also emphasizes the responsibility of companies to identify and assess significant sustainability impacts, risks and opportunities in the company's value chain, upstream and downstream. This aspect encourages companies to collaborate with their suppliers and business partners to ensure sustainable practices throughout the value chain, thus promoting sustainability in a more comprehensive way.

Reporting climate and transition risks: the CSRD requires companies to provide information about the risks associated with climate change and the transition to a low-carbon economy.

3. What Is CSDDD?

According to Article 1, paragraph 1 of the CSDDD, this directive establishes rules on:

"*(a) obligations for companies regarding* ***actual and potential human rights adverse impacts 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 the chains of activities*** *of those companies;*

(b) liability for violations of the obligations as referred to in point (a); and

(c) the obligation for companies 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 of the strategy of the company with the transition to a sustainable economy and with the limiting of global warming to 1,5° C in line with the Paris Agreement.".

Therefore, the CSDDD aims to ensure that EU and non-EU large companies to take responsibility for the negative impacts on human rights and environmental issues of their activities. Thus, it creates a uniform EU-wide standard, imposing due diligence duty for large companies on these two aspects. Thus, it requires to identify and address adverse[56] impacts on human rights and the environment within the company's operations, subsidiaries[57] and "*their chains of activities*"[58] (business partners[59]).

3.1. General Information Regarding the CSDDD

Published in the EU's Official Journal on 5 July 2024, it already entered into force on 25 July 2024. But please note that, according to Article 37, paragraph (1) of

56 | Please note that according to Article 3, paragraph (1), letter (c) of the directive, by 'adverse human rights impact' means "*an impact on persons resulting from:*
(i) an abuse of one of the human rights listed in Part I, Section 1, of the Annex to this Directive, as those human rights are enshrined in the international instruments listed in Part I, Section 2, of the Annex to this Directive;
(ii) an abuse of a human right not listed in Part I, Section 1, of the Annex to this Directive, but enshrined in the human rights instruments listed in Part I, Section 2, of the Annex to this Directive, provided that:
– the human right can be abused by a company or legal entity;
– the human right abuse directly impairs a legal interest protected in the human rights instruments listed in Part I, Section 2, of the Annex to this Directive; and
– 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, the characteristics of the economic sector and the geographical and operational context;".
57 | According to Article 3, paragraph (1), letter (e) of the directive, a 'subsidiary' means "*a legal person, as defined in Article 2, point (10), of Directive 2013/34/EU, and a legal person through which the activity of a controlled undertaking, as defined in Article 2(1), point (f), of Directive 2004/109/EC of the European Parliament and of the Council (46), is exercised*".
58 | According to Article 3, paragraph (1), letter (g) of the directive, 'chain of activities' means:
(i) "activities of a company's upstream business partners related to the production of goods or the provision of services by that company, including the design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, products or parts of products and the development of the product or the service; and
(ii) *activities of a company's downstream business partners related to the distribution, transport and storage of a product of that company, where the business partners carry out those activities for the company or on behalf of the company, and excluding the distribution, transport and storage of a product that is subject to export controls under Regulation (EU) 2021/821 or to the export controls relating to weapons, munitions or war materials, once the export of the product is authorised;*".
59 | According to Article 3, paragraph (1), letter (f) of the directive, 'business partner' means "*an entity:*
(i) with which the company has a commercial agreement related to the operations, products or services of the company or to which the company provides services pursuant to point (g) ('direct business partner'); or
(ii) *which is not a direct business partner but which performs business operations related to the operations, products or services of the company ('indirect business partner')*".

the CSDDD, the transposition into national law shall be 26 July 2026 and the directive shall start to apply to companies from 26 July 2027, depending on the size of the companies:

i. for EU companies with more than 5,000 employees on average[60] and generated a net worldwide turnover of more than EUR 1,500 million, as well as for non-EU companies generated a net turnover of more than EUR 1,500 million in the EU: **3 years after the entry into force** (i.e. 26 July 2027);
ii. for EU companies with more than 3,000 employees on average and generated a net worldwide turnover of more than EUR 900 million, as well as for non-EU companies generated a net turnover of more than EUR 900 million in the EU: **4 years after the entry into force** (i.e. 26 July 2028);
iii. for all other companies in scope: **5 years after the entry into force** (i.e. 26 July 2029).

3.2. Personal and Material Scope of the CSDDD

Regarding the *personal scope* of the CSDDD, please be informed that, according to Article 2 of the Directive, this directive is applicable for:

i. **EU-based companies** (approximately 6,000 large limited liability companies and partnerships[61] that have more than 1,000 employees on average, and had more than 450 million EUR net worldwide turnover in the last financial year). It shall also be applicable to ultimate parent companies[62] of a corporate group[63] that meets the thresholds on a consolidated basis, or to franchisors/licensors meeting certain conditions and thresholds[64];

60 | Please note that, according to the consideration 65 of the Preamble, "*for the purposes of this Directive, employees should be understood as including temporary agency workers, and other workers in non-standard forms of employment provided that they fulfil the criteria for determining the status of worker established by the CJEU.*".

