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PROPOSAL

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	27 February 2025
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
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

Delegations will find attached document COM(2025) 81 final.

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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)

{SWD(2025) 80}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

General context and objectives

In his report on 'The Future of European Competitiveness', Mario Draghi emphasised the need for Europe to create a regulatory landscape which facilitates competitiveness and resilience, drawing attention to burden and compliance costs created by the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).[1] In the Budapest Declaration on the New European Competitiveness Deal, EU Heads of State and Government called for 'a simplification revolution, ensuring a clear, simple and smart regulatory framework for businesses and drastically reducing administrative, regulatory and reporting burdens, in particular for SMEs'.[2] They called on the Commission to make concrete proposals to reduce reporting requirements by at least 25 % in the first half of 2025.

In its Communication on the Competitive Compass for the EU, the Commission confirmed that it would propose a first 'Simplification Omnibus package' which would include far-reaching simplification in the fields of sustainable finance reporting, sustainability due diligence and taxonomy.[3] In its Communication entitled 'A simpler and faster Europe: Communication on implementation and simplification', the Commission set out an implementation and simplification agenda that delivers fast and visible improvements for people and business on the ground, requiring more than an incremental approach and underlining the need for bold action to streamline and simplify EU, national and regional rules.[4]

The CSRD entered into force on 5 January 2023.[5] It strengthened and modernised corporate sustainability reporting requirements through modifications to the Accounting Directive, the Transparency Directive, the Audit Directive and the Audit Regulation.[6] The CSRD is an important element of the European Green Deal and of the Sustainable Finance Action Plan.[7] It aims to ensure that investors have the information they need to understand and manage the risks to which investee companies are exposed from climate change and other sustainability issues. It also aims to ensure that investors and other stakeholders have the information they

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1 "The future of European competitiveness", September 2024.

2 Budapest Declaration on the New European Competitiveness Deal, 8 November 2024.

3 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, COM (2025) 30 final: A Competitiveness Compass for the EU.

4 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM (2025) 47 final: A simpler and faster Europe: Communication on implementation and simplification.

5 Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 (Corporate Sustainability Reporting Directive).

6 Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 (Accounting Directive). Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 (Transparency Directive). Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 (Audit Directive). Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 (Audit Regulation).

7 Communication from the Commission, 'The European Green Deal, COM(2019) 640 final. Communication from the Commission 'Action Plan: Financing Sustainable Growth', COM/2018/097 final.

need about the impacts of companies on people and the environment. It thereby contributes to financial stability and environmental integrity. This is a necessary condition for financial resources to flow to companies that pursue sustainability goals and creates more accountability and transparency towards all stakeholders regarding companies' sustainability performance.

The CSDDD entered into force on 25 July 2024[8]. It aims to ensure that companies operating in the EU single market contribute to attaining the European Union's broader ambition to transition towards a sustainable and climate-neutral economy putting in place adequate governance and management systems and taking appropriate measures to identify and address adverse human rights and environmental impacts in their own operations, as well as in the operations of their subsidiaries and their global value chains. In addition, it aims to ensure that companies adopt and put into effect a transition plan for climate change mitigation.

The CSRD and the CSDDD are now being implemented in a new and difficult context. Russia's war of aggression against Ukraine has driven up energy prices for EU undertakings. Trade tensions are rising as the geopolitical landscape continues to shift. The different approach undertaken by some other major jurisdictions regarding the regulation of corporate sustainability reporting and due diligence raises questions about the effects of these laws on the competitive positioning of EU companies. The ability of the Union to preserve and protect its values depends amongst other things on the capacity of its economy to adapt and compete in an unstable and sometimes hostile geopolitical context.

This proposal therefore contains provisions to simplify and streamline the regulatory framework with a view to reduce the burden on undertakings resulting from the CSRD and the CSDDD without undermining the policy objectives of either piece of legislation and to ensure more cost-effective delivery of the overall ambition of the European Green Deal related to the green and just transition.

The proposal includes several important simplifications and flexibilities, which may encourage undertakings to voluntarily apply sustainability and taxonomy reporting at a bigger scale. Companies with strong sustainability profiles could benefit from this as differentiator, potentially gaining an edge in attracting investments into their businesses. Companies in transition can benefit from voluntary reporting since these undertakings can decide how to communicate their transition strategies without the pressure of mandatory disclosures, while also attracting investments.

In parallel to this proposal, the Commission is submitting a separate legislative proposal to postpone the entry into application of the CSDDD and of certain provisions of the CSRD.

Specific context and objectives of this proposal regarding the CSRD

The CSRD is currently scheduled to apply to large undertakings, SMEs with securities listed on the EU regulated markets, parent undertakings of large groups, as well as to issuers that belong to these categories of undertakings. The entry into application of the reporting requirements introduced by the CSRD is phased in according to different categories of undertakings. In the first wave, large public interest entities with more than 500 employees

[8] Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 (Corporate Sustainability Due Diligence Directive).

must report for the first time in 2025 for financial year 2024.[9] In the second wave, other large undertakings must report in 2026 for financial year 2025.[10] In the third wave, SMEs with securities listed in EU regulated markets must report in 2027 for financial year 2026, although they have a possibility to opt out of reporting for financial years 2026 and 2027.[11] In the fourth wave, certain non-EU undertakings that have business in the territory of the Union above certain thresholds must report in 2029 for financial year 2028.[12]

The CSRD requires undertakings in scope to report sustainability information according to mandatory European Sustainability Reporting Standards (ESRS) and requires the Commission to adopt such standards through delegated acts. In July 2023 the Commission adopted a first set of ESRS which are sector-agnostic, meaning they are to be applied by all undertakings in scope independently of the sector of the economy in which the undertaking operates.[13] The CSRD also requires the Commission to adopt sector-specific reporting standards, with a first set of such standards to be adopted by June 2026. The CSRD allows listed SMEs to report using a separate and lighter, proportionate set of standards instead of the full set of ESRS.

At the request of the Commission, EFRAG has submitted a sustainability reporting standard for voluntary use by SMEs that are not in scope of the reporting requirements (VSME standard).[14] The objective of the VSME standard is to provide SMEs with a simple, widely recognised tool through which they can provide sustainability information to banks, large companies and other stakeholders that may demand such information.

Other important aspects of the CSRD are the provisions on assurance and on reporting value-chain information. Undertakings must publish their sustainability information together with the opinion of a statutory auditor or, if the Member States allows, an independent assurance service provider. The current requirement is for limited assurance and the CSRD provides that this could in the future become a requirement for reasonable assurance under certain conditions.[15] The CSRD also requires the Commission to adopt standards for sustainability assurance by means of delegated acts.

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[9] As well as public-interest entities that are parent undertakings of a large group with more than 500 employees, for consolidated sustainability reporting. “Public-Interest Entities” are defined by Article 2 point (1) of the Accounting Directive as undertakings that are: (a) governed by the law of a Member State and whose transferable securities are admitted to trading on an EU regulated market; (b) credit institutions; (c) insurance undertakings; or (d) designated by Member States as public-interest entities. “Large undertakings” are defined by Article 3(4) of the Accounting Directive as undertakings which on their balance sheet dates exceed at least two of the three following criteria: (a) balance sheet total: EUR 25 000 000; (b) net turnover: EUR 50 000 000; (c) average number of employees during the financial year: 250.

[10] As well as the other parent undertakings of large groups, for consolidated sustainability reporting.

[11] Small and non-complex credit institutions, and captive insurance and reinsurance undertakings, are also part of the third wave, although they may only use the additional two-year opt-out if they are listed SMEs.

[12] According to article 40a of the Accounting Directive, as amended by the CSRD, an undertaking not established in the EU must report sustainability information at the group level if it a) generates over EUR 150 million in the Union and b) has either a subsidiary in the EU that is subject to the sustainability reporting requirements introduced by the CSRD or has an EU branch that generated over EUR 40 million. In this case, the legal obligation to publish the report falls on the EU subsidiary or branch.

[13] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

[14] EFRAG was previously called the European Financial Reporting Advisory Group but its official name is now just EFRAG. It is an independent private multistakeholder body, majority funded by the EU.

[15] The amount of work for a limited assurance engagement is significantly less than for a reasonable assurance engagement. The conclusion of a limited assurance engagement is usually provided in a negative form of expression by stating that no matter has been identified by the assurance provider to conclude that the subject

The CSRD requires undertakings to report value-chain information to the extent necessary for understanding their sustainability-related impacts, risks and opportunities. The CSRD establishes a so-called value-chain cap, which states that ESRS may not contain reporting requirements that would require undertakings to obtain from SMEs in their value chain information that exceeds the information to be disclosed under the proportionate standard for listed SMEs.

This proposal aims to reduce the reporting burden and to limit the trickle down of obligations on smaller companies. Firstly, this current proposal aims to simplify the framework and reduce burden in the following ways:

– The number of undertakings subject to mandatory sustainability reporting requirements would be reduced by about 80%, taking out of scope large undertakings with up to 1000 employees (i.e. some of the undertakings from the second wave and some of the undertakings from the first wave) and listed SMEs (i.e. all undertakings in the third wave). The reporting requirements would only apply to large undertakings with more than 1000 employees (i.e. undertakings that have more than 1000 employees and either a turnover above EUR 50 million or a balance sheet above EUR 25 million). This revised threshold would align the CSRD more closely with the CSDDD.[16]
– For undertakings not subject to mandatory sustainability reporting requirements, the Commission proposes a proportionate standard for voluntary use which would be based on the VSME standard developed by EFRAG. According to this proposal, the Commission would adopt this voluntary standard as a delegated act. In the meantime, to address market demand, the Commission intends to issue a recommendation on voluntary sustainability reporting as soon as possible, based on the VSME standard developed by EFRAG.
– The value-chain cap would be extended and strengthened. It would apply directly to the reporting company instead of being only a limit on what ESRS can specify. It would protect all undertakings with up to 1000 employees rather than just SMEs as is currently the case. And the limit would be defined by the voluntary standard adopted by the Commission as a delegated act, based on the VSME standard developed by EFRAG. This will substantially reduce the trickle-down effect.
– There would be no sector-specific reporting standards, so avoiding an increase in the number of prescribed datapoints that undertakings should report.
– The possibility of moving from a requirement for limited assurance to a requirement for reasonable assurance would be removed. This will provide clarity that there will be no future increase in costs of assurance for undertakings in scope.

