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**NOTE**

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| From: | General Secretariat of the Council |
| To: | Permanent Representative Committee |
| No. prev. doc.: | ST 10292/25 + ADD 1 |
| No. Cion doc.: | COM(2025) 81 final |
| Subject: | Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements<br>- Mandate for negotiations with the European Parliament |

## I. BACKGROUND

1. On 26 February 2025, the Commission put forward inter alia a first 'Omnibus' package, aiming to simplify existing legislation in the fields of sustainability, including the so-called proposal on the 'stop-the-clock' mechanism, postponing the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements. At the same time, the package contained the 'content' proposal aiming at simplifying the framework of corporate sustainability reporting and due diligence requirements by reducing reporting and related administrative burdens as well as limiting the trickle down of obligations on smaller companies.

2. The ‘stop-the-clock’ text was adopted by the Council on 14 April 2025 and published on 16 April 2025 as Directive (EU) 2025/794, thanks to an extremely swift procedure applied with the utmost priority by both co-legislators.

3. Discussions on the proposed Directive simplifying corporate sustainability reporting and due diligence requirements in the Antici Group on Simplification (AGS) have advanced steadily and the guidance provided by the Permanent Representatives Committee on 28 May 2025 helped to clarify positions on the outstanding issues.

## II. STATE OF PLAY

4. On 18 June 2025, the Permanent Representatives Committee examined the fifth Presidency compromise text[1]. Following that discussion, the Presidency has further adjusted a limited number of open issues to take account of delegations’ concerns, as set out in the revised compromise text in the Annex to this note. Additions to the fifth Presidency compromise proposal are indicated in **bold and underlined,** deletions are marked as ~~strike-through~~.

**Key compromise elements**

5. Due to the change of scope for companies covered under Directive (EU) 2022/2464 (CSRD), the review clause in Article 6 is adapted concerning a possible extension of the scope in order ensure adequate availability of corporate sustainability information. Consequently, a new recital 19aa has been added.

6. Recital 21a concerning identification and assessment of actual and potential adverse impacts has been slightly amended in order to ensure better textual alignment with Article 8.

7. In relation to transition plan for climate change mitigation in Directive (EU) 2024/1760 (CS3D), the compromise text reflects the efforts of the Presidency to strike a balance between the request by several delegations to retain obligations under Article 22 of CS3D and the request by several other delegations for the deletion of that article:

   – The obligation for companies is limited to the adoption of a transition plan for climate change mitigation (Article 25);

   – Supervisory authorities are empowered to advise the companies on design and implementation of those plans (Article 25).

[1] Doc. 10292/25 + ADD 1

Consequential changes are included in relevant recitals.

8. The Presidency's overall compromise proposal therefore aims to better balance the simplification ambition and the EU's climate goals and thus reduce burdens and achieve the relevant policy objectives in a more proportionate way.



## III. CONCLUSION

9. The Permanent Representatives Committee is therefore invited to agree on a mandate with regard to the proposed Directive, as set out in the annex to this note, and to invite the Presidency to conduct negotiations with the European Parliament on the basis of this mandate.

10. In accordance with the approach to legislative transparency endorsed by Coreper on 14 July 2023, and in full consistency with Regulation (EC) 1049/2001 and the Council's Rules of Procedure, the text of the mandate thus agreed will be made public unless the Permanent Representatives Committee objects.

2025/0045 (COD)

Proposal for a

**DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements**

(Text with EEA relevance)



THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 50 and 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee[2],

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) In its Communication of 11 February 2025 entitled ‘A simpler and faster Europe: Communication on implementation and simplification’,[3] the European Commission set out a vision for an implementation and simplification agenda that delivers fast and visible improvements for people and business on the ground. This requires more than an incremental approach and the Union must take bold action to achieve this goal. The Commission, the European Parliament, the Council, Member States’ authorities at all levels and stakeholders need to work together to streamline and simplify EU, national and regional rules and implement policies more effectively.

[2] OJ C […], […], p. […].

[3] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 11 February 2025, ‘A simpler and faster Europe: Communication on implementation and simplification’, COM/2025/47 final.

(2) In the context of the Commission's commitment to reduce reporting burdens and enhance competitiveness, it is necessary to amend Directives 2006/43/EC[4], 2013/34/EU[5], (EU) 2022/2464[6] and (EU) 2024/1760 of the European Parliament and of the Council[7], whilst maintaining the policy objectives of the European Green Deal[8], and the Sustainable Finance Action Plan[9].

(2a) Given the change of the scope of undertakings being subject to sustainability reporting, it would be disproportionate to require that audit firms that wish to carry out assurance of sustainability reporting are subject to requirements for approval equivalent to the ones for the approval of audit firms that carry out audits of financial statements. Such approval requirements relate to natural persons who carry out the work on behalf of the audit firm, the majority of the voting rights held by the audit firm and the majority of the members of the administrative or management body of the audit firm. Audit firms that wish to carry out assurance of sustainability reporting should only need to ensure they designate at least one key sustainability partner who must satisfy the approval conditions for this purpose and who is approved as statutory auditor in the Member State concerned.



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4 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 (OJ L 157, 9.6.2006, p. 87, ELI: http://data.europa.eu/eli/dir/2006/43/oj).

5 Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 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 and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19, ELI: http://data.europa.eu/eli/dir/2013/34/oj).

6 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 (OJ L 322, 16.12.2022, p. 15, ELI: http://data.europa.eu/eli/dir/2022/2464/oj).

7 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 (OJ L, 2024/1760, 5.7.2024, ELI: http://data.europa.eu/eli/dir/2024/1760/oj).

8 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions of 11 December 2019, '*The European Green Deal*', COM/2019/640 final.

9 Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions of 8 March 2018, '*Action Plan: Financing Sustainable Growth*', COM/2018/097 final.

(3) Article 26a(1) of Directive 2006/43/EC requires Member States to ensure that statutory auditors and audit firms carry out the assurance of sustainability reporting in compliance with limited assurance standards to be adopted by the Commission. Article 26a(3) of that Directive requires the Commission to adopt those standards by 1 October 2026. Undertakings have raised concerns on the work carried out by the assurance providers and have expressed the need for flexibility in addressing specific risks and critical issues identified in the areas of sustainability assurance. To enable the Commission to take account of those concerns, it should be given more flexibility in adopting those standards. In any case, the Commission will issue targeted assurance guidelines by 2026 that clarify the necessary procedures that assurance providers are to perform as part of their limited assurance engagement before adopting the standards by delegated act.

(4) Article 26a(3), second subparagraph, of Directive 2006/43/EC empowers the Commission to adopt standards for reasonable assurance by 1 October 2028, following an assessment of feasibility. To avoid an increase in costs of assurance for undertakings, the requirement to adopt such standards for reasonable assurance should be removed.

(4a) Article 45 of Directive 2006/43/EC requires a Member State to register third-country auditors and audit entities issuing assurance reports on the sustainability information of third country entities admitted to trading on a regulated market of that Member State. The conditions for that registration concern the requirements to be met by the majority of the members of the administrative or management body of the third-country audit entity, the requirements to be met by the third country-auditor, the assurance standards to be used and the publication of an annual transparency report by the third-country audit entity. Moreover, Member States are to subject registered third-country auditors and audit entities to their systems of oversight, their quality assurance systems and their systems of investigation and penalties. Taking into account the current international landscape on the regulation of sustainability reporting and its assurance, and considering that the registration is necessary for the validity of those assurance reports within the Union, requiring to meet those registration conditions in the first years of application of the sustainability assurance regime would be disproportionate. In addition, the supervision of registered third-country auditors and audit entities is dependent on the existence of equivalence and/or adequacy decisions. Therefore, for a transitional period, simplified registration conditions and an exemption from supervision should be introduced for third country auditors and audit entities issuing assurance reports on the sustainability information of third country entities admitted to trading on a regulated market of a Member State. The simplified registration is possible on condition that certain information is provided to the competent authorities of the Member State and they should decline registration if the information is not provided.

(5) Article 19a(1) of Directive 2013/34/EU requires large undertakings and small and medium-sized undertakings with securities admitted to trading on an EU regulated market, excluding micro-undertakings, to prepare and publish sustainability reporting at individual level. The Report on *The future of European competitiveness* identified the sustainability reporting framework as "a major source of regulatory burden", concluding in this respect that there was a "need to better consider the size of companies affected by regulation". To reduce the reporting burden on undertakings and to achieve the objectives of reporting in a more proportionate way, the obligation to prepare and publish sustainability reporting at individual level should be reduced to undertakings with a net turnover exceeding EUR 450 000 000 and an average of more than 1 000 employees during the financial year, as defined in the national measures transposing Directive 2013/34/EU. This more targeted scope, which should also apply as regards groups and issuers, will ensure that the burden of mandatory sustainability reporting is limited to the largest undertakings, groups and issuers. Those undertakings, groups and issuers are the most consequential in terms of environmental, social and governance (ESG) impacts. At the same time, they are the most able to absorb the costs implied by ESG reporting. Undertakings, groups and issuers below this threshold remain free to carry out voluntary sustainability reporting, a possibility that is significantly facilitated by the new sustainability reporting standards for voluntary use introduced by this Directive.

**[…]**

(7) Article 1(3) of Directive 2013/34/EU specifies that credit institutions and insurance undertakings that are large undertakings or small and medium-size undertakings – excluding micro-undertakings – with securities admitted to trading on an EU regulated market are subject to the sustainability reporting requirements set out in that Directive, regardless of their legal form. Considering that the scope of individual sustainability reporting should be reduced to undertakings with a net turnover exceeding EUR 450 000 000 and an average of

more than 1 000 employees during the financial year, that reduction in scope should also apply to credit institutions and insurance undertakings.

(8) The European Financial Stability Facility (EFSF) established by the EFSF Framework Agreement is subject to the sustainability reporting requirements set out in Directive 2013/34/EU, although it is exempted from the sustainability reporting regime set out in Directive 2004/109/EC of the European Parliament and of the Council[10] pursuant to Article 8 of that Directive. Despite it being a large undertaking incorporated in a legal form listed in Annex I to Directive 2013/34/EU, the EFSF has a mandate - i.e. to safeguard financial stability in the Union by providing temporary financial assistance to Member States whose currency is the euro – that is largely similar to the one of the European Stability Mechanism (ESM), which is not subject to sustainability reporting requirements. For the EFSF to benefit from the same treatment as the ESM as regards sustainability reporting, and for consistency with the exemption regime provided by Directive 2004/109/EC, the EFSF should be exempted from the regime on sustainability reporting provided by Directive 2013/34/EU.

(8a) Article 19(1), fourth subparagraph, of Directive 2013/34/EU requires large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2, that is the undertakings which are subject to mandatory sustainability reporting, to report information on key intangible resources and their role in the undertaking's business model and value creation. In order to ensure consistency with the new scope in Article 19a(1) and to achieve the objectives of such reporting in a more proportionate way, this requirement should only apply to undertakings that have a net turnover exceeding EUR 450 000 000 and have more than 1 000 employees.

