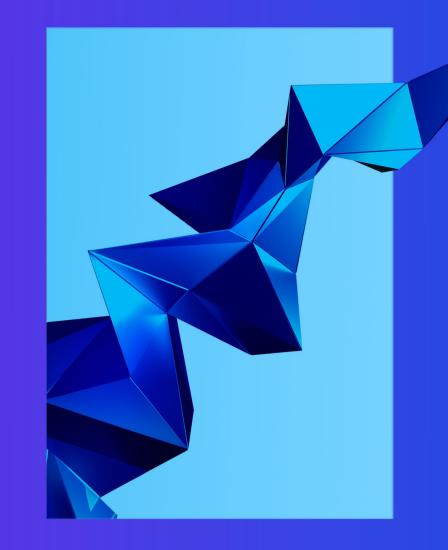


Managing EU Green Deal Regulations with ESG Governance: The CS3D Example

Webcast

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Here with you today



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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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CS3D implementation — Challenges and good practices examples to approach CS3D with ESG Governance

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 climateneutral 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)

EU-Taxonomy

Corporate Sustainability Due Diligence Directive (CS3D)

Consumer protection and market needs

GHG reduction

Capital market risks

Protection of biodiversity

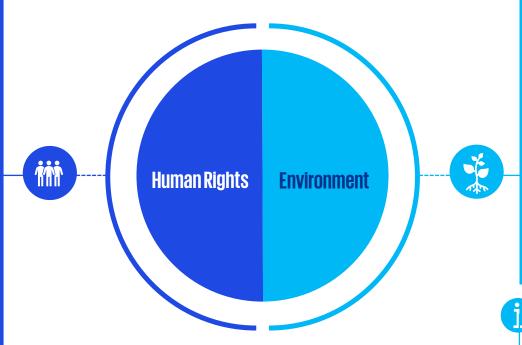


Extensive human rights and environmental impacts included

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.

Human rights

- · Life, liberty and 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



Environment

- Biodiversity loss
- Mercury
- Chemicals
- · Hazardous waste
- Water scarcity
- Water, air and soil pollution
- Ozone depletion
- Land degradation
- Marine and freshwater ecosystems degradation
- Freshwater ecosystems degradation

Art. 22 requires companies to adopt and put into effect a **transition plan** for climate change mitigation

Source: EU Directive 2024/1760



Exemplary national legislation setting due diligences

USA

- Dodd-Frank Act, Sec. 1502 (2012)
- Trade Facilitation and Trade Enforcement Act (2016)
- Uyghur Forced Labor Prevention Act (2020)
- NAP on responsible business conduct (2024)

California

- Sec. 307 US Tariff Act
- Transparency in Supply Chains Act (2012)

Peru

 SBS Regulation on ES Risk (2016)

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

Norway

 Transparency Act (2022)

United Kingdom

 Modern Slavery Act (2015)

France

 Corporate Duty of Vigilance law (Loi de Vigilance) (2017)

Switzerland

 Swiss Supply Chain Act (VSoTr)

South Africa

 Black Economic Empowerment Act (2003)

Netherlands

- Dutch Child Labour Due Diligence Act (2022)
- International Business Conduct Act (2023)

European Union

- EU-Conflict Minerals Regulation (2021)
- EU-Timber Regulation (2013)
- EU-Taxonomy (2022)
- EU-Corporate Sustainability Reporting Directive (2024)
- EU-Corporate Sustainability
 Due Diligence Directive (2025)

China

• Sustainability Disclosure Standards for Business Enterprises (exposure draft)

Australia

 Modern Slavery Act (2019)

Germany

 Act on Corporate Due Diligence Obligations in Supply Chains (SCDDA) (2023)

In the legislative process

- · Belgium
- Finland
- Spain
- Luxembourg

Japan

 Guidelines on Respecting Human Rights in Responsible Supply Chains (first steps towards mandatory human rights due diligence)

South Korea

• Discussions on mandatory human rights due diligence

Black highlighted: Already in force

Blue highlighted: Not yet in force

Purple highlighted: Focus of this presentation



Key aspects of the CS3D

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

Human rights & environmental due diligence obligations

Policies & management system Article 7: Integrate due diligence into corporate policies and risk management systems

Risk assessment

Article 8: Identifying and assessing of actual and potential adverse

Measures to cease. prevent or mitigate Article 9, 10, 11 & 12: Prioritizing and preventing potential adverse impacts and bringing actual impacts to an end and/or initiate remediation

Complaints procedures

Article 14: Establish notification mechanism and complaints procedures

Monitoring

Article 15: Monitoring the adequacy and effectiveness of policies and actions

Documentation & communication

Article 16 & 17: Publicly communicate on due diligence implementation and submit CS3D Report

Sanctions & penalties

- Financial penalties Maximum sanction at least 5% of net worldwide turnover
- · Company can be held liable for damage caused to a natural or legal person, if it intentionally or negligently failed to comply with obligations
- Where the company was held liable → natural or legal person has the right for full compensation in accordance with national law



Focus Topics



Human Rights ****



Environmental and climate risks



Climate Plan, Art. 22:

Companies will be obliged to draw up a climate plan. This should include a strategy on how the company will contribute to achieving the 1.5°C target. The CS3D refers to the European Climate Law. This contains step-by-step climate neutrality targets up to 2050. The directive also sets out design requirements for the climate plan to be drawn up by companies.



