

Climate Disclosure Standards Board's (CDSB) response to the consultation document Proposal for an Initiative on Sustainable Corporate Governance

Introduction

Political context

The Commission's political guidelines set the ambition of Europe becoming the world's first climate-neutral continent by 2050 and foresee strong focus on delivering on the UN Sustainable Development Goals, which requires changing the way in which we produce and consume. Building on the political guidelines, in its Communication on the European Green Deal (adopted in December 2019) and on A Strong Social Europe for Just Transition (adopted in January 2020) the Commission committed to tackling climate and environmental-related challenges and set the ambition to upgrade Europe's social market economy.

The European Green Deal sets out that “sustainability should be further embedded into the corporate governance framework, as many companies still focus too much on short-term financial performance compared to their long-term development and sustainability aspects.”

Sustainability in corporate governance encompasses encouraging businesses to frame decisions in terms of their environmental (including climate, biodiversity), social, human and economic impact, as well as in terms of the company's development in the longer term (beyond 3-5 years), rather than focusing on short-term gains.

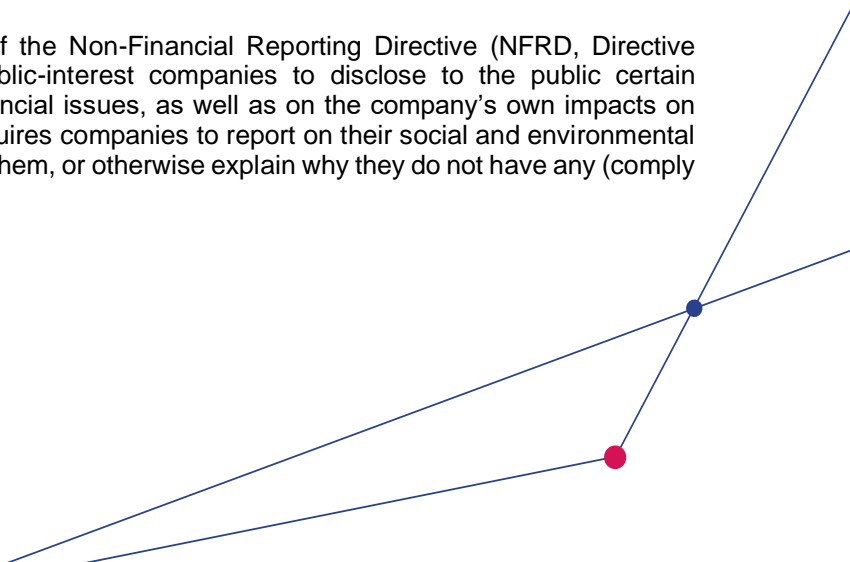
As a follow-up to the European Green Deal, the Commission has announced a sustainable corporate governance initiative for 2021, and the initiative was listed among the deliverables of the Action Plan on a Circular Economy, the Biodiversity strategy and the Farm to Fork strategy. This initiative would build on the results of the analytical and consultative work carried out under Action 10 of the Commission's 2018 Action Plan on Financing Sustainable Growth and would also be part of the Renewed Sustainable Finance Strategy.

The recent Communication “Europe's moment: Repair and Prepare for the Next Generation” (Recovery Plan) (adopted in May 2020) also confirms the Commission's intention to put forward such an initiative with the objective to “ensure environmental and social interests are fully embedded into business strategies”. This stands in the context of competitive sustainability contributing to the COVID-19 recovery and to the long-term development of companies. Relevant objectives are strengthening corporate resilience, improving predictability and management of risks, dependencies and disruptions including in the supply chains, with the ultimate aim for the EU economy to build back stronger.

This initiative is listed in the Commission Work program for 2021.

EU action in the area of sustainable corporate governance will complement the objectives of the upcoming Action Plan for the implementation of the European Pillar of Social Rights, to ensure that the transitions towards climate-neutrality and digitalisation are socially sustainable. It will also strengthen the EU's voice at the global scene and would contribute to the respect of human rights, including labour rights – and corporate social responsibility criteria throughout the value chains of European companies – an objective identified in the joint Communication of the Commission and the High Representative on the Global EU response to COVID-19.

This initiative is complementary to the review of the Non-Financial Reporting Directive (NFRD, Directive 2014/95/EU) which currently requires large public-interest companies to disclose to the public certain information on how they are affected by non-financial issues, as well as on the company's own impacts on society and the environment. The NFRD also requires companies to report on their social and environmental policies and due diligence processes if they have them, or otherwise explain why they do not have any (comply



or explain approach). Whilst the NFRD is based on incentives “to report”, the sustainable corporate governance initiative aims to introduce duties “to do”. Such concrete actions would therefore contribute to avoiding “greenwashing” and reaching the objectives of the on-going review of the NFRD too, in particular the aim of enhancing the reliability of information disclosed under the NFRD by ensuring that the reporting obligation is underpinned by adequate corporate and director duties, and the aim of mitigating systemic risks in the financial sector. Reporting to the public on the application of sustainability in corporate governance and on the fulfilment of directors’ and corporate duties would enable stakeholders to monitor compliance with these duties, thereby helping ensure that companies are accountable for how they mitigate their adverse environmental and social impacts.

The initiative would build upon relevant international standards on business and human rights and responsible business conduct, such as the United Nations’ Guiding Principles on Businesses and Human Rights and the OECD Guidelines for Multinational Enterprises and its Due Diligence Guidance for Responsible Business Conduct.

As regards environmental harm linked to deforestation, the Commission is also conducting a fitness check of the EU Timber Regulation and an impact assessment.

Finally, Covid-19 has put small and medium sized companies under financial pressure, partly due to increased delay in the payments from their larger clients. This raises the importance of the role of board members of companies to duly take into account the interests of employees, including those in the supply chains as well as the interests of persons and suppliers affected by their operations. Further support measures for SMEs also require careful consideration.

