

Eurosif, the European Sustainable Investment Forum, welcomes the opportunity to respond to the consultation of the European Commission on the Proposal for an Initiative on Sustainable Corporate Governance.

---

## INTRODUCTION

### About Eurosif

Eurosif works as a partnership of Europe-based national Sustainable Investment Forums (SIFs). SIF members include institutional investors, asset managers, index providers and ESG research and analysis firms totalling over €8 trillion of assets under management, as well as other stakeholders such as NGOs, trade unions, think-tanks and philanthropic foundations. Eurosif is also a founding member of the Global Sustainable Investment Alliance, the alliance of the largest SIFs around the world.

Our Mission is to promote sustainable development through financial markets by supporting the financing through private and public capital of investments that make a measurable contribution to the sustainable development goals set by the United Nations, the European Union and other European countries.

For any questions or comments you can contact Victor van Hoorn, Executive Director, at [victor.vanhoorn@eurosif.org](mailto:victor.vanhoorn@eurosif.org).

---

## RESPONSE TO 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.
- 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.

#### Eurosif response

Both the first and the second options' reasoning complete each other. There is growing evidence that the inclusion of social and environmental matters in corporate decisions do not only positively impact stakeholder such as customer, employee or even the environment, but also directly influence the long-term financial performance of companies.

**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?**

- 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.

#### Eurosif response

Since existing guidelines and standards have not always proven to be efficient in bringing company to undertake due diligence for human rights, social or environmental matters in their value chains, an EU legal framework appears as to be the necessary answer, bearing in mind the need for proportionality. Smaller companies may have a far smaller impact on these matters than larger ones.

**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)?**

- 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
- Contribute effectively to a more sustainable development, including in non- EU countries
- Levelling the playing field, avoiding that some companies freeride on the efforts of others
- 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
- 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

### **Question 3a. Drawbacks**

**Please indicate which among the following possible risks/drawbacks linked to the introduction of an EU due diligence duty are more important for you (tick the box /multiple choice)?**

- Increased administrative costs and procedural burden
- Penalisation of smaller companies with fewer resources
- Competitive disadvantage vis-à-vis third country companies not subject to a similar duty
- Responsibility for damages that the EU company cannot control
- Decreased attention to core corporate activities which might lead to increased turnover of employees and negative stock performance
- Difficulty for buyers to find suitable suppliers which may cause lock-in effects (e.g. exclusivity period/no shop clause) and have also negative impact on business performance of suppliers
- Disengagement from risky markets, which might be detrimental for local economies
- 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?**

	Relevant	Not relevant	I do not know / I do not take position
The interests of shareholders	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The interests of employees	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The interests of employees in the company's supply chain	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The interests of customers	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The interests of persons and communities affected by the operations of the company	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The interests of persons and communities affected by the company's supply chain	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The interests of local and global natural environment, including climate	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The likely consequences of any decision in the long term (beyond 3-5 years)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The interests of society, please specify	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other interests, please specify	<input checked="" type="checkbox"/> shareholders	<input type="checkbox"/>	<input type="checkbox"/>

Other interests, please specify: shareholders

**Eurosif response**

We consider that shareholders' interests are also crucial, since they are aligned in the long term with those of other stakeholders, contrarily to what is often thought. Shareholders that integrate long-term information in their buy or sell decision will also automatically consider other stakeholders' considerations and interests since it influences the long-term success of a company.