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matter is materially misstated. The conclusion of a reasonable assurance engagement is usually provided in a positive form of expression and results in providing an opinion on the measurement of the subject matter against previously defined criteria.

[16] In addition and for reasons of consistency, in Article 40a of the Accounting Directive, the net turnover threshold for an undertaking not established in the EU to be subject to the reporting requirements at the group level would be raised from EUR 150 million generated in the Union to EUR 450 million. Furthermore, for reasons of consistency, the threshold for the EU branch under article 40a is raised from EUR 40 million to EUR 50 million and the threshold for the EU subsidiary is limited to large undertakings as defined in the Accounting Directive. The key thresholds of the CSDDD are 1000 employees and EUR 450 million turnover.

- Instead of an obligation for the Commission to adopt standards for sustainability assurance by 2026, the Commission will issue targeted assurance guidelines by 2026. This will allow the Commission to address emerging issues more quickly in the field of sustainability assurance that may be generating unnecessary burden on undertakings that are subject to the reporting requirements.
- The proposal introduces an "opt-in" regime where large undertakings with more than 1000 employees and with a net turnover not exceeding EUR 450 million which claim that their activities are aligned or partially aligned with the EU Taxonomy shall disclose their turnover and CapEx KPIs and may choose to disclose their OpEx KPI. This "opt-in" approach will eliminate entirely the cost of compliance with the Taxonomy reporting rules for large undertakings with more than 1000 employees and with a net turnover not exceeding EUR 450 million which do not claim that their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. In addition, this proposal provides more flexibility by allowing these undertakings to report on activities that meet certain Taxonomy technical screening criteria without meeting all of them. Such reporting on partial alignment can foster a gradual environmental transition of activities overtime, in line with the aim to scale up transition finance.

Secondly, the Commission intends to adopt a delegated act to revise the first set of ESRS. To deliver swiftly on the simplification and streamlining of the ESRS, and to provide clarity and legal certainty to undertakings, the Commission aims to adopt the necessary delegated act as soon as possible, and at the latest six months after the entry into force of this proposal. The revision of the delegated act will substantially reduce the number of mandatory ESRS datapoints by (i) removing those deemed least important for general purpose sustainability reporting, (ii) prioritising quantitative datapoints over narrative text and (iii) further distinguishing between mandatory and voluntary datapoints, without undermining interoperability with global reporting standards and without prejudice to the materiality assessment of each undertaking. The revision will clarify provisions that are deemed unclear. It will improve consistency with other pieces of EU legislation. It will provide clearer instructions on how to apply the materiality principle, to ensure that undertakings only 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. It will also make any other modifications that may be considered necessary considering the experience of the first application of ESRS.

Thirdly, the separate proposal made by the Commission in parallel to this proposal would postpone by two years the entry into application of the reporting requirements for the second wave (large undertakings that are not public interest entities and that have more than 500 employees, as well as large undertakings with up to 500 employees[17]) and the third wave (listed SMEs, small and non-complex credit institutions, and captive insurance and reinsurance undertakings). The objective of the postponement is to avoid a situation in which certain undertakings are required to report for financial year 2025 (second wave) or 2026 (third wave) and are then subsequently relieved of this requirement. Such a situation would mean that the undertakings in question incur unnecessary and avoidable costs.

[17] As well as undertakings that are not public-interest entities and that are parent of large groups with more than 500 employees, and undertakings that are parents of large groups up to 500 employees.

The Commission invites co-legislators to reach rapid agreement on that postponement, in particular to provide the necessary legal clarity for undertakings in the second wave that are currently required to report for the first time in 2026 for financial year 2025.

Specific context and objectives of this proposal regarding the CSDDD

According to the current rules, Member States should transpose the CSDD Directive by 26 July 2026. Entry into application is envisaged in three waves: as from July 2027, the rules would start applying only to the largest EU companies, i.e. those that have more than 5000 employees and report a net annual (worldwide) turnover of more than 1.5 billion euro, as well as to non-EU companies that generate more than EUR 1.5 billion net turnover in the EU. In the second wave, EU companies with more than 3000 employees and more than EUR 900 million net turnover, as well as non-EU companies generating such net turnover in the EU would need to comply with the new framework as from July 2028. Last, in July 2029, all other companies falling under the general scope would have to start applying the (national rules transposing the) Directive. As from this date, the CSDDD is estimated to apply to approximately 6000 large EU companies, and some 900 non-EU companies. The personal scope and phased-in application take into account that companies of different size have different capacities to implement the new mandatory framework and, as such, is a key element in ensuring a proportional approach.

As regards large companies, the Directive adopts a risk-based approach, allowing them to prioritise addressing those impacts first which are most likely or most severe. Also, the Directive requires the company to take “appropriate measures” that are reasonably available to it, taking into account the circumstances of the specific case.

The Directive also enables cost sharing opportunities through joint industry initiatives and multi-stakeholder initiatives.

As regards preventing the shifting of the compliance burden on SME business partners, the Directive requires large companies under the scope to use responsible contractual clauses, investments, support, and improved purchasing practices.

Despite all these elements, the Directive is perceived as imposing significant regulatory burden, in particular, when value chains are very complex and extensive and therefore business associations have called for further simplifications and burden reduction, including regarding SMEs which may allegedly still experience unwanted trickle-down effects. Furthermore, business associations have pointed to uncertainties linked to a possible increase in liability risks.

While the CSDDD already incorporates a number of mechanisms to ensure proportionality and to ensure that companies in scope obtain the reputational and resilience benefits of more sustainable value-chain management, taking into account companies’ feedback, this proposal aims to clarify and simplify the framework, and to reduce the burden of companies, including one-off and recurring compliance costs, already in the short-term. In particular, the following changes are introduced to this end:

– tailoring the obligations with respect to indirect business partners in the chain of activities to cases of circumvention or when there is information pointing to likely or actual adverse impacts,
– reducing the required frequency of the periodic monitoring exercises, and

– clarifying and targeting the scope of stakeholder engagement.

The proposal also includes several other elements that aim to increase legal certainty and create a level playing field in the EU, contributing to burden reduction and improved international competitiveness.

In parallel with this proposal, the Commission has also adopted a proposal that would postpone by one year the transposition deadline and remove the first wave for the entry into application. By advancing the deadline set out in the Directive for adopting the general guidelines by the Commission (Article 19(3)), the overall result is that in-scope companies will have two years to prepare for the entry into application allowing them to take fully into account the best practices provided in these guidelines.

- **Consistency with existing policy provisions in the policy area**

Corporate Sustainability Reporting Directive

By removing the distinction between listed and non-listed undertakings this proposal is consistent with the goal of the Capital Markets Union to make EU regulated markets more attractive as a source of financing.

The reporting requirements set out in the CSRD and ESRS aim to ensure, amongst other things, that financial market participants, credit institutions and benchmark administrators have access to the sustainability information that they need from undertakings to meet their own reporting obligations under the Sustainable Finance Disclosure Regulation, the Capital Requirements Regulation and the Benchmarks Regulation. Undertakings that would no longer be subject to the CSRD reporting requirements according to this proposal may still provide information to financial market participants, credit institutions and benchmark administrators on a voluntary basis. Where appropriate they may do this using the voluntary reporting standards that, according to this proposal, the Commission would adopt as delegated acts.

According to this proposal, to be in scope of the sustainability reporting requirements undertakings must have more than 1000 employees. Since the 1000 employee threshold is one of the main criteria used to define which undertakings are subject to the CSDDD, this proposal promotes closer alignment between the CSRD and CSDDD.

Undertakings subject to both the CSRD and the CSDDD are not required by the CSDDD to report any information additional to what they are required to report under the CSRD. The proposed modifications will not take out of the CSRD scope any undertakings that are subject to the CSDDD, meaning that this consistency between the two pieces of legislation is maintained.

Consistency with other pieces of EU legislation will be enhanced through modifications to the ESRS delegated act where modifications to ESRS are the most appropriate means of achieving that goal.

Corporate Sustainability Due Diligence Directive

Under the CSRD/ESRS, reporting on adverse impacts is not limited to direct value chain partners. Consistency with the CSRD is maintained as the proposed changes to CSDDD limiting due diligence, in the first place, to direct value chain partners are complemented by requirements for companies in scope to assess indirect business partners in case of plausible information suggesting actual or potential impacts at their level. The CSRD complements the

CSDDD regarding due diligence reporting and the scope of both legal acts is now proposed to be aligned. The provision on climate transition plans will be better aligned to the language of the CSRD, while continuing to complement CSRD with a clear obligation to adopt such a plan.

- **Consistency with other Union policies**

This proposal is consistent with EU policy to enhance competitiveness, to simplify the regulatory framework and to reduce burden on business while still achieving the policy goals of the CSRD and CSDDD. This includes preserving the Green Deal as mid- to long-term competitiveness depends on companies sufficiently integrating sustainability considerations into their operations.

With regard to the CSDDD, the proposal would simplify and streamline the sustainability due diligence requirements for in-scope companies, thereby reducing administrative burdens, in line with the objectives set out in the Competitiveness Compass, namely the 25% and 35% (for SMEs) burden reduction targets.

