HOT TOPIC

Sustainability in the EU

Global implications of due diligence acts

April 2025

Omnibus proposals aim to streamline due diligence obligations and ease compliance burden on companies.

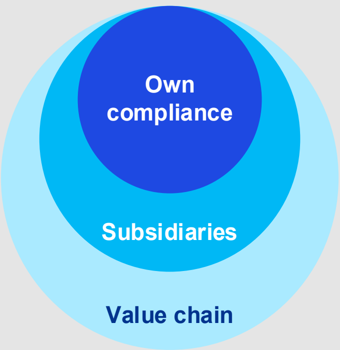
Source and applicability

- The Corporate Sustainability Due Diligence Directive (CSDDD) applies to companies worldwide that meet certain employee, revenue and/or royalty thresholds.
- The first Omnibus package includes proposals that would amend the CSDDD.

Fast facts and impacts

In July 2024, the CSDDD entered into force. It establishes due diligence obligations related to adverse environmental and human rights impacts. In February 2025, the European Commission (EC) proposed an Omnibus package that included significant CSDDD amendments. While not yet adopted, these proposals warrant careful consideration due to their scope.

The following overview – based on the CSDDD as adopted by the EU – highlights the potential impact for companies operating in the EU, including non-EU companies with significant operations in the EU.



- It isn't enough to ensure an organization's **own compliance** with obligations regarding actual and potential adverse impacts. Companies also have to take appropriate steps to ensure that **subsidiaries** and relevant business partners within the **value chain** are compliant.
- To contribute to combating climate change, companies must adopt a **transition plan** for climate change mitigation that is compatible with the EU's climate-neutrality targets.
- There are **penalties** for noncompliance.

This Hot Topic was updated in April 2025 to reflect the EU's agreement to postpone the CSDDD effective date for the largest companies by one year.

Background

Complex global value chains present environmental and social risks ranging from waste management, water usage and emissions to modern slavery, human trafficking and discrimination. Companies are increasingly subject to scrutiny from consumers, shareholders and other stakeholders that are holding companies responsible for activities in their value chains. Further, governments are seeking to regulate this area with laws aiming to prevent and mitigate environmental and social risks within company value chains.

To support its commitment to becoming climate-neutral by 2050, the EU is requiring companies to change the way they produce, procure, store and distribute products and services by embedding sustainability into their corporate governance framework. One legislative tool the EU is using to achieve climate neutrality is the CSDDD, which introduces corporate due diligence obligations along global value chains – including a requirement to adopt a transition plan in line with the EU's climate neutrality objective.

The CSDDD complements other EU laws that regulate conflict minerals, deforestation and human rights. The directive applies to an estimated 6,000 EU companies and 900 non-EU companies.

Omnibus proposals

In February 2025, the EC released an Omnibus package of proposals to reduce sustainability reporting and due diligence requirements. This includes proposed amendments to the CSDDD aimed at simplifying and streamlining the due diligence framework it introduces while still achieving the overall ambition of the European Green Deal.

The Omnibus package includes two separate legislative documents relevant to the CSDDD.

- **'Stop the clock' proposal**, now agreed to by the European Parliament (EP) and Council of the EU (Council), postpones the CSDDD effective dates by one year for the largest companies. It also extends the transposition deadline for Member States by one year. This provides additional time for the first wave of companies to prepare for their obligations under the CSDDD. To become effective, this amendment still needs to be formally adopted, published in the Official Journal of the EU and transposed into the national law of Member States.
- **Substantive proposals** aim to reduce the reporting burden in various ways – most notably by limiting obligations with regard to indirect business partners. To become effective, these proposals need to be adopted into EU law, following deliberations by the EP and the Council, and transposed into the national law of Member States.

While this Hot Topic discusses the CSDDD as adopted, we highlight the impact of these proposed amendments throughout.

The Omnibus package also includes proposed changes to the Corporate Sustainability Reporting Directive (CSRD) and EU Taxonomy, which are discussed in our CSRD Hot Topic; and the Carbon Border Adjustment Mechanism.

