



FREQUENTLY ASKED QUESTIONS IN RESPONSE TO MANDATORY REPORTING IN THE EUROPEAN UNION

The shift from largely voluntary standards on sustainability due diligence and reporting to mandatory rules in the European Union marks a significant change in the global business landscape. What does this mean for the UN Global Compact and its members?

1. How are the new EU corporate sustainability due diligence and reporting regulations connected to the UN Global Compact's mission and Ten Principles?

The EU's new corporate sustainability regulations, especially the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), are substantially aligned with the international due diligence standards that underpin the UNGC's mission and Ten Principles. They have the same objective - that companies should respect people and planet in their own operations and in their value chains - and they set broadly the same expectations for companies about how to meet this responsibility in practice. They thus should help level the playing field for companies - including UNGC members - that have been voluntarily implementing the authoritative global standards for more than two decades now.

While the CSDDD and CSRD are EU regulations, they will undoubtedly have a global impact because they apply throughout many EU companies' value chains and also to a number of non-EU companies operating in the single market. Because they are grounded in existing expectations of corporate sustainability and responsible business conduct, these new rules should drive positive outcomes for some of the most vulnerable stakeholders in global value chains while also remaining manageable for companies to implement.

2. How can participation in the UN Global Compact help companies to comply with mandatory measures from the EU?

The UNGC has always supported participating companies on improving corporate sustainability practices via capacity-building sessions and on-demand training, peer-to-peer learning opportunities and amplifying best practices. It will continue to provide practical tools, resources and programs to help member companies implement international standards, while at the same time helping them understand these mandatory requirements and take meaningful action to implement them, tailored to their local contexts. This will include continuing to provide concrete guidance and practical examples on core topics - such as human rights due diligence, labour rights including living wages - that are at the heart of the EU rules.

As an initiative that encourages corporate leadership, the UNGC will work with member companies to demonstrate how compliance with these mandatory measures can continue to foster the kind of innovation that many have shown in meeting their existing UNGC commitments. And as a global multistakeholder initiative, UNGC will continue to offer a platform to bring together diverse stakeholders to discuss, learn, share experiences and collaborate on human rights, labour, environmental and anti-corruption objectives at global, regional and country levels, including key UN agencies.

3.

Will member companies need to implement completely new measures to comply with EU regulations?

UNGC member companies' existing commitments to the Ten Principles - and the international standards that underly them - put them ahead in being ready to meet the demands of this new legislation, particularly with regard to the human (including labour) rights requirements. Like the Ten Principles, these rules expect companies to adopt a principles-based approach to doing business, and also expect them to embed this approach into their core business operations and strategies, thereby contributing towards strong, long-term business performance.

The same policies and processes that companies have in place to meet their UNGC commitment will help them implement these new rules. The CSDDD and CSRD expect companies to have risk-based due diligence approaches in place to prevent and address the most severe and most likely risks to people and the environment with which they may be involved, in their own operations or through their value chains. (The CSDDD has some limitations on involvement in risks arising in connection with downstream business relationships but the CSRD does not.) This includes prioritizing impacts for attention where needed, adopting appropriate mitigation and remediation measures, and engaging with affected stakeholders to inform their approach. While some of the specific language may differ, the core concepts do not.

The regulations recognize that in order to drive better outcomes, companies will need to engage with their business partners and should not adopt a 'cut and run' approach when problems are found. Companies should also look at where their own activities (such as purchasing practices) may be inadvertently contributing to heightened risks in their value chains and take action to address this.

4.

What is the relationship between the UNGC's Communication on Progress and these new EU requirements?

To meet their obligations under the CSDDD, covered companies are required to report in line with the CSRD and European Sustainability Reporting Standards (ESRS) that support it. The CSRD and ESRS apply to a higher number of companies than the CSDDD does, going beyond the largest businesses to also cover a number of mid-cap companies and some SMEs.

Introduced as an annual requirement for participants in 2004, the Communication on Progress (CoP) is the UNGC's main accountability mechanism based on commitments by member companies to make continuous progress on implementing the UN Global Compact Ten Principles. Because the CoP is anchored in the Ten Principles, which are grounded in the existing international due diligence standards just as these new EU rules are, it does not compete with them. The ESRS have additional requirements that are not required by the CoP, including third party verification before reporting is filed with the relevant authority and the disclosure of a larger number of specific data points. However, they rely on the same set of due diligence policy and process expectations that the CoP does, and so there will be extensive overlap in the information that companies are gathering to meet their CSDDD/CSRD reporting obligations and complete their CoP.