At the same time, by reducing impacts on business partners, many of which will be SMEs or small mid-caps, the proposal also contributes to the objective of supporting SMEs and small mid-caps and relieving them from unnecessary burdens that might negatively affect their prosperity and growth. Extending the scope of provisions subject to maximum harmonisation to cover the core due diligence duties also contributes to the objective of the Single Market by avoiding fragmentation through different national rules ('gold-plating') and ensuring a level playing field across the European Union. While removing the uniform rules on civil liability reduces harmonisation, it ensures respect for existing, national liability regimes – with which companies in scope are familiar - in line with the subsidiarity principle and ensures greater legal certainty on liability risks under a new type of risk-based corporate obligations.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The proposal's legal basis rests on Articles 50 and 114 of the Treaty on the Functioning of the European Union (TFEU). Article 50 of the TFEU is the legal basis for adopting EU measures aimed at attaining the right of establishment in the single market in company law, and it mandates the European Parliament and the Council to act by means of Directives. Article 50 of the TFEU is the legal basis for Directives 2006/43/EC and 2013/34/EU, as well as part of the legal basis for Directive (EU) 2022/2464 and Directive (EU) 2024/1760. Article 114 of the TFEU is a general legal basis with the objective of establishing or ensuring the functioning of the single market – in this case, the free movement of capital and the freedom of establishment. Article 114 of the TFEU is part of the legal basis for Directive (EU) 2022/2464 and Directive (EU) 2024/1760.

- **Subsidiarity (for non-exclusive competence)**

<u>Corporate Sustainability Reporting Directive</u>

The Accounting Directive, as amended by the CSRD, already regulates the disclosure of sustainability information in the EU. Common rules on sustainability reporting and its assurance ensure a level playing field for companies established in the different Member States. Significant differences in requirements for sustainability reporting and assurance between Member States would create additional costs and complexity for companies operating across borders, which would be detrimental to the single market. Member States acting alone are not able to modify existing EU laws to reduce the burden on companies.

Corporate Sustainability Due Diligence Directive

The CSDDD ensures a level playing field across the European Union by harmonising the rules on corporate sustainability due diligence against the background of diverging existing due diligence legislation at Member State level. In this light, the objective of simplifying and streamlining the due diligence requirements and related provisions on public and private enforcement cannot be achieved by the Member States alone. Therefore, action at the EU level is necessary.

- **Proportionality**

Corporate Sustainability Reporting Directive

This proposal sets out a simple and proportionate framework for sustainability reporting that would treat undertakings according to their size:

– Large undertakings with more than 1000 employees (i.e. undertakings that have more than 1000 employees and either a turnover above EUR 50 million or a balance sheet above EUR 25 million)[18]: subject to mandatory reporting requirements and must report against the full set of ESRS, which will itself be revised and simplified.

– Out-of-scope undertakings (undertakings with up to 1000 employees): not subject to mandatory reporting requirements, may use the proportionate voluntary standard to be adopted by the Commission as a delegated act, based on the VSME standard developed by EFRAG and are protected by the value-chain cap from excessive information requests from larger companies within scope.

This framework is a more proportionate means of achieving the policy objectives of the CSRD.

Corporate Sustainability Due Diligence Directive

With the proposed amendments the CSDDD becomes more proportionate as the changes aim to simplify and streamline sustainability due diligence obligations of companies without undermining the objectives of the Directive and the EU's sustainability framework. The underlying policy objective of this proposal is precisely to further strengthen the proportionality of the Directive with a view to increase its efficiency in achieving its goals, reflecting on calls from some stakeholders who consider that the CSDDD as currently in force, would have placed excessive burden on businesses. Targeting the obligations with respect to indirect business partners in the value chain, reducing the required frequency of the periodic monitoring exercises, as well as streamlining the definition of stakeholders and better targeting engagement to relevant stakeholders and limiting the due diligence steps when engagement is required are all examples for the proposed elements that are designed to make the Directive more proportionate.

[18] As well as parent undertakings of groups with more than 1000 employees on average on a consolidated basis, for consolidated sustainability reporting.

- **Choice of the instrument**

This proposal is composed of a Directive that amends provisions of the Audit Directive, Accounting Directive, Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD). These directives set out complementary reporting and behavioural duties in the area of sustainability, and an Omnibus Directive is the most appropriate legal instrument to amend such existing inter-linked Directives with the common objective as regards simplification and burden reduction.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Ex-post evaluations/fitness checks of existing legislation**

The CSDDD has not yet been transposed or applied by companies. The CSRD has been applied by a first set of companies who are publishing their first sustainability statements mainly in the first half of 2025. It has therefore not been possible to undertake an ex-post evaluation or fitness check of either piece of legislation.

- **Stakeholder consultations**

The following consultation activities have helped to shape the content of this proposal.

- European Commission 'Call for evidence on the rationalisation of reporting requirements', from October to December 2023.[19]
- European Commission meetings with companies and other stakeholders in early February 2025.
- The European Commission has also held separate stakeholder activities including two large hybrid stakeholder forums on the CSRD in May and November 2024 with the participation of approximately 400 people in person and more than 3000 people virtually.
- The European Commission received a very significant number of letters and detailed analyses from all types of stakeholders (from companies to investors, banks, civil society, Non-Governmental Organisations, chambers of commerce and Member States' national administrations).

<u>Corporate Sustainability Reporting Directive</u>

The European Commission's Call for Evidence on the Rationalisation of Reporting Requirements sought evidence and views regarding regulations which are perceived to produce administrative burden. Almost 200 stakeholders responded, and primarily called for a simplification of sustainability reporting, due diligence and the EU Taxonomy.

In the European Commission's meetings with European industry, social partners and civil society in early February 2025 – including, in particular, a two days-stakeholder event ('reality check') that allowed the Commission to hear from practitioners – stakeholders expressed support for the overarching objectives of the CSRD and CSDDD but highlighted a need for simplification and harmonisation in their implementation. Many business

[19] From 17 October to 1 December 2023, the Commission gathered feedback from 193 stakeholders on possible rationalization measures for reporting requirements: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13990-Administrative-burden-rationalisation-of-reporting-requirements_en.

representatives stated that some of the sustainability disclosure requirements in the ESRS are overly complex and numerous, and called for a revision of the ESRS to reduce the number and complexity of the disclosure requirements. They recommended to further consider interoperability of European standards with international ones, as well as to limit value chain reporting requirements.

Some stakeholders have argued for a reduction in scope of the CSRD to relieve listed SMEs and smaller large companies from sustainability reporting requirements. Some advocated for achieving simplification by means of keeping smaller large companies within the scope of the CSRD but allowing them to apply proportionate reporting standards instead of applying the first set of ESRS. SME stakeholders highlighted the need to address the trickle-down effect on SMEs in the value chain from sustainability reporting requirements and pointed out that the lighter reporting regime for them should not be undermined by more extensive information requests along the supply chain or by financial institutions.

While some stakeholders suggested pausing the application of existing legislation to focus on simplification, others saw strong merits in maintaining the rules and argued for the importance of legal certainty and regulatory stability for companies, as well as for maintaining the objectives of the European Green Deal and the Sustainable Finance Action Plan. They also argued that implementation guidelines should be used to clarify and simplify certain parts of the sustainability reporting framework, instead of an extensive change to the existing rules. Representatives of civil society argued that progressive companies should not be treated less favourably than others. They highlighted the demand for sustainability information from financial markets and end-investors.

Many stakeholders noted that the assurance requirements are creating a situation of over-compliance. In this context, certain stakeholders called for a postponement of the limited assurance requirement or urged the Commission to quickly adopt guidelines for limited assurance in order to clarify the requirements.

Many business and industry stakeholders called for either a further postponement of the sector-specific sustainability reporting standards or requested that the requirement for sector-specific standards be removed completely from the CSRD. Companies highlighted the need to correctly implement and become accustomed to reporting under the first set of ESRS and argued that introducing sector-specific disclosure standards on top of the first set of ESRS would further complicate the sustainability reporting process.

Stakeholders also called for clear guidance as regards the double materiality assessment under ESRS. Many called for increased consistency of requirements and harmonised definitions across different pieces of legislation, such as CSRD, CSDDD, Taxonomy, SFDR, etc.

The need for simplification has also been echoed by many other reports, recommendations, and stakeholder views from both financial and non-financial sector undertakings, many of which underscore the importance of reducing complexity and administrative burdens and which have informed the burden reduction measures described in this proposal.

Corporate Sustainability Due Diligence Directive

Consultations with various stakeholders, including businesses, trade associations, and civil society organizations, as well as other contacts with and inputs received from stakeholders have informed the proposal. This includes, in particular, a two days-stakeholder event ('reality check') that allowed the Commission to hear from practitioners about which challenges they see with the current legislative framework and what could be possible solutions to address them. While some stakeholders called for far-reaching changes and postponements, others emphasized the need for regulatory certainty and opposed reopening the Directive, instead focusing on implementation. This proposal aims to balance these perspectives by maintaining the integrity of the CSDDD while introducing changes to simplify and streamline the Directive.

- **Collection and use of expertise**

To prepare this proposal the Commission has taken account of analyses produced by stakeholders and experts on the actual and future implementation of the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive. In addition, the proposal has been informed by input from relevant stakeholders, including companies' sustainability officers.

- **Impact assessment**

The issue of competitiveness is of critical urgency as it directly influences the European Union's ability to achieve sustainable economic growth and maintain its position in the global market. Competitiveness, tied closely to innovation, efficiency, and sustainability, is essential for fostering economic resilience and ensuring that EU businesses can thrive in a rapidly evolving global landscape. The current economic environment, characterized by rapid technological advancements, shifting consumer demands, and increased global competition, necessitates swift action to safeguard the EU's competitive edge. Given this urgency, the proposal does not allow for an impact assessment.