Global implications

Non-EU companies are impacted by due diligence laws in the following ways.

- **Own compliance**. Non-EU companies directly subject to such laws face compliance obligations.
- **Subsidiaries**. Non-EU companies with subsidiaries that are directly subject to such laws may need to support their subsidiaries in establishing due diligence processes and managing reporting obligations.

- **Value chain**. Non-EU companies that do business with (i.e. fall in the value chain of) companies that are subject to such laws may be asked for data, including contractual assurances over that data. Compliance with these laws can require extensive due diligence and risk management

  throughout a company's value chain. In addition to ensuring its own compliance, a company also has to take appropriate steps to set up and carry out due diligence measures with respect to the operations of certain business partners (i.e. related to the operations, products or services of the company) throughout the value chain. This may require embarking on new due diligence processes with business partners in the value chain.

Scoping applies to both EU and non-EU companies

The CSDDD applies to EU and non-EU companies or groups (i.e. a company including all its subsidiaries on a consolidated level) that meet the following criteria.

- **EU companies** (or groups) that had, in the last two consecutive financial years:
  - > €450M net global turnover (revenue), as defined by the Accounting Directive, and > 1,000 average employees; or
  - > €80M net global turnover and > €22.5M royalties from franchising or licensing agreements in the EU.
- **Non-EU companies** (or groups) with significant operations in the EU that had, in two consecutive financial years (the financial year preceding the last and the financial year prior to that):
  - > €450M net turnover in the EU; or
  - > €80M net turnover in the EU and > €22.5M royalties in the EU from franchising or licensing agreements in the EU.

Non-EU companies that meet the above thresholds are in scope irrespective of whether they have subsidiaries or branches in the EU. An indicative list of non-EU companies that meet the scoping criteria is expected to be published by the European Network of Supervisory Authorities, a supervisory body that will be set up by the EC, as directed by the CSDDD.

Despite being a non-US directive, the CSDDD has implications for US (and other non-EU) companies. Start by assessing the obligations that may be relevant to your own company and your subsidiaries.

Provisions for certain types of companies

Micro, small or medium-sized enterprises (SMEs) are not included in the scope of the CSDDD, but may be impacted by obligations as contractors or subcontractors to companies that are in scope.

The substantive proposals introduce a 'value chain cap' to reduce trickle-down effects on smaller companies that are not in scope of the CSDDD. To minimize the burden on companies with < 500 employees, the substantive proposals would require in-scope companies to limit their information requests for value chain mapping to what is specified in the voluntary reporting standard for SMEs (VSME) to be adopted by the EC. Additional information can be requested if necessary, for instance because the voluntary standard does not cover a relevant impact and it cannot be reasonably obtained in any other way. See our CSRD Hot Topic for further information about the forthcoming VSME.

Alternative investment funds and undertakings for collective investment in transferrable securities, as defined by EU law, are exempted from CSDDD obligations.

A designated EU subsidiary may fulfill the CSDDD obligations on behalf of an ultimate parent company when certain conditions are met – e.g. the ultimate parent applies to the supervisory authority for exemption on the basis that its main activity is the holding of shares in operational subsidiaries.

Due diligence obligations cover the value chain

The CSDDD introduces due diligence obligations for companies related to actual and potential adverse human rights and environmental impacts, with respect to their own operations, the operations of their subsidiaries, and operations carried out by direct and indirect business partners throughout their value chain (i.e. chain of activities).

The substantive proposals would remove due diligence obligations related to indirect business partners, except if certain conditions exist, through proposed limitations in identifying and assessing adverse impacts. This proposed amendment is discussed further in the Identify and assess section.

The value chain includes upstream activities related to the production of goods or the provision of services (e.g. the design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, products or parts of products and the development of the product or service) and downstream activities related to products only (e.g. the distribution, transport and storage of a product) – excluding the disposal of product. The exclusion of activities of a company's downstream business partners related to the provision of services by that company is particularly relevant for regulated financial undertakings (e.g. credit institutions, insurance companies) in scope of the CSDDD.

