



AFTER S211

What's Next for Supply Chain Due Diligence?

JULY 31, 2024

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Learning Objectives

- ▶ Discuss supply chain due diligence reporting requirements and forced labor/modern slavery regulations
- ▶ Review how to take a risk-adjusted approach to due diligence
- ▶ Examine necessary governance structures to both oversee supply chain due diligence and manage the response in the event of a customs detention



BACKGROUND

Canadian Parliament's Bill S-211



The Canadian Parliament passed Bill S-211, effective on January 1, 2024 with an aim to **strengthen and enhance social supply chain disclosures** within ESG reporting, while fulfilling Canada's international commitment against forced labour and child labour.

Agenda



The Changing Regulatory Landscape



Findings from S-211 Filings



Best Practices for Improved Due Diligence Programs



Q&A

Survey Results

What is your company most concerned about, as it relates to the risks of forced and child labor in your supply chain?



Source: BDO survey of supply management professionals during ISM World conference; April 30 - May 1, 2024

The Changing Regulatory Landscape





“House Reps urge crackdown on companies benefiting from Chinese forced labor”

Source: Axios, April 17, 2024

“Canada Passes Law Aimed at Exposing Forced Labor in Supply Chains”

Source: Wall Street Journal, May 3, 2023

“EU Parliament approves ban of products made with forced labour”

Source: Reuters, April 23, 2024

“Will Canada’s Modern Slavery Act Become North America’s De Facto Law?”