However, it is important to note that this initiative involves amendments to existing legal acts, which have already undergone comprehensive impact assessments. The insights and evidence gathered from those previous assessments, together with input from stakeholders and discussions with practitioners, have helped to shape the current proposal. For that reason, and given the importance and urgency of this initiative, a derogation was granted under the Commission's Better Regulation Guidelines. Accordingly, no full-fledged impact assessment has been prepared but the proposal is accompanied by a Commission Staff Working Document that includes an analysis of the impacts of the proposed measures, including a qualitative analysis and, where possible, estimations of costs savings as well as supporting evidence.

- **Regulatory fitness and simplification**

<u>Corporate Sustainability Reporting Directive</u>

This proposal is expressly designed to achieve a major simplification of the sustainability reporting regime.

<u>Corporate Sustainability Due Diligence Directive</u>

The proposal contributes to regulatory fitness by reducing burdens and ensuring a more coherent and simpler regulatory environment, while respecting the EU's sustainability objectives.

- **Fundamental rights**

Corporate Sustainability Reporting Directive

The proposal respects the fundamental rights enshrined, and adheres to the principles stated, in the Charter of Fundamental Rights of the European Union. The Corporate Sustainability Reporting Directive has an indirect positive impact on fundamental rights, given that sustainability reporting requirements can influence corporate behaviour for the better. It serves to make companies more aware of fundamental rights and positively influence how they identify and manage actual and potential adverse impacts on fundamental rights. The proposed modifications may partially diminish these positive impacts with regard to companies that would no longer be subject to mandatory reporting requirements, but the reduction of administrative burden on such companies should lead to other societal gains in terms of wealth creation, employment and innovation, including innovation for sustainability.

Corporate Sustainability Due Diligence Directive

The proposal respects the fundamental rights enshrined, and adheres to the principles stated, in the Charter of Fundamental Rights of the European Union. One of the CSDDD's main objective was to improve human rights protection through companies addressing their human rights impacts in their chains of activities. The targeting of obligations regarding the chain of activities, which requires action beyond direct business partners whenever the company in scope of the Directive has plausible information pointing to such adverse impacts, is a recognition of the fact that adverse human rights impacts often arise in indirect business relationships. While their obligations to pro-actively identify such impacts will be reduced to avoid burdens from systematically addressing all parts of often complex value chains, companies will continue to have a responsibility to respect human rights along their value chains in the future when they have such information.

4. BUDGETARY IMPLICATIONS

The proposal does not have any new implications on the Union budget.

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

To monitor progress towards achieving the proposal's specific objectives, the Commission will explore the possibility of organising exchanges with stakeholders in different formats as well as periodic surveys of users of sustainability information and of undertakings that report such information, depending on the availability of financial resources. Article 6 of the CSRD requires the Commission to present a report on the implementation of the Directive by April 2029. The implementation of the CSDDD as amended, and its effectiveness in reaching its objectives, in particular in addressing adverse impacts, will also be subject to regular evaluation according to Article 36 of that Directive. This proposal does not require an implementation plan.

- **Explanatory documents (for directives)**

As the proposal introduces specific amendments to 4 existing directives, Member States should either provide the Commission with the text of the specific amendments to national provisions or, in the absence of such amendments, explain which specific national law provision already implements the amendments provided in the proposal.

- **Detailed explanation of the specific provisions of the proposal**

Corporate Sustainability Reporting Directive

Article 1 amends Directive 2006/43/EC (Audit Directive) as follows:

– paragraph (1) replaces Article 26a(3) of the Audit Directive to delete the time limits for the Commission to adopt standards for limited assurance and to delete the empowerment for the Commission to adopt standards for reasonable assurance together with the related cross-references;

– paragraph (2) replaces Article 48a, second subparagraph, of the Audit Directive to correct an error in the cross-reference to the limited assurance standards.

Article 2 amends Directive 2013/34/EU (Accounting Directive) as follows:

– paragraph (1) modifies in Article 1(3) of the Accounting Directive the size for an undertaking to be in scope of sustainability reporting when that undertaking is a credit institution or an insurance undertaking, to reflect the changes made to the size of undertakings in the scope of Article 19a (i.e. large undertakings with more than 1000 employees on average during the financial year);

– paragraph (1) also specifies in Article 1(4) of the Accounting Directive that the European Financial Stability Facility (EFSF) established by the EFSF Framework Agreement is not subject to sustainability reporting;

– paragraph (2) amends Article 19a of the Accounting Directive by:

  - limiting the undertakings required to prepare and publish individual sustainability reporting to only large undertakings with more than 1000 employees on average during the financial year;

  - introducing a requirement for Member States to ensure that, for the purposes of reporting sustainability information as required by the Accounting Directive - and with no prejudice to Union requirements to conduct a due diligence process - undertakings do not seek to obtain from undertakings in their value chain with not more than 1000 employees on average during the financial year any information that goes beyond the information specified in the standards for voluntary use to be adopted under Article 29ca, except for additional sustainability information that is commonly shared between undertakings in the sector concerned. Undertakings reporting on their value chain in accordance with this requirement must be deemed to comply with sustainability reporting;

  - deleting the option for listed SMEs to report based on a more proportionate set of standards and deleting the 2-year opt out from sustainability reporting for listed SMEs, to reflect the exclusion of these companies from the scope of sustainability reporting;

– paragraph (3) inserts Article 19b to allow large undertakings with an average of more than 1000 employees and a net turnover not exceeding EUR 450 000 000 during the financial year to disclose information referred to in Article 8 of Regulation (EU) 2020/852 in a more flexible way;

– paragraph (4) amends Article 29a of the Accounting Directive by:

  - limiting the undertakings required to prepare and publish consolidated sustainability reporting to only parent undertakings of a large group with more than 1000 employees on average during the financial year on a consolidated basis;

- introducing a requirement for Member States to ensure that, for the purposes of reporting sustainability information as required by the Accounting Directive - and with no prejudice to Union requirements to conduct a due diligence process - undertakings do not seek to obtain from undertakings in their value chain with not more than 1000 employees on average during the financial year any information that goes beyond the information specified in the standards for voluntary use to be adopted under Article 29ca, except for additional sustainability information that is commonly shared between undertakings in the sector concerned. Undertakings reporting on their value chain in accordance with this requirement must be deemed to comply with sustainability reporting;

– paragraph (5) inserts Article 29aa to allow large undertakings with an average of more than 1000 employees and a net turnover not exceeding EUR 450 000 000, on a consolidated basis, during the financial year to disclose information referred to in Article 8 of Regulation (EU) 2020/852 in a more flexible way;

– paragraph (6) amends Article 29b of the Accounting Directive by:

  - deleting the empowerment for the Commission to adopt sector-specific standards by way of delegated acts;

  - specifying that the sustainability reporting standards must not specify disclosures requiring undertakings to obtain from undertakings in their value chain with not more than 1000 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 to be adopted under Article 29ca;

– paragraph (7) deletes Article 29c of the Accounting Directive on the Commission’s empowerment to adopt a more proportionate set of standards for listed SMEs to reflect the exclusion of these companies from the scope of sustainability reporting;

– paragraph (8) inserts the new Article 29ca in the Accounting Directive, which empowers the Commission to adopt delegated acts to provide for sustainability reporting standards for voluntary use by out-of-scope undertakings. These standards must be proportionate and relevant to the capacities and the characteristics of these undertakings and to the scale and complexity of their activities. They must also specify, where possible, the structure to be used to present that information;

– paragraph (9) replaces Article 29d of the Accounting Directive to specify that until a Delegated Regulation for the marking up of sustainability reporting is adopted, undertakings are not required to markup their sustainability reporting;

– paragraph (10) replaces Article 33(1) of the Accounting Directive to specify that the collective responsibility of members of an undertaking’s administrative, management and supervisory bodies as regards the digitalisation of the management report is limited to its publication in the single electronic format, including the digital marking up;

– paragraph (11) amends Article 34 of the Accounting Directive by:

  - deleting the reference to Article 29c in Article 34(1) to reflect the removal of the sustainability reporting standards for listed SMEs;

- adding paragraph 2a, which specifies that assurance providers prepare their assurance opinion respecting the obligation on undertakings not to seek to obtain from undertakings in their value chain with not more than 1000 employees on average during the financial year any information that goes beyond the information specified in the standards for voluntary use;

– paragraph (12) amends Article 40a(1) of the Accounting Directive by:

  - limiting the size for a subsidiary undertaking to be in scope of Article 40a to the criteria for large undertakings as defined in Article 3(4) of the Accounting Directive;
  - increasing the net turnover threshold for a branch to be in scope of Article 40a from EUR 40 million to EUR 50 million, to align with the turnover threshold for large undertakings;
  - increasing the net turnover threshold for the third-country undertaking to be in scope of Article 40a from EUR 150 million generated in the Union to EUR 450 million;

– paragraph (13) amends Article 49 of the Accounting Directive to empower the Commission to set out rules supplementing the reporting regime for activities that are only partially taxonomy aligned.