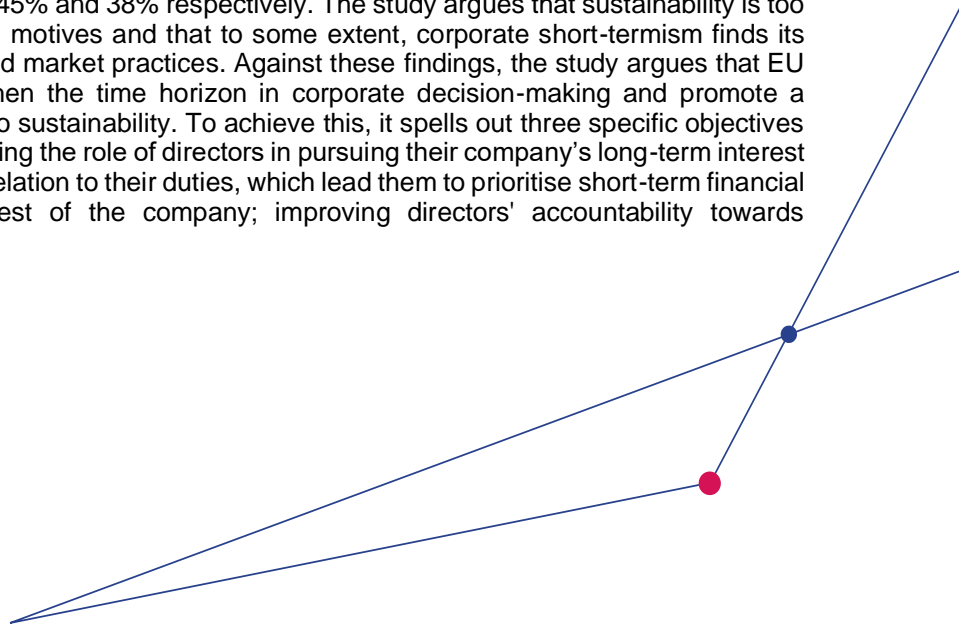
Results of two studies conducted for the Commission

To integrate properly sustainability within corporate strategies and decisions, the High-Level Expert Group on Sustainable Finance recommended in 2018 that the EU clarifies corporate board members’ duties so that stakeholder interests are properly considered. Furthermore, they recommended for the EU to require that directors adopt a sustainability strategy with proper targets, have sufficient expertise in sustainability, and to improve regulation on remuneration.

In its 2018 Action Plan on Financing Sustainable Growth, the Commission announced that it would carry out analytical and consultative work on the possible need to legislate in this area.

The Commission has been looking at further obstacles that hinder the transition to an environmentally and socially sustainable economy, and at the possible root causes thereof in corporate governance regulation and practices. As part of this work, two studies have been conducted which show market failures and favour acting at the EU level.

The study on directors’ duties and sustainable corporate governance [13] evidences that there is a trend in the last 30 years for listed companies within the EU to focus on short-term benefits of shareholders rather than on the long-term interests of the company. Data indicate an upward trend in shareholder pay-outs, which increased from 20% to 60% of net income while the ratio of investment (capital expenditure) and R&D spending to net income has declined by 45% and 38% respectively. The study argues that sustainability is too often overlooked by short-term financial motives and that to some extent, corporate short-termism finds its root causes in regulatory frameworks and market practices. Against these findings, the study argues that EU policy intervention is required to lengthen the time horizon in corporate decision-making and promote a corporate governance more conducive to sustainability. To achieve this, it spells out three specific objectives of any future EU intervention: strengthening the role of directors in pursuing their company’s long-term interest by dispelling current misconceptions in relation to their duties, which lead them to prioritise short-term financial performance over the long-term interest of the company; improving directors’ accountability towards



integrating sustainability into corporate strategy and decision-making; and promoting corporate governance practices that contribute to company sustainability, by addressing relevant unfavourable practices (e.g. in the area of board remuneration, board composition, stakeholder involvement).

The study on due diligence requirements through the supply chain focuses on due diligence processes to address adverse sustainability impacts, such as climate change, environmental, human rights (including labour rights) harm in companies' own operations and in their value chain, by identifying and preventing relevant risks and mitigating negative impacts. The study shows that in a large sample of mostly big companies participating in the study survey, only one in three businesses claim to undertake due diligence which takes into account all human rights and environmental impacts. Therefore voluntary initiatives, even when backed by transparency do not sufficiently incentivise good practice. The study shows wide stakeholder support, including from frontrunner businesses, for mandatory EU due diligence. 70% of businesses responding to the survey conducted for the study agreed that EU regulation might provide benefits for business, including legal certainty, level playing field and protection in case of litigation. The study shows that a number of EU Member States have adopted legislation or are considering action in this field. A potential patchwork of national legislation may jeopardise the single market and increase costs for businesses. A cross-sectoral regulatory measure, at EU level, was preferred to sector specific frameworks.

Objectives of this public consultation

This public consultation aims to collect the views of stakeholders with regard to a possible Sustainable Corporate Governance Initiative. It builds on data collected in particular in the two studies mentioned above and on their conclusions, as well as on the feedback received in the public consultation on the Renewed Sustainable Finance Strategy. It includes questions to allow the widest possible range of stakeholders to provide their views on relevant aspects of sustainable corporate governance.