61 | This directive shall not be directly applicable to micro, small or medium-size (SMEs) undertakings, but it shall be indirectly applicable if in the chain of activities there shall be such companies. Please note that by SME the European legislator understands "*a micro, small or a medium-sized undertaking, irrespective of its legal form, that is not part of a large group, as those terms are defined according to Article 3(1), (2), (3) and (7) of Directive 2013/34/EU;*" according to Article 3, paragraph (1), letter (i) of CSDDD.

62 | According to Article 3, paragraph (1), letter (r) of the directive, an 'ultimate parent company' means "*a parent company that controls, either directly or indirectly in accordance with the criteria set out in Article 22(1) to (5) of Directive 2013/34/EU, one or more subsidiaries and is not controlled by another company*".

63 | According to Article 3, paragraph (1), letter (s) of the directive, 'group of companies' or 'group' means a parent company and all its subsidiaries.

64 | If (i) they have a common identity, common business concept, uniform business methods applied, (ii) they generate royalties of more than EUR 22,500,000 in the last financial year, and (iii) the company had or is the ultimate parent company of a group that had a net worldwide turnover of more than EUR 80 million in the last financial year.

ii. **non-EU companies** (approximately 900 companies similar to large limited liability companies and partnerships that have more than 450 million EUR net turnover in the EU[65])[66].

Please note that the competent supervisory authority for such companies shall be the Member State in which the company generated most of its net turnover in the EU, and each non-EU company must designate an authorized representative[67].

Regarding the *material scope* of the CSDDD, firstly, please be informed that according to Article 1 paragraph 1 letter (a) of this directive, it is applicable for potential human rights adverse impacts and environmental adverse impacts.

By *human rights adverse impacts*, it should be understood for the human rights recognised by listed global international human rights and labour conventions – please see in Annex, Part I, Section 1 of the directive (e.g. right to life, prohibition of torture, cruel, inhuman or degrading treatment, right to liberty and security, prohibition of arbitrary or unlawful interference with a person's privacy, family, home or correspondence, prohibition of child labour, right to enjoy just and favourable conditions of work, the prohibition of forced or compulsory labour), and for additional human rights recognised by one of the global international conventions, under certain conditions – please see in Annex, Part I, Section 2 of the Directive (e.g. the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social and Cultural Rights; the Convention on the Rights of the Child; the International Labour Organization's core/fundamental conventions);

By *environmental adverse impacts* it should be understood for the exhaustive list of prohibitions and obligations set out in international environment treaties – please see Annex, Part II of the Directive (e.g. harmful soil change, water or air pollution, harmful emissions, excessive water consumption, degradation of land and any other impact on natural resources – that impairs human rights or substantially affects ecosystem services that contribute to human wellbeing), and for the environmental-related human rights – please see Annex, Part I, Section 1, points 15 and 16 of the Directive (e.g. the prohibition of causing any measurable environmental degradation, such as harmful soil change, water or air pollution, harmful emissions, excessive water consumption, degradation of land, or other impact on natural resources, such as deforestation; the right of individuals, groupings and communities to lands and resources and the right not to be deprived of means of subsistence, which entails the prohibition to unlawfully evict or take land, forests and waters when acquiring, developing or otherwise using land, forests and waters, including by deforestation, the use of which secures the livelihood of a person).

65 | Please note that no employee threshold is required for the non-EU companies, because it would be very complicated to check the number, since there are different national rules

66 | The rules for ultimate parent companies of a corporate group and for franchisors/licensors mentioned at EU based companies are also applicable for non-EU companies.

67 | Please see Article 23 of the Directive.

Regarding the *material scope* of the CSDDD, secondly, please be informed that according to Article 3 paragraph 1 letter (g) of this directive, it is applicable for the chain of activities, both upstream and downstream.

The activities of *upstream* business partners (including indirect partners) related to the production of goods or the provision of services, and it applies to activities such as design, extraction, manufacture, development, sourcing, transport and storage of raw materials, products or parts of products, and development of the service.

The activities of *downstream* business partners (including for indirect partners), it applies to activities (are much narrow than upstream business partners) such as: distribution, transport and storage of a product, and only where the business partner carries out those activities "*for the company or on behalf of the company*".

The obligations set up in this directive are not applicable to financial undertakings with respect to the provision of financial services and investment activities, and according to Article 36 paragraph (1):

> "*The Commission shall submit a report to the European Parliament and to the Council on* ***the necessity of laying 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, in line with the objectives of this Directive.*".

3.3. General Principles and Duties Established by the CSDDD

According to the CSDDD, companies can prioritize their actions when they cannot address all impacts, and they have to adopt appropriate measures when identifying and addressing adverse impacts.

In this respect, please note that by `appropriate measures` it should be understood the "*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*" – Article 3, paragraph 1, letter (o) of the CSDDDD.

Of course, that the measures taken by companies must be effective, reasonably available and proportionate, taking into consideration all circumstances of the situation (e.g. level of involvement, ability to influence, risk factors).