(9) Article 19a(3) of Directive 2013/34/EU requires undertakings to report information about the undertaking's own operations and about its value chain. However, nothing in that Directive requires value chain undertakings to provide any information to reporting undertakings nor to subject to assurance any information that they may provide. In practice,

[10] Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 39, 31.12.2004, p. 38, ELI: http://data.europa.eu/eli/dir/2004/109/oj).

reporting undertakings obtain information about their value chains through various means, including contractual arrangements and buying power. There is evidence that undertakings in the value-chain, including small and medium-sized enterprises, are receiving disproportionate requests for information from reporting undertakings, notwithstanding the limitations specified in Article 29b(4) of that Directive. It is therefore necessary to limit the burden for smaller undertakings in the value chain that are not required to report on their sustainability. Reporting undertakings should be prohibited from requiring information exceeding certain limits from undertakings in their value chain that have up to 1 000 employees on average during the financial year. At the same time, undertakings in their value chain that have up to 1 000 employees on average during the financial year should be given a statutory right to refuse to provide information exceeding those limits. To ensure the effectiveness of that right and to avoid placing a burden on smaller companies to proactively assess whether that right applies, reporting undertakings which choose to request information exceeding those limits should be required to ensure that undertakings in their value chain that have up to 1 000 employees on average during the financial year are informed of which extra information is requested and of their statutory right to decline to provide it. To ensure proportionality, the scope of this 'value-chain cap' is limited in the following ways. First, it does not prohibit the sharing of information on a voluntary basis, such as information that is commonly shared among undertakings in a given sector. Second, it does not affect any obligation that may exist, whether contractually or under other Union or national law, to provide information that falls within the scope of the value-chain cap. Third, the value-chain cap only applies to information gathering done for the purpose of reporting sustainability information as required by Directive 2013/34/EU. It does not affect Union requirements to conduct a due diligence process or information gathering made for any other purpose, such as for the reporting undertaking's risk management. Undertakings reporting on their value chain in accordance with those limitations should be deemed to comply with the obligation to report on their sustainability. Assurance providers should prepare their assurance opinion respecting the right of undertakings in the value chain that have up to 1 000 employees on average during the financial year to decline to provide to the reporting undertakings any information that goes beyond the information specified in the standards for voluntary use by undertakings that are not required to report on their sustainability. For that purpose, the Commission should be empowered to adopt a delegated act to provide for sustainability reporting standards for voluntary use by undertakings that are not required to report on their sustainability. Those standards should be proportionate to, and relevant for, the capacities and the characteristics of those undertakings and to the scale and complexity of their activities. Those standards should also specify, where possible, the structure to be used to present that information. Those standards should, to the greatest extent possible, take account of Regulation (EC) 1221/2009 of the European Parliament and the Council (EMAS Regulation). It is important that reporting undertakings only request information from undertakings in their value chain insofar as necessary. In particular, it is important that they request less information than that specified in the standards for voluntary use if they do not need all the information in those standards.

(9a) There are circumstances in which undertakings should, subject to assurance, be permitted to omit certain information when applying the sustainability reporting requirements. Those circumstances should be developed and clarified. First, in certain cases the disclosure of sustainability information could seriously prejudice the commercial position of an undertaking. In such cases, the undertaking should be allowed to omit such information, provided that specific conditions for the omission are met to ensure that such cases remain exceptional and that the interests of the users of reported sustainability information are also adequately protected. In this context, the fact that undertakings not established in the Union are not required to report the same information does not constitute a serious prejudice to the commercial position of the undertaking. Second, undertakings should be able to omit information such as intellectual capital, intellectual property, know-how or the results of innovation that would qualify as a trade secrets as defined in Directive (EU) 2016/943 of the European Parliament and of the Council. Third, undertakings should be able to omit classified information. Finally, there may be information that should be kept confidential for reasons not relating to commercial prejudice, trade secrecy or classification. In particular, undertakings should be free to omit information that is to be protected from unauthorised access or disclosure according to other Union legislation or national law. Moreover, the sustainability reporting requirements should not oblige undertakings to disclose information which would be prejudicial to the privacy of natural persons or to the security of natural or legal persons. This is especially important in the current geopolitical context. Defence undertakings in particular need discretion to withhold sensitive information the disclosure of which could be prejudicial to their own security or to that of other legal persons, including Member States.

(10) Article 29c(1) of Directive 2013/34/EU allows small and medium-sized undertakings with securities admitted to trading on an EU regulated market, small and non-complex institutions and captive re(insurance) undertakings, to report sustainability information in accordance with the limited set of standards to be adopted by the Commission. Considering that small and medium-sized undertakings with securities admitted to trading on an EU regulated market should be excluded from sustainability reporting, the empowerment for the Commission to adopt delegated acts to provide for sustainability reporting standards for those small and medium-sized undertakings should be removed. References to Article 29c should accordingly be deleted from that Directive.

(11) Article 19a(7) of Directive 2013/34/EU allows small and medium-sized undertakings with securities admitted to trading on an EU regulated market to opt out from sustainability reporting for the first two years of application of those requirements. Considering that small and medium-sized undertakings should be excluded from the sustainability reporting, the provision allowing for the two-year opt out should be removed.

(12) Article 29a(1) of Directive 2013/34/EU requires parent undertakings of large groups to prepare and publish sustainability reporting at consolidated level. To reduce the reporting burden on those parent undertakings, the scope of that obligation should be reduced to parent undertakings of groups with a net turnover exceeding EUR 450 000 000 and an average of more than 1 000 employees, on a consolidated basis during the financial year as defined in the national measures transposing Directive 2013/34/EU.

(12a) Directive (EU) 2022/2464 requires undertakings in scope to report sustainability information according to mandatory European Sustainability Reporting Standards (ESRS). In July 2023 the Commission adopted a first set of ESRS. To deliver swiftly on the simplification and streamlining of sustainability reporting the Commission will adopt a delegated act as soon as possible, and at the latest six months after the entry into force of this directive, to revise the first set of ESRS to substantially reform the standards by: (i) removing datapoints deemed least important for general purpose sustainability reporting, (ii) prioritising quantitative datapoints over narrative text and (iii) further distinguishing between mandatory and voluntary datapoints. The revision will clarify provisions that are deemed unclear. It will improve consistency with other pieces of EU legislation, including financial services legislation. It will provide clearer instructions on how to apply the materiality principle, to ensure that undertakings are only required to report material information, and to reduce the risk that assurance service providers inadvertently encourage undertakings to report information that is not necessary or dedicate excessive resources to the materiality assessment process. It will simplify the structure and presentation of the standards. It will further enhance the already very high degree of interoperability with global sustainability reporting standards. If appropriate in light of the goal of reducing burden and providing clarification, it will also introduce provisions regarding the specific situation of financial sector undertakings. It will also make any other modifications that may be considered necessary considering the experience of the first application of ESRS.

(13) Article 29 (1), third subparagraph, Directive 2013/34/EU empowers the Commission to adopt sector-specific reporting standards by way of delegated acts, with a first set of such standards to be adopted by 30 June 2026. To avoid an increase in the number of prescribed datapoints that undertakings should report, that empowerment should be removed. Depending on the demand from undertakings subject to sustainability reporting requirements of the Directive 2013/34/EU, the Commission could support undertakings by providing sector-specific guidance that illustrates and facilitates the application of ESRS within a given sector, including guidance on the conduct of the double materiality assessment aimed at identifying sustainability matters likely to be material for a typical undertaking operating in that sector. Where appropriate, relevant international standards may be taken into account.

(14) Article 29b(4) of Directive 2013/34/EU requires sustainability reporting standards to not specify disclosures requiring undertakings to obtain from small and medium-sized undertakings in their value chain any information that goes beyond the information to be disclosed pursuant to the sustainability reporting standards for small and medium-sized undertakings with securities admitted to trading on an EU regulated market. Considering that small and medium-sized undertakings with securities admitted to trading on an EU regulated market should be excluded from sustainability reporting, and in order to reduce the reporting burden for smaller undertakings in the value chain that are not required to report on their sustainability, the sustainability reporting standards should not specify disclosures requiring undertakings to obtain from undertakings in their value chain that have up to 1 000 employees on average during the financial year any information that goes beyond the

information to be disclosed pursuant to the sustainability reporting standards for voluntary use by undertakings that are not required to report on their sustainability.

(14a) Until the Commission adopts sustainability reporting standards for voluntary use, undertakings that report sustainability information voluntarily may do so according to the Commission recommendation 2025/XXX, which is based on the voluntary standard for SMEs (VSME) developed by EFRAG. To ensure continuity and proportionality, the sustainability reporting standards for voluntary use adopted by the Commission as a delegated act should be based on that recommendation.

(15) Article 29d of Directive 2013/34/EU requires undertakings subject to the requirements in Articles 19a and 29a of that Directive to prepare their management report, or consolidated management report, where applicable, in the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) 2019/815[11] and to mark up their sustainability reporting, including the disclosures provided for in Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council[12], in accordance with the electronic reporting format to be specified in that Delegated Regulation. To provide clarity to undertakings, it should be specified that until such rules on the marking up are adopted by way of that Delegated Regulation, undertakings should not be required to mark-up their sustainability reporting.

11 Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143, 29.5.2019, p. 1, ELI: http://data.europa.eu/eli/reg_del/2019/815/oj).

12 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13, ELI: http://data.europa.eu/eli/reg/2020/852/oj).

(16) Article 33(1) of Directive 2013/34/EU specifies that the members of the administrative, management and supervisory bodies of an undertaking have collective responsibility for ensuring that certain documents are drawn up and published in accordance with the requirements of that Directive. To provide flexibility for Member States who may have different legal systems, they should be given an option to provide that the collective responsibility of the members of the administrative, management and supervisory bodies of an undertaking for compliance with the requirements of Article 29d of that Directive as regards the digitalisation of the management report is limited to its publication in the single electronic format, including the marking up of the sustainability reporting therein.

(17) Pursuant to Article 40a(1), fourth and fifth subparagraph of Directive 2013/34/EU, a subsidiary in the Union of a third-county undertaking that generates a net turnover of more than EUR 150 million in the Union, or, in the absence of such subsidiary, a branch in the Union that generates a net turnover of more than EUR 40 million, is to publish and make accessible sustainability information at the group level of the third-country parent undertaking. To reach closer alignment with the criteria used to define which undertakings are in the scope of Directive (EU) 2024/1760, the net turnover threshold for the third-country undertaking should be raised from EUR 150 000 000 to EUR 450 000 000. Furthermore, for reasons of consistency and burden reduction, the size for a subsidiary undertaking and a branch to be in scope of Article 40a should be adjusted. The size of the subsidiary undertaking should be that of a large undertaking, whilst the net turnover criteria for the branch should be raised from EUR 40 000 000 to EUR 50 000 000, to align with the net turnover threshold for large undertakings.

(18) Article 5(2), first subparagraph, of Directive (EU) 2022/2464 specifies the dates by which the Member States are to apply the sustainability reporting requirements set out in Directive 2013/34/EU, with different dates depending on the size of the undertaking concerned. Considering that the scope of the individual sustainability reporting requirements should be reduced to include only undertakings with a net turnover exceeding EUR 450 000 000 and more than 1 000 employees on average during the financial year, and that the scope of the consolidated sustainability reporting requirements should be reduced accordingly, the criteria for determining the dates of application should be adjusted, and the reference to small and medium-sized undertakings with securities admitted to trading on an EU regulated market should be removed.