Companies are required to conduct risk-based human rights and environmental due diligence by complying with the following obligations.

Identify and assess ◆	• Take appropriate measures to identify and assess actual and potential adverse impacts considering relevant risk factors – e.g. severity, likelihood. • Where it is not feasible to prevent, mitigate, end or minimize all identified adverse impacts at the same time, prioritize the prevention and ending of actual and potential adverse impacts based on severity and likelihood.
	• The substantive proposals would limit this assessment to direct business partners, but would require companies to conduct in-depth assessments of indirect partners when plausible information suggests potential adverse impacts – e.g. if the company has received or is aware of reports that indicate adverse impacts at the indirect business partner level. Confirmed adverse impacts from this assessment would trigger the same obligations as those for direct business partners.
Prevent, cease or minimize ◆	• Prevent and mitigate potential adverse impacts with appropriate measures – e.g. prevention action plans, contractual assurances. • End or minimize the extent of actual adverse impacts by taking appropriate measures (e.g. corrective action plan when the adverse impact cannot be immediately ended) that are proportionate to the severity of the adverse impact and to the company's implication in the adverse impact. • If the efforts (e.g. prevention action plan, corrective action plan) fail to end or minimize the extent of the adverse impact, terminate the business relationship.
	• The substantive proposals would remove the duty to terminate business relationships. However, if severe adverse impacts are identified and all due diligence measures are exhausted, the company would consider suspending the relationship while collaborating with the supplier on a solution.

Monitor ◆	• Assess the adequacy and effectiveness of the above due diligence measures at least every 12 months. More frequent reviews are required if there are reasonable grounds to believe that new risks of adverse impacts may arise.
	• The substantive proposals would reduce the required frequency of the periodic monitoring exercises, from one year to five years, while maintaining the requirement for more frequent reviews when the conditions described above are met. • The substantive proposals would remove the requirement for companies to engage with stakeholders when developing indicators for monitoring.
Remediate ◆	• Provide remediation for actual adverse impacts when the company has caused or jointly caused such impacts.
Policies, risk management systems	• Integrate due diligence into all relevant policies and risk management systems. • Have in place a due diligence policy that ensures risk-based due diligence. • Review and, where necessary, update the due diligence policy at least every 24 months.
Complaints procedure	• Establish and maintain a fair, publicly available, accessible, predictable and transparent procedure for dealing with complaints regarding actual or potential adverse impacts.
Transition plan	• Adopt, put into effect and update, at least every 12 months, a transition plan for climate change mitigation. • Aim to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and the limiting of global warming to 1.5 degrees Celsius in line with the Paris Agreement and the EU's climate neutrality objective.
	• The substantive proposals would replace the requirement to put into effect the transition plan with a requirement that the adopted transition plan include implementing actions planned and taken.
Report	• Publish on its website, an annual statement reporting on the above due diligence obligations. Reporting guidance is forthcoming (see Next steps).

◆ Indicates a requirement to consult with stakeholders – e.g. employees, trade unions, consumers – as part of meeting the obligation.

The substantive proposals would clarify and target the scope of stakeholder engagement by:

- limiting the scope of stakeholders to workers and their representatives, and to 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 business partners; and
- only requiring companies to engage with relevant stakeholders – i.e. those with a link to the specific stage of the due diligence process being carried out. For example, a company would engage with affected individuals when designing a remediation measure.

Except for the monitoring stage, companies would still be required to consult with stakeholders at certain stages of the due diligence process identified by the ◆ above.

The above due diligence obligations are informed by the United Nations' Guiding Principles on Business and Human Rights (UNGPs) and the Organization for Economic Cooperation and Development's (OECD's) Guidelines for Multinational Enterprises.