We also underline that integrating due diligence into a company's policies and risk management systems, requires drafting a specific due diligence policy according to Article 7 of the CSDDD, in prior consultation with the company's employees and their representatives, which shall contain:

(a) *"a description of the company's approach, including in the long term, to due diligence;*
(b) *a code of conduct describing rules and principles to be followed throughout the company and its subsidiaries, and the company's direct or indirect business partners in accordance with Article 10(2), point (b), Article 10(4), Article 11(3), point (c), or Article 11(5); and*
(c) *a description of the processes put in place to integrate due diligence into the company's relevant policies and to implement due diligence, including the measures taken to verify compliance with the code of conduct referred to in point (b) and to extend that code's application to business partners."*[68].

Moreover, each company shall update its due diligence policy without undue delay, after a significant change occurs, and reviews and, where necessary, updates such policy at least every 24 months, according to Article 7, paragraph (3) of the CSDDD.

Please note that, according to the Directive, "*severity of an adverse impact should be assessed based on the scale, scope or irremediable character of the adverse impact, taking into account the gravity of the 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. Once the most severe and likely adverse impacts are addressed in reasonable time, the company should address less severe and less likely adverse impacts. On the other hand, actual or potential influence of the company on its business partners, the level of involvement of the company in the adverse impact, the proximity to the subsidiary or the business partner, or its potential liability should not be considered relevant factors in the prioritisation of adverse impacts.*"[69].

As part of the obligation of a company to take appropriate measures to identify and assess actual and potential adverse impacts, taking into account relevant risk factors, it shall take appropriate measures to:

(a) map its own operations, those of its subsidiaries and, where related to its chain of activity, those of its business partners, in order to identify general areas where adverse impacts are most likely to occur and to be most severe;
(b) based on the results of the mapping, to carry out an in-depth assessment of its own operations, those of its subsidiaries and, where related to its chain of activities, those of its business partners, in the areas where adverse impacts were identified to be most likely to occur and most severe.

68 | Please see Article 7, paragraph (2), letters (a) – (c) of the CSDDD.
69 | Please see the consideration 44 of the Preamble.

Therefore, please note that addressing negative impacts that have or should have been identified, supposes to prevent "*or where prevention is not possible or not immediately possible, adequately mitigate, potential adverse impacts that have been, or should have been, identified*"[70], and if negative impacts have occurred, to bring them to an end or at least minimize their extent, as well as to provide remedies if they caused the adverse impact or contributed to it through acts or omissions.

The "*appropriate measures*" to prevent or mitigate potential impacts or to bring to an end or minimize the extent of actual impacts could imply the following:

- contractual cascading[71] by seeking contractual assurances from a direct business partner that it will ensure compliance with the company's code of conduct; as regards potential adverse impacts that could not be prevented or adequately mitigated by the appropriate measures, the company may seek contractual assurances from an indirect business partner also, with a view to achieving compliance with the company's code of conduct or a prevention action plan; please note that for the purposes of verifying compliance, the company may refer to independent third-party verification[72], including through industry or multi-stakeholder initiatives;
- prevention/corrective action plan, contractual assurances on fair and reasonable terms, financial investments, modifications to strategies/operations, support for SMEs, collaboration with other entities;
- make necessary financial/non-financial investments in, adjustments or upgrades of, for example, facilities, production or other operational processes and infrastructures;
- make necessary modifications/improvements to, the company's own business plan, overall strategies and operations, including purchasing practices, design and distribution practices;
- in case of actual adverse impact: remediation of actual adverse impacts; please note that 2 where the actual adverse impact is caused only by the company's business partner, voluntary remediation may be provided by the company and it may also use its ability to influence the business partner that is causing the adverse impact to provide remediation[73];
- last resort, in case of severe impacts – temporary suspension or termination of the business relationship: prior to this decision, "*the company shall assess*

70 | According to Article 10, paragraph (1) of the CSDDD.
71 | The European Commission shall adopt guidance about voluntary model contractual clauses by 26 January 2027.
72 | According to Article 3, paragraph (1), letter (h) of the CSDDD, 'independent third-party verification' means "*verification of the compliance by a company, or parts of its chain of activities, with human rights and environmental requirements resulting from this Directive by an expert that is objective, completely independent from the company, free from any conflicts of interest and from external influence, has experience and competence in environmental or human rights matters, according to the nature of the adverse impact, and is accountable for the quality and reliability of the verification;*".
73 | According to Article 12, paragraph (2) of the CSDDD.

whether the adverse impacts from doing so can be reasonably expected to be manifestly more severe than the adverse impact that could not be prevented or adequately mitigated. Should that be the case, the company shall not be required to suspend or to terminate the business relationship, and shall be in a position to report to the competent supervisory authority about the duly justified reasons for such decision."[74]. Please note that in such case, the company is obliged to take steps to prevent, mitigate or bring to an end the impacts of the suspension or termination, and to provide reasonable notice to the business partner concerned and to keep that decision under review. Moreover, if the company decides "*not to temporarily suspend or terminate the business relationship (...), it shall monitor the potential adverse impact and periodically assess its decision and whether further appropriate measures are available.*"[75].

