

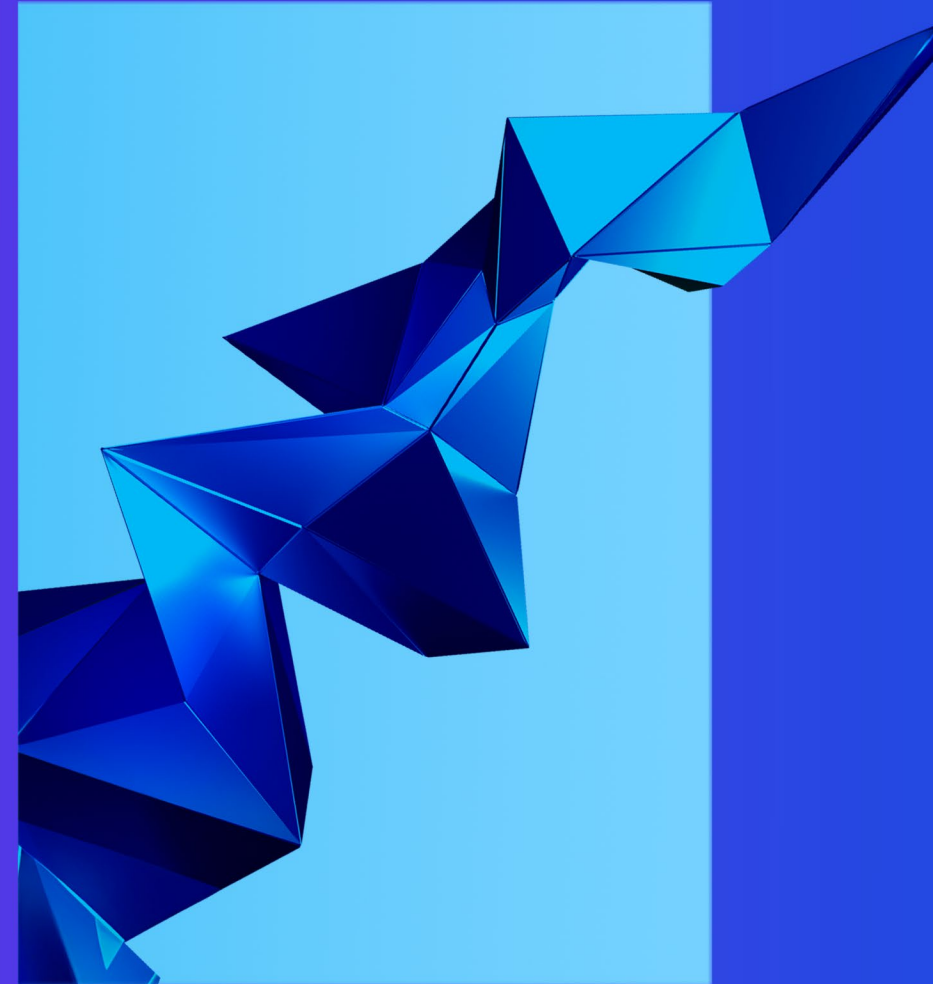


Managing EU Green Deal Regulations with ESG Governance: The CS3D Example

Webcast

—

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Here with you today



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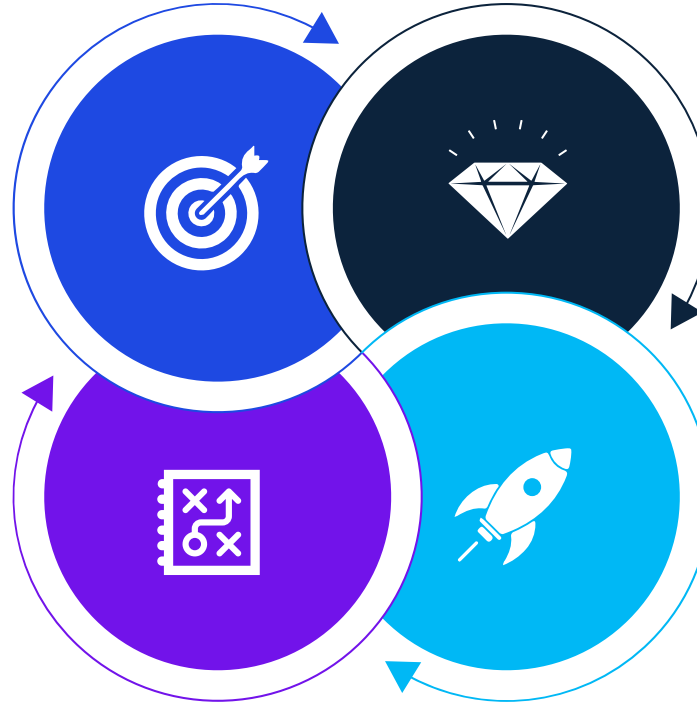
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Agenda

In this webinar, we will focus on the **Corporate Sustainability Due Diligence Directive (CS3D)** regulation and how these requirements can be successfully implemented in the **ESG governance** of the company.

Which national and European regulations place requirements on **sustainable due diligence*** in companies? What exactly do these requirements look like and what synergies can be utilized?

What **challenges and opportunities** arise when implementing ESG governance in the context of CS3D compliance?



How can companies ensure that their **ESG governance structures** meet the requirements of the **CS3D** guidelines?

What is a possible approach for the **implementation of ESG governance** in the context of CS3D?

In the webinar, we will also address the above questions

*In the following slides, this term will be used repeatedly. **Sustainable Due Diligence** or Human Rights and Environmental Due Diligence (HREDD) stands for corporate due diligence for human rights and the environment.

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01

Introduction to the CS3D

Sustainable due diligence is picking up speed

In 2020 political orientation towards sustainability was anchored in the EU Green Deal.