About you

* Language of my contribution

English

* Surname

Blanchard

* I am giving my contribution as

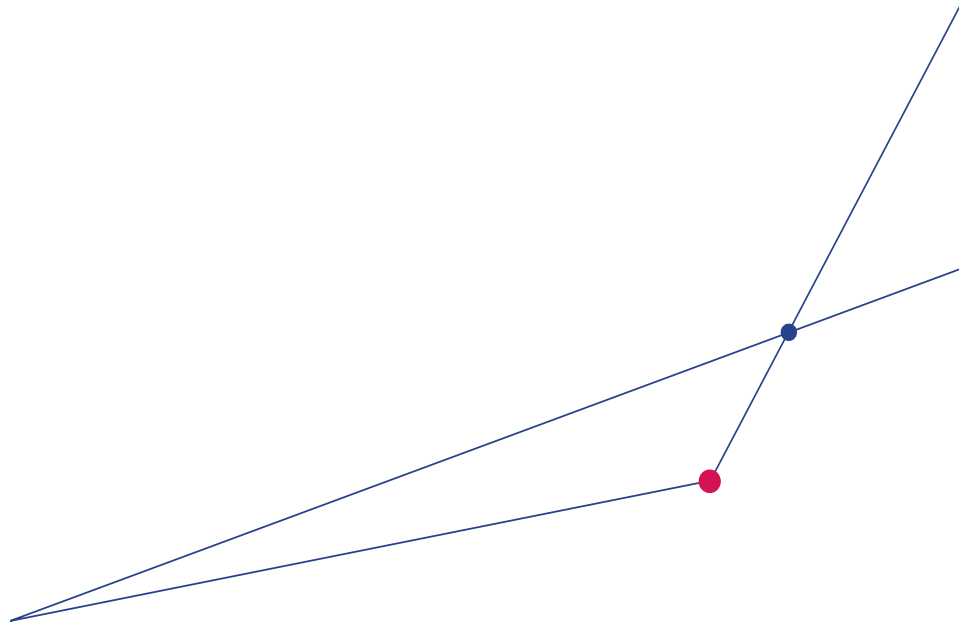
NGO

* First name

Axelle

* Email (this won't be published)

axelle.blanchard@cdsb.net



* Country of origin

Germany

* Publication privacy settings

X Public

Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

Consultation questions

Section I: Need and objectives for EU intervention on sustainable corporate governance

Questions 1 and 2 below which seek views on the need and objectives for EU action have already largely been included in the public consultation on the Renewed Sustainable Finance Strategy earlier in 2020. The Commission is currently analysing those replies. In order to reach the broadest range of stakeholders possible, those questions are now again included in the present consultation also taking into account the two studies on due diligence requirements through the supply chain as well as directors' duties and sustainable corporate governance.

Question 1: Due regard for stakeholder interests', such as the interests of employees, customers, etc., is expected of companies. In recent years, interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.

X Yes, as these issues are relevant to the financial performance of the company in the long term.

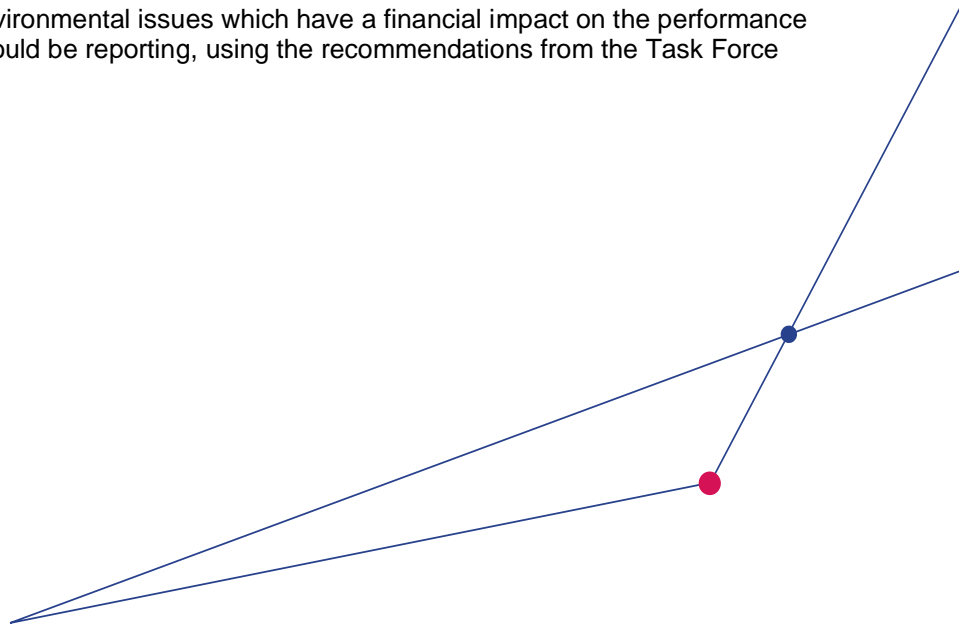
No, companies and their directors should not take account of these sorts of interests

Do not know.

Please provide reasons for your answer:

The role businesses have to play in the society to protect people and the planet has evolved and require that boards set the tone at the top of the company and consider stakeholders' interests in their decision-making and business practices.

A specific emphasis should be put on environmental issues which have a financial impact on the performance of the company, on which companies should be reporting, using the recommendations from the Task Force on Climate-Related Disclosures (TCFD).



Question 2: Human rights, social and environmental due diligence requires companies to put in place continuous processes to identify risks and adverse impacts on human rights, health and safety and environment and prevent, mitigate and account for such risks and impacts in their operations and through their value chain.

In the survey conducted in the context of the study on due diligence requirements through the supply chain, a broad range of respondents expressed their preference for a policy change, with an overall preference for establishing a mandatory duty at EU level.

Do you think that an EU legal framework for supply chain due diligence to address adverse impacts on human rights and environmental issues should be developed?

X Yes, an EU legal framework is needed.

No, it should be enough to focus on asking companies to follow existing guidelines and standards.
No action is necessary.
Do not know.

Please explain:

We agree with the results of the study on due diligence requirements and that an EU legal framework is therefore necessary.

Beyond the adoption and implementation of due diligence policies within the company, there is a need for companies to be able to report on these risks and provide reliable, consistent, and comparable information to investors.

As shown by CDSB's analysis [<https://www.cdsb.net/nfrd2020>], due diligence disclosures have proven to be an area where companies' disclosures showed a great level of confusion over what due diligence and its reporting means. As an example, 4% of companies interpreted "due diligence" to relate to asset level procedures, such as management systems, operational monitoring and controls, omitting the board and management responsibilities of concern for an investor audience. Often, companies used the term "governance" as opposed to "due diligence", suggesting this may be more commonly associated with the requested subject matter. These confusions might also be explained by a lack of proper definition of the terms "due diligence" alongside "policies" in the NFRD. Due diligence proved to be an example of the need to streamline disclosure requirements between national and EU level legislations to avoid creating additional confusion for companies leading to lengthy disclosures.