We strongly advise our clients to proceed to meaningful engagement with stakeholders according to Article 13 of the CSDD at certain due-diligence stages, by providing them with relevant and comprehensive information, in order to consult them during the identification of impacts. This consultation shall take place at different stages such as:

(a) "*when gathering the necessary information on actual or potential adverse impacts, in order to identify, assess and prioritise adverse impacts pursuant to Articles 8 and 9;*
(b) when developing prevention and corrective action plans pursuant to Article 10(2) and Article 11(3), and developing enhanced prevention and corrective action plans pursuant to Article 10(6) and Article 11(7);
(c) when deciding to terminate or suspend a business relationship pursuant to Article 10(6) and Article 11(7);
(d) when adopting appropriate measures to remediate adverse impacts pursuant to Article 12;
(e) *as appropriate, when developing qualitative and quantitative indicators for the monitoring required under Article 15.*"[76].

If consultation with stakeholders is not reasonably possible to be carried out, "*companies shall consult additionally with experts who can provide credible insights into actual or potential adverse impacts.*"[77].

According to Article 14 of the CSDDD, each company must establish and maintain a complaints procedure for affected persons to submit complaints (e.g. natural or legal persons affected, trade unions or other workers' representatives, environmental civil society organizations) if they have legitimate concerns

74 | According to Article 10, paragraph (6), second thesis, of the CSDDD.
75 | According to Article 10, final paragraph.
76 | According to Article 13, paragraph (3) of the CSDDD.
77 | According to Article 13, paragraph (4) of the CSDDD.

regarding actual or potential adverse impacts, and must put in place a notification mechanism (including anonymously), in order to monitor the effectiveness of the due diligence measures.

Each company must establish a fair, publicly available, accessible, predictable and transparent procedure for dealing with the complaints, including a procedure for unfounded complaints, and inform the relevant workers representatives and trade unions of that procedure. In order to prevent any form of retaliation, each company shall ensure the confidentiality of the identity of the person or organisation submitting the complaint. But, where such information must be shared, it shall be in a manner that does not endanger the complainant's safety, including by not disclosing that complainant's identity.

If the complaint is well-founded, the adverse impact subject matter of the complaint is deemed to be identified and the company shall take appropriate measures in order to mitigate it.

Moreover, according to Article 14, paragraph (4) of CSDDD, complainants are entitled to:

(a) "*request appropriate follow-up on the complaint from the company with which they have filed a complaint (...);*
(b) *meet with the company's representatives at an appropriate level to discuss actual or potential severe adverse impacts that are the subject matter of the complaint, and potential remediation (...);*
(c) *be provided by the company with the reasons a complaint has been considered founded or unfounded and, where considered founded, with information on the steps and actions taken or to be taken.*".

Please note that according to Article 4 of CSDDD – *Level of harmonization*:

> "*1. Without prejudice to Article 1(2) and (3), Member States shall not introduce, in their national law, provisions within the field covered by this Directive laying down human rights and environmental due diligence obligations diverging from those laid down in Article 8(1) and (2), Article 10(1) and Article 11(1).*
> *2. Notwithstanding paragraph 1, this Directive shall not preclude Member States from introducing, in their national law, more stringent provisions diverging from those laid down in provisions other than Article 8(1) and (2), Article 10(1) and Article 11(1), or provisions that are more specific in terms of the objective or the field covered, in order to achieve a different level of protection of human, employment and social rights, the environment or the climate.*".

3.4. What Are Required Companies to Do? Are They Required to Disengage?

Firstly, in order to identify general areas where adverse impacts are most likely to occur and to be most severe, each company covered by the CSDDD is required to

take appropriate measures to map its own operations, those of its subsidiaries and, where related to its chain of activities, those of its business partners.

Secondly, based on the results of such mapping, each company covered by the CSDDD shall carry out an in-depth assessment of its own operations, those of its subsidiaries and, where related to its chain of activities, those of its business partners, in the areas where adverse impacts were identified to be most likely to occur and most severe.

Thirdly, following identification, where a company is not able to address all identified impacts at the same time, it is required to prioritise among them, taking into account their severity and likelihood.

Fourtly, such company needs to adopt in order to prevent, mitigate and bring to an end adverse impacts the following practical measures:

a) to develop and implement prevention and corrective action plans (only for complex issues);
b) to seek to obtain contractual assurances from a direct business partner, including cascading requirements through the chain of activities;
c) to make the necessary financial or non-financial investments, including in its chain of activities (e.g. upgrading infrastructures);
d) to provide support (such as capacity building) to its SME business partners where necessary in light of the resources, knowledge and constraints of the SMEs;
e) to provide financial support (such as direct financing, low-interest loans, guarantees of continued sourcing, or assistance in securing financing) to its SME business partners where compliance with the code of conduct or the prevention action plan would jeopardise the viability of the SMEs;
f) to adapt its business plan, strategies and operations (including purchasing practices, design and distribution practices);
g) to collaborate with other entities to resolve the issues including with a view to increase its leverage over business partners.

Fiftly, when conducting a due diligence, such company should proceed to sending questionnaires to its significant suppliers and service providers to the extent such supplier or service provider qualifies as `*business partner*` in the meaning of the CSDDD and could have an environmental or human rights impact as result of his relation with the company (`*risk-based approach*`). Moreover, such company should request to such supplier or service provider to confirm his compliance with the `code of conduct`, according to Article 7, paragraph 2, letter (b) of the CSDDD.

