

Joint Statement on the Corporate Sustainability Due Diligence Directive (CSDDD)



As a group of stakeholders with different backgrounds but a common interest in sustainable finance, we would like to express our overall support for the European Commission's proposal on the Corporate Sustainability Due Diligence Directive (CSDDD). We deem that the private sector has a key role to play in achieving 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 addresses adverse impacts on human rights, society, the environment, and in particular, the climate.

In this sense, the CSDDD will play a critical role in ensuring that the company's governance framework requires their directors to properly integrate environmental, climate and social risks in their decision-making processes as well as duly consider and address associated opportunities and impacts. These should be embedded into the organisation's long-term strategy, business model, financial and investment planning. Relatedly, appropriate risk identification and assessment processes and clear responsibilities are essential for adequate management and mitigation of sustainability risks and impacts. Moreover, the establishment and communication of due diligence processes and results thereof are critical for allowing investors and other relevant stakeholders to understand and assess companies' strategic approach to sustainability.

With this in mind, we thank the European Commission for its efforts to clarify sustainability requirements in the EU's regulatory framework on company law. Nonetheless, we call on the EU co-legislators to strengthen certain provisions and address the following matters in their compromise agreement:

- **Directors' oversight of due diligence and corporate sustainability strategy**

The Corporate Sustainability Due Diligence Directive seeks to clarify directors' responsibilities in the oversight of the due diligence actions. In this context, we support legally mandated directors' responsibilities to oversee the various steps of due diligence. Directors should also be responsible for setting and overseeing the implementation of sustainability targets and transition plans and taking concrete actions to address adverse sustainability impacts. We support that directors are responsible for steering the development and implementation of a corporate sustainability strategy reflecting the salient risks and impacts identified by the

company. Directors should also ensure that there is sufficient sustainability-related expertise throughout the company and the board for the effective integration and management of sustainability risks.

- **Transition plans and targets to address sustainability risks**

In line with the requirements of the Corporate Sustainability Reporting Directive, we recommend that all companies in scope of the Directive should develop and implement sustainability -including climate- targets and transition plans, covering sustainability risks and impacts. The objectives of these plans should be forward-looking in nature, supported by credible milestones, including but not limited to time-bound targets (based on scientific evidence wherever relevant), and considered in strategic decisions taken by directors, such as the ones regarding business model, strategy, investment and financial planning. Transition plans should comply with the objective of achieving climate neutrality as per the EU Regulation (EU) 2021/1119 of the European Parliament and of the Council (“European Climate Law”).

Moreover, the transition plans should include clear actions to achieve the set objectives and foresee related financial and investment plans. It is critical that companies should allocate sufficient resources to the implementation of these plans, in order to set credible yet feasible objectives. In order to comply with the latter, additional guidance should be given to companies to define credible objectives related to social and human rights impacts.

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

Aligning directors’ variable remuneration with companies’ sustainability performance should ensure the meaningful integration of sustainability practices into management’s decision-making. We, therefore, propose strengthening the provision of the directors’ variable remuneration, by requiring companies to clearly link a significant proportion of directors’ variable remuneration to the achievement of sustainability targets incorporated in the strategy of the company.

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

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

To make sure that adverse impacts on human rights, environment, and good governance are properly identified, prevented, mitigated and brought to an end by companies, we recommend to:

- base the due diligence obligations 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;

- provide more clarity on the definitions, and give additional guidance on the measures that companies are expected to implement human rights and environmental due diligence along their value chains;
- foster a risk-based approach, firmly based on the UN and OECD standards, that requires companies to address and mitigate impacts on the basis of their severity and likelihood of their business relationships; covering the companies' subsidiaries and global value chains, both upstream and downstream;
- stipulate robust due diligence obligations for financial institutions in consideration of their specificities and various asset classes;
- enable appropriate remedy and enforcement mechanisms, including civil liability, are put in place and promote more meaningful stewardship and engagement with suppliers; and
- promote policy coherence of the Corporate Sustainability Due Diligence Directive with other related pieces of legislation, particularly UCITS, AIFMD, SFDR and CSRD by including, among others, cross-references to the other legislative acts, where appropriate.