Source: Supply Chain Brain, March 19, 2024

Two Categories of Supply Chain Due Diligence Regulations

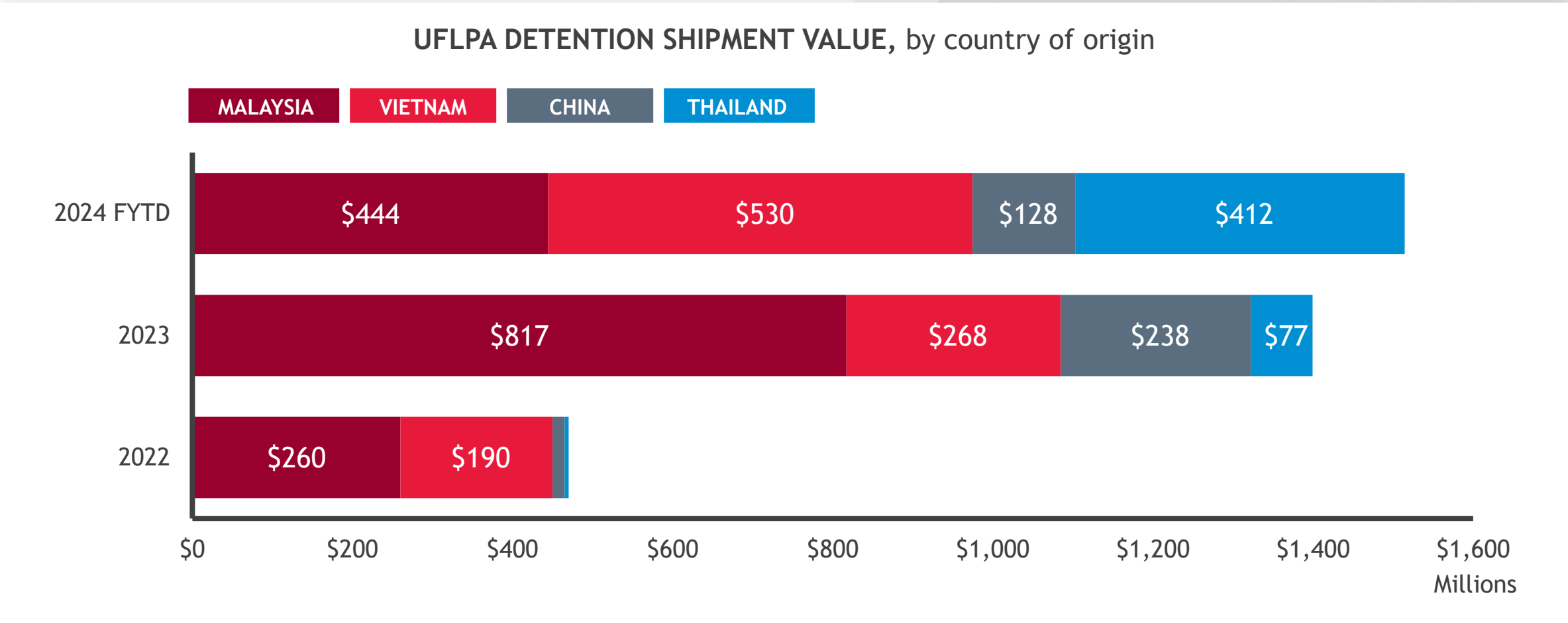


**Due Diligence
& Reporting
Requirements**



**Detention and
Seizures**

Recent UFLPA Detentions

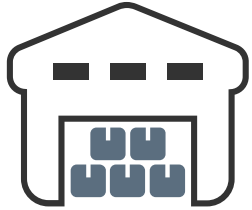


Source: U.S. CBP Statistics as of 7/1/2024

Findings from S-211

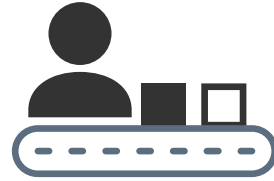


Modern Slavery Risk Reduction Across the Business



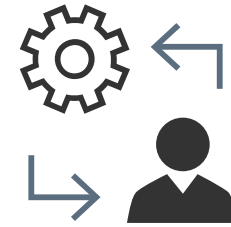
Physical Goods

Extent to which companies are performing the appropriate due diligence on where physical goods originate and the operations of those suppliers across the value chain.



Internal Labor Practices

Extent to which a company has internal practices that forbid forced and child labor and take active steps to reduce the risk of modern slavery in their own operations.



Indirect Services

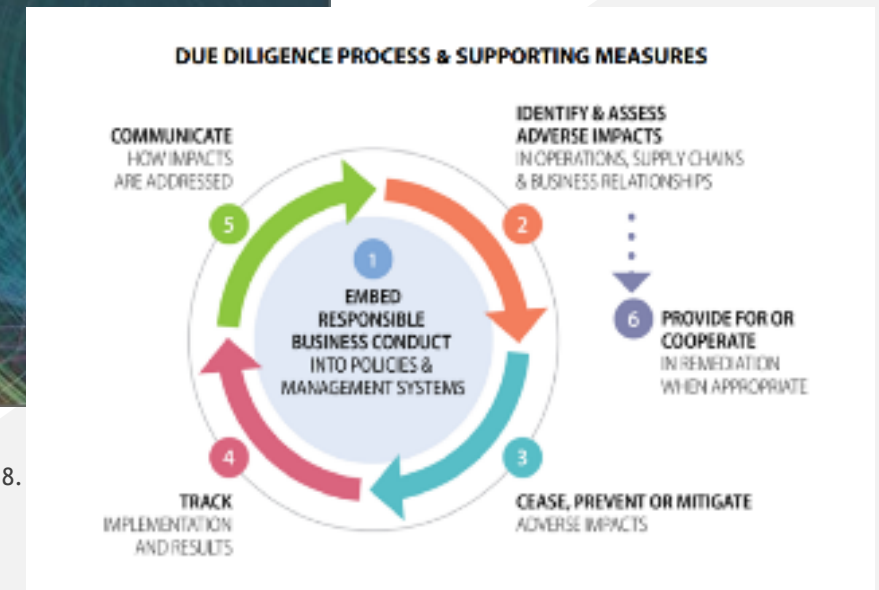
Extent to which a company treats third-parties working (including service providers, contingent, contract, and temporary labor) on their behalf with the same rigor as both an internal employee and a physical goods supplier.