Certain exemptions are available

- In-scope parent companies may fulfil certain due diligence obligations on behalf of their subsidiaries, as long as certain conditions are met – e.g. the subsidiary abides by its parent company's due diligence policy.
- Companies that prepare sustainability reporting in accordance with the CSRD are exempt from the reporting obligation within the CSDDD – i.e. companies are still required to comply with the non-reporting related obligations in the CSDDD.
- Companies that report a transition plan in accordance with the CSRD are deemed to have complied with the CSDDD obligation to adopt a transition plan but are still required to meet the CSDDD obligation to put the CSDDD compliant transition plan into effect and update it every 12 months. It is expected that future guidance will further clarify the transition plan obligations.

As indicated in the transition plan obligation, the substantive proposals would replace the requirement to put into effect a transition plan with an obligation to adopt a transition plan, including implementing actions. This proposed amendment would better align with the language of the CSRD, while continuing to complement the CSRD with a clear obligation to adopt a transition plan.

Companies should consider incorporating CSDDD obligations into their CSRD implementation – as CSDDD obligations may be more extensive. For example, while the CSRD requires disclosure of a company's adopted transition plan, the CSDDD has more specific requirements regarding the type of transition plan that must be adopted.

Penalties and civil liability for noncompliance

Member States will establish rules on effective, proportionate and dissuasive penalties, including maximum pecuniary penalties of at least 5% of global net turnover.

The substantive proposals would require the EC to collaborate with Member States to develop fining guidelines that would replace the existing pecuniary penalties – i.e. the 5% threshold would be eliminated.

In relation to civil liability, Member States are required to ensure through national law that a company can be held liable for damage caused to a natural or legal person due to the company's failure (whether intentionally or negligently) to prevent or mitigate potential adverse impacts, or end or minimize the extent of actual adverse impacts.

The substantive proposals would eliminate the uniform EU-level civil liability regime, allowing Member States to maintain or adapt their own liability regimes. This would include removing the requirement for Member States to allow trade unions or nongovernmental organizations to initiate representative actions. Member States would be required to ensure that if a company is held liable for damage caused to a natural or legal person by a failure to comply with the CSDDD, those persons should have a right to full compensation.

The CSDDD obligations are regulated by the relevant Member States.

- For EU-based companies, that is the Member State in which the company has its registered office.
- For non-EU based companies, that is the Member State in which the company has a branch. If a non-EU company does not have a branch in any Member State, or has branches located in different Member States, it is regulated by the Member State in which it generated the highest net turnover in the EU in the financial year preceding the last.

Effective dates

Following a phased introduction, the largest companies (based on the scoping criteria for the financial years described above) implement non-reporting related CSDDD obligations first.

	Compliance with non-reporting related due diligence obligations[1]	Reporting on due diligence obligations[2]
Wave 1 • EU companies with net global turnover > €1.5B and > 5,000 average employees • Non-EU companies with net turnover > €1.5B in the EU	July 26, 2027	2029
Wave 2 • Other EU companies with net global turnover > €900M and > 3,000 average employees • Other Non-EU companies with net turnover > €900M in the EU	July 26, 2028	2030
Wave 3 • All other companies within scope	July 26, 2029	2030

Notes:

1. Indicates the dates by which companies have to comply with the non-reporting related due diligence obligations.
2. Indicates the year in which companies have to report on their due diligence obligations – e.g. EU companies with net global turnover exceeding €1.5B and > 5,000 average employees have to report on their 2028 due diligence obligations in 2029.

The ‘stop the clock’ proposal, now agreed to by the EP and the Council, delays by one year the effective dates for Wave 1 – i.e. to July 26, 2028 for compliance, and 2030 for reporting. There is no proposed change to the effective dates for Waves 2 and 3.

Next steps

The following are next steps related to items discussed in this Hot Topic.

Omnibus proposals

The Omnibus proposals, as discussed throughout this Hot Topic, are not yet binding.