Sixtly, according to Article 16, paragraph (1) of the CSDDD, companies **must report on the matters covered by this directive by publishing on their website**

an annual statement[78], in one of the official languages of the Union used in the Member State of the supervisory authority designated, and within a reasonable period of time, but no later than 12 months after the balance sheet date of the financial year for which the statement is drawn up, or, for companies voluntarily reporting in accordance with Directive 2013/34/EU, by the date of publication of the annual financial statements. For non-EU companies, the statement shall also include the information regarding the company's authorised representative as regulated by Article 23 of the CSDDD[79].

According to Article 16, paragraph (2) of the CSDDD, the publication of the annual statement shall not apply to companies that are subject to sustainability reporting requirements in accordance with Article 19a, 29a or 40a of Directive 2013/34/EU, including those that are exempted in accordance with Article 19a(9) or Article 29a(8) of that directive.

Sevently, when all other actions have failed, and where severe impacts are at stake and only where these impacts outweigh the foreseeable negative consequences of disengagement, as a measure of last resort, companies are required **to suspend or terminate a business relationship**.

In this respect, please note that we are looking forward that the European Commission[80] issues guidelines on these aspects, including for the model contract

78 | By 31 March 2027, the Commission (assisted by a committee) shall adopt delegated acts (for an indeterminate period of time from 25 July 2024, according to Article 34 of the CSDDD – but this delegation power can be revoked at any time by the European Parliament or by the Council) by laying down the content and criteria for the reporting. In preparing these delegated acts, the Commission shall, on one hand, consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making, and, on the other hand, shall take due account of, and align them as appropriate with, the sustainability reporting standards adopted pursuant to Articles 29b and 40b of Directive 2013/34/EU. According to Article 34, paragraphs (5) and (6) of the CSDDD, these delegated acts shall be notified, simultaneously, as soon as adopted, to the European Parliament and to the Council, and "*shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.*".

79 | Please note that such authorised representative shall be a natural or legal person that is established or domiciled in one of the Member States where it operates. The designation shall be valid when confirmed as accepted by the authorised representative. The authorised representative or the company shall notify the name, address, email address and telephone number of the authorised representative to a supervisory authority in the Member State where the authorised representative is domiciled or established and, where it is different. Please note that each Member State may designate one or more supervisory authorities, and these authorities shall have the powers to initiate an investigation on its own initiative or as a result of substantiated concerns communicated and to conduct inspections (even on the territory of another Member State, case in which it shall seek assistance from the supervisory authority in that Member State) – for details on the supervisory authorities, please see Articles 24 and 25 of the CSDDD.

80 | According to the consideration 66 of this Directive, "*In order to give companies tools to help them comply with their due diligence requirements through their chains of activities, the Commission, in consultation with Member States and stakeholders, should provide guidance on model contractual clauses,*

clauses that ensure a fair allocation of tasks and avoid burden shifting to business partners.

Thus, please note that in this compliance process, the companies shall be guided by the European Commission which, "*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, (…), in consultation with Member States and stakeholders, the European Union Agency for Fundamental Rights, the European Environment Agency, the European Labour Authority, and where appropriate with international organisations and other bodies having expertise in due diligence, shall issue guidelines, including general guidelines and sector-specific guidelines or guidelines for specific adverse impacts*"[81] that shall include, according to Article 19, paragraph (2) of the CSDDD:

(a) **guidance and best practices on how to conduct due diligence** – shall be made available by **26 January 2027**;
(b) **practical guidance on the transition plan** – shall be made available by **26 July 2027**;
(c) **sector-specific guidance –** no deadline provided by the CSDDD;
(d) **guidance on the assessment of company-level, business operations, geographic and contextual, product and service, and sectoral risk factors**, including those associated with conflict-affected and high-risk areas – shall be made available by **26 January 2027**;
(e) **references to data and information sources available for the compliance** with the obligations provided for in this Directive, **and to digital tools and technologies that could facilitate and support compliance** – shall be made available by **26 January 2027**;
(f) **information on how to share resources and information among companies and other legal entities for the purpose of compliance** with the provisions of national law adopted pursuant to this Directive, in a manner that is **in accordance with the protection of trade secrets** – shall be made available by **26 July 2027**;
(g) **information for stakeholders and their representatives on how to engage throughout the due diligence process** – shall be made available by **26 July 2027**.

which can be used voluntarily by companies as a tool to help fulfil their obligations in Articles 10 and 11. The guidance should aim to facilitate a clear allocation of tasks between contracting parties and ongoing cooperation, in a way that avoids the transfer of the obligations provided for in this Directive to a business partner and automatically rendering the contract void in case of a breach. The guidance should reflect the principle that the mere use of contractual assurances cannot, on its own, satisfy the due diligence standards provided for in this Directive.".

81 | According to Article 19, paragraph (1) of the CSDDD.

Please note that these guidelines shall be made available in all the official languages of the European Union, and shall be periodically reviewed and adapted by the European Commission.

