

# The SGS tool for implementing the Supply Chain Due Diligence Act – LkSG

## Questions & Answers



The scope of the German Supply Chain Due Diligence Act (LkSG) will be expanded from January 1, 2024. The LkSG requires companies based in Germany to manage risks that may arise in their supply chains due to human rights violations or environmental damage. This includes regular risk assessment and monitoring of suppliers with regard to environmental and human rights issues, as well as avoiding or reducing these risks through appropriate preventative or remedial measures.

In addition to issuing a policy statement, naming responsible persons or setting up a complaints procedure, the due diligence obligations that a company must fulfill include, above all, risk management, regular risk analyzes and taking corrective measures.

**The SGS tool offers valuable support for risk analyzes and risk management with regard to environmental and human rights issues in the supply chains.**

### WHAT IS THE LKSG?

The German Supply Chain Due Diligence Act (LkSG) is a legal regulation that aims to minimize human rights and environmental risks in the supply chain of companies. This requirement requires various steps and measures.

A central component of the LkSG is the implementation of regular, usually annual, risk assessments and risk classifications. Potential human rights and environmental risks in the supply chain are identified and assessed.

The law also requires the establishment of a complaints procedure to ensure that possible violations or risks can be reported by various stakeholders and dealt with appropriately.

Another important component of the LkSG is the definition of preventive and remedial measures. Companies should take measures to minimize risks in their own company and with direct suppliers or to initiate appropriate corrective measures in the event of violations.

Under the law, companies are also expected to develop a human rights policy statement. This declaration should clearly describe the due diligence process, the company's priority risks, and the expectations of its employees and suppliers.

Documentation and reporting on the measures taken ensure a transparent presentation of the company's efforts in the area of supply chain responsibility.

### WHAT SHOULD I DO?

The law requires companies to prevent, minimize or eliminate their risks related to environmental or human rights in their supply chains. The law specifies the following due diligence requirements:

- Setting up risk management
- Determination of responsibilities
- Conducting regular risk analyses
- Submission of a statement of principles
- Anchoring preventative measures
- Taking corrective action
- Establishment of a complaints procedure
- Documentation and reporting
- Carrying out due diligence obligations under certain conditions, including with indirect suppliers

### WHEN DOES THE LKSG COME INTO FORCE?

The law on corporate due diligence to prevent human rights violations in supply chains has been in force since January 1, 2023. However, from January 1, 2024, its scope will be expanded to include companies with over 1,000 employees in Germany.

### WHO IS AFFECTED?

Companies that have their headquarters, headquarters, administrative headquarters or statutory seat in Germany and employ more than 1,000 people.

Branches of foreign companies with a corresponding number of employees in Germany are also affected.

When calculating the number of employees, temporary workers who are employed in the company for more than six months are also taken into account. For companies that consist of several companies, all employees employed in these companies in Germany must be taken into account when calculating the number of employees.

### WHEN MUST THE FIRST REPORT BE AVAILABLE?

The activities to fulfill the due diligence obligations must be continuously documented internally and retained for at least seven years.

A summary of the past financial year must be prepared every year. This must be published no later than four months after the end of the financial year. This means that if the annual financial statements are published on December 31st, the report must be publicly accessible and free of charge on the homepage by the end of April at the latest.

### WHAT MUST THE REPORT CONTAIN?

The exact reporting requirements are described in the legal text in Section 10 Paragraph 2. In summary, the report must contain the following:

- Description of identified human rights and environmental risks
- What measures have been taken to comply with the duty of care, taking into account all elements described in the law.
- An assessment of the effectiveness of the measures and the resulting conclusions for the future

### HOW CAN MY BUSINESS PREPARE?

The first steps to comply with legal requirements are for companies to gain an overview of their suppliers:

- Where are there potentially business areas that could become critical in relation to environmental or human rights issues?
- In which countries are the suppliers located, what is known about the conditions there, where are there already known grievances?

Recording and evaluating the performance of suppliers with regard to environmental and human rights issues is the basis for successful risk management. Therefore, such an analysis should be carried out regularly as a starting point for fulfilling due diligence obligations.

If the analysis identified a high risk among suppliers, further measures to reduce risk should be initiated or requested.

### HOW CAN THE SGS TOOL HELP YOU?

- The tool provides a simple and comprehensive overview of suppliers' performance on environmental and human rights aspects.
- The SGS-LkSG tool therefore supports your company in managing environmental and human rights risks in the supply chain.
- The tool enables data collection and data analysis in one place.
- With the help of individually customizable dashboards, it offers an overview of the risk of its own suppliers in the individual environmental and human rights categories and also enables benchmarking of different suppliers.
- You increase the transparency of your supply chain and gain control over the status quo, development and improvements of your suppliers.

### WHY SHOULD YOU USE SGS TOOL?

The SGS LkSG tool offers a first-class IT platform for the digital risk management of your suppliers. At the same time, it provides a highly economical way to fulfill the legally required due diligence regarding environmental and human rights risks in your supply chain.

### Using our SGS tool can have significant benefits for your company:



#### COST SAVINGS

Thanks to our IT-supported solution, you can significantly reduce the time spent on such assessments, saving valuable internal resources.



#### EFFICIENT LKSG MANAGEMENT

The SGS tool allows you to get an overview of your suppliers in the most important legally required categories and keep them up to date.

Completed questionnaires and supplier reviews are stored in a single location, enabling efficient management of the legally required due diligence.



#### SUPPORT WITH ONBOARDING YOUR SUPPLIERS

We know that the supplier onboarding process can be very tedious and time-consuming. If you wish, we would be happy to take on this task for you. This ensures that your suppliers receive all relevant information for registering and carrying out the self-assessment.



#### CUSTOMIZABLE DASHBOARDS

Our tool allows you to categorize risks according to individual suppliers as well as specific criteria such as countries, industries and products and to display them clearly in individually customizable dashboards.



#### FUTURE-ORIENTED

Our tool will help your company not only meet the requirements of the German LkSG, but also meet the expanded requirements of the European Corporate Sustainability Due Diligence Directive (CSDDD) once it is implemented in the EU.



### WORLDWIDE NETWORK

If some of your suppliers present an increased risk, we can also assist you with our global SGS network of qualified auditors. An on-site audit can provide important insights to better assess and reduce risks.



### ADDITIONAL SERVICES

In addition, we offer additional services upon request, such as more in-depth analyzes of the identified risks, training, workshops, certifications and individual advice. The SGS tool not only offers support for companies in assessing the risk of their suppliers, it can also be used proactively by suppliers themselves.



## WHY SHOULD SUPPLIERS ALSO USE THE SGS TOOL?



### PREVENTIVE APPROACH

Using the tool independently allows suppliers to identify potential risks early and take preventive measures to reduce risks before serious problems arise.



### AVOID REDUNDANCY

For companies that supply many other companies, it is worth making the results of their risk assessment available to several of their customers. In this way, they avoid redundant risk assessments for each individual customer.

**This proactive approach not only saves time and resources, but also strengthens your customers' trust in your commitment to complying with the LKSG.**

## CONTACT

We look forward to supporting you in achieving your goals.

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