



Business & Human Rights
Resource Centre

European Commission President
Ursula von der Leyen,
European Commission
1049 Bruxelles

Open Letter: Risking Effective Sustainable Corporate Governance

20 December 2021

Commission President von der Leyen,
Executive Vice-Presidents Frans Timmermans, Margrethe Vestager, Valdis Dombrovskis

High representative/Vice-President Joseph Borrell,
Vice-Presidents Věra Jourová, Maroš Šefčovič, Dubravka Šuica,
Commissioners Virginijus Sinkevičius, Didier Reynders, Thierry Breton, Helena Dalli, Nicolas
Schmit, Jutta Urpilainen, Mairead McGuinness

Dear Commission President von der Leyen,
Dear Vice Presidents and Commissioners,

As the undersigned organisations, who are actively working on the planned Commission proposal on a Sustainable Corporate Governance (SCG) initiative, we would like to express our strong concerns about the delay in the publication of the legislative proposal, as well as the lack of information explaining such new delay.

Moreover, we are concerned that the delay may be symptomatic of a risk that the Commission is parting from its initial ambition to tackle sustainability gaps in corporate governance. Indeed, the Commission had [committed](#) to a solid and well balanced proposal that would aim “to ensure that sustainability is further embedded into the corporate governance framework with a view to better align the long-term interests of management, shareholders, stakeholders and society”. The shift towards a more sustainable economy committed through the EU Green Deal and the Sustainable Finance Agenda must be implemented at corporate level. Corporate sustainability reporting, while necessary, is not sufficient to achieve these goals.

The climate, environmental and social crises we are faced with, require immediate action from all actors, and the role of the private sector is pivotal. The SCG initiative facilitates this response, delaying it further hampers the urgent action needed. On that note, we wish to raise two concise points:

1. Within the Commission’s initiative **it is critical to ensure the involvement of directors**, i.e. those who lead and steer companies. Such involvement is [paramount](#) to ensure that companies are able to properly evaluate and take the necessary strategic decisions with regard to the **management and oversight** of due diligence, sustainability risks and impacts, both from the

perspective of their own success as well as that of their responsibilities to society. To that end, directors should be required to oversee a forward-looking corporate strategy fully integrating sustainability considerations, including measurable, specific, time-bound science-based targets as well as transition plans aligned with the EU's international commitments on the environment and climate change. In light of the climate urgency we are facing, these responsibilities must be embedded as soon as possible into the organisation's long-term business, strategy and financial planning, while building on existing corporate governance rules and considering differences in corporate structures. In practice, this dynamic has translated into developments at the national level, for instance the new Supply Chain Act in Germany includes oversight requirements in order to allow for an effective implementation of the processes of due diligence.

2. The role of companies is pivotal to meet the objectives of the EU Green Deal and to design a sustainable future, as they sit at the junction of consumers, investors, workers, scientists and the global marketplace. However, the incentives, measurement and accountability mechanisms which frame their governance - and in particular CEO remunerations and dividends' policies - have traditionally been defined with regards to financial performance only. **The Commission's proposal is key to address these gaps and to ensure coherence and alignment within the corporate and financial market regulatory framework in Europe.** In this regard, connecting the dots between companies' sustainability targets, upcoming due diligence obligations and incentives will support long-term value creation by EU companies.

Furthermore, increasing demand from all kinds of stakeholders demonstrate both the need for, and feasibility of such action. Leaders from the business and investor sector [publicly support](#) the EU SCG initiative, and in October, almost 100 investors representing over \$6.3 trillion in assets under management and advisement have [publicly backed](#) the EU Commission's intention to provide clarity on the responsibilities of boards. It also clearly emerges from the [results](#) of the public consultation, conducted by the EU Commission on the SCG initiative, that citizens and civil societies have indicated an overwhelming support to integrate sustainability risks, impacts and opportunities into companies' strategy, decisions and oversight.

As a consequence of inaction, the EU is risking its objective to transform an unsustainable economic and development model towards a more just, equal and environmentally responsible system as set out in the EU Green Deal. We therefore urge the Commission to support an effective proposal to close the gaps in due diligence and corporate governance.

We are looking forward to engaging with you further on the key elements of the Sustainable Corporate Governance initiative.

Thank you very much for your consideration.

Yours sincerely,

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Filip Gregor, Frank Bold

Maria van der Heide, Head of EU policy, ShareAction

Walter Kern, EU Advocacy lead, Economy for the Common Good

Benoît Lallemand, Secretary General, Finance Watch

Evelien Van Roemburg, Head of EU Advocacy Office, Oxfam

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