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.









(including subsidiaries)



U	psi	tream	sup	ol۷	y chain	
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Downstream supply chain

Upstream:

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

Design

Transport

Extraction

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

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.

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

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



¹ Alternative Investment Fund

The CS3D timeline at a glance

Legislative Process

December 2023

Trilogue agreement between the Commission, Council and Parliament of the European Union with agreement on key points

April 2024

Amendments of the European Parliament to the Commission proposal

Until July 2026

Transposition of the directive into national law by Member States

Implementation Process

July 2028

Phase 2 Implementation

Reporting for the financial year starting 1st of January 2029



- 3.000+ FTE
- EUR 900 Mio. + annual net turnover worldwide



EUR 900 Mio. + annual net turnover in EU





















February 2022 — June 2023

EU Commission submits proposal (February 2022); European Parliament and Council propose amendments

March 2024

Agreement at ambassador level in the Council of the European Union on 15.03.2024

Parliamentary approval still pending

July 2024

Publication in the **EU Official Journal** and entry into force

July 2027

Phase 1 implementation

Reporting for the financial year starting 1st of January 2028



- 5.000+ FTE
- EUR 1.500 Mio. + annual net turnover worldwide



EUR 1.500 Mio. + annual net turnover in EU



Phase 3 Implementation

Reporting for the financial year starting 1st of January 2029



- 1.000+ FTE
- EUR 450 Mio. + annual net turnover worldwide

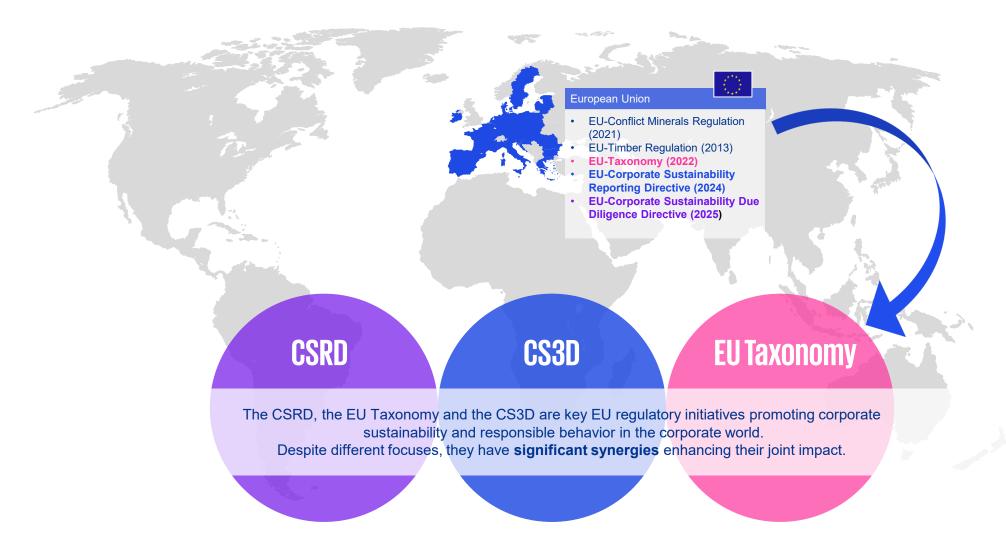


EUR 450 Mio. + annual net turnover in EU

Non-EU-Companies



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 Principals on Business and Human Rights (UNGPs)



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 cahin

- 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
- Mercurv
- 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
	Eligibility Criteria ¹	Capital market orientation or Employees, Turnover, Total assets	Employees, Turnover	Capital market orientation or Employees, Turnover, Total assets
mplementation	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
Implem	Assessments	Double materiality, Risks and opportunities	Risks	Risks
	Demands	No direct organizational impact	Human Rights Officer Management System	Management System
6	Responsible Auditor	Annual auditor	Determined on national level	Annual auditor
Reporting	Reporting modalities	ESRS Disclosure Requirements Integrated Report	Integrated or separate report Deadline: April 30 th	Precondition for reporting Integration into CSRD report
	Sanctions & Liability	Determined on national level	Determined on national level, Fines based on turnover, Civil liability	Determined on national level

