Germany Moves Forward with CSRD Transposition and Eases Supply Chain Due Diligence Obligations

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Germany has taken a decisive step toward closing the gap between its sustainability framework and that of the European Union. On 3 September 2025 the Federal Cabinet approved (i) the Federal Ministry of Justice's draft bill to transpose the Corporate Sustainability Reporting Directive ("CSRD") into German law and (ii) a package of amendments to the Supply Chain Due Diligence Act ("LkSG"). The two initiatives, which the German government deliberately coupled, are designed to create legal certainty for companies that must begin planning now for complex ESG reporting and due diligence requirements while at the same time avoiding competitive disadvantages for German industry pending completion of the EU's broader "Omnibus Package" reform agenda.

TRANSPOSITION OF CSRD

The CSRD, adopted at EU level in 2022, requires certain (primarily large) companies to disclose the environmental and social impacts of their business activities through mandatory sustainability reporting. It is currently under review as part of the EU's "Omnibus Package" reforms (see further details here). Germany was required to implement the CSRD by 6 July 2024 but missed this deadline, prompting the European Commission to initiate infringement proceedings. Pending EU-level reform, the German government is moving ahead with implementation of the current framework, while ensuring that German companies can benefit swiftly and securely from any adjustments agreed in Brussels. The new draft law aims to close the gap between Germany and other EU Member States, many of which have already transposed CSRD requirements nationally, and provides much-needed legal certainty for German companies, many of which have been awaiting clarity while their EU peers moved ahead with implementation.

Phased Introduction of Reporting Obligations

The German law introduces reporting requirements in two stages:

- **Wave 1 (from FY 2025, first reports in 2026):** Applicable to large companies that are either listed or operate as credit institutions or insurance companies, with more than 1,000 employees. Approximately 240 German companies fall into this category. Notably, this timing deviates from the CSRD, which provides that Wave 1 companies report from FY 2024. Importantly, because Germany missed the transposition deadline, companies will not be required to report retroactively for FY 2024, providing immediate relief for those still preparing their sustainability reporting systems.

- **Wave 2 (from FY 2027, first reports in 2028):** Applicable to other large companies, with obligations postponed in line with the EU-wide timeline.

The final scope of companies affected remains under negotiation at EU level. While the draft reflects the CSRD as it currently stands, the Federal Government expects that the scope may ultimately be narrowed, potentially reducing the compliance burden for many mid-sized companies that would otherwise fall within Wave 2. The precise outcome will be determined in the trialogue negotiations between the Council, Parliament, and Commission.

Relief Measures to Reduce Burdens

To facilitate implementation and reduce costs, the German law incorporates several relief measures that are particularly relevant for industrial and manufacturing companies:

- **Stop-the-Clock Directive Implemented:** Formal postponement of reporting deadlines according to the *Stop-the-Clock Directive* (see further details here), providing companies with additional time to prepare for the new requirements.

- **Exemption for Smaller Wave 1 Companies:** Companies with fewer than 1,000 employees are exempt from reporting in FY 2025 and FY 2026, avoiding short-term obligations ahead of expected EU reforms.

- **Temporary Moratorium:** The obligation to submit sustainability reports in electronic format will not apply for the FY 2025 cycle.

AMENDMENTS TO THE SUPPLY CHAIN DUE DILIGENCE ACT

The LkSG, in effect since 1 January 2023, introduced binding corporate due diligence obligations covering human rights and environmental standards in supply chains. With the adoption of the EU Corporate Sustainability Due Diligence Directive (“CSDDD”) in

July 2024, which closely aligns with the LkSG in key respects, the German government has pledged to implement the CSDDD in a way that reduces bureaucracy and facilitates enforcement. Notably, the CSDDD, which must be transposed into national law by 26 July 2027, is also currently under review as part of the EU's "Omnibus Package" reforms.

The ultimate goal is to replace the LkSG with a new law on international corporate responsibility. In the interim, the government has introduced amendments to the LkSG aimed at easing administrative burdens on companies and making compliance and enforcement more practical. These are:

- **Removal of Reporting Obligations.** The duty to report on compliance with due diligence requirements is removed, retroactively applying to reporting periods beginning January 2023. Companies that have not yet prepared reports for 2023 or 2024 are no longer required to do so, freeing up resources for forward-looking compliance work.

- **Streamlining of Sanctions.** While core due diligence obligations remain in force, sanctions will be imposed only in cases of serious infringements. The scope of administrative offenses subject to fines is narrowed to breaches assessed as particularly serious, such as failure to take preventive or remedial measures or to establish a complaints procedure. The maximum fine for such infringements is set at up to €800,000.

The approach seeks to avoid placing German companies at a competitive disadvantage relative to their European peers until the CSDDD is fully implemented.

OUTLOOK

The German CSRD implementation law and the LkSG amendments will be discussed in the German parliament and will enter into force upon publication in the German *Federal Law Gazette*. While the implementation law incorporates important exemptions and postponements, in-scope companies should not delay preparations for sustainability reporting, but rather (i) use the additional time to map existing environmental, health and safety, financial, and operational data to the European Sustainability Reporting Standards (ESRS) to identify data gaps and system integration needs and (ii) pilot digital reporting tools and refine internal processes before electronic-format filing becomes mandatory.

At the same time, in-scope companies should closely monitor developments in Brussels, where reforms are expected concerning the scope of application. Proactive engagement and early action will be critical to maintaining investor confidence, securing access to sustainable finance, and ensuring long-term compliance as the regulatory landscape continues to evolve.

At the same time, the LkSG amendments are designed as a transitional measure. Once the Act on International Corporate Responsibility enters into force, the LkSG will be replaced. Companies should therefore closely follow the national implementation of the CSDDD and adjust their internal compliance processes accordingly.

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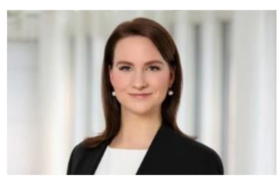

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