'Man on the moon moment': Europe unveils plan to be first climate-neutral continent by 2050



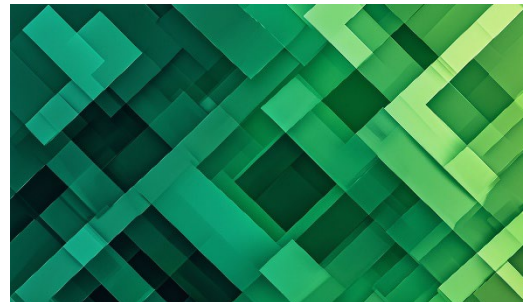
Fit for 55 Package

Series of proposals to revise and update EU legislation to ensure that EU action is in line with climate targets



The 2023 updated OECD Guidelines for Multinational Enterprises show continuous effort towards sustainable due diligence globally.

The scope of an enterprise's responsibility to carry out due diligence in relation to human rights, labour rights, the environment and anti-corruption is clarified and expanded.



These developments also provided the basis for new sets of ESG regulation

A broad range of ESG legislative acts have already been adopted, and others are about to be.

Corporate Sustainability Reporting Directive (CSRD)

Corporate Sustainability Due Diligence Directive (CS3D)

EU-Taxonomy

Consumer protection and market needs

Capital market risks

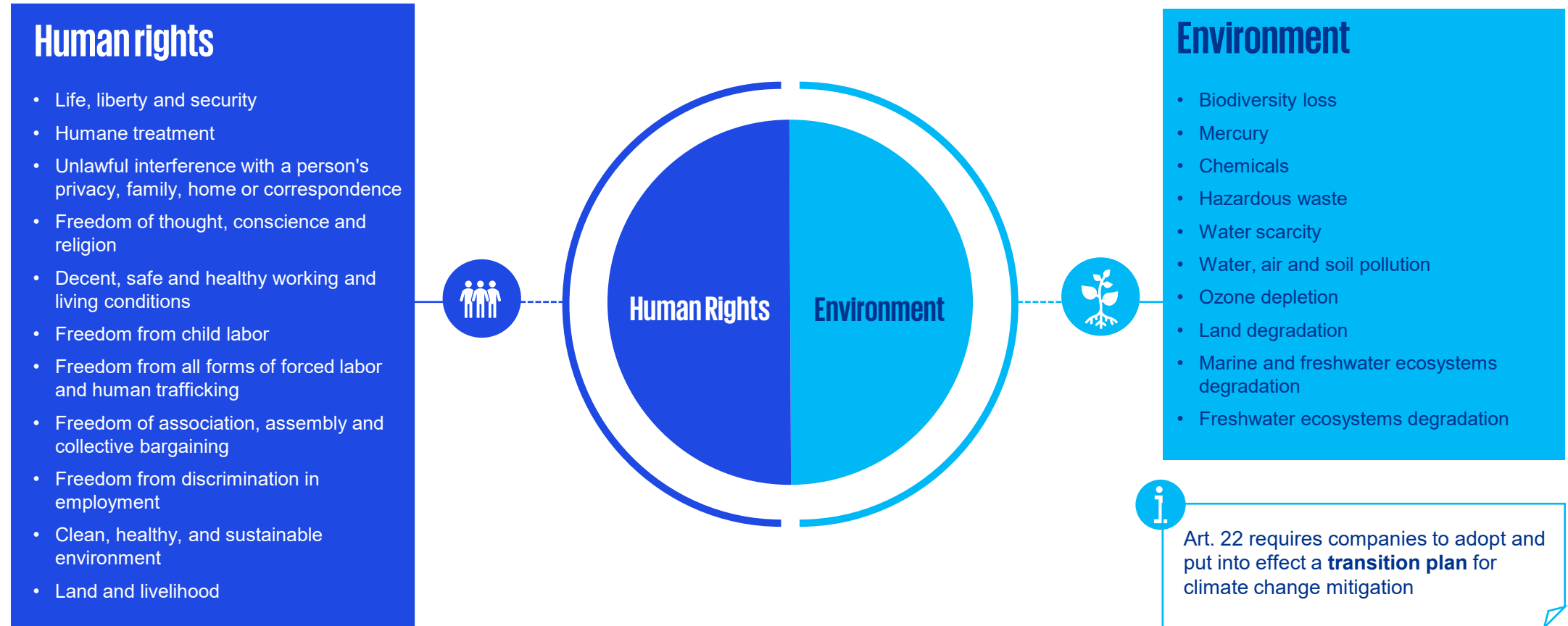
GHG reduction

Protection of biodiversity



Extensive human rights and environmental impacts included

The human rights topics in scope align with the International Bill of Human Rights and the International Labor Organization Declaration on Fundamental Principles and Rights at Work. The environmental topics in scope largely mirror those included in the OECD Guidelines and are based on International Environmental Conventions. It also includes several forbidden activities.



Source: [EU Directive 2024/1760](#)