As of April 2025, the EP and Council agreed to the 'stop the clock' proposal, which is being fast-tracked through the EU legislative due process. The proposal is pending final adoption into EU law via publication in the Official Journal of the EU, after which it will be transposed into national law. The deadline for transposition is December 31, 2025.

Given their complexity, the substantive proposals will take longer to go through the EU legislative due process. The proposals are currently with the EP and Council as part of their scrutiny process, during which they can each suggest changes; these will need to be reconciled during the trilogue process where the EC, EP and Council seek to reach agreement on a single text. The scrutiny process will likely continue through at least October, making adoption by year-end challenging.

Once adopted into EU law, Member States must transpose the proposals into national law and further revisions may be made at the Member State level. Member States will have twelve months to transpose any adopted substantive proposals, likely pushing transposition to the end of 2026 at the earliest.

Transposition

The CSDDD was published in the Official Journal of the EU and entered into force in July 2024. Member States (which will enforce the CSDDD) have until July 26, 2026 to transpose the CSDDD into national law.

The 'stop the clock' proposal, now agreed to by the EP and the Council, extends by one year the CSDDD transposition deadline – i.e. Member States have until July 26, 2027 to transpose the CSDDD.

During the transposition, Member States may introduce into their national law more stringent and/or specific provisions but may not diverge from the CSDDD obligations relating to the identification and assessment of actual and potential adverse impacts, the prevention of potential adverse impacts and the bringing to an end of actual adverse impacts. The intention of this harmonization principle is to avoid a fragmented regulatory landscape.

The substantive proposals would expand the harmonization provisions to further aspects of the due diligence process – e.g. the duty to engage with stakeholders in certain cases, the duty to provide for a complaints and notification mechanism.

Reporting

By March 31, 2027, the EC will establish the CSDDD report content and criteria, which is expected to align with similar reporting criteria in the CSRD.

Guidance

The EC will issue guidelines to support companies in fulfilling due diligence obligations in a practical manner. This includes general guidelines by January 26, 2027 and practical guidance on the transition plan by July 26, 2027.

The substantive proposals would require the EC to provide general guidelines six months earlier – i.e. by July 26, 2026, but would not change the rest of the deadlines. In addition to the proposed delay in effective dates for Wave 1 companies (part of the 'stop the clock' proposal, now agreed to by the EP and the Council), companies would have at least two years to take into account this guidance when implementing due diligence measures.

Assessments

A CSDDD review provision directs the EC to make the following assessments.

- By July 26, 2026, assess the need for additional due diligence requirements for regulated financial undertakings related to the provision of financial services and investment activities.
- By July 26, 2030, assess the effectiveness of certain implementation matters, including whether a scoping approach specific to high-risk sectors should be introduced and whether the value chain definition should be revised.

The substantive proposals would no longer require the EC to assess the need for additional due diligence requirements for regulated financial undertakings.

Interactions with other EU legislation

The CSDDD is just one component of several sustainability-related regulations under the European Green Deal that include reporting obligations. For additional information, see our European Green Deal Policy Guide. The CSDDD complements EU legislation including, but not limited to, the following.

CSRD	EU Taxonomy	Carbon Border Adjustment Mechanism (CBAM)
As discussed above, the CSDDD reporting obligation can be covered by reporting under the CSRD, and the CSDDD's obligation to adopt a transition plan complements the CSRD's transition plan reporting obligation. Further, to meet the reporting requirements of the CSRD, companies will likely have to set up information collection processes, which is closely related to identifying adverse impacts under the CSDDD.	The detailed information required by the CSDDD is intended to complement the EU Taxonomy's common language for sustainable economic activities. For example, companies required to report taxonomy-aligned activities need to comply with the EU Taxonomy's minimum safeguards – which include reference to due diligence processes that companies should implement to ensure alignment with the OECD Guidelines and UNGP – i.e. the same guidelines that inform the CSDDD obligations.	The CSDDD complements the EU's 'Fit for 55' Package – specifically, by supporting the transformation of production processes needed to achieve climate neutrality by 2050. This transformation extends to non-EU value chains of EU companies through the CBAM, which imposes a carbon adjustment price for select imported products not subject to the carbon price from the EU Emissions Trading System. The Omnibus package also includes proposed amendments to the CBAM, which are not discussed in this Hot Topic.
Read more: Impact of EU sustainability reporting on US companies	Read more: Get ready for the EU Taxonomy Regulation	Read more: Carbon Border Adjustment Mechanism