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

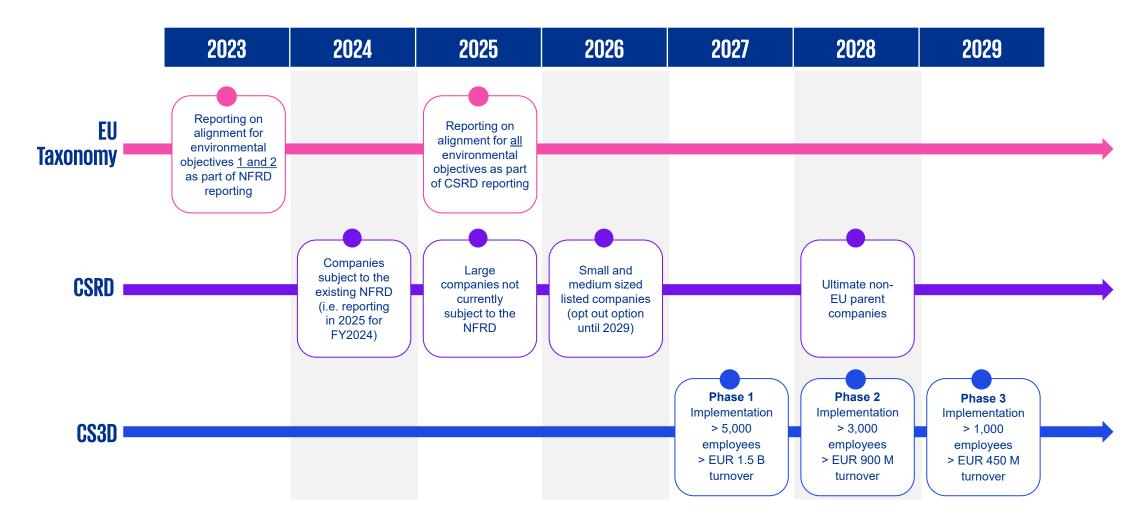
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mplementation	Value Chain Scope			
Implem	Assessments			
	Demands	No direct organizational impact	Human Rights Officer Management System	Management System
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¹ Criteria for a company to be subject to 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

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/Al 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

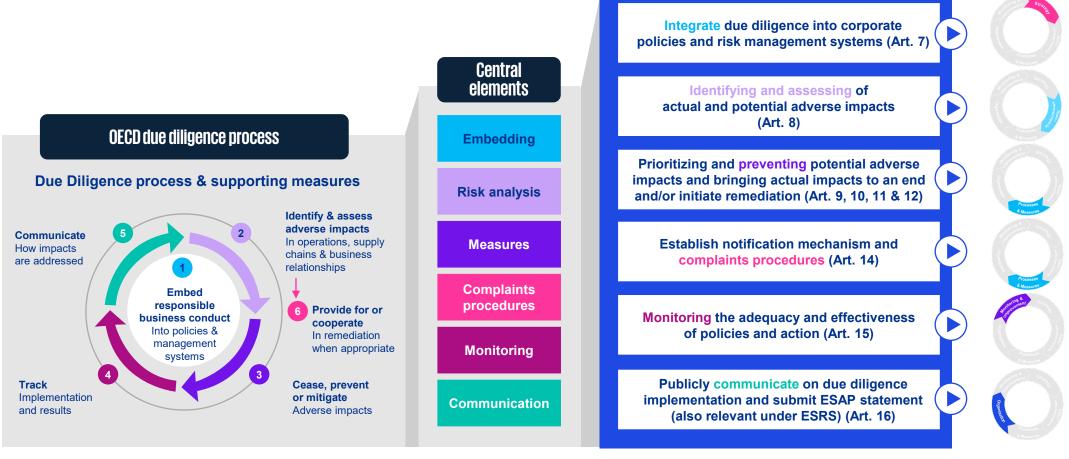
Processes & measures

- · 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

CS3D

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 Al 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?



Processes

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?



Organization

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

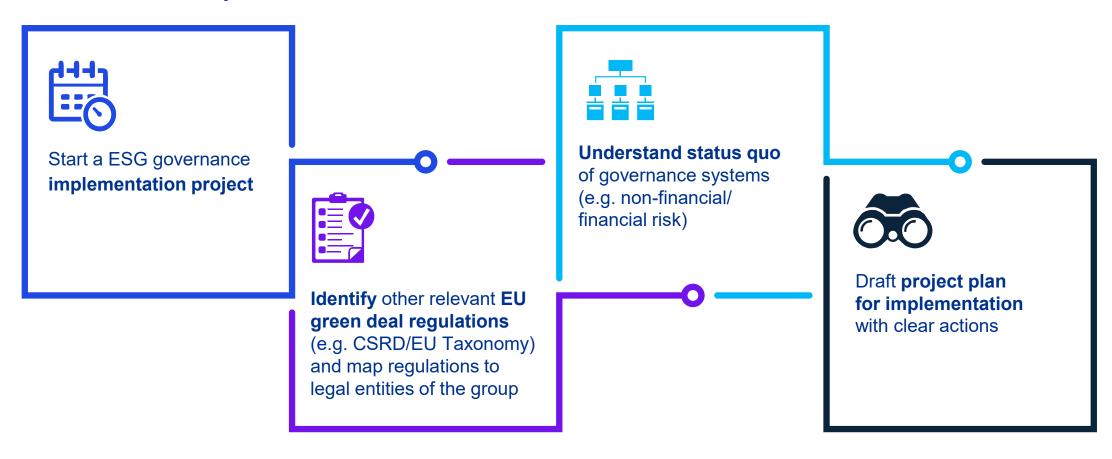


Wrap-up



The path to a successful implementation of CS3D requirements

Practical next steps





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