(18a) It is important to ensure legal certainty regarding this reduction in scope, especially regarding the material scope of the relevant provisions at each point in time. Accordingly, Article 5(2), first subparagraph, point (a) of Directive (EU) 2022/2464, on the first set of undertakings subject to that Directive, should be amended to limit its application to three financial years from 1 January 2024. For financial years starting on or after 1 January 2027, Article 5(2), first subparagraph, point (b) of Directive (EU) 2022/2464, on the second set of undertakings subject to that Directive, should apply. Accordingly, undertakings that fall within point (a) but outside of point (b), as amended by this Directive, will fall outside of the scope of this Directive as of financial years starting on or after 1 January 2027. Nevertheless, with a view to reducing burden as swiftly as possible, Member States should be able to exempt such undertakings from reporting obligations as regards the financial years beginning between 1 January 2025 and 31 December 2026. Member States are required to implement this derogation in a way that ensures compliance with the principle of legal certainty.

(19) Article 5(2), third subparagraph, of Directive (EU) 2022/2464 specifies the dates by which the Member States are to apply the sustainability reporting requirements set out in Directive 2004/109/EC, with different dates depending on the size of the issuer concerned. Considering that the scope of the individual sustainability reporting requirements should be reduced to include only undertakings with a net turnover exceeding EUR 450 000 000 and more than 1 000 employees on average during the financial year, and that the scope of the consolidated sustainability reporting requirements should be reduced accordingly, the criteria for determining the dates of application should be adjusted, and the reference to small and medium-sized undertakings should be removed.

(19a) It is important to ensure legal certainty regarding this reduction in scope, especially regarding the material scope of the relevant provisions at each point in time. Accordingly, Article 5(2), third subparagraph, point (a) of Directive (EU) 2022/2464, on the first set of issuers subject to that Directive, should be amended to limit its application to three financial years from 1 January 2024. For financial years starting on or after 1 January 2027, Article 5(2), third subparagraph, point (b) of Directive (EU) 2022/2464, on the second set of issuers subject to that Directive, should apply. Accordingly, issuers that fall within point (a) but outside of point (b), as amended by this Directive, will fall outside of the scope of this Directive as of financial years starting on or after 1 January 2027. Nevertheless, with a view to reducing burden as swiftly as possible, Member States should be able to exempt such issuers from reporting obligations as regards the financial years beginning between 1 January 2025 and 31 December 2026. Member States are required to implement this derogation in a way that ensures compliance with the principle of legal certainty.

**(19aa) Due to the change in the scope of undertakings subject to sustainability reporting obligation, the review clause included in Article 6(1) should be adjusted. In order to ensure that the Union's objective of enabling the disclosure of sufficient data on corporate sustainability, the Commission should assess the appropriateness of the scope of Directive (EU) 2022/2464 as amended by this Directive. It is appropriate for that review to be based on, in particular, an analysis of the needs for sustainability data to mobilise private investments towards EU Green Deal objectives on the one hand, and the influence of sustainability reporting on the competitiveness of the EU undertakings on the other hand. It is also important that the review take into account the best practices developed and the actual level of preparedness of undertakings to provide sustainability disclosures under that Directive. To this end and in the light of the proportionality principle, when considering the possible extension of the scope, it is important that the Commission consider whether to balance this extension with a possibility to establish a simplified reporting regime.**

(19b) In the context of this and other ongoing and future initiatives, including simplification initiatives, it is important to ensure coherence between the sustainability information that undertakings must disclose, on the one hand, and the information that financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088 need in order to comply with those obligations, on the other. This Directive does not remove the obligation for the sustainability reporting standards adopted under Article 29b(1) of Directive 2013/34/EU to require disclosure, by the undertakings and parent undertakings within scope, of at least the latter information. Maintaining coherence more broadly, including as regards undertakings outside of the scope of the mandatory sustainability reporting standards, will require careful attention from the Commission and co-legislators in the context of these initiatives. This is particularly important with EU's financial services legislation, which concerns many institutions that have to fulfil their obligations arising from the corporate sustainability reporting directive, the sustainable finance regulation and sector-specific financial services legislation.

(19c) Directive (EU) 2024/1760 does not aim to provide a comprehensive framework for the protection of human rights or the environment in the context of companies' operation. Instead, it aims to harmonise national law concerning general due diligence obligations on such companies, liability in that respect, and the adoption and implementation of transition plans, thereby ensuring that companies active in the internal market contribute to sustainable development. Due diligence processes are complementary to, rather than replacing, the specific legal obligations that operate to protect, directly or indirectly, human rights or the environment. Those specific legal obligations include, amongst many other examples, labour, working time and equality law; law concerning workplace health and safety, including the handling of hazardous materials; construction standards and building zoning laws; and law regulating product or food safety. All such legal obligations fall outside of the scope of this Directive, unless and insofar as they lay down general due diligence obligations. To increase legal certainty and to ensure that the necessary regulatory freedom is explicitly preserved, Article 1 of Directive (EU) 2024/1760 should be amended to further clarify the limits of the Directive's scope.

(19d) Directive (EU) 2024/1760 imposes wide-ranging due diligence obligations on relevant companies. Because of this, its scope is limited to particularly large companies. Nevertheless, the Report on *The future of European competitiveness* identified the due diligence framework as "a major source of regulatory burden", concluding in this respect that there was a "need to better consider the size of companies affected by regulation". Furthermore, this Directive can best achieve its objectives as regards the very largest companies, which have the greatest influence over their value chain, the greatest impact on human rights and the environment, and the greatest resources to implement due diligence diligently. For all of these reasons, and in line with the crucial objective of simplification, the scope of this Directive should be reduced. In particular, the threshold of EUR 450 000 000 in Article 2(1) and 2(2) should be raised to EUR 1.5 billion, and the threshold of 1 000 employees in Article 2(1) should be raised to 5 000 employees.

(20) Article 4(1) of Directive (EU) 2024/1760 prohibits Member States from introducing, in their national law, provisions within the field covered by the Directive laying down human rights and environmental due diligence obligations diverging from those laid down in Article 8(1) and (2), and Articles 10(1) and 11(1) of that Directive. To ensure that Member States do not go beyond that Directive and to avoid the creation of a fragmented regulatory landscape

resulting in legal uncertainty and unnecessary burden, the full harmonisation provisions of Directive (EU) 2024/1760 should be expanded to additional provisions regulating the core aspects of the due diligence process. That includes, in particular, the identification duty, the duties to address adverse impacts that have been or should have been identified, and the duty to provide for a complaints and notification mechanism. At the same time, Member States should continue to be allowed to introduce more stringent provisions on other aspects or provisions on due diligence that are more specific in terms of the objective or the field covered. The latter concept includes provisions of national law regulating specific adverse impacts or specific sectors of activity, in order to achieve a different level of protection of human, employment and social rights, the environment or the climate. To increase legal certainty and to ensure necessary regulatory freedom, in particular as regards emerging specific risks for which due diligence obligations may be important, this concept should be further clarified.

It should be clarified that the concept includes due diligence obligations concerning specific products, services, or situations. Conversely, national rules going beyond a specific objective or field, for instance by regulating the due diligence process in general or regulating due diligence in a whole sector, do not fall within this concept.

(21) Article 5 of Directive (EU) 2024/1760 obliges Member States to ensure that large companies above a certain size conduct risk-based human rights and environmental due diligence. Article 8 requires those companies to take appropriate measures to identify and assess adverse impacts, taking into account relevant risk factors. Companies should be required to conduct a scoping exercise to identify areas across their own operations, those of their subsidiaries and, where related to their chains of activities, those of their direct business partners ('tier 1') where adverse impacts are likely to occur and carry out an in-depth assessment in the areas where adverse impacts were identified to be most likely to occur and most severe. Under this risk-based scoping approach, companies are not required to identify and assess every single entity or risk where that would not be reasonable taking into account the circumstances of the specific case. In the same vein, companies should only be required to take reasonable measures in gathering the necessary information. When identifying and assessing adverse impacts, the company should take into account, based on an overall assessment, relevant risk factors, including company-level risk factors, such as whether the business partner is not a company covered by this Directive; business operation risk factors;

geographic and contextual risk factors, such as the level of law enforcement with respect to the type of adverse impacts; product and service risk factors; and sectoral risk factors. Companies should also identify and assess the impact of existing business models and strategies, including trading, procurement and pricing practices.



(21a) Furthermore, with a view to reducing burdens and achieving the objectives of Directive (EU) 2024/1760 in a more proportionate way, this scoping exercise should be limited to the company's own operations, those of its subsidiaries and those of its direct business partners ('tier 1'). Consequently, when it comes to business relationships, companies should be required to carry out in-depth assessments as regards direct business partners only. Companies should, however, ~~map their chain of activities and~~ look beyond their direct business relationships where they have, or can be reasonably expected to know of, objective and verifiable information that suggests an adverse impact at the level of an indirect business partner. <u>**In order to be able to do this, companies should map their chains of activities to identify their indirect business partners, based on reasonably available information.**</u> Objective and verifiable information ~~should be defined as~~<u>**is**</u> information that objectively has a reasonable likelihood of being true, taking into account amongst other things, the credibility of the source. Those sources could include data produced by government bodies, baseline studies or impact assessments commissioned by other parties, local community grievances and demand records, studies and indices by academics, NGOs, government agencies and industry bodies, available reports prepared by other enterprises operating in the local area or region, studies and reports by inter-governmental organisations and multilateral and bilateral development institutions, studies undertaken by communities about key issues that may be relevant to project development, land mapping and other information about the project or activity. Examples of information suggesting an adverse impact could include a notification or complaint, stakeholder engagement, credible reports in the media or from international organisations or NGOs, environmental and social impact assessments, geographical risk assessments, reports of recent incidents, or information about recurring problems in the sector in which the company operates or at certain locations. Using such information sources constitutes good practice under the OECD Due Diligence Guidance for Responsible Business Conduct. Where the company has, or can reasonably be expected to know of, such information, it should carry out an in-depth assessment. Companies should also carry out in-depth assessments with respect to adverse impacts arising beyond their direct business partner where the structure of this business relationship lacks economic rationale and suggests that it was chosen to remove an otherwise direct supplier with harmful activities from the purview of the company. In each of these cases, the in-depth assessment should be aimed at obtaining accurate and reliable information, in particular about the nature and extent, causes, severity and likelihood of the identified adverse impacts, to enable the company to conduct the prioritisation in accordance with Article 9 and adopt appropriate measures to address them in accordance with Articles 10 to 12. In addition, to reduce burdens and create legal certainty, it should be made clearer that the entire identification and assessment process should be based on risk factors, implying a 'risk-based approach'. Furthermore, the definition of 'risk factors' should be further clarified, drawing on recital 41 of the existing Directive. Where the in-depth assessment confirms the likelihood or existence of the adverse impact, it should then be deemed to be identified. In addition, companies should be able to request that their code of conduct – which is part of their due diligence policy and sets out the expectations as to how to protect human, including labour, rights and the environment in business operations – is followed throughout the chain of activities in accordance with contractual cascading and SME support.

(22) To limit the trickle-down effect on other companies, including small and medium-sized undertakings and small midcap companies, when it comes to the scoping of areas across their chains of activities where adverse impacts are likely to occur, companies subject to Directive (EU) 2024/1760 should only request information from direct business partners where that information is necessary and, in the case of direct business partners with fewer than 1 000 employees, cannot reasonably be obtained by other means.

(23) Companies may find themselves in situations where their production heavily relies on inputs from one or several specific suppliers. At the same time, where the business operations of such a supplier are linked to severe adverse impacts, including child labour or significant environmental harm, and the company has unsuccessfully exhausted all due diligence measures to address those impacts, the company, as a last resort should suspend the business relationship while continuing to work with the supplier towards a solution, where possible using any increased leverage resulting from the suspension. The suspension should end once the adverse impact is addressed.