OECD's Due Diligence Guidelines

1. Embeds responsible business conduct into policies and management systems
2. Identify and assess actual and potential adverse impacts associated with enterprise's operations, products or services
3. Cease, prevent and mitigate adverse impacts
4. Track implementation and results
5. Communicate how impacts are addressed
6. Provide for or cooperate in remediation when appropriate



Source: OECD 2018.



Common Gaps from S-211 Filings



Over-reliance on supplier on-boarding questionnaires and Codes of Conduct for physical goods



Visibility limited to Tier 1 only



Fragmented policies across business lines and operating companies

Findings from the S-211 Filing Process

COMPANIES WERE UNPREPARED TO RESPOND

Less than 15

Companies had publicly indexed reports available on their websites in the two weeks prior to the May 31 due date.

5,723

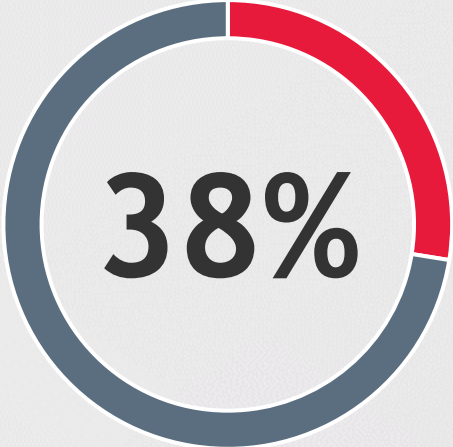
Reports have been filed with public safety Canada to-date.

WEEKS

For many privately owned entities to identify which group in their organization would own the reporting process.

