

CSDDD and CSRD

Spot the Difference!

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This briefing is the fourth in a series on the Corporate Sustainability Due Diligence Directive (CSDDD), where BLOMSTEIN addresses the key aspects that (in)directly affect businesses both within and outside the EU, explores its interplay with the existing legislation in Germany (LkSG) and examines interactions with other recently adopted EU legislation (e.g., EUDR and CSRD) which partially set overlapping obligations.

In today's briefing we explore the main differences and points of convergence of the CSDDD and the Corporate Sustainability Reporting Directive (CSRD), particularly which companies might be affected by both and how to reconcile them.

CSRD: Setting the Stance for Transparency in Corporate Sustainability

Complementary to the CSDDD (see our briefing for an overview [here](#)), the CSRD establishes comprehensive reporting standards for companies on environmental, human rights and governance matters. These requirements address not only business risks and opportunities arising from social and environmental issues (inward perspective) but also the impact of business activities on people and the environment (outward perspective) – a double materiality perspective. The aim is to increase transparency related to business impact and exposure to sustainability factors; ensuring that investors and other stakeholders have access to understandable, comparable, and reliable information.

In-scope companies must include information related to sustainability matters in their management reports, such as:

- **Business model and strategy:** provide an overview of risk resilience, opportunities, impact, and the implementation of the strategy.
- **Objectives and actions:** report on actions related to sustainability matters (inc. greenhouse gas emission reduction targets) and progress made, including description of specific policies and of the due diligence processes adopted.
- **Impact assessment:** report on actual or potential adverse impacts related to the company's operations and value chain, including actions to monitor, mitigate, remediate or end such impacts, and the results of these actions.
- **Risk Management:** describe the main sustainability-related risks for the company and how they are managed.

- **Governance and Expertise:** report the role of administrative, management, and supervisory bodies in sustainability matters, including their expertise and skills to address these matters; and information on the existence of sustainability-linked incentive schemes to members of these bodies.

To ensure the quality and reliability of the reports, they are required to be published with an assurance opinion from an authorized third-party, such as a statutory auditor or an accredited independent assurance service provider, in accordance with assurance standards set by the Commission.

Companies Affected

Both acts apply to European and non-European companies based on the company's size (i.e., turnover and/or employees). However, the thresholds of the CSRD are lower, meaning that it has a significantly broader scope. While it is estimated that around 50,000 companies will fall under the scope of the CSRD, this number falls to 5,500 under the CSDDD, nearly 10%.

For EU companies:

- (1) The CSDDD applies directly to companies with > 1,000 employees and a worldwide turnover of > EUR 450 million.
- (2) The CSRD applies directly to all companies listed on EU regulated markets (except micro-undertakings); and companies that meet two of the following conditions: (i) turnover > EUR 50 million; (ii) assets > EUR 25 million; (iii) employees > 250.

For non-EU companies:

- (1) The CSDDD applies directly to companies with an EU turnover > EUR 450 million.
- (2) The CSRD applies directly to a non-EU company that has an EU turnover > EUR 150 million and at least one branch with turnover > EUR 40 million or a subsidiary meeting same thresholds applied for EU companies (see above).

Parent companies subject to the CSDDD and/or CSRD can generally fulfill the obligations therein on behalf of their in-scope subsidiaries, provided this ensures effective compliance. Under the CSRD, this means that group-level consolidated reports should adequately disclose relevant differences between the risks and impacts of the group and those of the individual subsidiaries, if applicable. Notably, if the parent company is not located in the EU, the consolidated report must comply with the CSRD or equivalent standards.

What Does Sustainability Cover?

Both acts address sustainability matters comprehensively, but the CSDDD provides a more explicit delineation of rights and prohibitions.

The CSDDD refers to specific environmental (e.g., use and disposal of waste and hazardous substances, biodiversity conservation, climate change mitigation) and human rights (e.g., labour-related rights) aspects set out in international treaties (for an overview, see our briefing [here](#)).

The CSRD, on the other hand, addresses not only environmental protection and human rights but also governance factors.

- **Environment:** These include climate change mitigation and adaptation, water and marine resources, resource use and the circular economy, pollution, and biodiversity.
- **Human Rights:** These encompass equal treatment and opportunities, employment and inclusion of people with disabilities, adequate working conditions, and adherence to a wide range of international human rights treaties.
- **Governance:** These involve the level of corporate engagement with sustainability issues (e.g., the role of management and supervisory bodies), internal control and risk management systems, business ethics and corporate culture, as well as the management and quality of relationships with customers, suppliers, and the community.

Complementary Approaches: Due Diligence and Liability vs Reporting and Transparency

The CSDDD and the CSRD share the common goal of enhancing corporate accountability on sustainability matters across the entire value chain. However, they have complementary focuses.

The CSRD aims to enhance corporate transparency on these matters, enabling stakeholders such as investors and civil society actors to make informed decisions and take appropriate actions. For investors, comprehensive reports provide a deeper understanding of the risks and opportunities posed by sustainability issues to their investments, as well as the effects these investments have on people and the environment. For civil society actors, comprehensive sustainability reporting helps monitor business activities and hold them accountable for their adverse actions and impact. The CSRD addresses the information gap.

In contrast, the CSDDD sets the stance on corporate responsibility with regard to how they address the impacts on human rights and the environment. It mandates companies

to conduct extensive due diligence to identify, prevent, mitigate and end/minimize potential and actual adverse impacts. Additionally, it establishes a framework for liability for those who intentionally or negligently fail to comply.

While the CSRD promotes transparency without enforcing specific rules on how corporate sustainability should take place, the CSDDD requires companies to engage in robust due diligence processes. These distinct yet complementary approaches are designed to work in harmony. While the CSRD sets the script to capture a company's sustainability journey, the CSDDD acts as the director, ensuring the company takes concrete steps to address sustainability risks.

In practice, the due diligence and climate change mitigation requirements set by the CSDDD must be incorporated to the sustainability reports under the CSRD. Also, companies that outline a transition plan for climate change mitigation in their CSRD reports are considered to have fulfilled the CSDDD's obligation to adopt such a plan.

Key Takeaways

The CSDDD and the CSRD together represent significant frameworks demonstrating the EU's commitment to enhance sustainability-driven corporate governance, a crucial pillar of the European Green Deal. The extensive obligations set forth by both directives require companies to develop comprehensive due diligence programs that are fully integrated across their value chains, alongside detailed corporate sustainability reports. Despite the extended implementation period, it is crucial to initiate discussions both within the company and with external stakeholders to streamline efforts toward an integrated compliance strategy.

BLOMSTEIN will continue to closely monitor and assess the developments and practical application of the CSDDD. If you have any questions on the topic and the CSRD, [Dr. Roland Stein](#), [Bruno Galvão](#) and [Carolina Vidal](#) will be happy to assist you.

Stay tuned: In our next CSDDD briefing - to be published around 25 June - we will explore the interaction with the upcoming Forced Labour Regulation.
