



European Commission publishes FAQs on CSDDD

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On 25 July, the European Commission published a set out frequently asked questions (FAQs) on the Corporate Sustainability Due Diligence Directive (CSDDD).

On 25 July 2024, the European Commission published a set out [frequently asked questions](#) on the Corporate Sustainability Due Diligence Directive (the “CSDDD”). The FAQs cover topics such as:

- the CSDDD’s entry into force and application;
- the scope of, obligations under, and enforcement of, the CSDDD;
- burden limitation and safeguards; and
- the impacts of the CSDDD.

In this memo we set out six of the main points covered by the CSDDD.

Entry into Force/Application

The FAQs confirm that the CSDDD must be transposed by the Member States by 26 July 2026, and that it will have a phased application based on company size and turnover, with full application stretching from 2027 to 2029.

Financial Undertakings

As discussed in depth during the negotiation of the CSDDD, the chain of activities for regulated financial undertakings will not include downstream clients which receives an undertaking’s products and services. The FAQs confirm that financial services provided in the context of relationships with clients are excluded from the material scope of the CSDDD, which will be reviewed within the first two years after its entry into force. The FAQs also note that financial undertakings are required to adopt and put into effect a climate transition plan, including absolute emission reduction targets for scope 3 greenhouse gas emissions, where appropriate.

Third-Country Undertakings

Both EU and non-EU undertakings are in scope of the CSDDD and will be subject to the same obligations thereunder. However, there are two important differences in the criteria for EU and non-EU undertakings:

- **Turnover:** for EU undertakings, worldwide turnover is taken into account, whereas for non-EU undertakings, only EU-generated turnover is relevant; and

- **Employees:** the employee criterion will not be used for non-EU undertakings, on the basis that such undertakings may not have to report on employee numbers and in any event may have a different definition of employee.

The Chain of Activities

The CSDDD's concept of "chain of activities" covers both upstream and downstream activities (noting the derogation for financial undertakings described above). The FAQs give a helpful illustration of these activities, in the context of manufacturing.

Risk-based Due Diligence

The FAQs give some very helpful guidance on risk-based due diligence, and state that it means that undertakings can prioritise their actions when they cannot address all impacts and that they have to adopt **appropriate measures** when identifying and addressing adverse impacts.

"Appropriate measures" are defined in the CSDDD as measures "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".

The FAQs state that from a practical perspective this requires undertakings to:

- map their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners, in order to identify **general areas** where adverse impacts are most likely to occur and to be most severe; and
- based on the results of such mapping, carry out an in-depth assessment of their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners, in the areas where adverse impacts were identified to be most likely to occur and most severe.

This will allow undertakings to prioritise identified impacts based on their severity and likelihood, when it is not possible to address them all at the same time.

Burden Limitation, Safeguards and Supports

The FAQs acknowledge that compliance with the CSDDD will impose a cost burden on in-scope entities, but notes also that there are measures in place to (i) reduce the burden on such entities; (ii) safeguard their business partners; and (iii) support companies in complying with the CSDDD. For example:

- Burden Limitation:
 - the risk-based approach referred to above; event, mitigate, bring to an end or minimise identified;
 - termination of the business relationship is only required as a last resort and under strict conditions; and

- the CSDDD does not create and new reporting obligations for companies already reporting under the CSRD.
- Safeguards in place for companies' business partners:
 - in-scope entities are required to focus information requests on business partners at the level of the chain of activities where the adverse impact is most likely to occur, which relieves other business partners of unnecessary requests; and
 - in-scope entities are required to provide targeted and proportionate support to their SME business partners, which under certain conditions includes financial support.

Support with Compliance

The FAQs state that the Commission will issue guidance and other supports, including hotlines, training and funding.