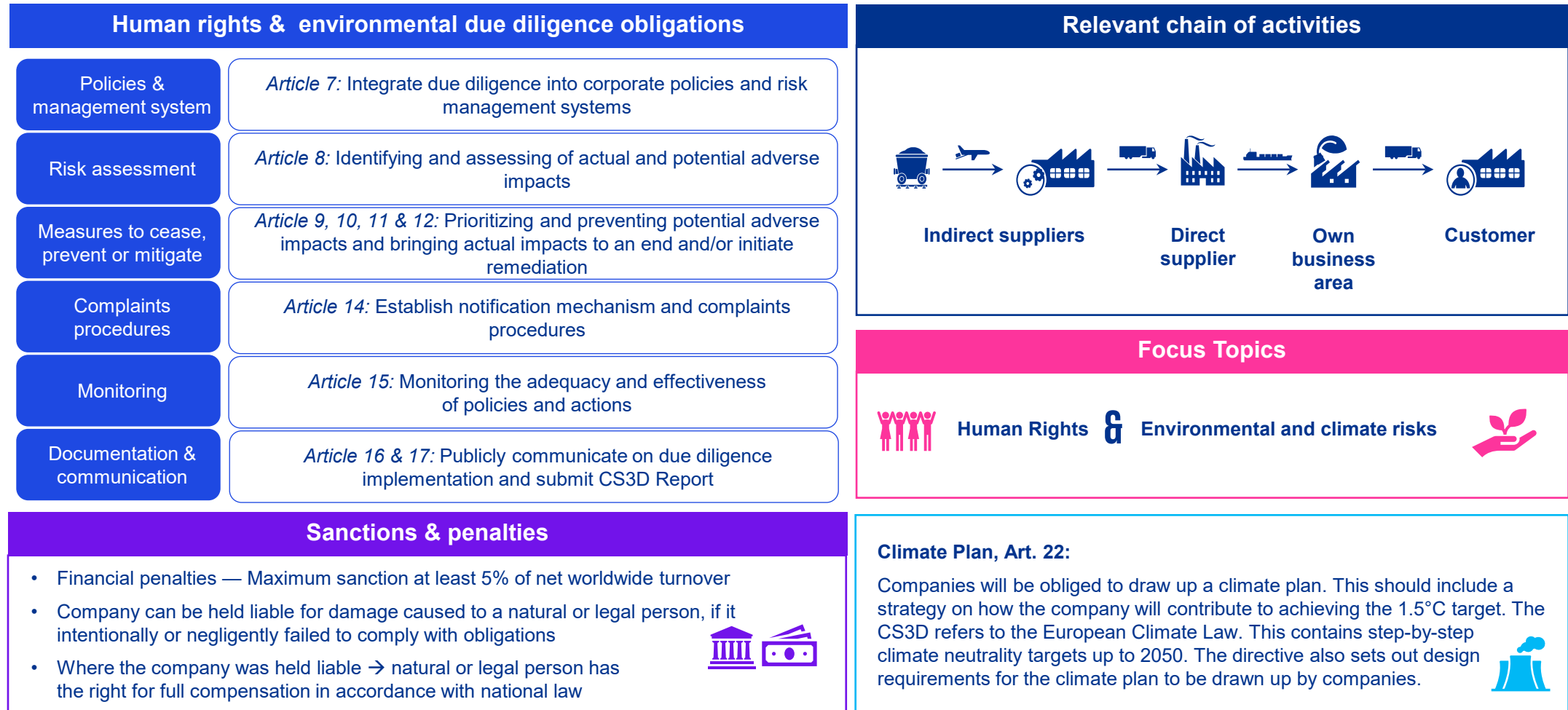
Exemplary national legislation setting due diligences



Note: Not every regulation listed here applies to every company
As of September 2024, non-exhaustive

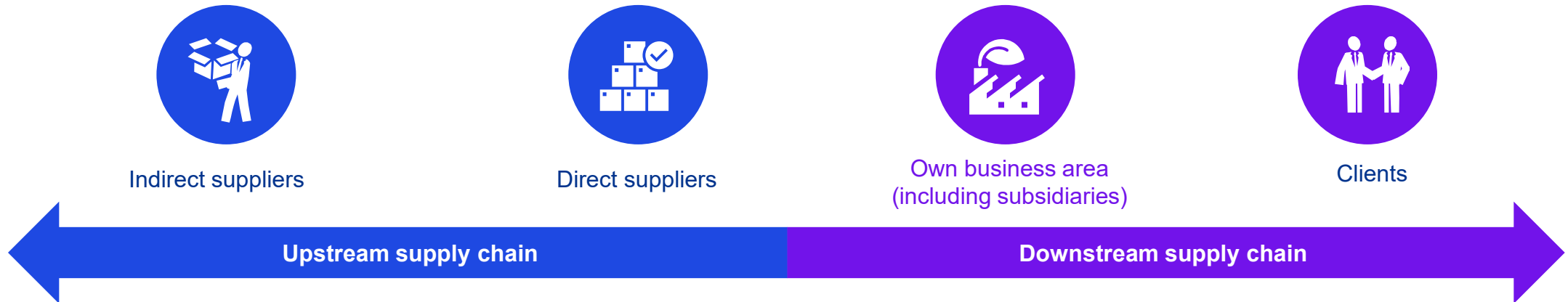
Key aspects of the CS3D

The CS3D aims at a more comprehensive and mandatory approach to corporate sustainability.



Due diligence requirements along the “chain of activities”

Companies are required to adequately comply with human rights and environmental due diligence requirements throughout their value chain, referred to as “**chain of activities**”. The chain of activities should be interpreted in a product- and service-oriented manner.



Upstream:

Activities of upstream business partners (**direct and indirect**) related to the production of goods or the provision of services:

- Design
- Extraction
- Sourcing
- Manufacture
- Transport
- Storage and supply of raw materials products or parts
- Development of the product or the service

Regulated financial undertakings:

- **Only the upstream part of the activities of the financial sector is covered** by the definition
- Generally commercial partnerships are in scope, while certain AIFs¹ and UCITS² are excluded from the scope of application

¹ Alternative Investment Fund

² Undertakings for Collective Investments in Transferable Securities (EU Directive 2009/65/EC)