Question 3: If you think that an EU legal framework should be developed, please indicate which among the following possible benefits of an EU due diligence duty is important for you (tick the box/multiple choice)?

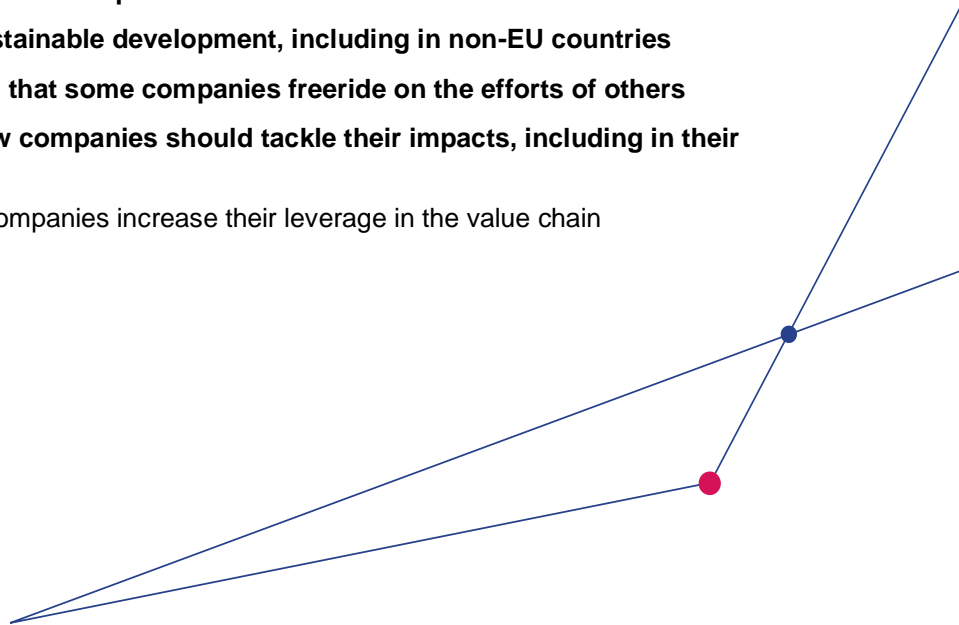
X Ensuring that the company is aware of its adverse human rights, social and environmental impacts and risks related to human rights violations other social issues and the environment and that it is in a better position to mitigate these risks and impacts

X Contribute effectively to a more sustainable development, including in non-EU countries

X Levelling the playing field, avoiding that some companies freeride on the efforts of others

X Increasing legal certainty about how companies should tackle their impacts, including in their value chain

A non-negotiable standard would help companies increase their leverage in the value chain



X Harmonisation to avoid fragmentation in the EU, as emerging national laws are different

SMEs would have better chances to be part of EU supply chains

Other

Section II: Directors' duty of care – stakeholders' interests

In all Member States the current legal framework provides that a company director is required to act in the interest of the company (duty of care). However, in most Member States the law does not clearly define what this means. Lack of clarity arguably contributes to short-termism and to a narrow interpretation of the duty of care as requiring a focus predominantly on shareholders' financial interests. It may also lead to a disregard of stakeholders' interests, despite the fact that those stakeholders may also contribute to the long-term success, resilience and viability of the company.

Question 5. Which of the following interests do you see as relevant for the long-term success and resilience of the company? (choose between relevant/not relevant/ do not know or do not take position)

- the interests of shareholders **Relevant**
- the interests of employees **Relevant**
- the interests of employees in the company's supply chain **Relevant**
- the interests of customers **Relevant**
- the interests of persons and communities affected by the operations of the company **Relevant**
- the interests of persons and communities affected by the company's supply chain **Relevant**
- the interests of local and global natural environment, including climate **Relevant**
- the likely consequences of any decision in the long term (beyond 3-5 years) **Relevant**
- the interests of society, please specify
- other interests, please specify

Question 6. Do you consider that corporate directors should be required by law to (1) identify the company's stakeholders and their interests, (2) to manage the risks for the company in relation to stakeholders and their interests, including on the long run (3) and to identify the opportunities arising from promoting stakeholders' interests? (choose between I strongly agree, I agree to some extent, I disagree to some extent, I strongly disagree, I do not know, I do not take position)

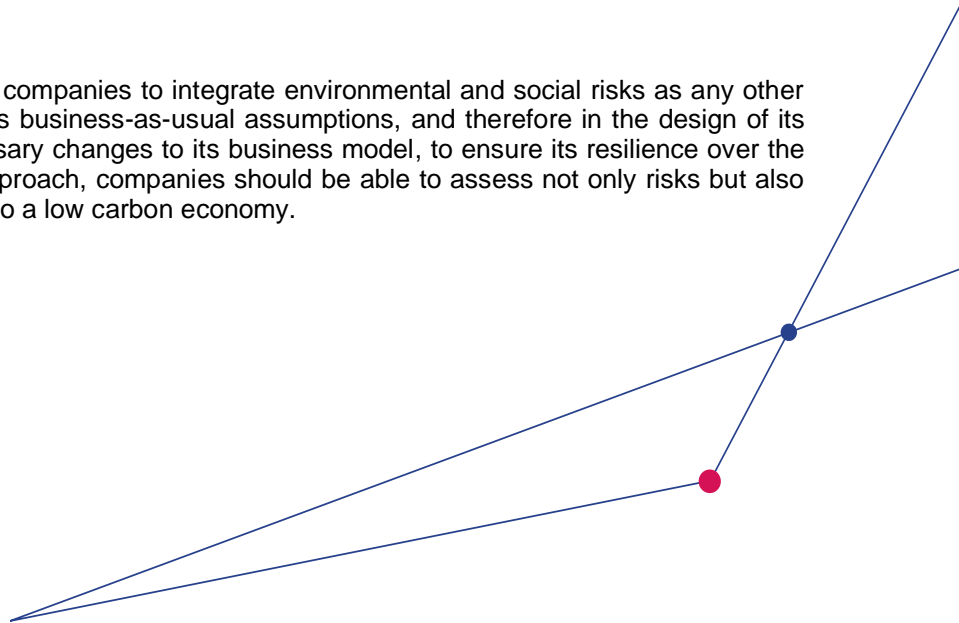
Identification of the company's stakeholders and their interests **I agree to some extent**