(24) To reduce burdens on companies and make stakeholder engagement more proportionate, companies should only have to engage with their employees, the employees of their

subsidiaries and of their business partners, the representatives of those employees including trade unions, and individuals and communities whose rights or interests are or could be directly affected by the products, services and operations of the company, its subsidiaries and its business partners. In line with the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, this includes the legitimate representatives of those individuals or communities. They play an important role for communities, such as indigenous peoples or local communities, but can also be relevant for individuals, in particular in situations where it is not possible or appropriate to engage directly with individual rightsholders, or not all of them. For instance, it may be difficult to reach out to certain rightsholders, due to, for example, communication barriers, but especially in situations where their security cannot be guaranteed (such as in conflict areas or if rightsholders fear reprisals) or there is a serious lack of trust. Legitimate representatives might for instance be community leaders, the individuals or bodies representing indigenous peoples in accordance with their organisational rules and traditions (e.g., elected elders), consumer protection groups or, in certain situations, civil society organisations where they can be considered to genuinely represent the interests of rightsholders.
Conversely, this does not include individuals or organisations which show solidarity with the case but without any specific connection and without any formal representation role. Directly affected individuals or communities are those right-holders that have a link to the specific stage of the due diligence process being carried out. That includes individuals or communities in the neighbourhood of plants operated by business partners where those individuals or communities are directly affected by pollution, or indigenous people whose right to lands or resources are directly affected by how a business partner acquires, develops or otherwise uses land, forests or waters. Moreover, stakeholder engagement should only be required for certain parts of the due diligence process, namely at the identification stage, for the development of (enhanced) action plans and when designing remediation measures.

(24a) Companies should monitor the implementation and effectiveness of their due diligence measures. They should carry out periodic assessments of their own operations, those of their subsidiaries and, where related to the chain of activities of the company, those of their business partners, to assess the implementation and to monitor the adequacy and effectiveness of the identification, prevention, minimisation, bringing to an end and mitigation of adverse impacts. Such assessments should verify that adverse impacts are properly identified, due diligence measures are implemented and adverse impacts have actually been prevented or brought to an end. In order to ensure that such assessments are up-to-date, they should be carried out without undue delay after a significant change occurs, but at least every 5 years and be revised in-between if there are reasonable grounds to believe that the measures are no longer adequate or effective or new risks of adverse impact could have arisen. In order to ensure alignment with the international standards companies could also consider conducting periodic assessments annually in order to ensure that the information about the adequacy and effectiveness of the identification, prevention, mitigation, bringing to an end and minimisation of the extent of adverse impacts remains relevant, accurate and up-to-date. In particular, companies operating in high risk sectors or having business partners operating in such sectors could benefit from more frequent assessments, which serve to maintain the usefulness of the information for the company's decision making or in order to better monitor the progress towards the net zero interim target. The Directive also foresees that the due diligence policy is updated without undue delay after a significant change occurs and it is reviewed and, where necessary, updated at least every two years.

More frequent, including ad hoc monitoring should contribute to a proper update of the due diligence policy.  A significant change should be understood as a change to the status quo of the company's own operations, operations of its subsidiaries or business partners, the legal or business environment or any other substantial shift from the situation of the company or its operating context. Examples of a significant change could be cases when the company starts to operate in a new economic sector or geographical area, starts producing new products or changes the way of producing the existing products using technology with potentially higher adverse impact, or changes its corporate structure via restructuring or via mergers or acquisitions. Reasonable grounds to believe that there are new risks may arise in different ways, including learning about the adverse impact from publicly available information, through stakeholder engagement, or through notifications. Companies should retain documentation demonstrating their compliance with this requirement for at least five years. Such documentation should at least include, where relevant, the identified impacts and in-depth assessments pursuant to Article 8, the prevention and/or corrective action plan pursuant to Articles 10(2), point (a), and 11(3), point (b), contractual assurances obtained or contracts concluded pursuant to Articles 10(2), point (b), Article 10(4) and 11(3) (c), Article 11(5), verifications pursuant to Articles 10(5) and 11(6), remediation measures, periodic assessments as part of the company's monitoring obligation, as well as notifications and complaints. Financial undertakings should carry out periodic assessment only of their own operations, those of their subsidiaries and those of their upstream business partners.

(25) To reduce administrative burdens on companies, the Commission's general due diligence guidelines should be made available prior to the transposition deadline, by 26 July 2027. In parallel, the application deadline for Directive (EU) 2024/1760 for all companies should be deferred to 26 July 2029. That two-year interval should provide companies with sufficient time to take into account the practical guidance and best practices included in the Commission's guidelines when implementing due diligence measures.

(26) To ensure better alignment of Directive (EU) 2024/1760 with the wording of the sustainability reporting regime laid down in Directive (EU) 2022/2464, the requirement to 'put into effect' the transition plan for climate change mitigation should be replaced by a clarification that the obligation of companies to adopt a transition plan includes outlining implementing actions, planned and taken. This way, the behavioural duty under Directive (EU) 2024/1760 is consistent with the requirement for the reported plan to set out 'implementing actions' in Directive (EU) 2022/2464. ~~The obligation to adopt the plan and its initial and updated design remains subject to administrative supervision.~~

(26a) With a view to reducing burden for companies and achieving the objectives of Directive (EU) 2024/1760 in a more proportionate way, **Article 22 of that Directive should be tailored in the following ways.** ~~the required behavioural standard should no longer be 'best efforts' but 'reasonable efforts'. Furthermore~~**First**, it is difficult for individual companies to translate the high-level goals of the transition to a sustainable economy and the limiting of global warming in line with the Paris Agreement into the specific steps necessary for their business model and strategy to be 'compatible' with those goals. Accordingly, this obligation should be replaced by a ~~clearer and~~ more concrete**, more proportionate and more clearly-defined** obligation to **aim, via reasonable efforts, towards a business model and strategy that** 'contribute to' those goals**.**~~, with a clear definition that takes account of relevant sectoral and cross-sectoral pathways and the need for an appropriate degree of alignment with those goals.~~ The transition plan should **thus** aim to ensure, through reasonable efforts, that the business model and strategy of the company contribute to the limiting of global warming in line with the Paris Agreement and in line with the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119. **Second, the required behavioural standard**

**should no longer be 'best efforts' but 'reasonable efforts'.** Recital 73 of the Directive already clarifies that even the concept of 'best efforts' should be understood as an 'obligation of means' and that due account shall be given to the complexity and evolving nature of climate transitioning and the progress made by companies. While companies should strive to achieve the ~~Paris Agreement aligned greenhouse gas emission reduction targets~~**objectives** contained in their plans, specific circumstances may lead to companies not being able to reach these ~~targets~~ **objectives** where this is no longer reasonable. With a view to providing further legal certainty, it should be clarified that the notion of 'reasonable efforts' refers to what can be expected from a diligent party to reach the targets in its transition plan, taking into account best industry practices, the effectiveness of actions taken and the principle of proportionality. It does not require making every possible effort, ~~nor~~adopting the best standard in the given sector for all actions in case that would not be reasonable under the circumstances, ~~n~~or going beyond the underlying science. ~~Furthermore, these plans should be assessed based on the information available at the time of their adoption or updating, meaning that a plan cannot be judged inadequate in light of subsequent developments that were not reasonably foreseeable or in light of other factors outside of the company's control. Moreover~~**Third, companies should be given more flexibility regarding the content of the plan. In particular, companies should still be required to adopt a transition plan, namely a plan that includes the core elements described above. However, the design elements set out in Article 22(1), second subparagraph of that Directive should be made optional. Finally,** given the particular complexity of formulating transition plans for climate change mitigation, there should be a transitional period during which adoption of such a plan is optional rather than obligatory for companies. That transitional period should be limited to two years following application of the measures referred to in Article 37(1), second subparagraph of that Directive (hence two years from 26 July 2029. During the transitional period, companies are encouraged to adopt transition plans for climate change mitigation on a voluntary basis and engage with supervisory authorities to adequately prepare for when the plan adoption becomes obligatory.

(26b) As announced in the Clean Industrial Deal, the Commission is working on defining sectorial pathways which should help companies develop plans that aim to ensure that their business plans and strategy contribute to the transition to a sustainable economy and the limiting of global warming in line with the Paris Agreement, and should also provide a common EU methodology to guide companies and supervisors ('sectoral emission pathways') as well as the adequacy of implementing actions ('sectoral decarbonisation lever pathways'). The pathways will be developed in dialogue with industry and other stakeholders, including SMEs. The pathways are based on an indicative 2030-2050 GHG budget that is fully compatible with the Paris Agreement's long-term temperature goals. Because guidance could assist companies in designing **and adopting** their transition plans, thereby reducing the burden on those companies, the Commission guidelines on transition plans under the Directive should be required to reflect the results of this work by including practical guidance on sectoral and cross-sectoral pathways. These pathways reflect the need for certain sectors to transition earlier than others while acknowledging that in some sectors the pace of greenhouse gas reductions can be slower, and even within sectors, the pathways are based on different scenarios. For all of these reasons, **companies should take** these pathways ~~should be taken~~into account ~~, in a specified way,~~ in ~~assessing companies' transition plans for~~ **adopting their transition plans for** climate change mitigation. The sectoral and cross-sectoral pathways are being developed based on the intermediate and long-term targets of the European Climate Law, which do not cover all global emissions. Consequently, for emissions that are not covered by those pathways, companies should take into account other international, science-based, pathways aligned with the Paris Agreement.

(26c) Under Article 22(2) of Directive (EU) 2024/1760, companies that report a transition plan for climate change mitigation in accordance with the CSRD Directive (EU) 2022/2464) are deemed to have complied with the obligation to adopt a transition plan for climate change mitigation as referred to in Article 22(1) of Directive (EU) 2024/1760.This transition plan for climate change mitigation is one and the same as in Directive (EU) 2022/2464 and the Commission Delegated Regulation (EU) 2023/2772. Accordingly, it is appropriate to amend Directive (EU) 2022/2464 to ensure alignment with the changes made to the obligation to adopt a climate change transition plan in Directive (EU) 2024/1760, with the concept of contribution having the same meaning in both cases. It is, however, important to maintain the obligation to adopt such a plan in Directive (EU) 2024/1760, because Directive (EU) 2022/2464 does not require~~s~~ such adoption. While there are requirements for the adoption of climate-related transition plans also in other areas of EU law, those rules either have a different scope (e.g., transformation plans under the Industrial Emissions Directive (Directive 2010/75/EU) or climate-neutrality plans under the ETS Directive (Directive 2003/87/EC), both of which are at installation level) or pursue different objectives (e.g., plans under the Capital Requirements Directive VI (Directive 2013/36/EU) and the Solvency II Directive (Directive 2009/138/EC) which seek to address financial risks to the institution, including from climate change and the transition to climate neutrality). A common transition plan template could support the integration of activity or installation-level data into company level transition plans. This template would be based on existing requirements and would not add additional reporting for companies.

