

Anticipating Changes to CSRD and CSDDD

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Summary: The European Commission has proposed significant changes to CSRD and CSDDD, aiming to reduce the scope and simplify reporting requirements. These changes would exempt 80% of currently affected companies, focus on larger businesses, and limit due diligence to tier 1 suppliers. While welcomed by businesses, the proposals face opposition from NGOs and trade unions

Introduction:

The European Commission recently published (Wednesday, February 26) a package of proposals, known as an “Omnibus” in which it set out radical changes to a number of European laws, including the *Corporate Sustainability Reporting Directive (CSRD)*, the *Corporate Sustainability Due Diligence Directive (CSDDD)*, and *Taxonomy*, which categories the “greenness” of a business.

The proposals were broadly welcomed by business representatives, but met with howls of rage from NGOs, European trade union leaders, and what might be called the “due diligence consultancy industry” who were looking at their business model going south. All those potential clients disappearing before their eyes. Not to mention their own jobs.

We say “European trade union leaders” because we have never been convinced that ordinary trade union members in Europe cared much about stuff in far-away lands of which they knew little. You are unlikely to see massed ranks of trade unionists on the streets of Brussels chanting “What do we want? Due diligence. When do we want it? Now”. At best, it will be a few people from head office waving banners outside the Berlaymont.

No change for now

It is important to be clear about one thing. The proposals from the Commission do not change the law. For now, the CSRD and CSDDD are still in force. It will take a joint decision of the Council of Ministers, representing the Member States, and the European Parliament, to change the law. Expect stiff opposition from politicians and others who have invested heavily in the due diligence process. See these postings on LinkedIn, one from a social democrat member of the European Parliament, the second from a Danish academic and a retired UN official: [here](#) and [here](#)

What struck us about the second LinkedIn post, from the Danish academic, was its patronizing tone: *We know better than the EU Commission, businesses, and business organization what is good for business, even though we have never actually run a business ourselves.*

Our best guess is that the Commission’s proposals will go through. There are centre-right majorities in both the Council and the Parliament that support these changes. These majorities are more concerned about the competitiveness of European businesses, and businesses from other countries located in Europe, than they are about Europe setting regulatory standards for the rest of the world.

The geopolitical situation has changed. The focus now is “look after your own” and European business competitiveness could certainly do with a boost at this time. Doing what is necessary to generate decent jobs in Europe has to be the priority rather than putting resources into due diligence processes that might, just might, turn up some bad behaviour by bad actors somewhere in the value chain.

As CSDDD has not yet taken effect, in this note we focus on CSRD, with some companies having to report this year on 2024 results. It has been estimated that about 50,000 businesses fall within the scope of CSRD as currently written, having to potentially report on some 2,000 data points, if they considered them material.

What could change?

All the documents published by the EU Commission on February 26 can be found [here](#). The first thing to note is that what is being proposed would take about 80% of companies currently in scope out of scope. As it stands today, companies with over 250 or more employees on average during the financial year; €50m or more in net turnover; €25m or more in total assets are caught by CSRD.

When the changes go through:

- Only companies with more than 1,000 employees and a turnover in excess of €50m will be in scope. This metric means that most HR Policy Global member companies will still be obliged to report under CSRD.
- Companies due to report in 2026 and 2027 (so-called Waves 2 and 3) will not have to do so until 2028, aligning CSRD and CSDDD reporting.

In future, it will largely be the same companies caught by both Directives. Merging the two Directives would have made sense, but that is probably a step too far at this time, though a proposal to do this from the center-right groups in the European Parliament cannot be ruled out. However, companies covered by CSRD will not have to report any extra data under CSDDD, which again begs the question, why have two Directives when just one suffices?

Devil in the Detail

In future, the due diligence obligation will only extend to “tier 1” suppliers, that is the suppliers that deal directly with the company. Companies will only need to check further down the value chain if they are made aware of possible violations. Given that many of the companies in scope would have thousands, if not hundreds of thousands, of suppliers and customers in their value chains, expecting the “controlling undertaking” to do due diligence on them all was always an unrealistic obligation.

It also seems that the extent of the due diligence requirement will be cut back. As things stand, companies have to report against some 2,000 data points, set out in ESRS – European Sustainability Reporting Standards – developed by EFRAG, an independent technical body mostly funded by the EU Commission.

Some of the proposed requirements were clearly developed by people with little understanding of the real world. For example, as we have previously pointed out, how is management in a company in scope supposed to engage with the employees, employee representatives, or their “proxies” in suppliers throughout their

value chain, even if in future they only have to engage with their lead suppliers? It is simply not appropriate for the management in one company to talk with employee representatives in another company.

For now, we need to wait to see what the Commission does about the data overkill required by ESRS. Who was ever going to read any of this stuff in any event? The Commission's focus should be on cutting them down, making them simple and realistic. Their aim should be to make it easier for companies to comply. Focus on essential data, and not data that activists and academics would like to have to support their own agendas.

It also seems that "sector specific standards", will be jettisoned, leaving all undertakings having to just comply with one set of standards.

Endpoint: CSRD and EWCs

As already noted, most of our member companies will continue to be in scope of the CSRD. Many of them also have EWCs. We are aware that some companies have decided to engage with their EWCs on their annual CSRD report. Others may not choose to do so. However, it needs to be kept in mind that the CSRD report will be in the public domain and will potentially contain a lot more employee relations and human resource data than may be now set out in the report from management to the annual meeting with the EWC. The Dublin law firm, Matheson, has identified around 270 HR data points in ESRS that potentially need to be reported on, if considered material.

No doubt, EWC members will have copies of the CSRD report. We advise that management give some thought to how they want to deal with this issue. The contents of the CSRD report are bound to lead to questions at the annual meeting. However, no matter how handled, it has to be made clear to the EWC that it has no mandate to get involved with issues relevant to individual countries. Its mandate is transnational.

We will continue to keep members updated on developments as the Commission pushes ahead with this welcome initiative.

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