Management of the risks for the company in relation to stakeholders and their interests, including on the long run **I strongly agree**

Identification of the opportunities arising from promoting stakeholders' interests **I agree to some extent**

Please explain:

Risk management is a powerful tool for companies to integrate environmental and social risks as any other risks the company should consider in its business-as-usual assumptions, and therefore in the design of its corporate strategy as well as the necessary changes to its business model, to ensure its resilience over the short, medium and long term. In this approach, companies should be able to assess not only risks but also opportunities arising from the transition to a low carbon economy.



Question 7. Do you believe that corporate directors should be required by law to set up adequate procedures and where relevant, measurable (science-based) targets to ensure that possible risks and adverse impacts on stakeholders, i.e. human rights, social, health and environmental impacts are identified, prevented and addressed?

X I strongly agree

I agree to some extent

I disagree to some extent

I strongly disagree

I do not know

I do not take position

Please explain:

We believe corporate board have a key role to play in the development and oversight of procedures as well as targets to ensure that companies set themselves on a clear pathway to adapt their business activities with a low carbon economy and achieve the objectives of the Paris agreement. On target setting, we support the development of science-based targets as some companies are leading the way by committing, developing and implementing science-based targets in the framework of the Science-Based Target Initiative. CDSB's briefing on the implications of climate science for financial markets provides evidence that an alignment of both economic activities and investments with a 1.5°C world is necessary to mitigate the risks and impacts of climate change, as presented in the UN Intergovernmental Panel on Climate Change's Global Warming of 1.5°C special report.

[\[https://www.cdsb.net/sites/default/files/implications_of_climate_science_for_financial_markets_cdsb_0.pdf\]](https://www.cdsb.net/sites/default/files/implications_of_climate_science_for_financial_markets_cdsb_0.pdf)

Question 8. Do you believe that corporate directors should balance the interests of all stakeholders, instead of focusing on the short-term financial interests of shareholders, and that this should be clarified in legislation as part of directors' duty of care?

I strongly agree

X I agree to some extent

I disagree to some extent

I strongly disagree

I do not know

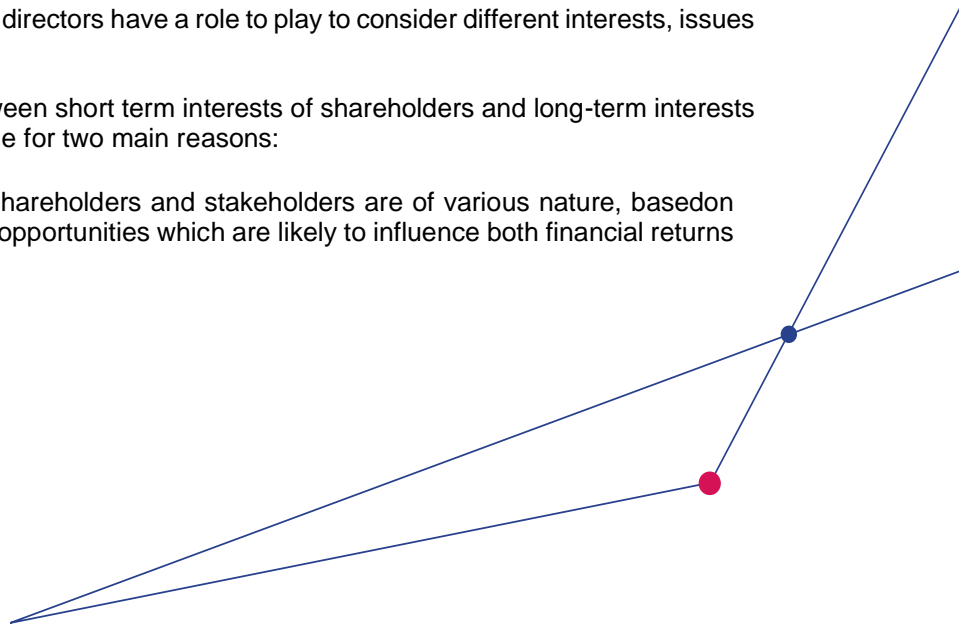
I do not take position

Please provide an explanation or comment:

In principle, CDSB agrees that corporate directors have a role to play to consider different interests, issues and time horizons in their decisions.

We believe that a strong distinction between short term interests of shareholders and long-term interests of other stakeholders should not be made for two main reasons:

- Time horizons considered by shareholders and stakeholders are of various nature, based on the materialisation of risks and opportunities which are likely to influence both financial returns



- and the environmental and social impacts the company's decisions have over time, while EU policies have to incentivise a long-term thinking in capital markets; and
- Shareholders have been increasingly interested by long term perspectives in their investment decisions, as they take net zero commitments on their own portfolio to align them with climate goals. That is why investors have been asking companies to make more meaningful disclosures on their environmental and social impacts.

We also believe that it should be clarified that:

- Environmental and social issues should not be considered as always long term in nature as they may become material within different time horizons; and
- The term "directors" should be clarified to make the distinction between board members and directors within the management of a company.

Question 9. Which risks do you see, if any, should the directors' duty of care be spelled out in law as described in question 8?

The CDSB Framework for reporting environmental and climate change information defines a set of environmental risks companies need to consider and report on (regulatory, physical, reputational and litigation risks). [https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf]

How could these possible risks be mitigated? Please explain.