The CSDDD joins other EU due diligence acts – e.g. Germany's Supply Chain Due Diligence Act (SCDDA) and France's Duty of Vigilance Law. Companies impacted by such EU acts should monitor developments that may result from legislative attempts to converge with the CSDDD.

Due diligence legislation extends beyond the CSDDD

Although the CSDDD is one of the more commonly discussed due diligence acts expected to have a significant impact on US companies, it joins similar developments globally, including the Uyghur Forced Labor Prevention Act in the US, and the two examples highlighted below that have reporting obligations – Canada's Fighting Against Forced Labor and Child Labor in Supply Chains Act (S-211) and the EU Deforestation Regulation (EUDR).

	Canada's S-211	EUDR
Objective	Prevent and reduce forced labor and child labor violations in corporate supply chains.	Prevent deforestation, forest degradation and biodiversity loss.
Scope	Businesses (Canadian and foreign owned) that (1) are either listed on a stock exchange in Canada or operate[1] in Canada, and (2) import, produce, sell or distribute goods in Canada, or control an entity that engages in such activity.	Operators and traders[3] that place and make available on, or export from, the EU market, certain relevant products.[4]
Effective	January 1, 2024 – for all entities in scope.	December 30, 2025 – for large operators and traders.[5] June 30, 2026 – for SME operators.[5]
Reporting	Annual public report to the government.	Due diligence statement to the relevant authorities.
Obligations	Take steps to prevent and reduce the risk that forced labor or child labor is used at any step of the production of: • goods in Canada or elsewhere by the entity; or • of goods imported into Canada by the entity.	Exercise due diligence – including collecting relevant information, performing risk assessment measures, and adopting risk mitigation measures – to prove that relevant goods/products[4] do not originate from recently deforested areas or contribute to forest degradation.
Penalties	Fines up to CAD 250,000 for failure to submit a report or misrepresentation in reporting.	Fines up to 4% of EU revenue, to be determined by Member State transposition; confiscation of products and revenue; exclusion from public procurement process.

Notes:

1. Operating in Canada means (1) having a place of business in Canada, doing business[2] in Canada or having assets in Canada and (2) meeting at least two of the following conditions, based on consolidated financial statements, for at least one of the two most recent financial years: (a) having ≥ CAD 20M in assets; (b) having generated ≥ CAD 40M in revenue; and (c) employing an average of ≥ 250 employees.
2. When determining whether an entity does business in Canada, the Canadian government may consider various factors depending on the nature of the business – e.g. employee location, production location.

3. Operators and traders are those that, in the course of a commercial activity, place relevant products[4] on the market, export them or otherwise make them available.
4. Relevant products are those listed in Annex I of EUDR that have been produced with relevant commodities listed in Annex I of EUDR: cattle, cocoa, coffee, oil palm, rubber, soya, wood.
5. An amendment delayed the effective dates by one year.

These laws are signals for what may become more common around the world. As their impact is felt, other countries have already begun (and others likely will follow) to boost their due diligence laws.

US companies should look for efficient ways to implement due diligence operating models that address multiple jurisdictional requirements simultaneously. An overall risk management approach, supported by a cross-functional team, can allow a company to collect and manage relevant data and stay abreast of new laws.

KPMG resources

For further guidance on sustainability developments in the EU, we recommend the following KPMG resources as a starting point.

- Handbook, ESRS Foundations
- Hot Topic, Impact of EU sustainability reporting on US companies
- Web article, EU releases Omnibus proposals

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