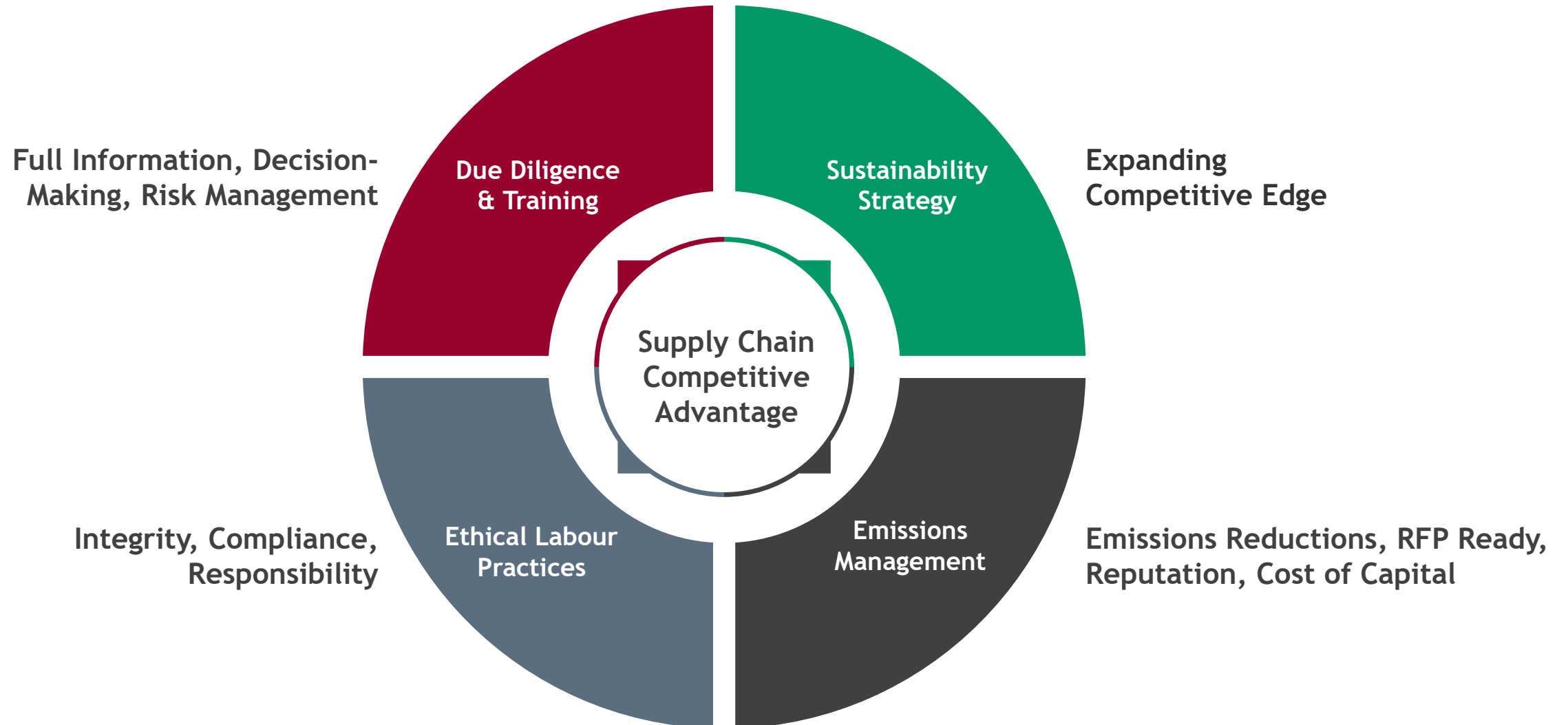
Over 55%

Of companies reviewed showed a low degree of overall due diligence program and practice maturity.



Of CFOs say that supply chain disruptions pose the greatest risk to their business in 2024

