

## Joint statement on sustainable corporate governance



As a group of stakeholders with different backgrounds but a common interest in sustainable finance, we welcome the European Commission's timely initiative on sustainable corporate governance. The Covid-19 crisis has shed light on the interconnectedness between economic, environmental and social issues and how we value and address them. The private sector has a key role to play to achieve the objectives of the European Green Deal and the UN's Sustainable Development Goals. One way to do it is to adopt and promote environmentally and socially responsible business practices to ensure a long-term perspective that considers adverse impacts on human rights, society and the environment.

The European Commission's initiative will be critical to ensure the company's governance framework allows its Board and senior management to better consider environmental and social risks as well as associated opportunities and impacts. These must be embedded into the organisation's long-term business, strategy and financial planning, while building on existing corporate governance rules and considering difference in corporate structures. Furthermore, appropriate risk identification processes and clear responsibilities must be disclosed to allow investors and other relevant stakeholders to understand and assess companies' strategic approach to sustainability. Specific attention should also be dedicated to appropriate diversity (gender, experience, backgrounds, etc) within the Board composition.

We welcome the European Commission's initiative to improve the regulatory framework on company law and corporate governance and believe the reform should address the following matters:

- **Board oversight of environmental, social and governance issues**

The sustainable corporate governance initiative should seek to increase transparency and clarify Board responsibilities in the oversight of environmental, social and governance issues. The Board should be supported in its decision-making by Board and executive committees which may include audit, risk and remuneration committees.

The initiative should also look at how to ensure relevant sustainability expertise within the Board, through, for example, regular updates from senior management, training for Board members and senior management, as well as annual Board evaluations to assess their effectiveness.

- **Role of Boards over corporate sustainability strategy**

Directors should be responsible for steering the development and implementation of a corporate sustainability strategy covering all material sustainability considerations and reflecting the salient risks and impacts identified by the company. The sustainability strategy objectives should be forward-looking in nature, supported by credible milestones, including but not limited to high level targets, and considered in all strategic decisions taken by the Board, such as the ones regarding business model and financial planning.

Directors should also ensure that the state of progress in the implementation of the strategy is properly disclosed. They should allocate sufficient resources to the management to ensure the company is able to address all material sustainability issues.

- **Sustainability-related incentives and long-term perspective**

Directors' incentives and remuneration schemes should be measurable and disclosed. They should be linked to the achievement of company -and/or sector- specific clear and well-defined objectives set out by the company in its sustainability strategy.

Compensation and remuneration setting processes, through a remuneration committee where applicable, should define respective objectives linked to the publicly disclosed corporate sustainability strategy and determine robust measures to be consistently applied. In this respect, benchmarking could be a useful tool.

- **A legal framework across the EU for supply chain due diligence to address adverse impacts on human rights and environmental issues**

To ensure that adverse human rights and environmental impacts are properly identified, prevented, mitigated and accounted for by companies, an EU framework on corporate due diligence should :

- ensure a level playing field between EU-based companies and third country companies with EU operations;
  - provide clarity on the scope and details on what is expected from companies to respect human rights and the environment;
  - ensure appropriate remedy and enforcement mechanisms are put in place and promote more meaningful stewardship and engagement with suppliers; and
  - be based on existing international standards, such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Due Diligence Guidance for Responsible Business Conduct and OECD Guidelines for Multinational Enterprises, including responsibilities on anti-corruption and tax, as well as human rights and environmental risks. This will facilitate comparison at a global level of companies' financial and sustainability performance.
- **Policy coherence of the sustainable corporate governance initiative with other related pieces of legislation**

We see a clear connection with the review of the Non-Financial Reporting Directive (NFRD) to become the Corporate Sustainability Reporting Directive (CSRD), on which we have already expressed our common views, as the clarification of transparency obligations and corporate governance

requirements are both sides of the same coin when it comes to corporate behavior and accountability. It is therefore important to ensure that both initiatives are coherent and consistent with each other .

The requirements introduced by the sustainable corporate governance initiative, including on due diligence obligations, should be carefully designed to ensure coherence and consistency and build on existing related requirements, including those coming from the CSRD, the Sustainable Finance Disclosure Regulation (SFDR) or the Taxonomy Regulation, to avoid potential duplicative requirements or confusions in the implementation of all pieces of legislation.