Moreover, the companies shall be helped, on one hand, by the European Commission which will establish *a single helpdesk*[82] through which companies may seek information, guidance and support with regard to fulfilling their obligations, and on the other hand, by the Member States which shall set up and operate individually or jointly *dedicated websites, platforms or portals*[83], in order to provide information and support.

If a supervisory authority identifies a failure to comply with the provisions of national law adopted pursuant to this directive, it shall grant the company an appropriate period of time to take remedial action, if such action is possible, but this shall not preclude the imposition of penalties in accordance with Article 27 or the triggering of civil liability in accordance with Article 29.

According to Article 25, paragraphs (5) and (6) of the CSDDD, the companies must respect the decision of the supervisory authorities, taken directly, in cooperation with other authorities, or by application to the competent judicial authorities, which have at least the power to take decisions engaging the company's civil liability:

(a) order the company to:
  (i) cease infringements by performing an action or ceasing conduct;
  (ii) refrain from any repetition of the relevant conduct; and
  (iii) provide remediation proportionate to the infringement and necessary to bring it to an end;
(b) impose effective, proportionate and dissuasive penalties[84] in accordance with Article 27 of the CSDDD; and
(c) adopt interim measures in the event of an imminent risk of severe and irreparable harm.

In accordance with the national law, each natural or legal person shall have the right to submit substantiated concerns according to Article 26 of the CSDDD or to an effective judicial remedy against a legally binding decision[85] taken by a

82 | According to Article 21 of the CSDDD.
83 | According to Article 20 of the CSDDD.
84 | At least pecuniary penalties [not less than 5% of the net worldwide turnover of the (ultimate parent) company in the financial year preceding that of the decision to impose the fine] or, if a company fails to comply with a decision imposing a pecuniary penalty within the applicable time limit, a public statement indicating the company responsible for the infringement and the nature of the infringement.
85 | According to Article 27, paragraph (5) of the CSDDD, any decision of the supervisory authority concerning penalties related to such infringements shall be published, shall remain publicly available for at least five years and shall be sent to the European Network of Supervisory Authorities (i.e. composed of representatives of the supervisory authorities).

supervisory authority concerning them, pursuant to Article 25, paragraph (7) of the CSDDD.

If companies shall be imposed penalties, please note that in determining their nature and appropriate level, in accordance to Article 27, paragraph (2) of the CSDDD, due account shall be taken of:

(a) the nature, gravity and duration of the infringement, and the severity of the impacts resulting;
(b) any investments made and any targeted support provided;
(c) any collaboration with other entities to address the impacts concerned;
(d) the extent to which prioritisation decisions were made;
(e) any relevant previous infringements by the company of the provisions of national law adopted pursuant to this Directive found by a final decision;
(f) the extent to which the company carried out any remedial action with regard to the subject matter concerned;
(g) the financial benefits gained or losses avoided by the company due to the infringement;
(h) any other aggravating or mitigating factors applicable to the circumstances of the case concerned.

If a company shall not comply with the obligations set out in the CSDDD, its civil liability shall be engaged according to Article 29 of the CSDDD, meaning that it will be held liable for the damage caused to natural or legal persons (who will have the right to full compensation for the damage – and not to overcompensation), if:

(a) 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*, when the right, prohibition or obligation listed in the Annex to the directive is aimed at protecting the natural or legal person; and
(b) as a result of the failure referred to in point (a), damage to the natural or legal person's legal interests that are protected under national law was caused.

Please be informed that a company cannot be held liable if the respective damage is caused only by its business partners in its chain of activities.

Specific procedural rules shall be laid down and ensured by each Member State, pursuant to its national law and to Article 29, paragraph (3) of the CSDDD.

Therefore companies shall have to ensure compliance with the CSDDD, especially that, in accordance with Article 31, "*voluntary implementation, qualifies as an environmental or social aspect that contracting authorities may (...) take into account as part of the award criteria for public and concession contracts, and as an environmental or social condition that contracting authorities may (...) lay down in relation to the performance of public and concession contracts.*".

3.5. Transition Plan for Climate Change Mitigation?

The CSDDD also sets up an obligation for companies to "*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 objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets, and where relevant, the exposure of the company to coal-, oil-, and gas-related activities*"[86]. This transition plan shall be updated every 12 months and shall contain a description of the progress the company has made towards achieving the targets imposed.

Companies are required to include in this transition plan the following:

(a) "*time-bound targets related to climate change for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence and, where appropriate, absolute emission reduction targets for greenhouse gas;*

(b) *a description of decarbonisation levers identified and key actions planned to reach the targets referred, where appropriate, changes in the product and service portfolio of the company and the adoption of new technologies;*

(c) *an explanation and quantification of the investments and funding supporting the implementation of the transition plan for climate change mitigation; and*

(d) *a description of the role of the administrative, management and supervisory bodies with regard to the transition plan for climate change mitigation*"[87].

4. Where Are the CSRD and the CSDDD Similar?

The Directives should be seen as working hand in hand in order to promote at the EU level transparency, responsible conduct, protection of the environment and of human rights.