**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?**

	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	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Management of the risks for the company in relation to stakeholders and their interests, including on the long run	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Identification of the opportunities arising from promoting stakeholders' interests	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--	--------------------------	-------------------------------------	--------------------------	--------------------------	--------------------------	--------------------------

**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, ie. human rights, social, health and environmental impacts are identified, prevented and addressed?**

- 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

#### Eurosif response

We agree that the law should mandate corporate directors to develop and follow adequate procedures to identify, prevent and manage possible risks and adverse impacts on all groups of stakeholders, including by setting where appropriate and feasible measurable science-based targets. However, this obligation should focus on the objective and the principle. At this stage it is probably premature to focus on developing detailed prescriptive requirements for the procedure itself, bearing in mind the diversity of companies covered by the initiative, in terms of size, complexity and sectors of activities. Therefore, to conclude, at this stage the legislation should (1) require companies to set adequate procedures to identify, prevent and address risks, (2) be transparent about the specific procedure used and (3) include in annual financial and non-financial reports information on the results of these procedures and the incidents identified as well as the way there are being remedied.

**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  
 I agree to some extent  
 I disagree to some extent  
 I strongly disagree  
 I do not know  
 I do not take position

#### Eurosif response

Eurosif certainly believes that it is necessary to clarify that the duty of care of directors is not limited to the short-term financial interests of shareholders and involves balancing the interests of different stakeholders. Directors are first and foremost responsible towards the company as a separate legal entity. The interest of the company as an organization is obviously interconnected with the

stakeholders it interacts with and which are essential to its future and its interest in sustaining a viable business model. These include the interests of shareholders, employees, consumers, the environment and also public authorities supplying essential services and infrastructure that create positive externalities such as the rule of law and the education of employees.

However, we would caution against the idea that clarifying the duty of care will solve all the issues that it is intending to solve and will allow directors to systematically make fair 'arbitrages' between different stakeholders and their interests. Fairness remains a concept with a significant degree of subjective interpretation.

Many of these interests are usually arbitered for by policy and regulation set by public authorities, which remains a far better solution in our view, particularly in countries with functioning democratic institutions like EU Member States. Any notion that directors of companies should be required to make these arbitrages would not necessarily be a welcome development.

A more effective approach, as we will highlight below (Q21) may be to ensure that board of directors/supervisory boards are setting the right incentives in remuneration packages, to ensure particularly that variable remuneration of directors is aligned with the right sustainability objectives and the right time-horizons.

**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?**

- 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

#### Eurosif response

We fully support the further integration of considerations around sustainability risks, impacts and opportunities in the strategy, decision-making and oversight within the company. Long-term sustainability challenges such as climate change and biodiversity loss and more immediate social challenges, particularly exacerbated by the COVID pandemic, are material factors impacting the strategy and business of companies.

Recent studies however show that many companies may be ill-equipped to address these adequately. Many corporate boards and directors do not currently have a level of expertise on these issues that lead to an accurate understanding of risks and opportunities associated with these trends. This may also be a problematic assessment from the perspective of long-term shareholders.

We believe that requiring companies to systematically include sustainability risks, impacts and opportunities in the corporate strategy is paramount. This may be set as a formal responsibility of

the board or supervisory board, depending on whether the company has a one or two-tier board. Overtime this may also require these boards to demonstrate that they do have the right of knowledge and expertise in their midst. Ideally this should also be reflected in time-bound long-term objectives (Net-Zero objective), with concrete and measurable targets. Here we would like to note that frameworks like the Taskforce on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD) already expect companies to disclose and implement processes around governance, strategy, risk management and the setting of metrics and targets.

We would like to conclude that these requirements should be proportional and should take into account the size of a company, to avoid excessively burdening SMEs that may have a more limited impact on sustainability.

**Question 13. Do you consider that stakeholders, such as for example employees, the environment or people affected by the operations of the company as represented by civil society organisations should be given a role in the enforcement of directors' duty of care?**

- 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

**Eurosif response**

While we understand the importance of ensuring the interest of other stakeholders than shareholders are taken into account, we believe it is not wise to give stakeholders legal standing to enforce the duty of care of directors.

Directors owe a duty of care to the company and may be challenged by other bodies of the company (supervisory board, general assembly of shareholders) when they do not properly discharge their duties in line with the duty of care. In some countries, official bodies representing employees may also have legal standing to enforce this.