Article 3 amends Article 5(2) of Directive (EU) 2022/2464 (Corporate Sustainability Reporting Directive "CSRD") to reflect the reduction of the undertakings in scope of sustainability reporting under Articles 19a and 29a of the Accounting Directive. In particular:

– paragraph (1) point (a) deletes Article 5(2) subparagraph 1, point (a) of the CSRD to reflect the exclusion from scope of some of the undertakings in wave 1;

– paragraph (1) point (b)(i) replaces Article 5(2) subparagraph 1, point (b)(i) of the CSRD specifying which undertakings will be subject to individual sustainability reporting in wave 2, i.e. large undertakings with more than 1000 employees on average during the financial year;

– paragraph (1) point (b)(ii)) replaces Article 5(2) subparagraph 1, point (b)(ii) of the CSRD specifying which undertakings will be subject to consolidated sustainability reporting in wave 2, i.e. parent undertakings of large groups with more than 1000 employees on average, on a consolidated basis, during the financial year;

– paragraph (1) point (c) repeals Article 5(2) subparagraph 1, point (c) of the CSRD to reflect the exclusion from the scope of listed SMEs;

– paragraph (2) point (a) deletes Article 5(2) subparagraph 3, point (a) of the CSRD to reflect the exclusion from scope of some of the issuers in wave 1;

– paragraph (2) point (b)(i) replaces Article 5(2) subparagraph 3, point (b)(i) of the CSRD specifying which issuers will be subject to individual sustainability reporting in wave 2, i.e. issuers that are large undertakings with more than 1000 employees on average during the financial year;

– paragraph (2) point (b)(ii) replaces Article 5(2) subparagraph 3, point (b)(ii) of the CSRD specifying which issuers will be subject to consolidated sustainability reporting in wave 2, i.e. issuers that are parent undertakings of large groups with more than 1000 employees on average, on a consolidated basis, during the financial year;

– paragraph (2) point (c) repeals Article 5(2) subparagraph 3, point (c) of the CSRD to reflect the exclusion from the scope of issuers that are SMEs.

Article 4 amends Directive (EU) 2024/1760 (Corporate Sustainability Due Diligence Directive 'CSDDD') on the following main points: extending the scope of maximum harmonisation, targeting due diligence, as a general rule, to direct business partners, removing the duty to terminate the business relationship as a measure of last resort, limiting the notion of 'stakeholder' and further restricting the stages of the due diligence process that require stakeholder engagement, extending the intervals in which companies need to regularly monitor the adequacy and effectiveness of due diligence measures, clarifying the principles regarding pecuniary penalties and removing the 'minimum cap' for fines, removing aspects of the civil liability clause and the rules regarding representative actions, changing the provisions on the implementation of the climate transition plans, deleting the review clause regarding financial services, and bringing forward the adoption of the first set of (general) implementing guidelines by the Commission. In particular:

– paragraph (1) replaces Article 1(1), point (c) of the CSDDD to align the description of the subject matter of the Directive with the changes proposed to Article 22(1) regarding the implementation of the transition plans for climate change mitigation;

– paragraph (2) replaces Article 3(1), point (n) of the CSDDD on the definition of 'stakeholders' to reduce the scope of the 'stakeholder' notion by simplifying the definition and limiting it to workers and their representatives, and to individuals and communities whose rights or interests are (in case of actual adverse impacts) or could be (in case of potential adverse impacts) "directly" affected by the products, services and operations of the company, its subsidiaries and its business partners. This includes, for instance, individuals or communities in the neighbourhood of plants operated by business partners when they are directly affected by pollution (e.g., an oil spill or harmful emissions), 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;

– paragraph (3) replaces Article 4 of the CSDDD on the level of harmonisation to extend the scope of maximum harmonisation to several additional provisions of the Directive that regulate the core aspects of the due diligence process. This 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. However, the proposal also recognises that there are legal limits of what can be harmonised fully in a cross-sectoral framework directive dealing with social and environmental protection and which essentially sets out a general process to implement companies' duty of care with regard to adverse impacts linked to business activities. Extending maximum harmonisation beyond this scope would risk undermining human – including labour – rights and environmental standards, both existing or still to be developed, for instance to address emerging risks linked to new products or services, while the practical benefits would be very limited. Where such risks are addressed by Member States, in particular in areas where the Union has limited competences like for instance labour law, they should not be prevented from doing so where they consider this necessary to regulate how the duty of care applies in specific circumstances;

– paragraph (4) amends Article 8 of the CSDDD on identifying and assessing actual and potential adverse impacts by replacing paragraph (2), point (b) and paragraph (4), and by adding new paragraphs (2a) and (5) concerning the chain of activities:

- to limit due diligence measures, as a general rule, to the companies' own operations, those of their subsidiaries and, where related to their chains of activities, those of their direct business partners. Consequently, when it comes to business relationships, following a mapping of their value chains, companies would be required to carry out an in-depth assessment only at the level of direct business partners. At the same time, the proposal recognises that there can be situations where companies have to look beyond their direct business partner, namely where they have plausible information that suggests an adverse impact at the level of an indirect business partner. This may, for instance, be the case where the structure of the 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, where the company has received a complaint or is aware of credible NGO or media reports about harmful activities at the level of an indirect supplier or is aware of past incidents involving the supplier, or where the company through its business contacts knows about problems at a certain location (e.g., conflict area). In these cases, companies should be required to further assess the situation. Where the assessment confirms the likelihood or existence of the adverse impact, it should be deemed to have been identified. In addition, a company should seek to ensure that its code of conduct – which is part of its 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 (contractual cascading). This aligns with the approach taken under the German Supply Chain Act (Lieferkettensorgfaltspflicht-Gesetz) which contains similar rules both as regards the focus on direct suppliers and the ways in which due diligence should go beyond in light of the available information. The company should also take into account SME support measures; and
- to further limit the trickle-down effect on companies with fewer than 500 employees (i.e. SMEs and small midcap companies), by limiting the amount of the information that may be requested as part of the value chain mapping by large companies to the information specified in the VSME sustainability reporting standard, unless additional information is necessary, for instance because the standards do not cover a relevant impact, and where such information cannot reasonably be obtained in any other way.

– paragraphs (5) and (6) replace Article 10(6) and Article 11(7) of the CSDDD, respectively, as regards disengagement in order to remove the duty to terminate the business relationships in the case of both actual and potential adverse impacts. 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, for instance child labour or significant environmental harm, and the company has unsuccessfully exhausted all due diligence measures to address these 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.

– paragraph (7) amends Article 13 on meaningful engagement with stakeholders, by amending paragraph (3), point (a), and deleting points (c) and (e), to clarify that companies are only required to engage with "relevant" stakeholders, thereby underlining that companies do not have to consult every possible stakeholder group but may limit themselves to those stakeholders that have a link to the specific stage of the due diligence process being carried out (e.g., affected individuals when designing a remediation measure). In addition, the proposed amendments further limit the stages of the due diligence process at which companies are required to engage with stakeholders;

– paragraph (8) amends Article 15 of the CSDDD on monitoring to extend the intervals in which companies need to regularly assess the adequacy and effectiveness of due diligence measures, from 1 year to five years. This will significantly reduce burdens not just for in-scope companies but also for their business partners, often SMEs, which risk being at the receiving end of (detailed) information requests as part of these monitoring exercises. At the same time, the proposal recognises that business relationships, and the risks and impacts arising from the activities covered by such business relationships, may evolve over time, sometimes even within short time frames. Also, measures taken to address potential or actual impacts might turn out to be inadequate or ineffective, based on experience gained with implementing them, and indications for this may arise before the date for the next regular assessment. Therefore, the company should carry out ad hoc assessments in these situations;

– paragraph (9) amends Article 19(3) of the CSDDD to require the Commission to make available its general guidelines with practical guidance and best practices on how to conduct due diligence in accordance with the Directive by half a year;

– paragraph (10) amends Article 22(1) concerning companies' transition plans for climate change mitigation with a view to ensuring more legal clarity and alignment of the CSDDD with the sustainability reporting regime of the CSRD. More particularly, the proposal introduces a modification regarding the requirement to put into effect the transition plan for climate change mitigation. The proposal makes clear that the plan should include implementation actions planned and taken. The adoption of the plan and its initial and updated design remains subject to administrative supervision;

– paragraph (11) replaces Article 27(4) as regards the imposition of pecuniary penalties as part of public enforcement. The current text of Article 27 already clarifies that "[i]n deciding whether to impose penalties and, if such penalties are imposed, in determining their nature and appropriate level", due account shall be taken of a series of factors that determine the gravity of the infringement (in particular the nature, gravity and duration of the infringement, and the severity of the impacts resulting from that infringement) and whether there are attenuating (e.g., investments made and any targeted support provided) or aggravating circumstances (e.g., recidivism). In addition, the provision stipulates that any penalties imposed shall be "effective, proportionate and dissuasive". This aligns with similar provisions in other pieces of EU legislation, for instance the General Data Protection Regulation. While the Directive does not require Member States to set a maximum amount of any fines (i.e., a 'cap' or 'ceiling'), it stipulates that, in case Member States nevertheless decide to do so, such a cap "shall be not less than 5 % of the net worldwide turnover of the company". The purpose for introducing this provision was to ensure a level playing field in the Union, by avoiding that Member States set a cap at a level that would undermine the effectiveness and dissuasiveness of any fines imposed on companies under their jurisdiction. However, this provision has led to confusion. In particular, while such a cap says nothing about the actual fines imposed in a specific case, it has sometimes been misunderstood as a minimum fines amount. To clarify the situation, the proposed amendments address the issue of the level playing field differently, namely by tasking the Commission with developing fining guidelines (an instrument that also exists in other areas, e.g., competition law and data protection) in collaboration with the Member States and by prohibiting Member States from setting a fines cap that would prevent supervisory authorities from imposing penalties in accordance with the factors and principles set out in Article 27(1) and (2). Furthermore, the proposal deletes the requirement for the fine to be commensurate to the company's net worldwide turnover;

– paragraph (12) amends Article 29 of the CSDDD as regards civil liability by deleting paragraph (1), paragraph (3), point (d) and paragraph (7), and changing paragraphs (2), (4) and (5):

  - to remove the specific, EU-wide liability regime in the Directive. At the same time, in line with the core objective of the Directive to ensure the protection of victims against human rights violations and environmental harm resulting from business operations, the proposed amendments maintain the requirements for effective access to justice, including the right to full compensation in case a company is held liable for a failure to comply with the due diligence requirements under this Directive in accordance with national law and where such failure caused damage, while also protecting companies from over-compensation;
  - in view of the different rules and traditions that exist at national level when it comes to allowing representative action, to delete the specific requirement set out in the CSDDD in this regard; and
  - for the same reason, by deleting 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; and

– paragraph (13) removes Article 36(1) of the CSDDD, deleting the first review clause of the Directive that would require the Commission to submit "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 as well as their impacts. It is proposed to delete this review clause as it does not leave any time to take into account the experience with the newly established, general due diligence framework.