The Directives are largely based on two international due diligence guidelines based on voluntary action:

i. the **OECD Guidelines for Multinational Entreprises on Responsible Business Conduct**[88]: recommendations jointly addressed by governments to multinational enterprises (i.e. principles and standards of good practice), in order to enhance positive contributions to economic, environment and social progress, and to minimise adverse impacts on matters covered by

86 | According to Article 22, paragraph (1), first thesis of the CSDDD.
87 | According to Article 22, paragraph (1), final thesis of the CSDDD.
88 | Please see OECD 2025, They were introduced in 1976, but have been continuously improved in order to be adapted to the new realities of the society. The 2023 key updates include recommendations for climate change and bio diversity, due diligence to all forms of corruption.

the Guidelines. "*The Guidelines cover all key areas of business responsibility, including human rights, labour rights, environment, bribery and corruption, consumer interests, disclosure, science and technology, competition, and taxation. The 2023 edition of the Guidelines provides updated recommendations for responsible business conduct across key areas, such as climate change, biodiversity, technology, business integrity and supply chain due diligence, as well as updated implementation procedures for the National Contact Points for Responsible Business Conduct.*"[89]. Please note that the observance of these guidelines is voluntary, and not legally enforceable, therefore they do not create new international law obligationss.

ii. the **UN Guiding Principles on Business and Human Rights: Implementing the United Nations `Protect, Respect and Remedy` Framework**[90]: principles applicable to all States and to all business enterprises (transnational and others). Please note that the observance of these principles is voluntary, and not legally enforceable, therefore they do not create new international law obligations.

Therefore, companies that adhered already voluntarily to these guidelines, they should be already on the correct track to compliance.

But this voluntary regime existing at the EU level could not be considered enough, reason for which these Directives were adopted in order to impose a mandatory legal regime, for better results than the ones registered with the voluntary standards regarding the necessary dilligence.

Both Directives have a very similar purpose: to ensure companies' transparency throughout all the supply chain.

5. What Is the Difference Between the CSRD and the CSDDD?

Firstly, on one hand, the CSDDD sets up required due diligence steps that companies must take in order to be compliant. From this perspective, companies that are covered by the CSDDD have to investigate and address how their own operations and supply chains impact human rights and the environment. On the other hand, the CSRD establishes reporting guidelines on how companies should communicate information on their sustainability effort and practices (i.e. the European Sustainability Reporting Standards – ESRS[91]), being considered to revolutionize EU sustainability reporting.

89 | Please see OECD 2025
90 | Please see United Nations 2011
91 | Please see Worldfavor 2024

Secondly, on one hand, the CSDDD envisages a global application, because it does not stop at the EU borders, and it applies to both EU and non-EU companies, covering their actions in Europe and wherever they operate and source globally. On the other hand, the CSRD is EU-centric, designed only for companies within the EU.

Thirdly, on one hand, the main goal of the CSDDD is reducing negative effects of EU businesses, making sure that the companies take real actions to reduce or to stop any harmful effects their activities might have both on human rights, and on environment. On the other hand, the main goal of the CSRD is to ensure consistent and comparable reporting of (enhanced) ESG performance, giving to the stakeholders[92] a relevant view of the corporate sustainability performance, by driving corporate change.

6. Current Discussions in the European Commission Related to the CSRD and to the CSDDD

Unfortunately, taking into the consideration that the CSRD and the CSDDD are currently implemented in a very difficult context due to Russia's war of aggression against Ukraine, the European Commission is now discussing within the Simplification Omnibus package[93] a Proposal for a Directive of the European Parliament and of the Council amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements[94] (hereinafter "***the Proposal***").

According to the Explanatory Memorandum of the Proposal, this Proposal's main aims are:

i. to postpone the entry into application of the CSDDD and of certain provisions of the CSRD;
ii. to reduce the reporting burden and to limit the trickle down of obligations on smaller companies, being expected that the number of companies subject to mandatory sustainability reporting requirements to be reduced by 80% (i.e. large companies with up to 1,000 employees and listed SMEs);

92 | According to Article 3, paragraph (1), letter (n) of the CSDDD, 'stakeholders' means "*the company's employees, the employees of its subsidiaries, trade unions and workers' representatives, consumers and other individuals, groupings, communities or entities whose rights or interests are or could be affected by the products, services and operations of the company, its subsidiaries and its business partners, including the employees of the company's business partners and their trade unions and workers' representatives, national human rights and environmental institutions, civil society organisations whose purposes include the protection of the environment, and the legitimate representatives of those individuals, groupings, communities or entities.*"

93 | European Commission 2025b

94 | Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements, COM(2025) 80 final, 2025/0044 (COD).