(26d) **In light of the amendments made to Article 22(1) of Directive (EU) 2024/1760 by this Directive, it is appropriate to adjust and clarify the powers of supervisory authorities regarding transition plans for climate change. First, supervisory authorities should only supervise the mandatory adoption of such a plan. Second, a**~~A~~s regards supervision of ~~the adoption and design~~ **that adoption** ~~of the climate transition plan~~, it is important that authorities take due account of, inter alia, the difficulties inherent in estimating future greenhouse gas emissions, the availability and effectiveness of climate change mitigation technologies, and the overall complexity and evolving nature of climate transitioning. While it is important that authorities supervise whether transition plans are science-based and whether the plan, including the actions and underlying assumptions, is generally robust, companies should be granted the necessary flexibility in determining ~~the appropriate transition path~~**the nature of their contribution** within the limits set by the Directive. In carrying out their functions, it is important that supervisory authorities, where appropriate, prioritise cooperation over enforcement action, in particular through penalties. While the authorities retain discretion over the performance of their supervisory role, they may find it useful to seek to engage in a dialogue with companies and guide their efforts in ~~designing~~ **adopting** transition plans through advice and, where needed, assistance, in a manner that does not compromise their independence or responsibilities to ensure legality. Where appropriate, they should be able to afford companies an opportunity to rectify non-compliance and avoid sanctions by coming into compliance within a specified time. This might include, for instance, seeking or accepting time-bound commitments to address shortcomings. However, that does not prevent them from taking immediate enforcement action for example where the company has not been cooperative in the past, has repeatedly failed to comply with its obligations, including with previous commitments, or if proposed commitments are insufficient. **Third, companies should be able to request advice from supervisory authorities regarding the adoption of these plans. Additionally, companies should be able to request advice regarding the design or implementation of those plans.**

(27) Article 27(1) of Directive EU 2024/1760 requires Member States to lay down penalties that are to be "effective, proportionate and dissuasive". Article 27(2) of that Directive requires Member States, when deciding whether to impose penalties and, if so, when determining their nature and appropriate level, to take due account of a series of factors that determine the gravity of the infringement and attenuating or aggravating circumstances. Article 27(4) of that Directive requires Member States, when imposing pecuniary penalties, to base them on the net worldwide turnover of the company concerned. However, this requirement appears unnecessary and could be misinterpreted as requiring pecuniary penalties to be based solely or primarily on that turnover. Instead, in accordance with the requirement that penalties be effective, proportionate and dissuasive, supervisory authorities are required to take appropriate account of the net worldwide turnover (or, in the case of companies belong to a group, the net consolidated worldwide turnover of the ultimate parent company), alongside the series of factors laid down in Article 27(2) of that Directive. Accordingly, this separate requirement should be removed. Conversely, to ensure a level playing field across the Union and in line with the objective of harmonization, Member States should be required to set a uniform maximum limit of pecuniary penalties of 5% of the net worldwide turnover. The application of this maximum limit to companies belonging to groups should be clarified. Moreover, to increase the consistency of enforcement practices across the Union, the Commission, in collaboration with the Member States, should develop guidelines to assist supervisory authorities in determining the level of penalties.

(28) To better achieve the principle of subsidiarity, the specific, Union-wide liability regime currently provided for in Article 29(1) of that Directive should be removed. At the same time, as a matter of both international and Union law, Member States should be required to ensure that victims of adverse impacts have effective access to justice and to guarantee their right to an effective remedy, as enshrined in Article 2(3) of the International Covenant on Civil and Political Rights, Article 8 of the Universal Declaration of Human Rights, Article 9(3) of the Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus Convention) and Article 47 of the EU Charter of Fundamental Rights. Member States should therefore ensure that, in case a company is held liable for a failure to comply with the due diligence requirements laid down in Directive (EU) 2024/1760, and that where such failure caused damage, victims are able to receive full compensation, which should be granted in accordance with the principles of effectiveness and equivalence, while balancing this through safeguards should prevent

against overcompensation. In view of the different rules and traditions that exist at national level when it comes to allowing representative actions, the specific requirement in that regard in Directive (EU) 2024/1760 should be deleted. Such deletion is without prejudice to any provision of the applicable national law allowing a trade union, non-governmental human rights or environmental organisation, other non-governmental organisation or a national human rights institution to bring actions to enforce the rights of the alleged injured party, or to support such actions brought directly by such party. Furthermore, for the same reason, the requirement for Member States to ensure that the liability rules are of overriding mandatory application in cases where the law applicable to claims to that effect is not the national law of the Member State should be deleted. That deletion does not restrict the possibility for Member States to provide that the provisions of national law transposing Article 29 of Directive EU 2024/1760 are of overriding mandatory application in accordance with Article 16 of Regulation (EC) No 864/2007, in cases where the law applicable to claims to that effect is not the national law of a Member State.

(29) Article 36(1) of Directive (EU) 2024/1760 requires the Commission to submit by no later than 26 July 2026 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 and their impacts. As that review clause does not leave any time to take into account the experience with the newly established, general due diligence framework, it should be removed.

(29a) The transposition deadline should be postponed by one year and the dates from which Member States are to apply Directive (EU) 2024/1760 should be unified for all companies within scope in order to give companies more time to prepare for the requirements of that Directive. Additionally, several other dates in that Directive should be amended to reflect this one-year postponement, as well as the postponement implemented by Directive (EU) 2025/794.

(30) Since the objectives of this Directive cannot be sufficiently achieved by the Member States but can rather, by reason of the scale or effects of the action, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of

proportionality as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives.

(31) Directive 2006/43/EC, Directive 2013/34/EU, Directive (EU) 2022/2464 and Directive (EU) 2024/1760 should therefore be amended accordingly,

HAVE ADOPTED THIS DIRECTIVE:

*Article 1*

*Amendments to Directive 2006/43/EC*

Directive 2006/43/EC is amended as follows:

(-1) Article 3, paragraph 4 is replaced by the following:

‘4. The competent authorities of the Member States may approve as audit firms only those entities which satisfy the following conditions:

(a) the natural persons who carry out statutory audits on behalf of an audit firm must satisfy at least the conditions for statutory audit imposed by Article 4, Article 6(1), Article 7(1), Article 8(1) and (2), Article 9, Article 10(1) first subparagraph, Article 11 and Article 12 of this Directive and must be approved as statutory auditors in the Member State concerned;

(b) a majority of the voting rights in an entity must be held by audit firms which are approved in any Member State or by natural persons who satisfy at least the conditions for statutory audit imposed by Article 4, Article 6(1), Article 7(1), Article 8(1) and (2), Article 9, Article 10(1) first subparagraph, Article 11 and Article 12 of this Directive. Member States may provide that such natural persons must also have been approved in another Member State. For the purpose of the statutory audit of cooperatives, savings banks and similar entities as referred to in Article 45 of Directive 86/635/EEC, a subsidiary or legal successor of a cooperative, savings bank or similar entity as referred to in Article 45 of Directive 86/635/EEC, Member States may lay down other specific provisions in relation to voting rights;

(c) a majority - up to a maximum of 75 % - of the members of the administrative or management body of the entity must be audit firms which are approved in any Member State or natural persons who satisfy at least the conditions for statutory audit imposed under Article 4, Article 6(1), Article 7(1), Article 8(1) and (2), Article 9, Article 10(1) first subparagraph, Article 11 and Article 12 of this Directive. Member States may provide that such natural persons must also have been approved in another Member State. Where such a body has no more than two members, one of those members must satisfy at least the conditions in this point;

(d) the firm must satisfy the condition imposed by Article 4.'

(-1a) In Article 24b(1), the second subparagraph is replaced by the following:

'Member States shall ensure that, when the assurance of sustainability reporting is carried out by an audit firm, that audit firm designates at least one key sustainability partner who must satisfy at least the conditions imposed by Articles 4 and 6 to 12 and must be approved as statutory auditor in the Member State concerned. That key sustainability partner may be (one of) the key audit partner(s). The audit firm shall provide the key sustainability partner(s) with sufficient resources and with personnel that have the necessary competence and capabilities to carry out his, her or its duties appropriately.';

(1) in Article 26a, paragraph 3 is replaced by the following:

'3. The Commission shall be empowered to adopt delegated acts in accordance with Article 48a in order to supplement this Directive in order to provide for limited assurance standards setting out the procedures that the auditor(s) and the audit firm(s) shall perform in order to draw his, her or its conclusions on the assurance of sustainability reporting, including engagement planning, risk consideration and response to risks and type of conclusions to be included in the assurance report on sustainability reporting, or, where relevant, in the audit report.

The Commission may adopt the assurance standards referred to in the first subparagraph only where those standards:

(a) have been developed with proper due process, public oversight and transparency;

(b) contribute a high level of credibility and quality to the annual or consolidated sustainability reporting; and

(c) are conducive to the Union public good.';

(1a) in Article 45, paragraph 5, the second subparagraph, point (a) is replaced by the following:

'(a) the majority of the members of the administrative or management body of the third-country audit entity meet requirements which are equivalent to those laid down in Articles 4 to 10, with the exception of Article 7(2), Article 8(3) and the second subparagraph of Article 10(1);'

(1aa) in Article 45, the following paragraph is inserted:

'5b. Member States shall not apply paragraphs 1 to 5a in relation to assurance reports concerning annual or consolidated sustainability reporting, issued for financial years starting during the period from 1 January 2025 to 31 December 2030 in cases where the third-country auditor or audit entity concerned provides the competent authorities of the Member State with the following:

a) the name and address of the auditor or audit entity concerned and information about its legal structure;

b) the declaration that the third country auditor who signs the assurance report acquired knowledge in the area of sustainability reporting and its assurance and the information on the level of that knowledge;

c) where the auditor or the audit entity belongs to a network, a description of that network;

d) the assurance standards and independence related requirements which have been applied to the assurance of sustainability reporting concerned;

e) a description of the internal quality control system of the audit entity that covers the assurance of the sustainability reporting; and

f) an indication of whether and when the last quality assurance review of the auditor or audit entity for the sustainability assurance engagements was carried out and necessary information about the outcome of that quality assurance review.

Upon receiving all of the above information the competent authorities of the Member State register the third-country auditor or audit entity concerned for the purpose of assurance of sustainability information and make it clear that the registration was done under the transition period provision. If any of the above information is not provided by the third-country auditor or audit entity concerned, the competent authorities of the Member State shall not register that auditor or audit entity.

(2) in Article 48a(2), the second subparagraph is replaced by the following:

'The power to adopt delegated acts referred to in Article 26a(3) shall be conferred on the Commission for an indeterminate period of time.'.

*Article 2*

*Amendments to Directive 2013/34/EU*

Directive 2013/34/EU is amended as follows:

(1) Article 1 is amended as follows:

(a) in paragraph 3, the introductory wording is replaced by the following:

'The coordination measures prescribed by Articles 19a, 29a, 29d, 30 and 33, Article 34(1), second subparagraph, point (aa), Article 34(2) and (3), and Article 51 of this Directive shall also apply to the laws, regulations and administrative provisions of the

Member States relating to the following undertakings regardless of their legal form, provided that those undertakings are undertakings which, on their balance sheet dates, exceed a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year:';

(b) paragraph 4 is replaced by the following:

'4. The coordination measures prescribed by Articles 19a, 29a and 29d shall not apply to the European Financial Stability Facility (EFSF) established by the EFSF Framework Agreement nor to financial products listed in Article 2, point (12), (b) and (f) of Regulation (EU) 2019/2088 of the European Parliament and of the Council*.

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* Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1, ELI: http://data.europa.eu/eli/reg/2019/2088/oj).';

(1a) Article 19(1), fourth subparagraph is replaced by the following:

'Undertakings which, on their balance sheet dates, exceed a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year, shall report information on the key intangible resources and explain how the business model of the undertaking fundamentally depends on such resources and how such resources are a source of value creation for the undertaking.'