The Business Benefit of Responsible Business Conduct



Best Practices for Improved Due Diligence Programs



Supply Chain Due Diligence Best Practices



TAKE A RISK-BASED DUE DILIGENCE APPROACH

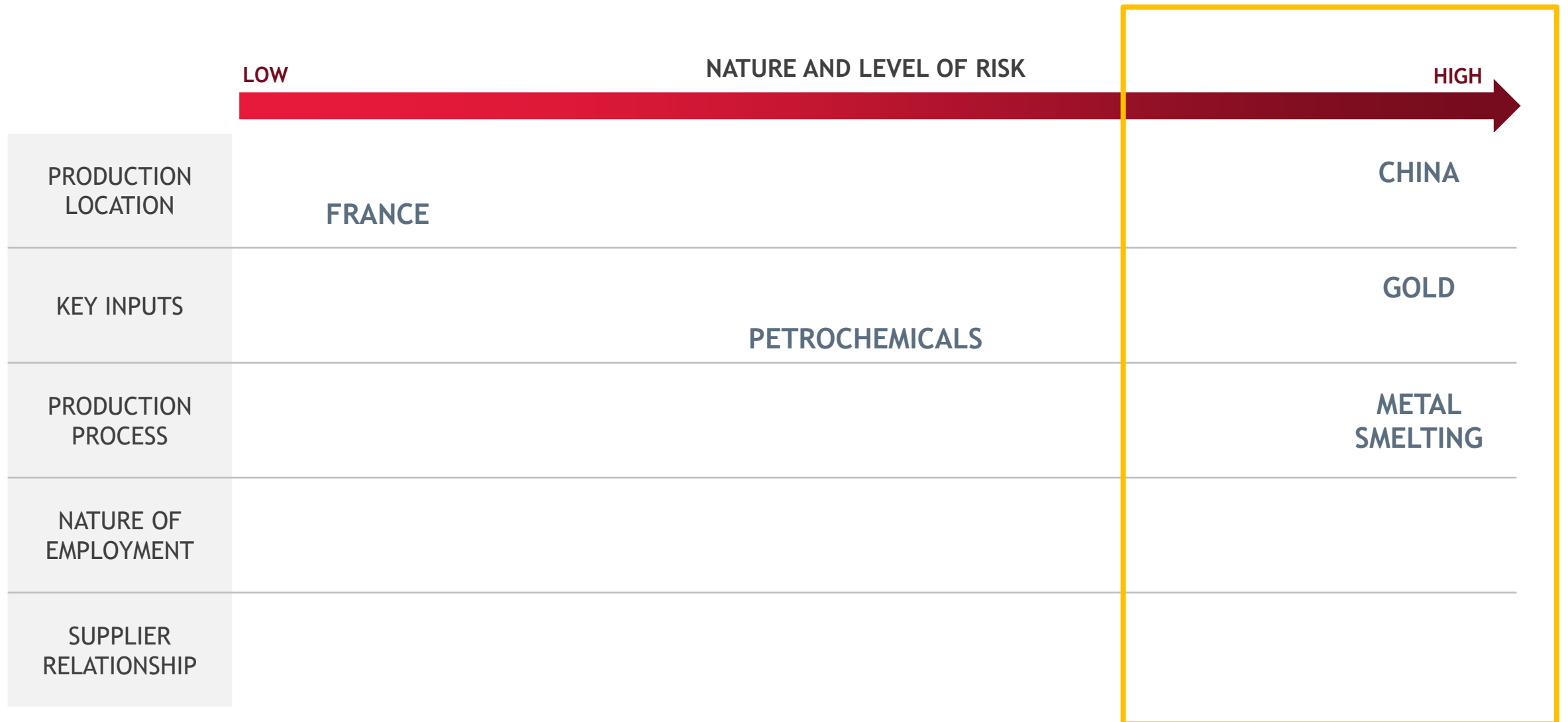


CASCADE REQUIREMENTS BEYOND DIRECT SUPPLIERS