The CDSB Framework provides recommendations on how to report on such risks, which can also be useful to help analyse the impacts of identified risks for the company and therefore mitigate such risks.

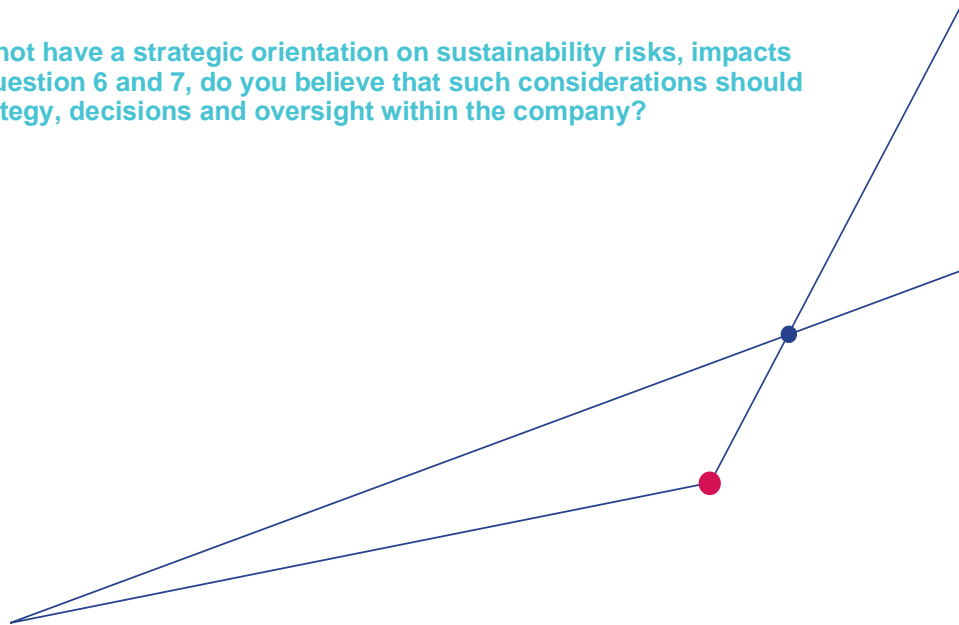
Concrete steps include looking at :

- The actual and potential causes and sources of environmental risks and opportunities;
- The organisation's processes and systems for identifying risks and opportunities, e.g. whether inventory, operations and supply chains have been audited to identify licenses, rights, assets and relationships that might strengthen or weaken the organisation's access to natural capital;
- The implications for the organisation, for example, in terms of operations, supply chain, business model, financial results, achievement of strategic objectives;
- The products, services, markets and geographical areas that are likely to be affected;
- The implications on the organisation and/or its stakeholders for example, customers and suppliers;
- How and the extent to which the organisation is able to mitigate risks and maximise opportunities directly and/or indirectly through customers, supply chain, markets etc.; and
- The timeframes over which risks and opportunities are assessed and estimates when they are expected to materialise.

Question 10. As companies often do not have a strategic orientation on sustainability risks, impacts and opportunities, as referred to in question 6 and 7, do you believe that such considerations should be integrated into the company's strategy, decisions and oversight within the company?

X I strongly agree

I agree to some extent



- I disagree to some extent
- I strongly disagree
- I do not know
- I do not take position

Please explain:

We strongly support the inclusion of environmental risks and opportunities in the corporate strategy rather than in a separate sustainability strategy based on the recommendations of the Task Force on Climate-Related Disclosures (TCFD).

Section III: Due diligence duty

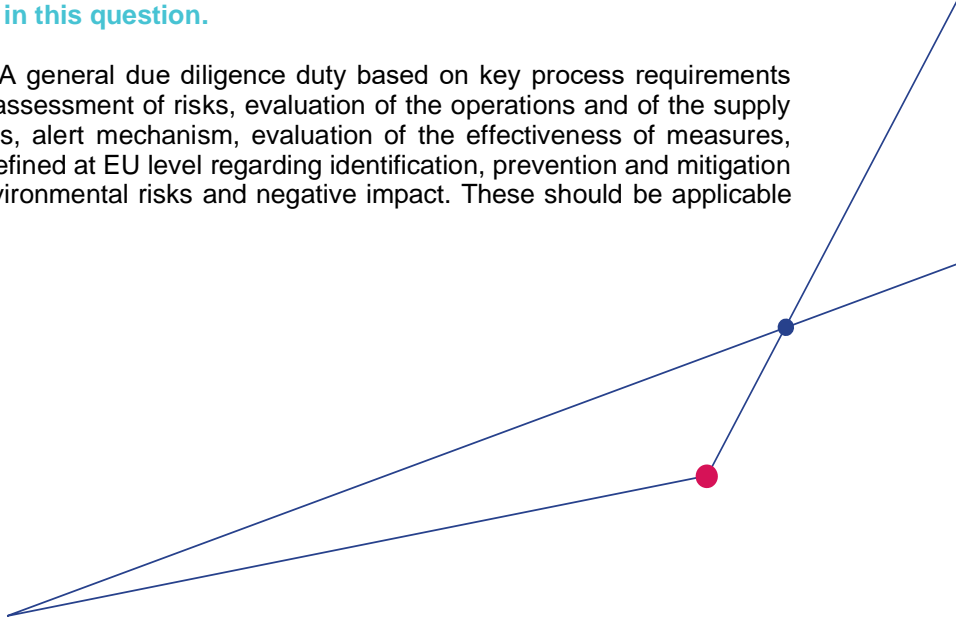
For the purposes of this consultation, “due diligence duty” refers to a legal requirement for companies to establish and implement adequate processes with a view to prevent, mitigate and account for human rights (including labour rights and working conditions), health and environmental impacts, including relating to climate change, both in the company’s own operations and in the company’s the supply chain. “Supply chain” is understood within the broad definition of a company’s “business relationships” and includes subsidiaries as well as suppliers and subcontractors. The company is expected to make reasonable efforts for example with respect to identifying suppliers and subcontractors. Furthermore, due diligence is inherently risk-based, proportionate and context specific. This implies that the extent of implementing actions should depend on the risks of adverse impacts the company is possibly causing, contributing to or should foresee.