(2) Article 19a is amended as follows:

(a) in paragraph 1, the first subparagraph is replaced by the following:

'Undertakings which, on their balance sheet dates, exceed a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year shall include in their 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.';

(aa) in paragraph 2, point (iii) is replaced by the following:

‘the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy contribute to the transition to a sustainable economy and to the limiting of global warming in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the ‘Paris Agreement’) and with the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council ([13]), and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities;’

(b) paragraph 3 is amended as follows:

(i) after the first subparagraph, the following subparagraphs are inserted:

‘When establishing contractual and other arrangements for the reporting of sustainability information as required by this Directive, an undertaking shall not require undertakings in its value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year, to provide information exceeding the information specified in the standards for voluntary use referred to in Article 29ca.

Any contractual provision contrary to the second subparagraph shall not be binding. This shall not affect the binding nature of the remainder of the contract.
Where an undertaking requests information:

(i) for the purposes of sustainability information as required by this Directive, from undertakings in its value chain; and

(ii) some or all of that information falls outside of the information specified in the standards for voluntary use referred to in Article 29ca,

[13] Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (‘European Climate Law’) (OJ L 243, 9.7.2021, p. 1)."

that undertaking shall ensure that undertakings in its value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year, are informed of which information falls into point (ii) of this subparagraph and of their statutory right to decline to provide that information.

Any undertaking in the value chain which, on its balance sheet date, does not exceed the average number of 1 000 employees during the financial year, shall have a right to decline to provide information exceeding the information specified in the standards for voluntary use referred to in Article 29ca in response to a request made for the purposes of reporting of sustainability as required by this Directive.

Nothing in the second, third, fourth or fifth subparagraphs:

(i) affects information requests for purposes other than for the reporting of sustainability information as required by this Directive, including Union requirements on undertakings to conduct a due diligence process; or

(ii) imposes or implies any obligation on undertakings in the value-chain to provide information falling within the standards for voluntary use referred to in Article 29ca.

Undertakings that report the necessary value chain information without reporting from undertakings in their value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca shall be deemed to have complied with the obligation to report value chain information set out in the first subparagraph.'

(iii) the fourth subparagraph is replaced by the following subparagraph:

'When reporting the information referred to in paragraphs 1 and 2, undertakings may omit the following information:

a) in exceptional cases, information the disclosure of which would be seriously prejudicial to the commercial position of the undertaking, provided that all of the following conditions are met:

(i) such omission does not prevent a fair and balanced understanding of the undertaking's development, performance and position, or of its principal risks or principal impacts;

(ii) the undertaking has determined that it is impossible to disclose the information in a manner, such as at an aggregated level, that would enable it to meet the objectives of the disclosure requirement without seriously prejudicing its commercial position;

(iii) the undertaking discloses the fact that it has used this exemption;

(iv) the undertaking reassesses at each reporting date whether the information may still be omitted.

b) information corresponding to intellectual capital, intellectual property, know-how or the results of innovation that qualifies as a trade secret as defined in Article 2, point (1), of Directive (EU) 2016/943, provided that both of the following conditions are met:

(i) the undertaking discloses the fact that it has used this exemption; and

(ii) the undertaking reassesses at each reporting date whether the information may still be omitted.

c) classified information as defined in Article 2, point (7) of Regulation (EU) 2023/2418, provided that both of the following conditions are met:

(i) the undertaking discloses the fact that it has used this exemption; and

(ii) the undertaking reassesses at each reporting date whether the information may still be omitted;

d) other information that is to be protected from unauthorised access or disclosure because of obligations laid down in other Union legislation or in national law, or in order to safeguard the privacy or security of a natural person or the security of a legal person, provided that both of the following conditions are met:

(i) the undertaking discloses the fact that it has used this exemption; and

(ii) the undertaking reassesses at each reporting date whether the information may still be omitted;'

(c) paragraphs 6 and 7 are deleted;

(d) paragraph 10 is replaced by the following:

'The exemption laid down in paragraph 9 shall also apply to public-interest entities subject to the requirements of this Article'.

**[…]**

(4) Article 29a is amended as follows:

(a) in paragraph 1, the first subparagraph is replaced by the following:

'Parent undertakings of a group which, on their balance sheet dates, exceed, on a consolidated basis, a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year, shall include in the consolidated management report information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position.';

(aa) in paragraph 2, point (iii) is replaced by the following:

'the plans of the group, including implementing actions and related financial and investment plans, to ensure that its business model and strategy contribute to the transition to a sustainable economy and to the limiting of global warming in line with the Paris Agreement under the United Nations Framework Convention on Climate

Change adopted on 12 December 2015 (the 'Paris Agreement') and with the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council ([14]), and, where relevant, the exposure of the group to coal-, oil- and gas-related activities;'

(b) paragraph 3 is amended as follows:

(i) after the first subparagraph, the following subparagraphs are inserted :

'When establishing contractual and other arrangements for the reporting of sustainability information as required by this Directive, an undertaking shall not require undertakings in its value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year, to provide information exceeding the information specified in the standards for voluntary use referred to in Article 29ca.

Any contractual provision contrary to the second subparagraph shall not be binding. This shall not affect the binding nature of the remainder of the contract.

Where an undertaking requests information:

(i) for the purposes of sustainability information as required by this Directive, from undertakings in its value chain; and

(ii) some or all of that information falls outside of the information specified in the standards for voluntary use referred to in Article 29ca,

that undertaking shall ensure that undertakings in its value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year, are informed of which information falls

14 Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).

into point (ii) of this subparagraph and of their statutory right to decline to provide that information.



Any undertaking in the value chain which, on its balance sheet date, does not exceed the average number of 1 000 employees during the financial year, shall have a right to decline to provide information exceeding the information specified in the standards for voluntary use referred to in Article 29ca in response to a request made for the purposes of reporting of sustainability as required by this Directive.

Nothing in the second, third, fourth or fifth subparagraphs:

(i) affects information requests for purposes other than for the reporting of sustainability information as required by this Directive, including Union requirements on undertakings to conduct a due diligence process; or

(ii) imposes or implies any obligation on undertakings in the value-chain to provide information falling within the standards for voluntary use referred to in Article 29ca.

Parent undertakings that report the necessary value chain information without reporting from undertakings in their value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca shall be deemed to have complied with the obligation to report value chain information set out in the first subparagraph.’

(iii) The fourth subparagraph is replaced by the following subparagraph:

‘When reporting the information referred to in paragraphs 1 and 2, parent undertakings may omit the following information:

(a) information the disclosure of which would be seriously prejudicial to the commercial position of the group, provided that all of the following conditions are met:

(i) such omission does not prevent a fair and balanced understanding of the group’s development, performance and position, or of its principal risks or principal impacts;

(ii) the parent undertaking has determined that it is impossible to disclose the information in a manner, such as at an aggregated level, that would enable it to meet the objectives of the disclosure requirement without seriously prejudicing the group’s commercial position;

(iii) the parent undertaking discloses the fact that it has used this exemption;

(iv) the parent undertaking reassesses at each reporting date whether the information may still be omitted;

(b) information corresponding to intellectual capital, intellectual property, know-how or the results of innovation that qualifies as a trade secret as defined in Article 2, point (1), of Directive (EU) 2016/943, provided that both of the following conditions are met:

(i) the parent undertaking discloses the fact that it has used this exemption; and

(ii) the parent undertaking reassesses at each reporting date whether the information may still be omitted;

(c) classified information as defined in Article 2, point (7) of Regulation (EU) 2023/2418, provided that both of the following conditions are met:

(i) the parent undertaking discloses the fact that it has used this exemption; and

(ii) the parent undertaking reassesses at each reporting date whether the information may still be omitted;

(d) other information that is to be protected from unauthorised access or disclosure because of obligations laid down in other Union legislation or in national law, or in order to safeguard the privacy or security of a natural person or the security of a legal person, provided that both of the following conditions are met:

(i) the parent undertaking discloses the fact that it has used this exemption; and

(ii) the parent undertaking reassesses at each reporting date whether the information may still be omitted.'

(d) paragraph 9 is replaced by the following:
'The exemption laid down in paragraph 8 shall also apply to public-interest entities subject to the requirements of this Article'.

**[…]**

(6) Article 29b is amended as follows:

(a) in paragraph 1, the third**,** fourth and sixth subparagraphs are deleted;

(b) in paragraph 4, first subparagraph, the last sentence is replaced by the following:

‘Sustainability reporting standards shall not specify disclosures that would require undertakings to obtain from undertakings in their value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year any information that exceeds the information to be disclosed pursuant to the sustainability reporting standards for voluntary use referred to in Article 29ca.’;

(7) Article 29c is deleted;

(8) the following Article 29ca is inserted:

*‘Article 29ca*

**Sustainability reporting standards for voluntary use**

1. To facilitate voluntary reporting of sustainability information by undertakings other than those referred to in Articles 19a(1) and 29a(1) and to limit the information that may be required for the purposes of this Directive from undertakings in the value chain, which on their balance sheet date, do not exceed the average number of 1 000 employees during the financial year, the Commission shall adopt a delegated act by [*4 months after entry into force of this Directive*] in accordance with Article 49 supplementing this Directive to provide for sustainability reporting standards for voluntary use by such undertakings.

2. Without prejudice to paragraph 3, the sustainability reporting standards referred to in paragraph 1 shall be based on Commission Recommendation 2025/XXX, in its original version. They shall also be proportionate to and relevant for the capacities and the characteristics of the undertakings for which they are designed and to the scale and complexity of their activities. They shall also, to the extent possible, specify the structure to be used to present such sustainability information.

3. The Commission shall, at least every four years after the date of its application, review the delegated act referred to in paragraph 1 and, where necessary, it shall amend it to take into account developments relevant to sustainability reporting.’;

(9) Article 29d is replaced by the following:

*'Article 29d*

**Single electronic reporting format**

1. Undertakings subject to the requirements of Article 19a of this Directive shall prepare their management report in the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) 2019/815* and shall mark up their sustainability reporting, including the disclosures provided for in Article 8 of Regulation (EU) 2020/852 in accordance, with the electronic reporting format to be specified in that Delegated Regulation. Until such rules on the marking up are adopted by way of that Delegated Regulation, undertakings shall not be required to markup their sustainability reporting.

2. Parent undertakings subject to the requirements of Article 29a shall prepare their consolidated management report in the electronic reporting format specified in Article 3 of Delegated Regulation (EU) 2019/815 and shall mark up their sustainability reporting, including the disclosures provided for in Article 8 of Regulation (EU) 2020/852, in accordance with the electronic reporting format to be specified in that Delegated Regulation. Until such rules on the marking up are adopted by way of that Delegated Regulation, parent undertakings shall not be required to markup their sustainability reporting.;

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* Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143, 29.5.2019, p. 1, ELI: http://data.europa.eu/eli/reg_del/2019/815/oj).';

(10) in Article 33, paragraph 1 is replaced by the following:

'1. Member States shall ensure that the members of the administrative, management and supervisory bodies of an undertaking, acting within the competences assigned to them by national law, 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 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.