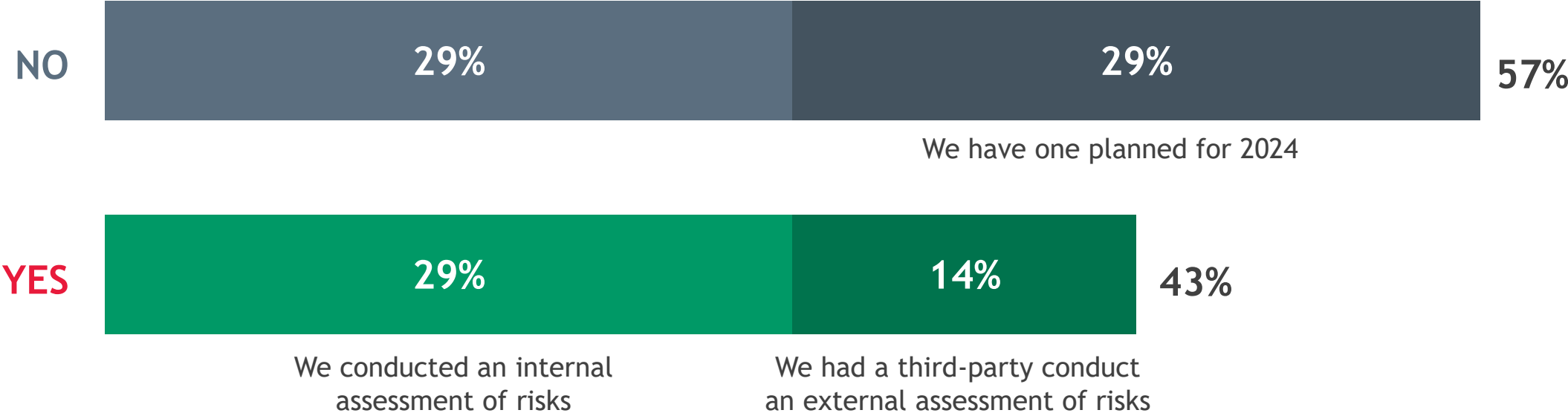
DEPLOY INTERNAL TRAINING AND CONTROLS

A risk-adjusted approach to due diligence



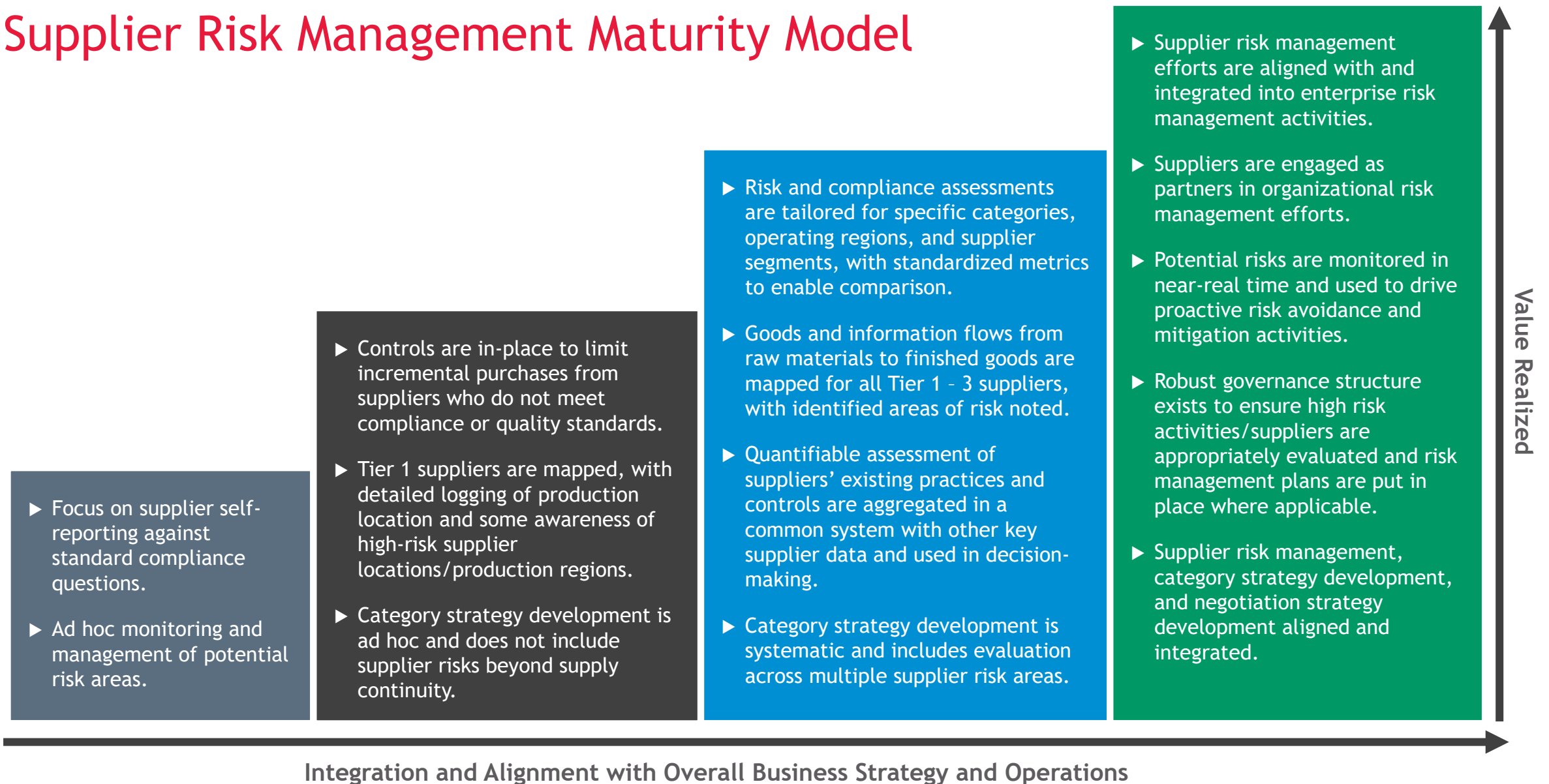
Survey Results

Has your company performed a **risk assessment** to identify elements of your supply chain that are at increased risk of forced or child labor?