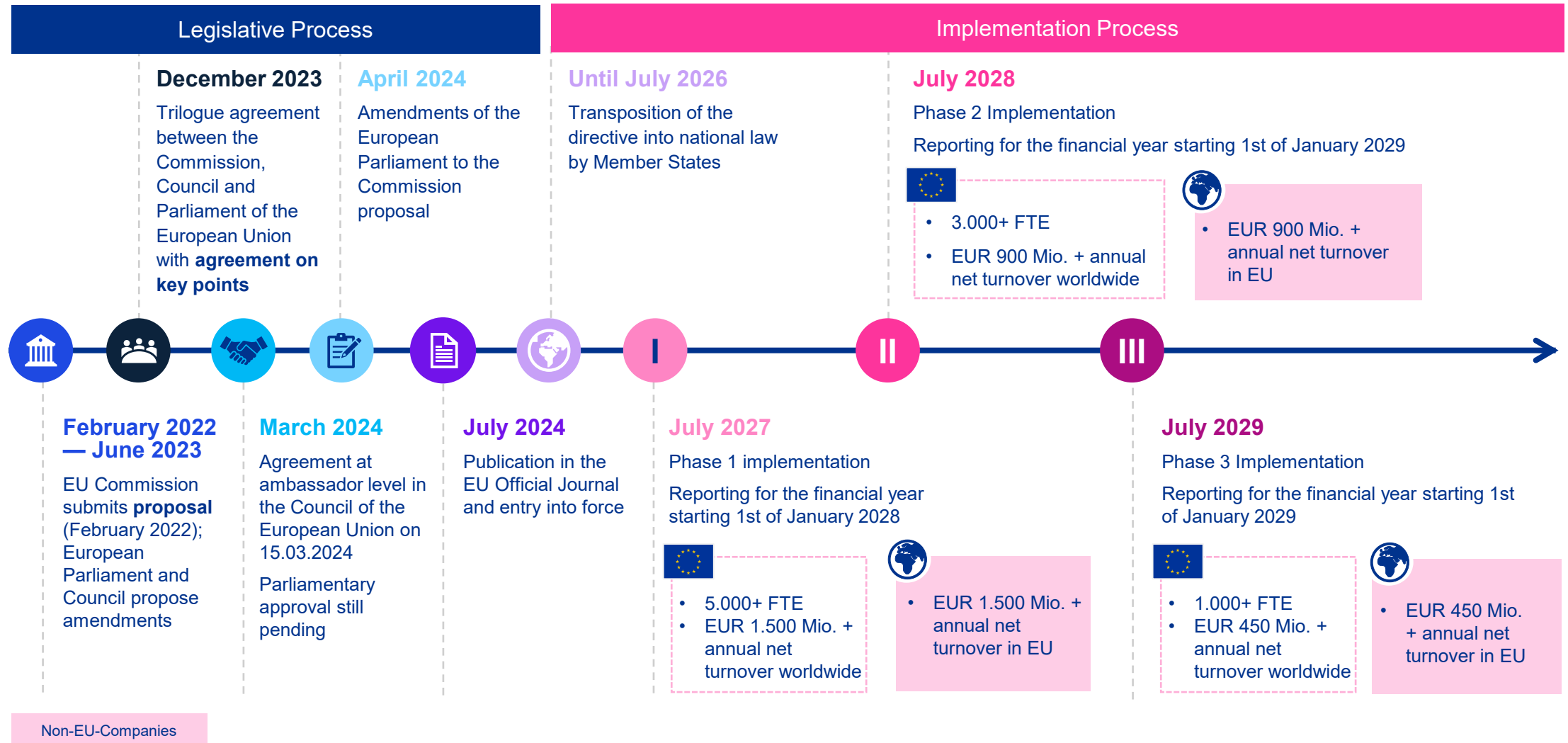
Downstream:

Activities of downstream business partners related to the **distribution, transport and storage** of the product, where the business partners carry out those activities **for the company or on behalf of the company**.

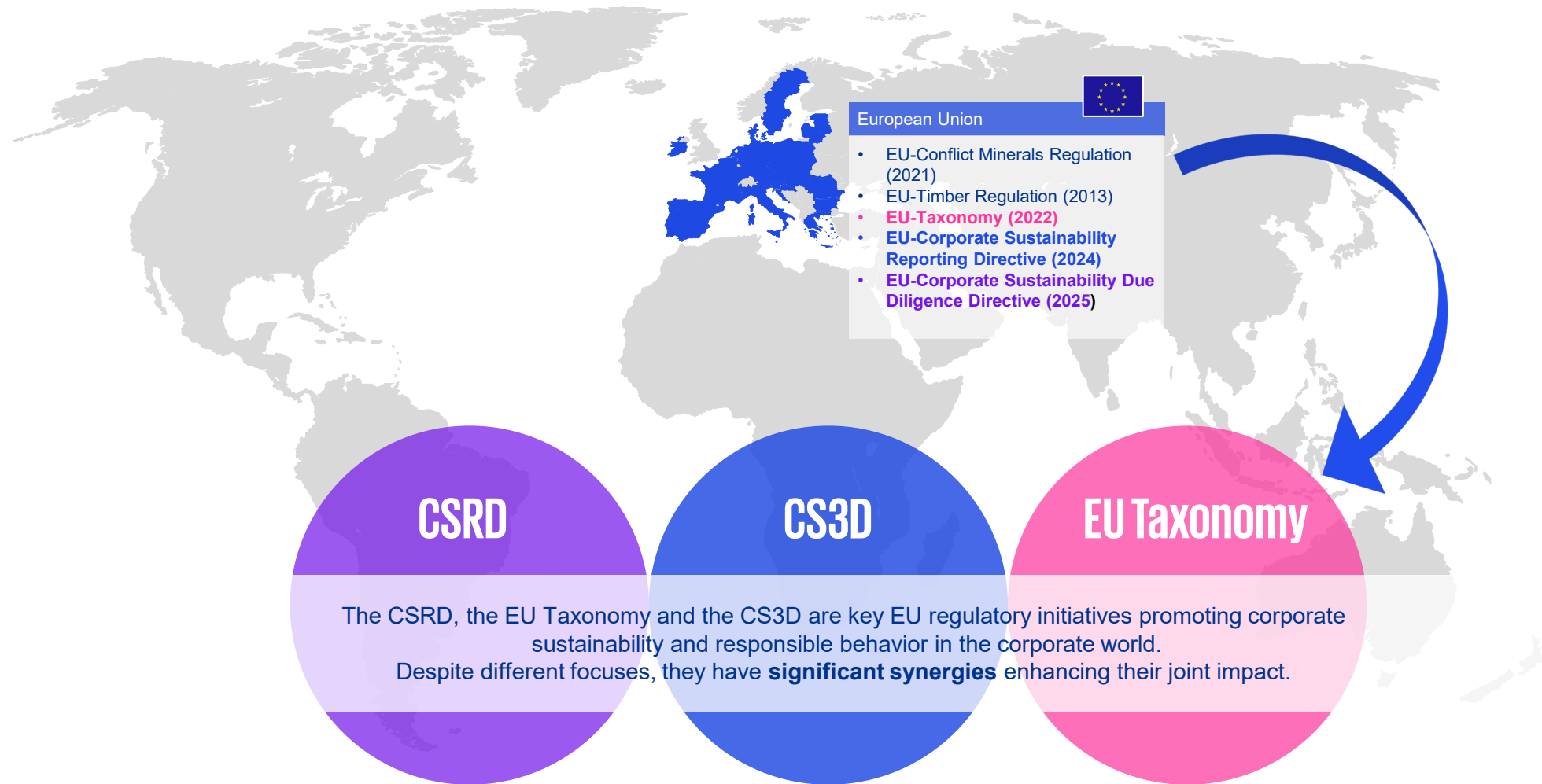
The scope is limited to **direct business partners** who carry out activities for the company or on behalf of the company.