By way of derogation from subparagraph 1, Member States may provide that the members of the administrative, management and supervisory bodies of an undertaking, acting within the competences assigned to them by national law, do not have collective responsibility for ensuring that the management report, or consolidated management report, where applicable, is prepared in accordance with Article 29d.';

(11) Article 34 is amended as follows:

(a) paragraph 1, second subparagraph, point (aa), is replaced by the following:

'(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, 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'**.**

(b) the following paragraph 2a is inserted:

'2a. Member States shall ensure that the opinion referred to in paragraph 1, second subparagraph, point (aa), is prepared in full respect of the right of the undertakings in the value chain which, on their balance sheet dates, do not exceed the average number of 1 000 employees during the financial year to decline to provide to the reporting entity any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca.';

(12) in Article 40a, paragraph 1 is amended as follows:

(a) the second subparagraph is replaced by the following:

'The first subparagraph shall only apply to large subsidiary undertakings as defined in Article 3(4) of this Directive';

(b) the fourth and fifth subparagraphs are replaced by the following:

'The rule referred to in the third subparagraph shall only apply to a branch where the third-country undertaking does not have a subsidiary undertaking as referred to in the first subparagraph, and where the branch generated a net turnover exceeding the threshold referred to in Article 3(4) point (b) of this Directive in the preceding financial year.

The first and third subparagraphs shall only apply to the subsidiary undertakings or branches referred to in those subparagraphs where the third-country undertaking, at its group level, or, if not applicable, the individual level, generated a net turnover in the Union exceeding EUR 450 000 000 for each of the last two consecutive financial years.';

(13) Article 49 is amended as follows:

(-a) in paragraph 2, first sentence, the reference to Article 29c is deleted;

(-aa) in paragraph 3, first sentence, the reference to Article 29c is deleted;

(-ab) paragraph 3b is amended as follows:

(i) in the first subparagraph, introductory wording, the reference to Article 29c is deleted;

(ii) in the fourth subparagraph, the reference to Article 29c is deleted;

(iii) in the sixth subparagraph, the reference to Article 29c is deleted.

(a) the following paragraphs 3c and 3d are inserted:

‘3c. The power to adopt a delegated act referred to in Article 29ca shall be conferred on the Commission for an indeterminate period from *[date of entry into force of amending Directive]*.

3d. The delegations of powers referred to in Article 29ca may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

(b) paragraph 5 is replaced by the following:

‘5. A delegated act adopted pursuant to Article 1(2), Article 3(13), Articles 29b, 29ca or 40b, or Article 46(2) shall enter into force only if no objection has been expressed either by the European Parliament or 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 the Council.’

*Article 3*

*Amendments to Directive (EU) 2022/2464*

In Directive (EU) 2022/2464, Article 5(2) is amended as follows:

(1) the first subparagraph is amended as follows:

(a) in point (a), the introductory text is replaced by ‘for financial years starting between 1 January 2024 and 31 December 2026 inclusive:’

(b) point (b) is amended as follows:

(i) point (i) is replaced by the following:

‘(i) to undertakings which, on their balance sheet dates, exceed a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year;’;

(ii) point (ii) is replaced by the following:

‘(ii) to parent undertakings of a group which, on their balance sheet dates, exceed, on a consolidated basis, a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year;’;

(c) point (c) is deleted;

(2) the third subparagraph is amended as follows:

(a) in point (a), the introductory text is replaced by ‘for financial years starting between 1 January 2024 and 31 December 2026 inclusive:’

(b) point (b) is amended as follows:

(i) point (i) is replaced by the following:

‘(i) to issuers as defined in Article 2(1), point (d) of Directive 2004/109/EC which are undertakings, on their balance sheet dates, exceed a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year;’

(ii) point (ii) is replaced by the following:

‘(ii) to issuers as defined in Article 2(1), point (d) of Directive 2004/109/EC which are parent undertakings of a group which, on its balance sheet dates, exceed, on a consolidated basis, a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year;’;

(c) point (c) is deleted.

(3) The following fifth subparagraph is inserted:

‘By way of derogation from point (a) of the first subparagraph and point (a) of the third subparagraph, Member States may exempt undertakings or issuers which do not exceed a net turnover of EUR 450 000 000 and the average number of 1 000 employees during the financial year, on a consolidated basis, where applicable, from complying with the measures necessary to comply with Article 1, with the exception of point (14), and with Article 2, for the financial years starting between 1 January 2025 and 31 December 2026. ’

**(4) In Article 6(1), points (b) and (c) are replaced by the following:**

**‘(b) an assessment of the number of undertakings voluntarily using the sustainability reporting standards referred to in Article 29ca of Directive 2013/34/EU;**

**(c) an assessment of whether and how the scope of the provisions amended by this amending Directive should be extended, in particular in relation to large undertakings with a net turnover not exceeding EUR 450 000 000 and an average number of employee not exceeding 1 000 during the financial year, as well as to third-country undertakings operating directly on the Union internal market without a subsidiary or a branch on the territory of the Union;’**

*Article 4*

*Amendments to Directive (EU) 2024/1760*



Directive (EU) 2024/1760 is amended as follows:

(1) Article 1 is amended as follows:

(a) in paragraph 1, point (c) is replaced by the following:

‘(c) the obligation for companies to adopt a transition plan for climate change mitigation, including implementing actions which aim to ensure, through reasonable efforts, that the business model and the strategy of the company contribute to the transition to a sustainable economy and to the limiting of global warming in line with the Paris Agreement.’;

(b) the following paragraph 4 is inserted:

‘4. This Directive does not affect Union or national law relating to matters other than those set out in paragraph 1. In particular, the rules referred to in paragraph 1, point (a), do not affect Union or national law concerning human, employment or social rights, or protection of the environment and climate change other than general due diligence obligations.’

(1a) Article 2 is amended as follows:

(a) in paragraph 1, point (a) is replaced by the following:

‘(a) the company had more than 5 000 employees on average and had a net worldwide turnover of more than EUR 1.5 billion in the last financial year for which annual financial statements have been or should have been adopted’;

(b) in paragraph 2, point (a) is replaced by the following:

‘(a) the company generated a net turnover of more than EUR 1.5 billion in the Union in the financial year preceding the last financial year;’;

(2) Article 3(1) is amended as follows:

(a) point (n) is replaced by the following:

‘(n) ‘stakeholders’ means the company’s employees, the employees of its subsidiaries and of its business partners, and their trade unions and workers’ representatives, and individuals or communities whose rights or interests are or could be directly affected by the products, services and operations of the company, its subsidiaries and its business partners and the legitimate representatives of those individuals or communities;’;

(b) point (u) is replaced by the following:

‘(u) ‘risk factors’ means facts, situations or circumstances that relate to the severity and likelihood of an adverse impact, including company-level facts, situations or circumstances (such as whether the company is not covered by this Directive or other comparable mandatory sustainable due diligence legislation), geographical and contextual facts, situations or circumstances (such as the level of law enforcement with respect to the type of adverse impact), and business operations, product and service, and sectoral facts, situations or circumstances;’

(3) Article 4 is replaced by the following:

*‘Article 4*

**Level of harmonisation**

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 Articles 6 and 8, Article 10(1) to (5), Article 11(1) to (6) and Article 14.

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 Articles 6 and, 8, Article 10(1) to (5), Article 11(1) to (6) and Article 14,

or provisions that are more specific in terms of the objective or the field covered, including by regulating specific products, services or situations, in order to achieve a different level of protection of human, employment and social rights, the environment or the climate.';



(4) Article 8 is amended as follows:

'1. Member States shall ensure that companies take appropriate measures to identify and assess actual and potential adverse impacts arising from their own operations or those of their subsidiaries and, where related to their chains of activities, those of their business partners, in accordance with this Article.

2. As part of the obligation set out in paragraph 1, taking into account relevant risk factors, companies shall take appropriate measures to:

a. carry out a scoping exercise, based on reasonably available information, to identify the areas across their own operations, those of their subsidiaries and, where related to their chains of activities, those of their direct business partners where adverse impacts are likely to occur;

b. based on the results of the scoping exercise as referred to in point (a), carry out an in-depth assessment in the areas where adverse impacts were identified to be most likely to occur and most severe.

For the purposes of this Article, a measure cannot be appropriate if it is not reasonably available to the company.

2a. Companies shall also map their chains of activities to identify their indirect business partners, based on reasonably available information. Where a company has, or can be reasonably expected to know of, objective and verifiable information that suggests that adverse impacts at the level of the operations of an indirect business partner have arisen or have a reasonable prospect of arising, it shall carry out an in-depth assessment. Where a company is aware, or can reasonably be expected to be aware, that the indirect, rather than direct, nature of the relationship with the business partner is the result of an artificial arrangement that does not reflect economic reality and is designed to circumvent paragraph 2, point (b), it shall carry out an in-depth assessment. When identifying and assessing adverse impacts, the company shall take into account relevant risk factors. Where the assessment confirms the likelihood or existence of the adverse impact, it is deemed to have been identified.

Irrespective of whether the first paragraph applies, a company may seek contractual assurances from a direct business partner that that business partner will ensure compliance with the company's code of conduct by establishing corresponding contractual assurances from its business partners, together with requests to inform the company of adverse impacts and any measures taken to address them. Where the company makes such a request, it shall provide the support referred to in Article 10(2) point (e), where relevant. This subparagraph is without prejudice to Article 10(2)(b), Article 10(4), Article 10(5), Article 11(3)(c), Article 11(5) and Article 11(6).

3. Member States shall ensure that, for the purposes of identifying and assessing the adverse impacts referred to in paragraph 1 based on, where appropriate, quantitative and qualitative information, companies are entitled to make use of appropriate resources, including independent reports and information gathered through the notification mechanism and the complaints procedure provided for in Article 14.

4. Where information necessary for the in-depth assessment provided for in paragraph 2, point (b), and in paragraph 2a can be obtained from different business partners, the company shall prioritise requesting such information, where reasonable, directly from the business partner or partners where the adverse impacts are most likely to occur.

5. Member States shall ensure that, for the purposes of scoping exercise provided for in paragraph 2, point (a), companies only request to obtain information from direct business partners where that information is necessary and, in case of direct business partners with fewer than 1 000 employees, cannot reasonably be obtained by other means.

The guidelines issued under Article 19(1) on the identification process shall include guidance in respect of the first subparagraph.';

(5) in Article 10, paragraph 6 is replaced by the following:

'6. As regards potential adverse impacts as referred to in paragraph 1 that could not be prevented or adequately mitigated by the measures set out in paragraphs 2, 4 and 5, the company shall, as a last resort and until the impact is addressed:

(a) refrain from entering into new, or extending existing, relations with a business partner in connection with which, or in the chain of activities of which, the impact has arisen,

(b) where the law governing its relation with the business partner concerned so entitles it, suspend the business relationship with respect to the activities concerned, including with a view to using or increasing its leverage, and

(c) adopt and implement an enhanced prevention action plan for the specific adverse impact without undue delay, provided that there is a reasonable expectation that those efforts will succeed.

As long as there is a reasonable expectation that the enhanced prevention action plan will succeed, the mere fact of continuing to engage with the business partner shall not expose the company to penalties pursuant to Article 27 or to liability under Article 29.

Prior to suspending a business relationship, the company shall assess 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 the business relationship and shall be in a position to report to the competent supervisory authority about the duly justified reasons for such decision.

Member States shall provide for an option to suspend the business relationship in contracts governed by their laws in accordance with the first subparagraph, except for contracts where the parties are obliged by law to enter into them.

Where the company decides to suspend the business relationship, it shall take steps to prevent, mitigate or bring to an end the impacts of the suspension, shall provide reasonable notice to the business partner concerned and shall keep that decision under review.

