



Open Letter: An encompassing approach to effective Sustainable Corporate Governance

31 January 2022

European Commission President Ursula von der Leyen
Vice-President Věra Jourová

Dear Commission President,
Dear Vice-President,

We welcome recent information that the Commission will come forward with its proposal on the Sustainable Corporate Governance initiative this February. However, and as already outlined in our previous letter on the 20th of December 2021, the undersigned organizations would like to express their deep concerns that reforms of directors' duties, mandatory corporate sustainability targets and related incentives may not feature in the forthcoming proposal.

Mandatory environmental and human rights due diligence is essential - but it should not be a standalone proposition. Repositioning the EU economy towards a more sustainable model, in line with the objectives of the EU Green Deal and the Sustainable Finance Agenda, is not likely to happen if reforms to directors' obligations are not introduced.

Companies that integrate sustainability matters at the heart of their strategy and decision-making processes will be better positioned to deliver long-term value and become truly sustainable. This vision is very much shared by many in the private sector.

In this view, we wish to draw your attention to the very recent [letter supported by 25 CEOs](#) of leading European companies, investors and business associations, in which they stress that incentives for executive action are a key instrument for change that have the potential to break the "*tragedy of horizons*". In 2021, leaders from the business and investor sector had already [publicly supported](#) the EU Sustainable Corporate Governance initiative, and were backed by over 90 company law experts and academics. This demonstrates that the call for change is not only coming from civil society organisations, but also from the industry itself. [Investors](#) in particular have been calling out the Commission: sound corporate governance is needed to underpin an effective implementation of due diligence.

The Commission had initially committed to a balanced proposal resting on those two complementary pillars. Those are critical to effectively deliver on the objectives of the European

Union for a greener and more sustainable economy: the role of the private sector is key and its potential for transformation must be harnessed through this initiative. Reforms on directors' obligations and related incentives are critical to impulse momentum.

We therefore urge the Commission to ensure the two following key recommendations are integrated in its proposal.

- **Clarify existing directors' obligations with regards to strategic oversight of sustainability matters and related due diligence obligations.** Those must form an integral part of companies' strategy. **This undoubtedly requires measurable, specific and time-bound science-based targets - accompanied by transition plans, to ensure alignment with EU's international commitments on climate change in particular.** On this front, the urgency of ensuring a much greater convergence of actions of all actors - and most importantly, of the private sector, calls for dedicated corporate targets, [a view](#) increasingly shared by institutions, civil society organizations, investors and companies themselves.
- **Aligning incentives for actions with sustainability targets:** all across the EU, many companies have already made initial moves on this. It is time to support and expand those initiatives. Incentives for executive actions have reflected for too long the overwhelming priorities of companies: short-term financial profits. Sustainability is emerging as a challenge and an opportunity for companies. **The remuneration of those who guide and steer their direction must be designed to support this transition.** As highlighted in the letter published on the 26th of January by 25 EU business leaders: *"To give more weight to the long term, it is necessary to integrate it into short-term governance tools. [...] This makes it possible to get away from the sometimes contradictory injunctions between financial performance and environmental performance"*

The European Commission must stay on course. The initial ambition of this initiative was an example of European leadership. We call on you to ensure that the proposal reflects that and steers the shift towards the sustainable European economy that citizens are aspiring to.

We are looking forward to keeping engaging with you on the Sustainable Corporate Governance Initiative.

Yours sincerely,

Ester Asin, Director, WWF European Policy Office
Benoît Lallemand, Secretary General, Finance Watch
Maria van der Heide, Head of EU policy, ShareAction
Filip Gregor, Head of Responsible Companies Section, Frank Bold
Walter Kern, Head of EU Policy, Economy for the Common Good
Evelien Van Roemburg, Head of EU Advocacy Office, Oxfam