Source: [EU Directive 2024/1760](#)

The CS3D timeline at a glance



Exemplary national legislation setting due diligences



02

Synergies with other EU- Regulation

CS3D, CSRD and EU Taxonomy refer to the same frameworks

OECD Guidelines for Multinational Enterprises



Non-binding recommendations*

Labor, environment, fight against corruption, consumer protection

* Governments are required to ensure the implementation and monitoring of the Guidelines

Universal Declaration of Human Rights (UDHR)



Civil rights

Political rights

United Nations Guiding Principles on Business and Human Rights (UNGPs)



Protect

Remedy

Respect



**Synergies
International
Standards**

International Labour Organization's (ILO) fundamental conventions



Fundamental principles and rights at work

As the frameworks are based on the same general guidelines, similar procedures can be applied.

● CS3D

● EU Taxonomy

● CSRD

Thematic synergies in human rights

CSRD

ESRS S1 Own workforce

- Working conditions
- Equal treatment & opportunities for all
- **Other work-related rights (Child & labor, freedom of association etc.)**

ESRS S2 Workers in the value chain

- Working conditions
- Equal treatment & opportunities for all
- **Other work-related rights (Child & labor, freedom of association etc.)**

ESRS S3 Affected communities

- Economic, social and cultural rights
- Civil and political rights
- Rights of indigenous communities

ESRS S4 Consumer and end-user

- Information-related impacts
- Personal safety
- Social inclusion

CS3D

- Life, liberty & security
- Humane treatment
- Unlawful interference with a person's privacy, family, home or correspondence
- Freedom of thought, conscience and religion
- Decent, safe and healthy working and living conditions
- **Freedom from child labor**
- **Freedom from all forms of forced labor and human trafficking**
- **Freedom of association, assembly and collective bargaining**
- Freedom from discrimination in employment
- Clean, healthy, and sustainable environment
- Land and livelihood

EU Taxonomy

Minimum Safeguards (MS)

- **Criteria 1: Human Rights incl. workers rights:**
 - Health & Safety
 - **Child labor**
 - **Forced labor**
 - **Freedom of association and collective bargaining**
 - Discrimination
 - Consumer interests
 - Employment conditions, including among others, working hours and remuneration
 - Adverse impacts on surrounding communities, including, among others, evictions, land grabbing, contamination of land, water and air
- **Criteria 2: Bribery, bribe solicitation, and extortion**
- **Criteria 3: Taxation**
- **Criteria 4: Fair Competition**

No guarantee of completeness. Shown as an example

Exemplary thematic synergies highlighted in pink

Thematic synergies in the area of the environment

CSRD

ESRS E1 Climate Change

- Climate change mitigation & adaptation
- Energy

ESRS E2 Pollution

- Pollution of air, water & soil
- Substances of concern

ESRS E3 Water and marine resources

- Consumption of Surface water, ground water & produced water
- Water-related risks
- Use of ocean-based resources

ESRS E4 Biodiversity and ecosystems

- Relationship to ecosystems

ESRS E5 Resource use and circular economy

- Efficient use of resources
- Application of waste hierarchy & minimizing waste

CS3D

• Biodiversity loss

- Import & export of certain specimen
- Mercury
- Chemicals
- Hazardous waste
- Water scarcity
- Water, air and soil pollution
- Ozone depletion
- Land degradation
- Marine and freshwater ecosystems degradation
- Freshwater ecosystems degradation

EU Taxonomy

Do No Significant Harm (DNSH)

- Climate change mitigation
- Climate change adaptation
- Pollution prevention
- Circular economy
- Water and marine resources
- Biodiversity and ecosystems

No guarantee of completeness. Shown as an example

Exemplary thematic synergies highlighted in green

Synergies between due diligence-related regulations

	CSRD	CS3D	EU Taxonomy MS ²
Implementation	Eligibility Criteria¹	Capital market orientation or Employees, Turnover, Total assets	Capital market orientation or Employees, Turnover, Total assets
	Value Chain Scope	Up- & downstream value chain, End-users and consumers, Affected communities	Up- & downstream chain of activities
	Assessments	Double materiality, Risks and opportunities	Risks
	Demands	<i>No direct organizational impact</i>	Human Rights Officer Management System
Reporting	Responsible Auditor	Annual auditor	Annual auditor
	Reporting modalities	ESRS Disclosure Requirements Integrated Report	Integrated or separate report Deadline: April 30 th
	Sanctions & Liability	<i>Determined on national level</i>	<i>Determined on national level, Fines based on turnover, Civil liability</i>