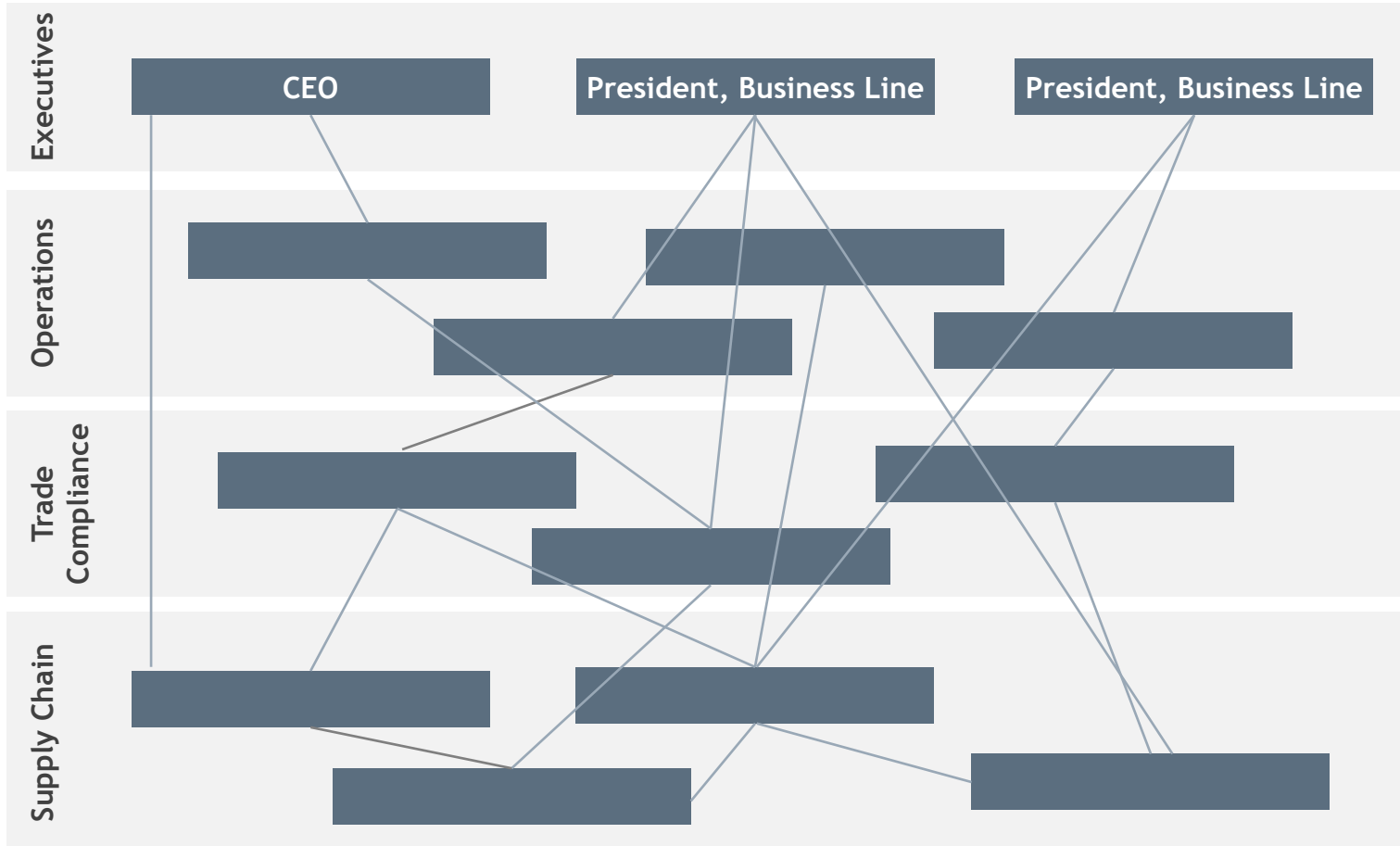
Source: BDO survey of supply management professionals during ISM World conference; April 30 - May 1, 2024

Supplier Risk Management Maturity Model

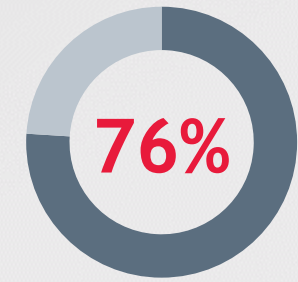


Success Requires Both Internal Alignment, and Alignment with Third-Parties

Typical Internal “Governance”



Source: BDO - Vantage Partners 2020 Competition Study, with more than 185 responses from over 155 companies.

