

EUROPEAN COMMISSION'S PROPOSED

Corporate Sustainability Due Diligence Directive (CSDDD) to assess, report and remediate environmental and social impact

What is it?

The European Commission's proposed Corporate Sustainability Due Diligence Directive (CSDDD) is aimed at ensuring that companies take responsibility for their environmental and social impact, and implement measures to reduce any negative effects. But what are the actual requirements of this proposed directive, and how will they impact businesses in the EU?

First and foremost, the Corporate Sustainability Due Diligence Directive (CSDDD) will require companies to assess their own environmental and social impact, and take measures to reduce any negative effects. This means that businesses will need to conduct due diligence on their supply chains to identify potential risks and ensure that their products and services are produced in a sustainable and responsible manner.

Additionally, the proposed directive will require companies to establish grievance mechanisms to address complaints and

concerns raised by stakeholders, including workers, consumers, and communities impacted by their operations. This will help to ensure that companies are held accountable for any negative impacts they have on people and the planet.

But that's not all. The Corporate Sustainability Due Diligence Directive will also require companies to publish reports detailing their environmental and social impact, as well as the measures they have taken to address any negative effects. This will help to promote transparency and accountability, and enable stakeholders to make informed decisions about the companies they choose to do business with.



Who does it apply to?

The Proposed Directive is expected to cover 13,000 EU companies and 4,000 non-EU companies. EU companies with more than 500 employees on average and more than €150 million in net worldwide turnover, as well as other EU companies with more than 250 employees and more than €40 million in net worldwide turnover and active in certain sectors are covered by the proposal.

For non-EU companies, only the turnover generated in the EU counts towards meeting thresholds. Small and medium-sized businesses may be indirectly affected if they are part of a company's

supply chain which falls within scope of this proposal.

Directors of EU companies have been tasked with creating and maintaining a framework for due diligence which considers the views of stakeholders and community advocates. A key part of this duty is to ensure decisions made in good faith also consider short-term, mid-range, and long-term effects on human rights issues, climate change initiatives, and environmental sustainability (known as 'duty of care'). It's up to directors then report back to their board regarding progress towards these goals.

What are the penalties?

The penalties for non-compliance with the proposed European Commission's Corporate Sustainability Due Diligence Directive have not yet been finalized, as the directive is still being reviewed and negotiated by the European Parliament and the Council. However, it is likely that companies that fail to comply with the requirements outlined in the directive will face penalties and other enforcement actions.

The penalties could potentially include fines, suspension or withdrawal of licens-

es, contracts, or other authorizations, as well as exclusion from public procurement processes. Additionally, companies that fail to comply may face reputational risks, which could lead to a loss of customers and investors.

It's important to note that the proposed directive includes provisions for liability and access to justice for victims of harm caused by business activities. This means that companies that cause harm may be held liable for damages, and victims may

What are the penalties? (CONT)

have access to legal remedies and compensation.

Overall, while the exact penalties for non-compliance are still being determined, it is clear that companies that fail

to comply with the proposed directive will face consequences. It's in the best interests of businesses to take steps to ensure compliance with the directive and implement sustainable and responsible business practices.

What are businesses required to do?

1



Integrate due diligence into policies (Art. 5)

Companies will need to integrate due diligence into their overall business policies and strategies to ensure that they consider the impact of their operations on human rights, the environment, and good governance. FRDM works with Global 500 companies assisting with their supply chain compliance and due diligence efforts.

2

Identify adverse impacts (Art. 6)

Companies will be required to identify and assess potential risks and negative impacts on human rights, the environment, and good governance throughout their supply chain and operations. FRDM monitors risk across your entire supply in compliance with the CSDDD using sophisticated mapping technology and risk tools determining the salience and proximity of risk to your business.



3



Prevent potential adverse impacts (Art. 7)

Companies must take proactive measures to prevent and mitigate potential risks and negative impacts on human rights, the environment, and good governance. FRDM works with your supplies to gauge policy maturity and provide guidance on remediation.

4

Terminate actual adverse impacts (Art. 8)

Companies must take appropriate and effective measures to terminate any negative impacts on human rights, the environment, or good governance that are identified through their due diligence processes. FRDM helps you identify non-compliant supplier and sub-suppliers across your entire supply chain.



5

**Establish complaints procedure (Art. 9)**

Companies must establish and implement an effective and accessible complaints procedure to receive and address concerns raised by stakeholders, including workers, consumers, and communities impacted by their operations.

6

Monitor effectiveness (Art. 10)

Companies must monitor the effectiveness of their due diligence processes and take appropriate measures to improve them over time. FRDM tracks progress over time and archives all risk events and remediations inside an intuitive dashboard.



7

**Public communications (Art. 11)**

Companies will be required to publish regular reports on their environmental and social impact, including information on the measures they have taken to address any negative effects identified through their due diligence processes. FRDM offers in depth reporting features to fit your company's reporting requirements.