¹ Criteria for a company to be subject to the respective regulation when threshold is surpassed

² Minimum Safeguards, the precondition of EU Taxonomy alignment

Synergies between due diligence-related regulations

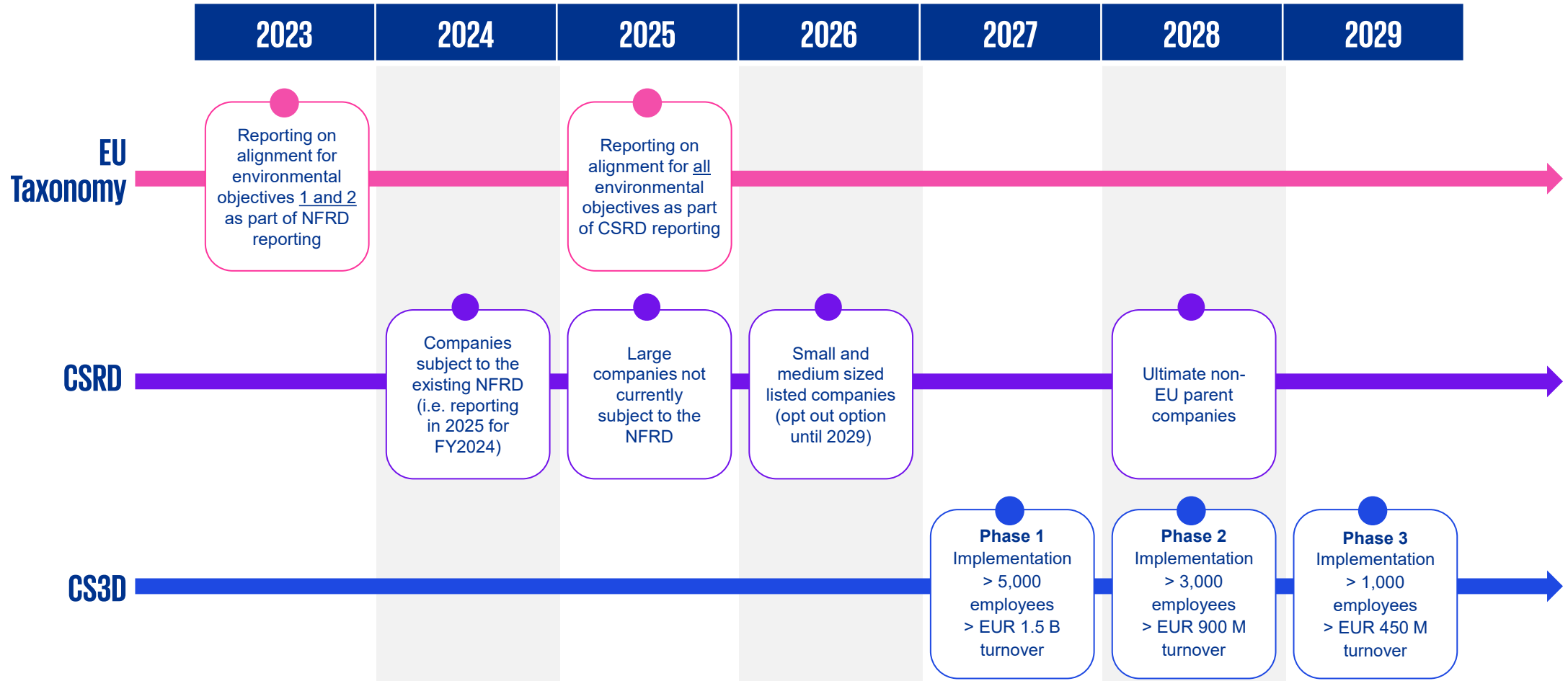
	CSRD	CS3D	EU Taxonomy MS ²	
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	Value Chain Scope	Up- & downstream value chain, End-users and consumers, Affected communities	Up- & downstream chain of activities	Up- & downstream value chain, End-users, Affected communities
	Assessments	Double materiality, Risks and opportunities	Risks	Risks
	Demands	<i>No direct organizational impact</i>	Human Rights Officer Management System	Management System
Reporting	Responsible Auditor	Annual auditor	<i>Determined on national level</i>	Annual auditor
	Reporting modalities	ESRS Disclosure Requirements Integrated Report	Integrated or separate report Deadline: April 30 th	Precondition for reporting Integration into CSRD report
	Sanctions & Liability	<i>Determined on national level</i>	<i>Determined on national level, Fines based on turnover, Civil liability</i>	<i>Determined on national level</i>

Today's focus

¹ Criteria for a company to be subject to the respective regulation when threshold is surpassed

² Minimum Safeguards, the precondition of EU Taxonomy alignment

CS3D, CSRD and EU Taxonomy on the timeline



From sustainability due diligence implementation to disclosure

Due diligence regulations introduce extensive **implementation** and **disclosure** obligations for both — **EU and non-EU based companies**. The interplay between implementation and reporting is crucial for effective and efficient compliance.