iii. to introduce a proportionate standard for voluntary use, based on the VSME standard developed by EFRAG, applicable for companies not subject to mandatory sustainability reporting requirements;
iv. to extend and strengthen the value-chain cap;
v. for the Commission to issue targeted assurance guidelines by 2026 (instead of the obligation to adopt standards for sustainability assurance by 2026);
vi. to introduce an "opt-in" regime "*where large undertakings with more than 1000 employees on average (i.e. undertakings that have more than 1000 employees and either a turnover above EUR 50 million or a balance sheet above EUR 25 million) and a net turnover not exceeding EUR 450 million which claim that their activities are aligned or partially aligned with the EU Taxonomy shall disclose their turnover and CapEx KPIs and may choose to disclose their OpEx KPI. This "opt-in" approach will eliminate entirely the cost of compliance with the Taxonomy reporting rules for large undertakings with more than 1000 employees on average (i.e. undertakings that have more than 1000 employees and either a turnover above EUR 50 million or a balance sheet above EUR 25 million) and a net turnover not exceeding EUR 450 million which do not claim that their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. In addition, this proposal provides more flexibility by allowing these undertakings to report on activities that meet certain Taxonomy technical screening criteria without meeting all of them. Such reporting on partial alignment can foster a gradual environmental transition of activities overtime, in line with the aim to scale up transition finance.*"[95];
vii. to adopt a delegated act to revise the first set of ESRS in order to simplify and to clarify;
viii. to postpone by two years the entry into application of the reporting requirements for the second wave and of the third wave of the CSDDD regulated companies.

Taking in view the EU procedure to adopt legislative acts and that Member States should transpose the CSDDD by 26 July 2026 (therefore it has not yet been transposed or applied by companies), the European Commission is inviting the "co-legislators to reach rapid agreement on the proposed postponement".

Considering the purpose of this present study, we shall not insist any more on this Proposal and we shall address the intentions of the Commission and the text of this Proposal in a future study, depending on the evolution of the negotiations at the EU level.

95 | Ibid 4–5.

7. Final Remarks

In the EU, the directives, and "*particularly the CSRD, demonstrate a holistic approach to ESG Reporting by encompassing all listed companies, including small and medium-sized enterprises*"[96], ensuring comprehensive coverage.

Even though in the legal doctrine, the ESG is sometimes considered to be the "result of a brainwave"[97] (in Romanian "*găselniță*"), "after the failure of CSR policies", we strongly believe that "*responsibility of companies regarding the negative effects that can arise in their value chains over human rights and environment are not a recent concern at the international level, being a consequence of the reflection over more than a decade associated with innovations in corporate structures, the development of technology and the expanding boundaries of where and how these companies can operate globally, and dedicated, as the literature shows, to identifying ways to bridge the gap between the scope and impact of economic actors, on the one hand, and the capacity of companies to companies their negative consequences, on the other hand.*"[98].

In a nutshell, both Directives are crucial for the EU's strategy for sustainable corporate governance: the CSDDD requires to EU and non-EU companies to be environmental and social responsible in their operations, while the CSRD ensures that EU companies are transparent about it. Certain companies falling under the material and personal scope of both Directives must apply them together.

We also propose to the company directors to "*think of the CSDDD as a toolkit for companies. It not only helps them fulfill their environmental and human rights duties, but also fits together with what CSRD asks for in sustainability reporting. This connection lets companies show the full picture of how they're being sustainable and responsible in their company.*"[99]. For instance, the CSRD is considered to be, by certain specialists, "*a game changer for sustainability reporting*"[100] or "*the biggest and the boldest sustainability reporting directive ever adopted*"[101].

Member States[102], international organizations together with the companies covered by the Directives should take additional steps to protect ESG, especially to combat the climate change and the environmental degradation. Special attention should be given to the use of artificial intelligence in implementing the principles of ESG regarding social sphere.

96 | Behl & Korwani 2024.
97 | Please see Rizoiu 2023, 139.
98 | Please see Nemes & Fierbinteanu 2023, 106.
99 | Please see Wordfavor 2025.
100 | Please see Ernst & Young 2025
101 | Please see Wordfavor 2023
102 | Regarding the EU Member States responsibility for the inadequate application of EU legislation, please see Dimitriu 2023 145–171.

In the European Union the clock is ticking having in mind that the European Green Deal challenges the Member States together to strive to be the first climate-neutral continent, and we can hardly wait to see the results in practice: on one hand, for companies to kickstart their CSRD and/or CSDDD compliance, and on the other hand, for the European authorities to unmask the wrongdoers and to make they pay the heavy fines! Based on the general duty of care due by each company director, the director must take into consideration the consequences of his/her decisions on a short, medium and long-term regarding human rights, and environment.

The intervention of the European legislator is beneficial, in our view, because, on the one hand, it ensures harmonisation and legal certainty among the players, and, on the other hand, it mitigates the unfair competitive advantages of any companies registered in third countries resulting from lower protection standards (i.e. social and environmental dumping in international trade).

We totally agree that, "*de lege ferenda,* article 22 CSDDD (i.e. Combating climate change) provides for climate-specific due diligence obligations for certain companies, which the management will then also be bound to comply with by virtue of their duty of legality."[103]. But things must be done properly, company law must be reformed accordingly, and finally, no more tolerance for the ESG violations, especially that nowadays there is an exponential growth in ESG investments[104]!

103 | Please see Weller, Hößl & Seemann 2025

104 | For instance, please note that in 2020 there were about $40.5 trillion of global assets under management s(AUM) in ESG funds – please see Popa Tache 2022.

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