Article 5 requires Member States to transpose this Directive by [*12 months after into force*] at the latest, and to communicate to the Commission the text of their transposing measures.

Article 6 specifies that this Directive enters into force 20 days after its publication in the Official Journal of the European Union.

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[20],

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',[21] 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) In the context of the Commission's commitment to reduce reporting burdens and enhance competitiveness, it is necessary to amend Directives 2006/43/EC[22], 2013/34/EU[23], (EU) 2022/2464[24] and (EU) 2024/1760 of the European Parliament and

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[20] OJ C […], […], p. […].

[21] 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.

[22] 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).

[23] 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).

[24] 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

of the Council[25], whilst maintaining the policy objectives of the European Green Deal[26], and the Sustainable Finance Action Plan[27].

(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.

(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 a sustainability statement at individual level. To reduce the reporting burden on undertakings, the obligation to prepare and publish a sustainability statement at individual level should be reduced to large undertakings with an average of more than 1000 employees during the financial year. Considering that for an undertaking to be large it has to exceed two out of the three criteria in Article 3(4) of Directive 2013/34/EU, this means that to be subject toto the reporting requirements an undertakings must have an average of more than 1000 employees during the financial year and either a net turnover above EUR 50 million or a balance sheet total above EUR 25 million.

(6) A balance needs to be found between the objectives of data generation and reduction of administrative burden. Sustainability reporting, including the information referred to in Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council[28], of large undertakings with an average of more than 1000 employees during the financial year is indispensable to understand the transition to a climate-neutral

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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).

[25] 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).

[26] 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.

[27] 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.

[28] 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).

economy. In the light of the balance to be found between the objectives of data generation and reduction of administrative burden, large undertakings within the new scope for sustainability reporting that have a net turnover not exceeding EUR 450 000 000 during the financial year should be able to disclose information referred to in Article 8 of Regulation (EU) 2020/852 in a more flexible way. The Commission should be empowered to set out rules supplementing the reporting regime for those undertakings. It should in particular be clarified that the Commission is empowered to specify the reporting regime for activities that are only partially taxonomy aligned.

(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 large undertakings with an average of more than 1000 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[29] 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.

(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. It is necessary to reduce the reporting burden for undertakings in the value chain that are not required to report on their sustainability. The reporting undertaking, for the purposes of reporting sustainability information at individual or at consolidated level, as required by Directive 2013/34/EU, and without prejudice to Union requirements to conduct a due diligence process, should therefore not seek to obtain from undertakings established in or outside of the Union in its value chain that have up to 1000 employees on average during the financial year 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. The reporting undertaking should, however, be allowed to collect from such undertakings in its value chain any additional sustainability information that is commonly shared between undertakings in the sector concerned. 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

[29] 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).

should prepare their assurance opinion respecting the obligation on undertakings not to seek to obtain from undertakings in their value chain that have up to 1000 employees on average during the financial year 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.

(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.

(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 a sustainability statement at consolidated level. To reduce the reporting burden on those parent undertakings, the scope of that obligation should be reduced to parent undertakings of large groups with an average of more than 1000 employees, on a consolidated basis, during the financial year.

(13) Article 29b(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.

(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 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 1000 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.

(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[30] 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[31], 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 a Delegated Regulation, for the marking up of sustainability reporting is adopted, undertakings are should not be required to mark-up their sustainability reporting.

(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 the following documents are drawn up and published in accordance with the requirements of that Directive. To provide flexibility do for undertakings and reduce their reporting burden, it should be specified 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. 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 large undertakings with more than

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30 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).

31 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).

1000 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.

(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 large undertakings with more than 1000 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.

(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 Article 10(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, the duties to engage with stakeholders in certain cases, and the duty to provide for a complaints and notification mechanism. At the same time, Member States should be allowed to introduce more stringent or more specific provisions on other aspects, including to address emerging risks linked to new products or services.

(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. To reduce burdens on companies that have to comply with that obligation, the required due diligence should, as a general rule, 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, after having mapped their chains of activities, be required to carry out in-depth assessments as regards direct business partners only. Companies should, however, look beyond their direct business relationships where they have plausible information that suggests an adverse impact at the level of an indirect business partner. Plausible information means information of an objective character that allows the company to conclude that there is a reasonable likelihood that the information is true. This may be the case where the company concerned has received a complaint or is in the possession of information, for example through credible media or NGO reports, reports of recent incidents, or through recurring problems at certain locations about likely or actual harmful activities at the level of an indirect business partner. Where the company has 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. 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 seek to ensure 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 small and medium-sized undertakings and small midcap companies when it comes to mapping the value chain to identify adverse impacts, large companies should limit information requests to the information specified in the standards for voluntary use referred to in Article 29a of Directive (EU) 2013/34/EU, unless they need additional information to carry out the mapping and they cannot obtain that information in any other reasonable way.

(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.

(24) To reduce burdens on companies and make stakeholder engagement more proportionate, companies should only have to engage with workers, their representatives 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, and 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.

(25) To reduce administrative burdens on companies, the Commission's deadline for the adoption of general due diligence guidelines should be advanced to 26 July 2026. In parallel, the application deadline for Directive (EU) 2024/1760 for the first group of companies should be deferred to 26 July 2028 in accordance with Directive (EU) XXX/XXX[32]. That two-year interval will 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 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. The obligation to adopt the plan and its initial and updated design remains subject to administrative supervision.

[32] Directive (EU) 2025/XX of ……….

(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 to base any imposed pecuniary penalties on the net worldwide turnover of the company concerned. However, given the fact that Member States already have to take into account the series of factors laid down in Article 27(2) of that directive, the need to base pecuniary penalties on the net worldwide turnover of the company concerned is superfluous. However, to ensure a level playing field across the Union, Member States should be prohibited from introducing in their national law a ceiling or cap for any pecuniary penalties imposed on companies under their jurisdiction that would prevent supervisory authorities from imposing penalties in accordance with the factors laid down in Article 27(2). Moreover, to harmonise 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 limit possible litigation risks linked to the harmonised civil liability regime of Directive (EU) 2024/1760, 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.

(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) 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.’;

(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, 19b, 29a, 29aa, 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 large undertakings which, on their balance sheet dates, exceed the average number of 1000 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).';

(2) Article 19a is amended as follows:

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

'Large undertakings which, on their balance sheet dates, exceed the average number of 1000 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.';

(b) paragraph 3 is amended as follows:

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

'Where applicable, the information referred to in paragraphs 1 and 2 shall contain information about the undertaking's own operations and about its value chain, including its products and services, its business relationships and its supply chain. Member States shall ensure that, for the reporting of sustainability information as required by this Directive, undertakings do not seek to obtain from undertakings in their value chain which, on their balance sheet dates, do not exceed the average number of 1000 employees during the financial year any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca, except for additional sustainability information that is commonly shared between undertakings in the sector concerned. 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 1000 employees during the financial year any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca, except for additional sustainability information that is commonly shared between undertakings in the sector concerned, shall be deemed to have complied with the obligation to report value chain information set out in this paragraph.';

(ii) the following subparagraph is added:

'The first subparagraph is without prejudice to Union requirements on undertakings to conduct a due diligence process.';

(c) paragraphs 6 and 7 are deleted;

(3) the following Article 19b is inserted:

'Article 19b

Optional taxonomy reporting for certain undertakings

1. Member States shall ensure that, by way of derogation from Article 8 of Regulation (EU) 2020/852, undertakings as referred to in Article 19a(1) of this Directive which, on their balance sheet dates, do not exceed a net turnover of EUR 450 000 000 during the financial year shall apply the paragraphs 2, 3 and 4 of this Directive.

2. An undertaking as referred to in paragraph 1 that claims that its activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of Regulation (EU) 2020/852 or with economic activities that fulfil only certain requirements of that provision shall include in its management report information on how and to what extent its activities are associated with those economic activities.

3. In particular, a non-financial undertaking that claims that its activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of Regulation (EU) 2020/852 shall disclose the following indicators:

(a) the proportion of its turnover derived from products or services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of that Regulation;

(b) the proportion of its capital expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of that Regulation.

A non-financial undertaking that discloses the indicators referred to in the first subparagraph may disclose the proportion of its operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of Regulation (EU) 2020/852.

4. In particular, a non-financial undertaking that claims that its activities are associated with economic activities that fulfil only certain requirements of Article 3 of Regulation (EU) 2020/852 shall disclose the following indicators:

(a) the proportion of its turnover derived from products or services associated with economic activities fulfilling only certain requirements of Article 3 of that Regulation;

(b) the proportion of its capital expenditure related to assets or processes associated with economic activities that fulfil only certain requirements of Article 3 of that Regulation;

A non-financial undertaking that discloses the indicators referred to in the first subparagraph may disclose the proportion of its operating expenditure related to assets or processes associated with economic activities that fulfil only certain requirements of Article 3 of Regulation (EU) 2020/852.