Question 14: Please explain whether you agree with this definition and provide reasons for your answer.

We agree with the definition. We would like to add that the due diligence definition needs to be harmonised across legislations as there is already a requirement to report on due diligence processes within the Non-Financial Reporting Directive. The current lack of legal definition for due diligence creates confusions for businesses resulting in a lack of meaningful disclosures around board and management responsibilities over environmental and social issues.

Question 15: Please indicate your preference as regards the content of such possible corporate due diligence duty (tick the box, only one answer possible). Please note that all approaches are meant to rely on existing due diligence standards, such as the OECD guidance on due diligence or the UNGPs. Please note that Option 1, 2 and 3 are horizontal i. e. cross-sectorial and cross thematic, covering human rights, social and environmental matters. They are mutually exclusive. Option 4 and 5 are not horizontal, but theme or sector-specific approaches. Such theme specific or sectorial approaches can be combined with a horizontal approach (see question 15a). If you are in favour of a combination of a horizontal approach with a theme or sector specific approach, you are requested to choose one horizontal approach (Option 1, 2 or 3) in this question.

Option 1. “Principles-based approach”: A general due diligence duty based on key process requirements (such as for example identification and assessment of risks, evaluation of the operations and of the supply chain, risk and impact mitigation actions, alert mechanism, evaluation of the effectiveness of measures, grievance mechanism, etc.) should be defined at EU level regarding identification, prevention and mitigation of relevant human rights, social and environmental risks and negative impact. These should be applicable



across all sectors. This could be complemented by EU-level general or sector specific guidance or rules, where necessary

X Option 2. “Minimum process and definitions approach”: The EU should define a minimum set of requirements with regard to the necessary processes (see in option 1) which should be applicable across all sectors. Furthermore, this approach would provide harmonised definitions for example as regards the coverage of adverse impacts that should be the subject of the due diligence obligation and could rely on EU and international human rights conventions, including ILO labour conventions, or other conventions, where relevant. Minimum requirements could be complemented by sector specific guidance or further rules, where necessary.

Option 3. “Minimum process and definitions approach as presented in Option 2 complemented with further requirements in particular for environmental issues”. This approach would largely encompass what is included in option 2 but would complement it as regards, in particular, environmental issues. It could require alignment with the goals of international treaties and conventions based on the agreement of scientific communities, where relevant and where they exist, on certain key environmental sustainability matters, such as for example the 2050 climate neutrality objective, or the net zero biodiversity loss objective and could reflect also EU goals. Further guidance and sector specific rules could complement the due diligence duty, where necessary.

Option 4 “Sector-specific approach”: The EU should continue focusing on adopting due diligence requirements for key sectors only.

Option 5 "Thematic approach": The EU should focus on certain key themes only, such as for example slavery or child labour.

None of the above, please specify

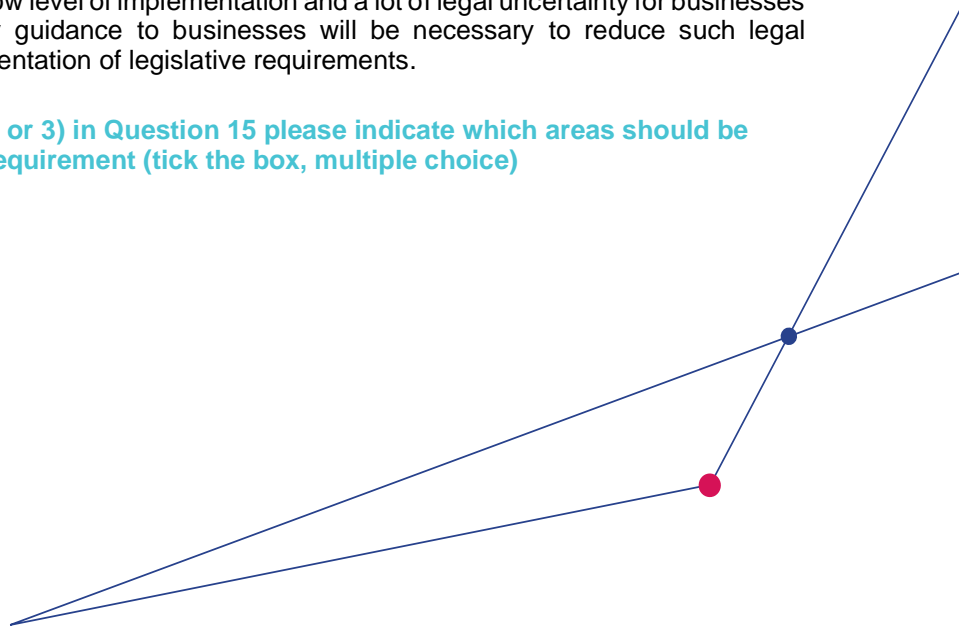
Question 15a: If you have chosen option 1, 2 or 3 in Question 15 and you are in favour of combining a horizontal approach with a theme or sector specific approach, please explain which horizontal approach should be combined with regulation of which theme or sector?

CDSB believes that, as in the case of non-financial reporting, there is a need to have a European set of horizontal requirements applying to all companies within the scope of the upcoming regulations. These requirements should be aligned as much as possible on existing international requirements. They would need to be complemented by sector and topic specific requirements, to consider specificities of one business sector or one environmental and social issue.

Question 15b: Please provide explanations as regards your preferred option, including whether it would bring the necessary legal certainty and whether complementary guidance would also be necessary.

Option 2 should ensure that the requirements are specific enough to ensure a proper implementation and supervision. A more high-level principle-based approach, as suggested by option 1, have been chosen in the case of the NFRD and has resulted in a low level of implementation and a lot of legal uncertainty for businesses applying the Directive. Complementary guidance to businesses will be necessary to reduce such legal uncertainty and ensure a proper implementation of legislative requirements.