Where the company decides not to suspend the business relationship pursuant to this Article, it shall monitor the potential adverse impact and periodically assess its decision and whether further appropriate measures are available.';

(6) in Article 11, paragraph 7 is replaced by the following:

'7. As regards actual adverse impacts as referred to in paragraph 1 that could not be brought to an end or the extent of which could not be minimised by the measures set out in paragraphs 3, 5 and 6, the company shall, as a last resort and until the impact is addressed:

(a) refrain from entering into new, or extending existing, relations with a business partner in connection with which, or in the chain of activities of which, the impact has arisen,

(b) where the law governing its relation with the business partner concerned so entitles it, suspend the business relationship with respect to the activities concerned, including with a view to using or increasing its leverage and

(c) adopt and implement a corrective action plan for the specific adverse impact without undue delay, provided that there is a reasonable expectation that those efforts will succeed.

As long as there is a reasonable expectation that the enhanced corrective action plan will succeed, the mere fact of continuing to engage with the business partner shall not expose the company to penalties pursuant to Article 27 or to liability under Article 29.

Prior to suspending a business relationship, the company shall assess whether the adverse impacts from doing so can be reasonably expected to be manifestly more severe than the adverse impact that could not be brought to an end or the extent of which could not be adequately minimised. Should that be the case, the company shall not be required to suspend the business relationship and shall be in a position to report to the competent supervisory authority about the duly justified reasons for such decision.

Member States shall provide for an option to suspend the business relationship in contracts governed by their laws in accordance with the first subparagraph, except for contracts where the parties are obliged by law to enter into them.

Where the company decides to suspend the business relationship, it shall take steps to prevent, mitigate or bring to an end the impacts of the suspension, shall provide reasonable notice to the business partner concerned and shall keep that decision under review.

Where the company decides not to suspend the business relationship pursuant to this Article, it shall monitor the actual adverse impact and periodically assess its decision and whether further appropriate measures are available.';

(7) in Article 13, paragraph 3 is amended as follows:

(a) the introductory wording is replaced by the following:

'Consultation of relevant stakeholders shall take place at the following stages of the due diligence process:';

(b) points (c) and (e) are deleted;

(8) in Article 15, the second sentence is replaced by the following:
'Such assessments shall be based, where appropriate, on qualitative and quantitative indicators and be carried out without undue delay after a significant change occurs, but at least every 5 years and whenever there are reasonable grounds to believe that the measures are no longer adequate or effective or that new risks of the occurrence of those adverse impacts may arise.';

(8a) in Article 16, paragraph 3 is replaced by the following:

'By 31 March 2029, the Commission shall adopt delegated acts in accordance with Article 34 in order to supplement this Directive by laying down the content and criteria for the reporting under paragraph 1, specifying, in particular, sufficiently detailed information on the description of due diligence, actual and potential adverse impacts identified, and appropriate measures taken with respect to those impacts. In preparing those delegated acts, the Commission 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.';

(8b) in Article 17,

(a) paragraph 1, first subparagraph is replaced by the following:

'1. From 1 January 2031 Member States shall ensure that, when making public the annual statement referred to in Article 16(1) of this Directive, companies submit that statement at the same time to the collection body referred to in paragraph 3 of this Article for the purpose of making it accessible on the European single access point (ESAP), as established by Regulation (EU) 2023/2859.'

(b) Paragraph 3 is replaced by the following:

'By 31 December 2030, for the purposes of making the information referred to in paragraph 1 of this Article accessible on ESAP, Member States shall designate at least one collection body, as defined in Article 2, point (2), of Regulation (EU) 2023/2859, and notify the European Securities and Markets Authority thereof.'

(8c) in Article 18, the sole paragraph is replaced by:

'In order to provide support to companies to facilitate their compliance with Article 10(2), point (b), and Article 11(3), point (c), the Commission, in consultation with Member States and stakeholders, shall adopt guidance about voluntary model contractual clauses, by 26 January 2029.'

(9) in Article 19, paragraph 3 is replaced by the following:

‘3. The guidelines referred to in paragraph 2, point (a), shall be made available by 26 July 2027, those referred to in paragraph 2, points (d) and (e), by 26 January 2028, and those referred to in paragraph 2, points (b), (f) and (g), by 26 July 2028.’;

(10) in Article 22(1)**:**

**(i)** the first subparagraph is replaced by the following:

‘Member States shall ensure that companies referred to in Article 2(1), points (a), (b) and (c), and Article 2(2), points (a), (b) and (c), adopt a transition plan for climate change mitigation, ~~including~~ **outlining amongst other things** implementing actions, which aims to ensure, through reasonable efforts, that the business model and strategy of the company contribute to the transition to a sustainable economy and to the limiting of global warming in line with the Paris Agreement and in line with the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets, and where relevant, address the exposure of the company to coal-, oil- and gas-related activities.

A company’s business model and strategy contribute to the transition to a sustainable economy and to the limiting of global warming as referred to in the first subparagraph where they help bring about that transition and limitation**, taking into account relevant pathways**. **For the purposes of this article, ‘reasonable efforts’ means taking the reasonable steps that would be taken by a diligent person to achieve the targets set in the transition plan, taking into account best industry practices, the effectiveness of actions taken, and the principle of proportionality.** ~~A business plan or strategy that is clearly misaligned with that transition or limitation, taking into account the following pathways, does not qualify as contributing to that transition or limitation:~~

~~(a) sectoral or cross-sectoral pathways aligned with the targets established in Regulation (EU) 2021/1119; and~~

~~(b) other international, science-based sectoral or cross-sectoral pathways aligned with the targets established by the Paris Agreement, as regards emissions not covered by the pathways referred to in point (a).~~

By way of derogation from the first subparagraph and the third paragraph, Member States shall ensure that adoption of the transition plan referred to in that subparagraph is optional during the first two years of the application of the measures to be adopted in accordance with Article 37.

The guidelines issued under Article 19(1) on transition plans shall include practical guidance on sectoral and cross-sectoral pathways to assist companies in adopting plans and actions. These guidelines may be used by a company in **adopting and** designing their transition plan for climate change mitigation, as well as by supervisory authorities in supervising the ~~design~~ **adoption** and update of this plan.

~~For the purposes of this article, 'reasonable efforts' means taking the reasonable steps that would be taken by a diligent person to achieve the targets set in the transition plan, taking into account best industry practices, the effectiveness of actions taken, and the principle of proportionality. The design of a plan should be assessed based on the information available to the company at the time it is adopted or updated.~~

**(ii) in the second subparagraph, the introductory text is replaced by the following:**

**'The design of the transition plan for climate change mitigation referred to in the first subparagraph may contain:'**

(10a) in Article 24 paragraph 7 is replaced by the following:

'7. By 26 July 2028, Member States shall inform the Commission of the names and contact details of the supervisory authorities designated pursuant to this Article, as well as of their respective competences where there are several designated supervisory authorities. They shall inform the Commission of any changes thereto.'.

(10b) in Article 25**:**

**(i) paragraph** ~~(1) a new second subparagraph~~ is **replaced by the following**:

'**Member States shall ensure that the supervisory authorities have adequate powers and resources to carry out the tasks assigned to them under this Directive, including the power to require companies to provide information and carry out investigations related to compliance with the obligations set out in Articles 7 to 16. Member States shall require the supervisory authorities to supervise the adoption of the transition**

**plan for climate change mitigation in accordance with the requirements provided for in the first, second and third subparagraphs of Article 22(1).**

In carrying out their supervisory function in respect of the adoption ~~and design~~ of the transition plan for climate change mitigation, the authorities shall take due account of, inter alia, the difficulties inherent in estimating future greenhouse gas emissions, the effectiveness and availability of certain climate change mitigation technologies, levers and actions over time and the overall complexity and evolving nature of climate transitioning.'

**(ii) the following paragraph is inserted:**

**'10. Member States shall ensure that supervisory authorities are able, upon request, to provide advice to companies regarding the adoption, design and implementation of transition plans for climate change mitigation referred to in Article 22.'**

(11) in Article 27, paragraph 4 is replaced by the following:

'4. The Commission, in collaboration with Member States, shall issue guidance to assist supervisory authorities in determining the level of penalties in accordance with this Article. Member States shall ensure that the maximum limit of pecuniary penalties is set at 5% of the net worldwide turnover of the company or, in the case of companies referred to in Article 2(1), point (b) and Article 2(2), point (b), 5% of the net consolidated worldwide turnover calculated at the level of the ultimate parent company, in the financial year preceding that of the decision to impose the fine.'

(12) Article 29 is amended as follows:

(a) paragraph 1 is deleted;

(b) paragraph 2 is replaced by the following:

'2. Where a company is held liable pursuant to national law for damage caused to a natural or legal person by a failure to comply with the due diligence requirements under this Directive, Member States shall ensure that those persons have a right to full compensation. Full compensation shall not lead to overcompensation, whether by means of punitive, multiple or other types of damages.’;

(c) in paragraph 3, point (d) is deleted;

(d) paragraph 4 is replaced by the following:

‘4. Companies that have participated in industry or multi-stakeholder initiatives, or used independent third-party verification or contractual clauses to support the implementation of due diligence obligations may nevertheless be held liable in accordance with national law.’;

(e) in paragraph 5, the first subparagraph is replaced by the following:

‘The civil liability of a company for damages as referred to in this Article shall be without prejudice to the civil liability of its subsidiaries or of any direct and indirect business partners in the chain of activities of the company.’;

(f) paragraph 7 is deleted;

(13) in Article 36:

(a) paragraph 1 is deleted;

(b) in paragraph 2:

(i) the introductory text is replaced by the following:

‘By [26 July 2031] and every three years thereafter, the Commission shall submit a report to the European Parliament and to the Council on the implementation of this Directive and its effectiveness and efficiency in reaching its objectives, in particular in addressing adverse impacts. The report shall be accompanied, if appropriate, by a legislative proposal. The first report shall, inter alia, assess the following issues:’

(ii) point (e) is replaced by the following:

‘whether the rules on combatting climate change provided for in this Directive, especially as regards the design of transition plans for climate change mitigation and their adoption, as well as the powers of supervisory authorities related to those rules, need to be revised;’

(iii) the following point is inserted:

‘(h) whether the scoping exercise established by Article 8(2), point (a) should be extended to include indirect business partners and, if so, whether the in-depth assessment established by Article 8(2), point (b) should be extended in the same way.’

(14) in Article 37(1), the first and second subparagraphs are replaced by the following:

‘1. Member States shall adopt and publish, by 26 July 2028, the laws, regulations and administrative provisions necessary to comply with this Directive. They shall forthwith communicate the text of those measures to the Commission.

They shall apply those measures from 26 July 2029 with the exception of the measures necessary to comply with Article 16, which Member States shall apply for financial years starting on or after 1 January 2030.’.

*Article 5*

*Transposition*

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive, with the exception of Article 4 by [*12 months after entry into force* or by 31 December 2026, whichever comes later] at the latest. They shall forthwith communicate to the Commission the text of those provisions.

Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Article 4 of this Directive by 26 July 2028 at the latest. They shall forthwith communicate to the Commission the text of those provisions.

When Member States adopt the provisions referred to in the first and second subparagraphs, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

*Article 6*

*Entry into force*

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

*Article 7*

*Addressees*

This Directive is addressed to the Member States.

Done at Brussels,

| | |
|---|---|
| *For the European Parliament* | *For the Council* |
| *The President* | *The President* |