5. The Commission shall adopt a delegated act in accordance with Article 49 of this Directive to supplement paragraphs 1, 2, 3 and 4 of this Article to specify the content and presentation of the information to be disclosed pursuant to those paragraphs, including the content of the information concerning economic activities that fulfil only certain of the criteria set out in Article 3 of Regulation (EU) 2020/852, and the methodology to be used in order to comply with them, taking into account the specificities of both financial and non-financial undertakings and the technical screening criteria established pursuant to that Regulation.';

(4) Article 29a is amended as follows:

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

'Parent undertakings of a large group which, on their balance sheet dates, exceed the average number of 1000 employees, on a consolidated basis, 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.';

(b) paragraph 3 is amended as follows:

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

'Where applicable, the information referred to in paragraphs 1 and 2 shall contain information about the group's own operations and about its value chain, including its products and services, its business relationships and its supply chain. Member States shall ensure that, for the reporting of sustainability information as required by this Directive, undertakings do not seek to obtain from undertakings in their value chain which, on their balance sheet dates, do not exceed the average number of 1000 employees during the financial year any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca, except for additional sustainability information that is commonly shared between undertakings in the sector concerned. 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 1000 employees during the financial year any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca, except for additional sustainability information that is commonly shared between undertakings in the sector concerned, shall be deemed to have complied with the obligation to report value chain information set out in this paragraph.';

(ii) the following subparagraph is added:

'The first subparagraph is without prejudice to Union requirements on undertakings to conduct a due diligence process.';

(5) the following Article 29aa is inserted:

'Article 29aa

Optional taxonomy reporting for certain parent undertakings

1. Member States shall ensure that, by way of derogation from Article 8 of Regulation (EU) 2020/852, parent undertakings as referred to in Article 29a(1) of this Directive which, on their balance sheet dates, do not exceed a net turnover of EUR 450 000 000, on a consolidated basis, during the financial year shall apply the paragraphs 2, 3 and 4 of this Directive.

2. A parent undertaking as referred to in paragraph 1 that claims that its activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of Regulation (EU) 2020/852 or with economic activities that fulfil only certain requirements of that provision shall include in its management report information on how and to what extent its activities are associated with those economic activities.

3. In particular, a non-financial parent undertaking that claims that its activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of Regulation (EU) 2020/852 shall disclose the following indicators:

(a) the proportion of its turnover derived from products or services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of that Regulation;

(b) the proportion of its capital expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of that Regulation.

A non-financial parent undertaking that discloses the indicators referred to in the first subparagraph may disclose the proportion of its operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of that Regulation.

4. In particular, a non-financial parent undertaking that claims that its activities are associated with economic activities that fulfil only certain requirements of Article 3 of Regulation (EU) 2020/852 shall disclose the following indicators:

(a) the proportion of its turnover derived from products or services associated with economic activities fulfilling only certain requirements of Article 3 of that Regulation;

(b) the proportion of its capital expenditure related to assets or processes associated with economic activities that fulfil only certain requirements of Article 3 of that Regulation;

A non-financial parent undertaking that discloses the indicators referred to in the first subparagraph may disclose the proportion of its operating expenditure related to assets or processes associated with economic activities that fulfil only certain requirements of Article 3 of that Regulation.

5. The Commission shall adopt a delegated act in accordance with Article 49 of this Directive to supplement paragraphs 1, 2, 3 and 4 of this Article to specify the content and presentation of the information to be disclosed pursuant to those paragraphs, including the content of the information concerning economic activities that fulfil only certain of the criteria set out in Article 3 of Regulation (EU)

2020/852, and the methodology to be used in order to comply with them, taking into account the specificities of both financial and non-financial undertakings and the technical screening criteria established pursuant to this Regulation.';

(6) Article 29b is amended as follows:

(a) in paragraph 1, the third and fourth 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 of1000 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), 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. The sustainability reporting standards referred to in paragraph 1 shall 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.';

(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 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, 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 obligation on undertakings not to seek to obtain from undertakings in their value chain which, on their balance sheet dates, do not exceed the average number of 1000 employees during the financial year any information that exceeds the information specified in the standards for voluntary use referred to in Article 29ca, except for additional sustainability information that is commonly shared between undertakings in the sector concerned.’;

(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) the following paragraphs 3c to 3e are inserted:

‘3c. The power to adopt delegated acts referred to in Articles 19b(5), 29aa(5) and 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 Articles 19b(5), 29aa(5) and 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.

3e. The Commission shall gather all necessary expertise, prior to the adoption and during the development of delegated acts pursuant to Articles 19b(5) and 29aa(5), including through the consultation of the experts of the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852.’;

(b) paragraph 5 is replaced by the following:

‘5. A delegated act adopted pursuant to Article 1(2), Article 3(13), Article 19b, Article 29aa, 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) point (a) is deleted;

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

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

'(i) to large undertakings which, on their balance sheet dates, exceed the average number of 1000 employees during the financial year;';

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

'(ii) to parent undertakings of a large group which, on their balance sheet dates, exceed the average number of 1000 employees, on a consolidated basis, during the financial year;';

(c) point (c) is deleted;

(2) the third subparagraph is amended as follows:

(a) point (a) is deleted;

(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 large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU which, on their balance sheet dates, exceed the average number of 1000 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 large group which, on its balance sheet dates, exceed the average number of 1000 employees , on a consolidated basis, during the financial year;';

(c) point (c) is deleted.

Article 4

Amendments to Directive (EU) 2024/1760

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

(1) in Article 1(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 best efforts, compatibility of the business model and of the strategy of the company with the transition to a sustainable economy and with the limiting of global warming to 1,5 ^{o}C in line with the Paris Agreement.’;

(2) in Article 3(1), 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;’;

(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:

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

‘(b) based on the results of the mapping as referred to in point (a), carry out and in-depth assessment of their own operations, those of their subsidiaries and, where related to their chains of activities, those of their direct business partners, in the areas where adverse impacts were identified to be most likely to occur and most severe.’;

(b) the following paragraph 2a is inserted:

‘2a. Where a company has plausible information that suggests that adverse impacts at the level of the operations of an indirect business partner have arisen or may arise, it shall carry out an in-depth assessment. The company shall always carry out such an assessment where 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 but points to a circumvention of paragraph 2, point (b). Where the assessment confirms the likelihood or existence of the adverse impact, it is deemed to have been identified.

The first subparagraph is without prejudice to the company considering available information about indirect business partners and whether those business partners can follow the rules and principles set out in the company's code of conduct when selecting a direct business partner.

Notwithstanding the first subparagraph, irrespective of whether plausible information is available about indirect business partners, a company shall 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. Article 10(2), points (b) and (e) shall apply accordingly.';

(c) paragraph 4 is replaced by the following:

'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.';

(d) the following paragraph 5 is added:

'5. Member States shall ensure that, for the mapping provided for in paragraph 2, point (a), companies do not seek to obtain information from direct business partners with fewer than 500 employees that exceeds the information specified in the standards for voluntary use referred to in Article 29a of Directive 2013/34/EU.

By way of derogation to the first sub-paragraph, where additional information is necessary for the mapping provided for in paragraph 2, point (a), in light of indications of likely adverse impacts or because the standards do not cover relevant impacts, and where such additional information cannot reasonably be obtained by other means, the company may seek such information from that business partner.';

(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:

(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, 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, and

(c) use or increase its leverage through the suspension of the business relationship with respect to the activities concerned.

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 trigger the company's liability.

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 prevented or adequately mitigated by the measures set out in paragraphs 3, 5 and 6, the company shall, as a last resort:

(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, 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, and

(c) use or increase its leverage through the suspension of the business relationship with respect to the activities concerned.

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 trigger the company's liability.

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.';

(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.';

(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 2026, those referred to in paragraph 2, points (d) and (e), by 26 January 2027, and those referred to in paragraph 2, points (b), (f) and (g), by 26 July 2027.';

(10) in Article 22(1), 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 implementing actions, which aim to ensure, through best efforts, that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets, and where relevant, the exposure of the company to coal-, oil- and gas-related activities.';

(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 not set a maximum limit of pecuniary penalties in their national law transposing this Directive that would prevent supervisory authorities from imposing penalties in accordance with the principles and factors set out in paragraphs 1 and 2.';

(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, paragraph 1 is deleted.

Article 5

Transposition

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by [*12 months after entry into force*] at the latest. They shall forthwith communicate to the Commission the text of those provisions.

When Member States adopt those provisions, 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*

LEGISLATIVE FINANCIAL AND DIGITAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

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 for undertakings.

1.2. Policy area(s) concerned

Capital Markets Union, Savings and Investment Union, European Green Deal, Sustainable Finance Strategy, Company law and corporate governance.

1.3. Objective(s)

1.3.1. General objective(s)

The general objectives pursued by this legislative proposal are to simplify and reduce certain elements of Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 in order to alleviate the reporting and due diligence burden on companies in scope of the requirements.

By reducing the administrative burden associated with reporting requirements and the compliance costs of sustainability due diligence stemming from the above legislation, this proposal intends to enhance the proportionality of the framework and the competitiveness of European companies, while also maintaining the objectives of the European Green Deal.

1.3.2. Specific objective(s)

The specific objectives of the proposed amendments to Directive 2013/34/EU included in this proposal aim to achieve the following results:

– Reduce the number of companies which fall within the scope of the sustainability reporting requirements to large companies with more than 1000 employees.

– Reduce trickle-down effects on SMEs and smaller large companies by imposing the voluntary sustainability reporting standard for SMEs (VSME) as the value chain cap for all companies not subject to sustainability reporting requirements.

– Provide for a proportionate standard for voluntary use by companies which are not subject to sustainability reporting requirements.

– Remove the empowerment for the Commission to adopt sector-specific sustainability reporting standards.

The specific objectives of the proposed amendments to Directive 2006/43/EC included in this proposal aim to achieve the following results:

– Delete the obligation for the Commission to adopt standards for sustainability assurance by October 2026. The Commission will issue targeted assurance guidelines by 2026.

The specific objectives of the proposed amendments to Directive (EU) 2022/2464 included in this proposal aim to achieve the following results:

– Reflect the reduction of the undertakings in scope of sustainability reporting under Articles 19a and 29a of the Accounting Directive in the relevant provision specifying the application dates for sustainability reporting rules.