Question 15c: If you ticked options 2) or 3) in Question 15 please indicate which areas should be covered in a possible due diligence requirement (tick the box, multiple choice)



X Human rights, including fundamental labour rights and working conditions (such as occupational health and safety, decent wages and working hours)

Interests of local communities, indigenous peoples' rights, and rights of vulnerable groups

X Climate change mitigation

X Natural capital, including biodiversity loss; land degradation; ecosystems degradation, air, soil and water pollution (including through disposal of chemicals); efficient use of resources and raw materials; hazardous substances and waste

Other, please specify

Question 15d: If you ticked option 2) in Question 15 and with a view to creating legal certainty, clarity and ensuring a level playing field, what definitions regarding adverse impacts should be set at EU level?

The notion of adverse impacts is already embedded in other EU legislations, including the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation. The chosen definitions in the Sustainable Corporate Governance initiative should therefore mirror these existing definitions.

Question 16: How could companies'- in particular smaller ones'- burden be reduced with respect to due diligence? Please indicate the most effective options (tick the box, multiple choice possible)

This question is being asked in addition to question 48 of the Consultation on the Renewed Sustainable Finance Strategy, the answers to which the Commission is currently analysing.

All SMEs should be excluded

SMEs should be excluded with some exceptions (e.g. most risky sectors or other)

Micro and small sized enterprises (less than 50 people employed) should be excluded

Micro-enterprises (less than 10 people employed) should be excluded

X SMEs should be subject to lighter requirements ("principles-based" or "minimum process and definitions" approaches as indicated in Question 15)

X SMEs should have lighter reporting requirements

Capacity building support, including funding

Detailed non-binding guidelines catering for the needs of SMEs in particular

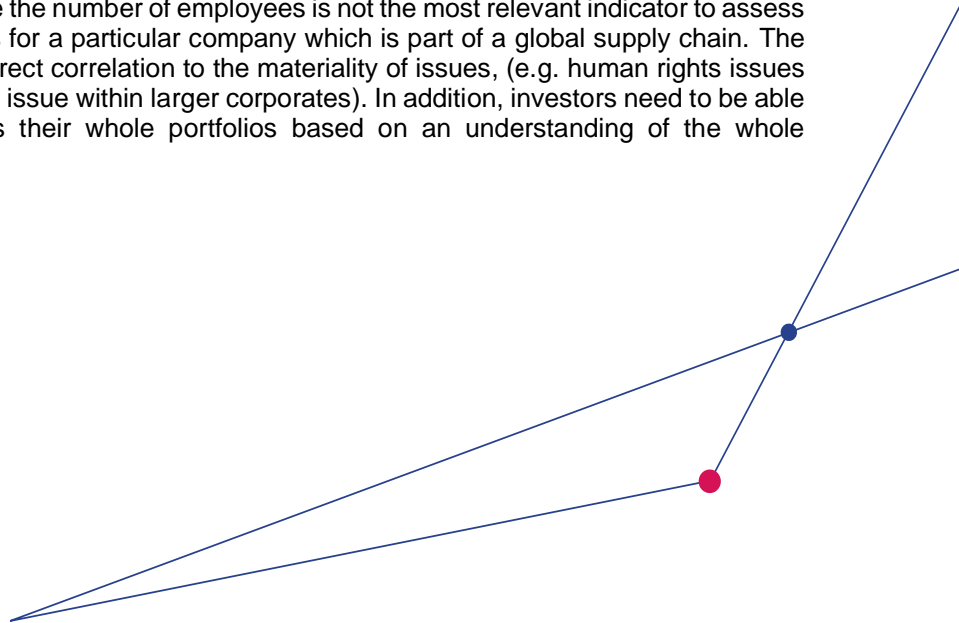
Toolbox/dedicated national helpdesk for companies to translate due diligence criteria into business practices

Other option, please specify

None of these options should be pursued

Please explain your choice, if necessary

While recognising the overall regulatory burden a due diligence requirement and the related reporting requirement can be for SMEs, we believe the number of employees is not the most relevant indicator to assess the materiality of ESG risks and impacts for a particular company which is part of a global supply chain. The activities of the business have a more direct correlation to the materiality of issues, (e.g. human rights issues within a smaller supplier vs human rights issue within larger corporates). In addition, investors need to be able to assess such impact or risks across their whole portfolios based on an understanding of the whole company's supply chain.



Section IV: Other elements of sustainable corporate governance

Question 22: Enhancing sustainability expertise in the board

Current level of expertise of boards of directors does not fully support a shift towards sustainability, so action to enhance directors' competence in this area could be envisaged (Study on directors' duties and sustainable corporate governance).

Please indicate which of these options are in your view effective to achieve this objective (tick the box, multiple choice).

X Requirement for companies to consider environmental, social and/or human rights expertise in the directors' nomination and selection process

Requirement for companies to have a certain number/percentage of directors with relevant environmental, social and/or human rights expertise

X Requirement for companies to have at least one director with relevant environmental, social and/or human rights expertise

X Requirement for the board to regularly assess its level of expertise on environmental, social and/or human rights matters and take appropriate follow-up, including regular trainings

Other option, please specify

None of these are effective options

Please explain:

Board members need to have enough understanding of environmental, social and governance-related issues. A lot of studies, including PwC's 2020 Annual Corporate Directors Survey [<https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html>], show that board members do not have enough ad hoc expertise to incorporate such issues into their decision-making. To bring such expertise into the boardroom, companies could nominate ad hoc external board advisers or non-executive board members, provide regular updates to the board from relevant senior management as well as training for board members and company executives.

For further details, please refer to the World Economic Forum paper

[<https://www.weforum.org/whitepapers/integrated-corporate-governance-a-practical-guide-to-stakeholder-capitalism-for-boards-of-directors>]