Other stakeholders like suppliers, creditors and people generally affected by the operations of a company will have legal standing in court against the company based on tort and liability law. However, they remain external to the company and we do not think it is wise to give them legal standing to enforce a legal principle which regulates the internal interactions of a company.

---

**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 definitions used.

**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

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?**

Eurosif response

We believe that a horizontal focus on climate change issues should be warranted, in light of improving methodologies, data and clarity on scenarios.

**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)**

- 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
- Climate change mitigation
- 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 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
- SMEs should be subject to lighter requirements (“principles-based” or “minimum process and definitions” approaches as indicated in Question 15)
- 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

**Question 17: In your view, should the due diligence rules apply also to certain third-country companies which are not established in the EU but carry out (certain) activities in the EU?**

- Yes
- No
- I do not know

Eurosif response

Yes, it is very important in order to avoid distortive competition.

**Question 18: Should the EU due diligence duty be accompanied by other measures to foster more level playing field between EU and third country companies?**

- Yes
- No
- I do not know

**Question 19: Enforcement of the due diligence duty**

**Question 19a: If a mandatory due diligence duty is to be introduced, it should be accompanied by an enforcement mechanism to make it effective. In your view, which of the following mechanisms would be the most appropriate one(s) to enforce the possible obligation (tick the box, multiple choice)?**

- Judicial enforcement with liability and compensation in case of harm caused by not fulfilling the due diligence obligations
- Supervision by competent national authorities based on complaints (and/or reporting, where relevant) about non-compliance with setting up and implementing due diligence measures, etc. with effective sanctions (such as for example fines)
- Supervision by competent national authorities (option 2) with a mechanism of EU cooperation/coordination to ensure consistency throughout the EU
- Other, please specify

**Question 19b: In case you have experience with cases or Court proceedings in which the liability of a European company was at stake with respect to human rights or environmental harm caused by its subsidiary or supply chain partner located in a third country, did you encounter or do you have information about difficulties to get access to remedy that have arisen?**

- Yes
- No

## Section IV: Other elements of sustainable corporate governance

### Question 20: Stakeholder engagement

Better involvement of stakeholders (such as for example employees, civil society organisations representing the interests of the environment, affected people or communities) in defining how stakeholder interests and sustainability are included into the corporate strategy and in the implementation of the company's due diligence processes could contribute to boards and companies fulfilling these duties more effectively.

**Question 20a: Do you believe that the EU should require directors to establish and apply mechanisms or, where they already exist for employees for example, use existing information and consultation channels for engaging with stakeholders in this area?**

- 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

**Question 20c: What are best practices for such mechanisms today? Which mechanisms should in your view be promoted at EU level? (tick the box, multiple choice)**

	Is best practice	Should be promoted at EU level
Advisory body	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Stakeholder general meeting	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Complaint mechanism as part of due diligence	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Other, please specify	<input type="checkbox"/>	<input type="checkbox"/>

### Question 21: Remuneration of directors

Current executive remuneration schemes, in particular share-based remuneration and variable performance criteria, promote focus on short-term financial value maximisation [17] (Study on directors' duties and sustainable corporate governance).

Please rank the following options in terms of their effectiveness to contribute to countering remuneration incentivising short-term focus in your view.

This question is being asked in addition to questions 40 and 41 of the Consultation on the Renewed Sustainable Finance Strategy the answers to which the Commission is currently analysing. Ranking 1-7 (1: least efficient, 7: most efficient)

Restricting executive directors' ability to sell the shares they receive as pay for a certain period (e.g. requiring shares to be held for a certain period after they were granted, after a share buy-back by the company)



Regulating the maximum percentage of share-based remuneration in the total remuneration of directors



Regulating or limiting possible types of variable remuneration of directors (e. g. only shares but not share options)



Making compulsory the inclusion of sustainability metrics linked, for example, to the company's sustainability targets or performance in the variable remuneration



Mandatory proportion of variable remuneration linked to non-financial performance criteria



Requirement to include carbon emission reductions, where applicable, in the lists of sustainability factors affecting directors' variable remuneration



Taking into account workforce remuneration and related policies when setting director remuneration



Other option, please specify



None of these options should be pursued, please explain



Eurosif response

As argued earlier, properly taking into account the interests of diverse stakeholders requires companies and their directors to take a long-term perspective as it requires a solid understanding of how these interests are likely to evolve over time. Equally, mitigating some of the key sustainability risks also requires a long-term perspective.