The specific objectives of the proposed amendments to Directive (EU) 2024/1760 included in this proposal aim to achieve the following results:

– Simplify selected due diligence requirements in order to avoid unnecessary complexities and costs for the large companies under the scope.

– Reduce further the trickle-down effects on SMEs and small midcap companies (SMCs) in the value chains of large companies in scope by limiting information requests.

1.3.3. *Expected result(s) and impact*

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

The expected results and impact of the proposed amendments are to simplify sustainability reporting requirements and as a result reduce the administrative burden on companies in this regard, whilst maintaining the objectives of the European Green Deal and the Sustainable Finance Action Plan. The proposed amendments are also expected to result in significant cost savings for companies in scope when carrying out sustainability reporting. In the same vein, the amendments to the human rights and environmental due diligence requirements are expected to simplify related corporate processes and procedures as compared to the Directive as in force (which is not yet transposed or applied).

1.3.4. *Indicators of performance*

Specify the indicators for monitoring progress and achievements.

The CSRD has been applied by a first set of companies who are publishing their first sustainability statements mainly in the first half of 2025. It has therefore not been possible to undertake an ex-post evaluation or fitness check of either piece of legislation.

To monitor progress towards achieving the proposal's specific objectives, the Commission will explore the possibility of organising exchanges with stakeholders in different formats as well as periodic surveys of users of sustainability information and of undertakings that report such information, depending on the availability of financial resources. Article 6 of the CSRD requires the Commission to present a report on the implementation of the Directive by April 2029.

In this proposal, the Commission also commits to revising the first set of ESRS. Under Directive 2013/34/EU, the Commission is required to review those sustainability reporting standards, including the sustainability reporting standards for small and medium-sized undertakings, every three years to take account of relevant developments, including the development of international standards.

The implementation of the CSDDD as amended, and its effectiveness in reaching its objectives, in particular in addressing adverse impacts, will also be subject to regular evaluation according to Article 36 of that Directive.

A number of indicators will be used to monitor the progress of these proposals, such as the effectiveness and timeliness of the actions proposed, the efficiency of processes for collecting and processing data in accordance with the sustainability reporting requirements, and the objective to limit administrative burden and avoid unnecessary or duplicative reporting requirements.

Under Article 36 of the CSDDD, the Commission will submit, by 26 July 2030, a report to the European Parliament and to the Council on the implementation of this Directive and its effectiveness in reaching its objectives, in particular in addressing adverse impacts. It will cover, among others, the impacts of this Directive on SMEs, the scope of this Directive in terms of the companies covered, the definition of the term 'chain of activities'; the Annex, including whether it should be extended to cover additional adverse impacts; the rules on combatting climate change; the effectiveness of the enforcement mechanisms, penalties and the rules on civil liability; the level of harmonisation, including convergence and divergence between provisions of national law transposing this Directive.

1.4. The proposal/initiative relates to:

☐ a new action

☐ a new action following a pilot project / preparatory action[33]

☐ the extension of an existing action

☑ a merger or redirection of one or more actions towards another/a new action

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative

With this proposal, the Commission proposes a Directive amending a number of provisions of Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464, and (EU) 2024/1760. Once the co-legislators have reached an agreement on the contents of the proposal, the Member States will have a certain period of time to transpose the amendments introduced by this Directive into their national law.

In a separate legislative proposal, the Commission proposes to postpone the application of the sustainability reporting requirements in Directive 2013/34/EU for a period of two years for all large companies and listed SMEs – including non-EU issuers that meet these size thresholds - currently in scope and required to comply with sustainability reporting rules from financial year 2025 onwards. In the same proposal, the Commission also proposes to delay, by one year, the transposition deadline (to 26 July 2027) and the first wave of application (26 July 2028) of the sustainability due diligence rules set out in Directive 2024/1760.

The Commission also proposes to revise Commission Delegated Regulation (EU) 2023/2772 (European Sustainability Reporting Standards). The Commission will adopt the revised ESRS delegated act in time for those undertakings in the second wave that would be required to start reporting under the CSRD in 2028 for financial year 2027 to apply the revised standards.

To monitor progress towards achieving the proposal's specific objectives, the Commission will explore the possibility of organising exchanges with stakeholders in different formats as well as periodic surveys of users of sustainability information and of undertakings that report such information, depending on the availability of

[33] As referred to in Article 58(2), point (a) or (b) of the Financial Regulation.

financial resources. Article 6 of the CSRD requires the Commission to present a report on the implementation if the Directive by April 2029. The implementation of the CSDDD as amended, and its effectiveness in reaching its objectives, in particular in addressing adverse impacts, will also be subject to regular evaluation according to Article 36 of that Directive. This proposal does not require an implementation plan.

1.5.2. *Added value of EU involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this section 'added value of EU involvement' is the value resulting from EU action, that is additional to the value that would have been otherwise created by Member States alone.*

The Accounting Directive, as amended by the CSRD, already regulates the disclosure of sustainability information in the EU. Common rules on sustainability reporting and its assurance ensure a level playing field for companies established in the different Member States. Significant differences in requirements for sustainability reporting and assurance between Member States would create additional costs and complexity for companies operating across borders, which would be detrimental to the single market. Member States acting alone are not able to modify existing EU laws to reduce the burden on companies.

Similarly, the CSDDD already sets out a harmonised regulatory framework for corporate sustainability due diligence, and also covers certain third-country companies active in the EU market, ensuring level playing field in this policy area.

1.5.3. *Lessons learned from similar experiences in the past*

N/A

1.5.4. *Compatibility with the multiannual financial framework and possible synergies with other appropriate instruments*

N/A

1.5.5. *Assessment of the different available financing options, including scope for redeployment*

N/A

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

N/A

4. DIGITAL DIMENSIONS

4.1. Requirements of digital relevance

The reporting requirements introduced by Directive 2013/34/EU require companies to collect and report data concerning their impacts, risks and opportunities as regards material sustainability matters. This exercise entails significant data identification, collection, processing, verification and publication. In order to collect the relevant data, undertakings often use digital data collection and data sharing platforms. Additionally, in order to store and process the data for the purposes of sustainability reporting companies also often utilise digital data management tools.

Users of sustainability information increasingly expect such information to be accessible, comparable and machine-readable in digital formats. Member States must require that undertakings subject to the sustainability reporting requirements of Directive 2013/34/EU make their management reports available on their websites, free of charge to the public. Digitalisation creates opportunities to exploit information more efficiently and holds the potential for significant cost savings for both users and undertakings. Digitalisation also enables the centralisation at Union and Member State level of data in an open and accessible format that facilitates reading and allows for the comparison of data. These requirements also complement the creation of a European single access point (ESAP) for public corporate information.

As regards specific requirements within the Directive which are of digital relevance, please see below.

Directive 2013/34/EU requires undertakings subject to sustainability reporting to prepare their management report in the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) 2019/815 (ESEF Delegated Regulation). It also requires these undertakings to mark up their sustainability reporting, including the disclosures required by Article 8 of Regulation (EU) 2020/852, in accordance with the digital taxonomy to be adopted by the Commission by way of an amendment to the ESEF Delegated Regulation.

A digital taxonomy for the Union sustainability reporting standards will allow sustainability reporting to be tagged and to be machine-readable. Until the adoption of this digital taxonomy, undertakings are not required to mark-up their sustainability statements. Considering that the sustainability statement will become machine-readable only once it is both included in an XHTML document and marked-up with a digital taxonomy, pending the adoption of the digital taxonomy undertakings are also not required to prepare the management report in XHTML.

Stakeholders affected by these requirements include undertakings required to prepare and publish a sustainability statement which has been digitally tagged and provided in an XHTML format, as well as assurance providers who must verify that the sustainability statement meets the necessary requirements.

The current proposal does not modify the existing digital tagging or format rules introduced by the CSRD, which will enhance digital reporting and enable the use of artificial intelligence in utilising the information that undertakings report.

As regards the CSDDD, digital tools and technologies, such as those used for tracking, surveillance or tracing raw materials, goods and products throughout value chains, for instance satellites, drones, radars, or platform-based solutions, could support and reduce the cost of data gathering for value chain management, including the identification and assessment of adverse impacts, prevention and mitigation, and monitoring of the effectiveness of due diligence measures.

4.2. Data

See section above.

4.3. Digital solutions

See section above.

4.4. Interoperability assessment

N/A

4.5. Measures to support digital implementation

To facilitate the smooth implementation of the requirements of digital relevance identified in Section 4.1., the Commission is involved in a number of initiatives.

Firstly, a digital taxonomy for the Union sustainability reporting standards will be necessary to allow the reported information to be tagged in accordance with those sustainability reporting standards. The Commission will adopt a digital taxonomy for the tagging of sustainability information via a Delegated Act, after having received technical advice from ESMA.

Secondly, in the framework of the 2025 Technical Support Instrument round, the Commission intends to launch a flagship multi-country project entitled "Improving Sustainability Reporting for Businesses." This initiative aims to enhance the capacity of Member States to support companies, particularly SMEs, in implementing CSRD and EU Taxonomy reporting requirements. The support under this initiative will take into account the evolution of the reporting requirements, and it will also be relevant for non-listed SMEs that are not subject to mandatory reporting but face growing demands for sustainability information from their financial and value chain partners.

Thirdly, EFRAG has launched an SME forum in which they bring together relevant stakeholders of the SME community to discuss the implementation of the sustainability reporting requirements and how digital solutions and tools can be used to facilitate sustainability reporting for SMEs.

As regards the CSDDD, in order to help companies fulfil their due diligence obligations along their value chain, the Directive encourages the use of digital tools and technologies and requires the Commission to issue guidelines with useful information and references to appropriate resources. When using digital tools and technologies, companies should take into account and appropriately address possible risks associated therewith, and put in place mechanisms to verify the appropriateness of the information obtained.