¹ Universal Declaration of Human Rights (UDHR); ²International Labour Organization's (ILO) fundamental conventions; ³Organisation for Economic Co-operation and Development; ⁴United Nations Guiding Principles

03

ESG Governance

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Case Study: CS3D

Managing ESG regulations with ESG Governance

Monitoring & improvement

- Continuous monitoring of appropriateness and effectiveness/ internal audit
- Involvement of management/supervisory body
- Continuous improvement

Organization

- Roles and responsibilities and reporting lines, delegation of tasks and communication
- Integration into corporate governance structure (compliance/risk management, non-financial ICS)
- Data governance
 - Integration of tools and systems
 - IT interfaces
- Planning of resources/AI support
- Management of external audits



Strategy & culture

- Leadership commitment
- Fostering ESG culture
- (Strategic) ambition level & target setting

Risks/adverse impacts

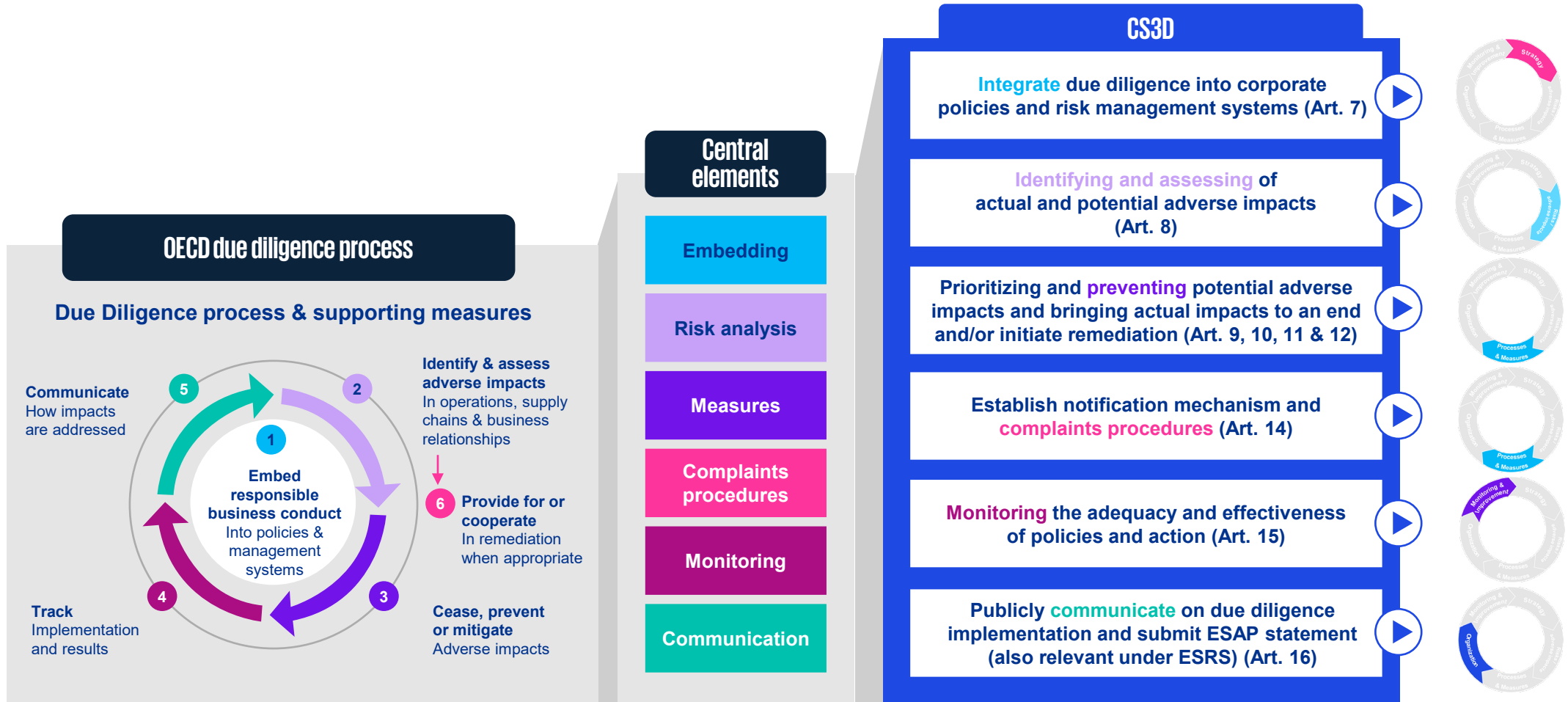
- Identification (actual vs. potential)
- Assessment/prioritization (severity /likelihood)
- Mapping (chain of activities/value chain)
- Integration into risk management system

Processes & measures

- Design and implement measures to
 - Prevent/mitigate (e.g. policies, controls, trainings)
 - End/remediate (e.g. monitoring/terminating business relationships)
- Design and implement processes for
 - Due diligence: stakeholder engagement, complaints procedure
 - Disclosure: data collection, validation and reporting



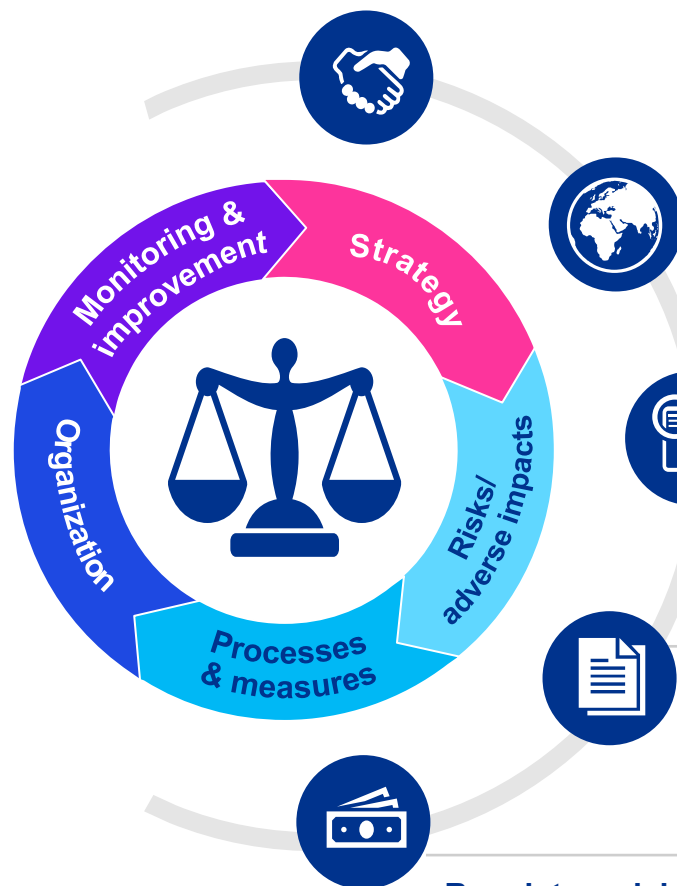
Case Study: CS3D as part of ESG Governance (1/2)



