



Attn Ms Maija Laurila and Ms Anna Athanasopoulou  
DG JUST and DG GROW  
European Commission  
1049 Bruxelles

23 May 2022

**Subject: Proposal for a Directive on Corporate Sustainability Due Diligence**

Dear Ms Laurila,  
Dear Ms Athanasopoulou,

PwC International Ltd (PwC), on behalf of the PwC network, welcomes the European Commission's proposal for a Directive on Corporate Sustainability Due Diligence (CSDDD) as a much needed step to accelerate the transition towards more sustainable business.

*Alignment with global principles*

We support the alignment of the proposal with United Nations Guiding Principles on Business and Human Rights. This ensures that the framework is based on globally accepted principles and adheres to existing best practices. We encourage the co-legislators to further look into aligning the proposal with the UN global framework<sup>1</sup>, in particular with regard to operational principles for the corporate due diligence policy and meaningful stakeholder dialogue for companies to better identify their adverse impacts.

Responsible business conduct is central to the achievement of the Sustainable Development Goals, but a broader set of external policies will be needed to incentivise third countries to increase their environmental and social standards. The Directive will have a greater positive effect if it is accompanied by EU foreign policy.

*Responsibility of Directors*

We support the proposal's emphasis on risk management systems. In our experience, this is the most effective way for a company to implement a rigorous approach to its due diligence policy and code of conduct. We would recommend introducing further guidance under article 5 for companies to implement a 'three lines' model, including risk indicators and different layers of

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<sup>1</sup> See [United Nations Guiding Principles on Business and Human Rights](#)



controls, so that the company can improve the rigour of the risk management approach and demonstrate that it has a robust system in place.

The clarification of Directors responsibility for setting up and overseeing due diligence is welcome. Directors have the primary responsibility for establishing effective systems and controls relating to the viability of the company and key risks which may negatively impact its stakeholders.<sup>2</sup> This responsibility and accountability would be reinforced if Directors were asked to publicly report with a statement on their oversight activities. In addition, we encourage the EC and co-legislators to give further consideration to the enforcement aspects of Directors duties and possible obstacles and limitations of the current enforcement system across the EU.

Guidance on a minimum non-exhaustive framework of risks and impacts to be assessed by the Directors and reported by each company may be a useful supplement to this regulatory requirement. This could also inform the company's double materiality assessment for reporting purposes.

We encourage the link between companies' climate transition plans and Directors' remuneration foreseen in article 15. Additional guidance on how shareholders can have a 'say on pay' will further empower investors to play their part in driving change.

#### *Transparency and third party verification*

Companies will need information from their suppliers to be able to track and report progress towards their own sustainability targets. Transparency around the due diligence policies and procedures is key to stakeholder trust and it must be underpinned by relevant, comparable and reliable data. This proposal makes global alignment of corporate sustainability reporting standards even more critical. Value chains are global and data gathering on a global scale will be complex, especially if what is reported by companies across the value chain is inconsistent.

Third party verification is useful not only for companies to assess business partners' compliance, but also to provide assurance on the effectiveness of the due diligence processes and controls<sup>3</sup>, hence supporting the Board in its oversight function. To this extent, we invite the co-legislators to consider external verification of the supply chain due diligence mechanism by independent third parties to reinforce the 'three lines model' for supply chain risk management. In addition to the assurance on public disclosures under the Corporate Sustainability Reporting Directive, assurance over the due diligence systems would further enhance stakeholders' confidence in the process.

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<sup>2</sup> See [Accountancy Europe paper](#) 'ESG governance: recommendations for audit committees'

<sup>3</sup> See [Accountancy Europe paper](#) 'Supply chain sustainability assessment'



In order to ensure the quality and reliability of external verification and supply chain audits, investors should be able to place the same level of trust in the information regardless of the Member State it is filed in. The providers of such verification should be subject to minimum quality requirements, including independence, competence, quality control and adherence to professional standards.

### *Combating climate change*

In our view, the adoption and publication of a plan to ensure that the business model, strategy and targets are compatible with the transition to a sustainable economy and with limiting global warming to 1.5°C will improve the understanding by investors and other stakeholders of the impact of climate change. In addition, increasingly, investors are demanding for this impact to be better reflected in the audited financial statements. Consistency and interconnectivity between the climate plan, the sustainability report and the financial statements will be key to improving the quality of information on climate risk, and this will lead to better decision-making and more sustainable outcomes.

Governments should also take steps to ensure their public procurement policies are compatible with a sustainable economy. Additional clauses on climate due diligence related to public procurement under this or other pieces of EU legislation would be beneficial in driving sustainable change.

### *Tax*

As part of their duties, Directors should also consider risks and impacts of the company's tax strategy. Responsible tax behaviour increasingly forms part of a company's ESG performance and contribution to society. Having a transparent tax strategy, including how it is aligned with the company's approach to managing ESG-related matters, and approved by the board, would lead to greater accountability as regards the company's approach to tax.

### *Better Regulation principles*

PwC welcomes the EC's commitment to its Better Regulation principles and notes that the proposal aims to address the comments received by the Regulatory Scrutiny Board. We encourage the co-legislators to adhere to evidence-based policy making and take into consideration the findings of the impact assessment.

We look forward to continuing to share our perspectives with EU legislators. If you would like to discuss any aspects of our response, please contact Gilly Lord at [gillian.lord@pwc.com](mailto:gillian.lord@pwc.com).



Yours sincerely,

A handwritten signature in black ink that reads "Gilly Lord". The signature is fluid and cursive, with the first letter "G" being particularly large and prominent.

Gilly Lord  
Global Leader, Public Policy & Regulation

PwC IL is registered under number 60402754518-05 in the EU Transparency Register