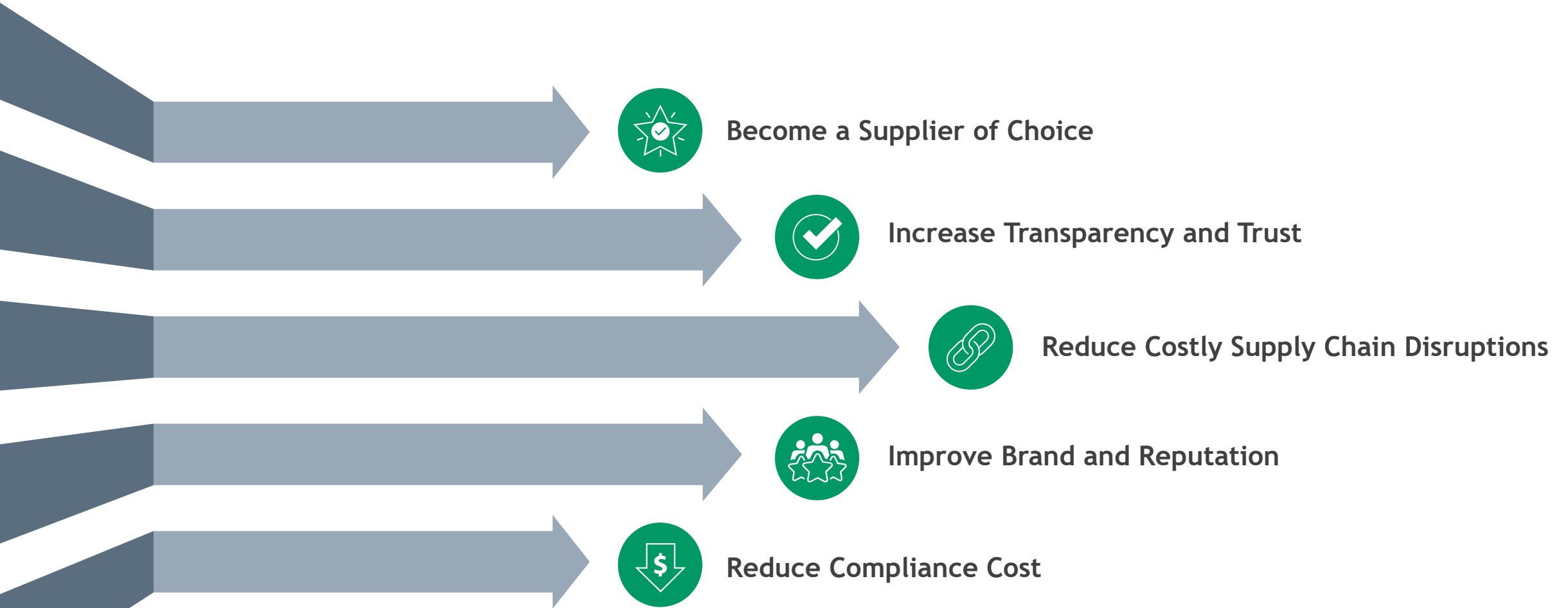


of professionals report internal coordination and alignment is as or more difficult to maintain than external alignment with partners

Effective engagement requires:

- ▶ Internal alignment around goals
- ▶ Internal alignment around roles and responsibilities
- ▶ Clear mapping of roles with suppliers
- ▶ Clear rules of engagement with suppliers counterparts (especially to manage information sharing)

The Benefits of Investment in Due Diligence Efforts



Questions?

Thank You!





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