In our mind, it is clear that orchestrating long-term focus and change requires the proper alignment of incentives, both for companies as well as for the leadership of these companies that can agents of

change. We are not arguing for specific restrictions, specific amounts or percentages. However, we believe that companies and boards should be required to set and explain how remuneration packages for senior executives aligns with this long-term focus. For example, it would be very hard to explain how variable remuneration solely focussed on short-term share price would fit with this long-term focus.

However, we would caution against hastily setting 'sustainability' metrics linked to variable remuneration as they may trigger unforeseen consequences. For example, focussing on unqualified GHG emission reduction means executives could get incentives to divest from high-emitting activities, rather than seeking to ensure a transition of these activities to low-carbon alternatives.

### 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 [18] (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).**

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

### Question 23: Share buybacks

Corporate pay-outs to shareholders (in the form of both dividends and share buybacks) compared to the company's net income have increased from 20 to 60 % in the last 30 years in listed companies as an indicator of corporate short-termism. This arguably reduces the company's resources to make longer-term investments including into new technologies, resilience, sustainable business models and supply chains[19]. (A share buyback means that the company buys back its own shares, either directly from the open market or by offering shareholders the option to sell their shares to the company at a fixed price, as a result of which the number of outstanding shares is reduced, making each share worth a greater percentage of the company, thereby increasing both the price of the shares and the earnings per share.) EU law regulates the use of share-buybacks [Regulation 596/2014 on market abuse and Directive 77/91, second company law Directive].

**In your view, should the EU take further action in this area?**

- 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

### **Question 23a: If you agree, what measure could be taken?**

#### Eurosif response

We would encourage the EU to support and fund research on the phenomenon of share buy-back. While some may be the result of excessive focus on short term considerations, there may be other factors behind the rise of these share buy-backs and the perceived reduction in investments. For example, in some value chains and sectors, some investments may not be financially interesting for companies to undertake in the current policy environment and may require a change in tax policy and subsidies to become financially viable. In this case, it is quite possible that executives would prefer to use cash reserves to buy-back shares and boost share prices.

### **Question 24: Do you consider that any other measure should be taken at EU level to foster more sustainable corporate governance?**

**If so, please specify:**

#### Eurosif response

We believe one important lever for action is the qualification, competences and expertise in human rights and sustainability-related issues of board members and managers. Board members and managers should be incentivized to possess these qualifications and their use should be monitored internally. More precisely, the following measures can play an important role in improving sustainable corporate governance:

- Imposing a threshold number for sustainability experts represented in the supervisory board,
- Imposing some minimum well-defined sustainability competencies for each member of the supervisory board,
- The Art. 9a of Directive (EU) 2017/828 as regards the encouragement of long-term shareholder engagement should be amended to include long-term climate and sustainability goals as non-financial criteria of a director variable remuneration. In case a defined threshold of the remuneration is not linked to sustainability factors, directors should be forced to disclose the reason of that. We consider the threshold should be set between 20% and 40% of a total director's variable remuneration,
- The board of directors should be assigned the duty to consider the interests of all stakeholders and other sustainability risks that are financially material to the company.

### **ABOUT EUROSIF**

Eurosif is the leading European association for the promotion and advancement of sustainable and responsible investment making a measurable impact in meeting long-term sustainability goals of the EU and the UN.

T: +32 2 743 29 47

E: [info@eurosif.org](mailto:info@eurosif.org)

Rue Belliard 40,

1040 Brussels