Source: [OECD Due Diligence Guidance for Responsible Business Conduct](#)

Case Study: CS3D as part of ESG Governance (2/2)

Typical questions to be raised when preparing for ESG Governance



Organization

- Who will be responsible for sustainability due diligence in the entity in scope?
- How will upper management be informed?
- Which role will IT and AI play?

Value chain/chain of activities

- How does the value chain/chain of activities look like and where can risks/adverse impacts be located?
- How detailed must it be prepared for the auditor?

Risk analysis

- Which risks exist for the own business area?
- Which risks exist for supplies and business partners?

Synergies with other regulations

- Which other regulations cover human rights and environmental impacts?
- Where are synergies with e.g., CSRD or EU Taxonomy's Minimum Safeguards?

Regulatory risks

- Did we account for the non-compliance ESG risks of CS3D that can result in severe financial penalties, including fines up to 5% of net worldwide turnover and civil liabilities in our CSRD report?

Approach for implementing ESG Governance

Leverage synergies in managing ESG regulations

Understanding of status quo

- Understand status quo of governance systems (e.g. Non-financial/financial risk management and internal controls system) and responsibilities on group and entity level in general
- Identify relevant stakeholder and targets

Relevance analysis

- Identify relevant EU green deal regulations
- Map regulations to legal entities of the group

Gap assessment

- Review of existing information, processes, systems, responsibilities for relevant EU green deal regulations
- Evaluation of design and scope of current risk due diligence system

Implement

- Rollout of new/adapted roles, processes, controls, structures
- Assessment of resources and internal requirements
- Change management and communication

Design

- Define ESG governance strategy, i.e. Identify responsibilities on group and legal entity level
- Define targets for ESG governance
- Conceptualize dimensions of ESG governance
- Draft project plan for implementation with clear actions

Run

- Apply ESG governance system for existing EU green deal regulations, e.g. CS3D
- Integrate upcoming EU green deal regulations with ESG governance system

Monitor & improve

- Monitor ESG governance system on a regular basis and adapt if needed
- Consider external assurance on ESG management systems

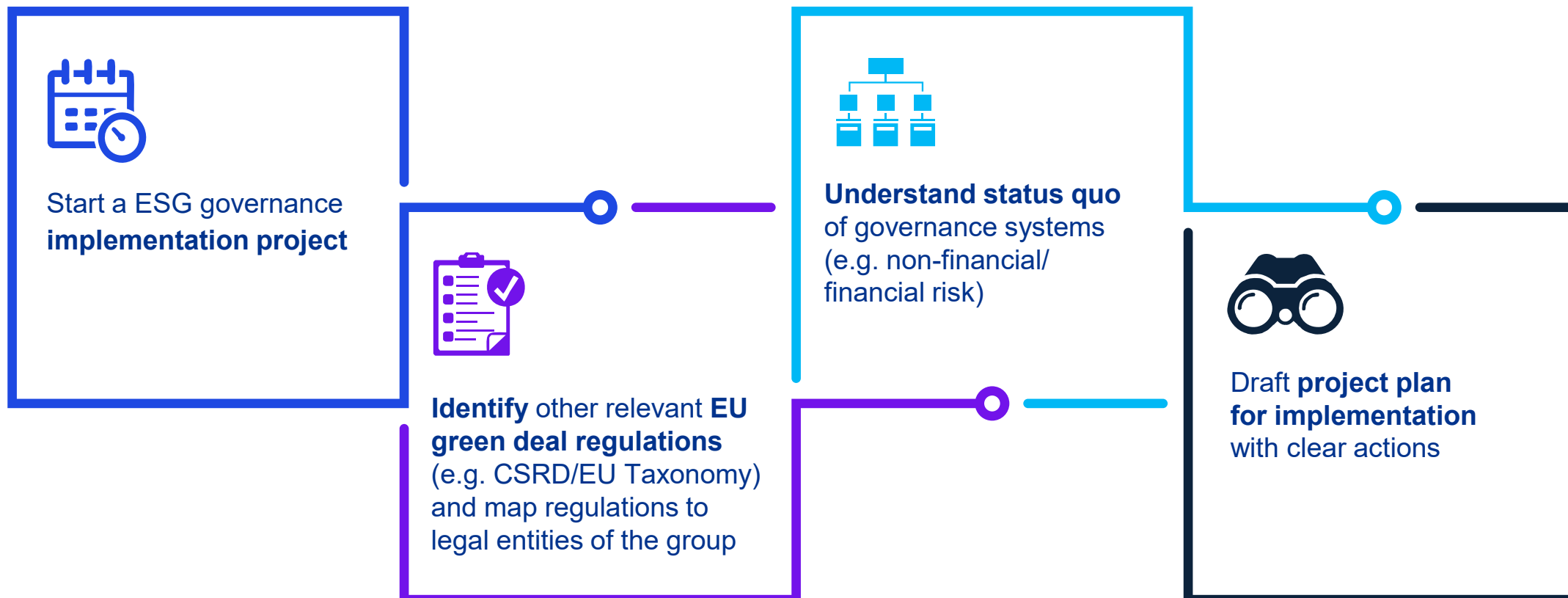
Act Report

04

Wrap-up

The path to a successful implementation of CS3D requirements

Practical next steps



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