Consultation Document Proposal for an Initiative on Sustainable Corporate Governance

Fields marked with * are mandatory.

Disclaimer
This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.
The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.
Please note that in order to ensure a fair and transparent consultation process only responses received through the online questionnaire will be taken into account and included in the report summarising the responses.

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[1], which requires changing the way in which we produce and consume. Building on the political guidelines, in its Communication on the European Green Deal[2] (adopted in December 2019) and on A Strong Social Europe for Just Transition[3] (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[4], the Biodiversity strategy[5] and the Farm to Fork strategy[6]. 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) [7] (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 [8].

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 [9].

This initiative is complementary to the review of the Non-Financial Reporting Directive (NFRD, Directive 2014/95/EU [10]) 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[11] 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[12] 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[14] 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[15]. 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**
  - Bulgarian
  - Croatian
  - Czech
  - Danish
  - Dutch
  - English
  - Estonian
  - Finnish
  - French
  - German
  - Greek
  - Hungarian
  - Irish
  - Italian
  - Latvian
  - Lithuanian
  - Maltese
  - Polish
  - Portuguese
  - Romanian
  - Slovak
  - Slovenian
  - Spanish
  - Swedish
Surname
Schilling

I am giving my contribution as
- Academic/research institution
- Business association
- Company/business organisation
- Consumer organisation
- EU citizen
- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

First name
David

Email (this won't be published)
dschilling@lcr.org

Organisation name
Investor Alliance for Human Rights
(an initiative of the Interfaith Center on Corporate Responsibility)

Organisation size
- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number
Check if your organisation is on the [transparency register](#). It's a voluntary database for organisations seeking to influence EU decision-making.

436740441230-60436740441230-60

*Country of origin*

Please add your country of origin, or that of your organisation.

- Afghanistan
- Åland Islands
- Albania
- Algeria
- American Samoa
- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Djibouti
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
- Faroe Islands
- Fiji
- Finland
- France
- French Guiana
- French Polynesia
- Libya
- Liechtenstein
- Lithuania
- Luxembourg
- Macau
- Madagascar
- Malawi
- Malaysia
- Maldives
- Mali
- Malta
- Marshall Islands
- Martinique
- Mauritania
- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova
- Saint Martin
- Saint Pierre and Miquelon
- Saint Vincent and the Grenadines
- Samoa
- San Marino
- São Tomé and Príncipe
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
<table>
<thead>
<tr>
<th>French Southern and Antarctic Lands</th>
<th>Sandwich Islands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados</td>
<td>South Korea</td>
</tr>
<tr>
<td>Belarus</td>
<td>South Sudan</td>
</tr>
<tr>
<td>Belgium</td>
<td>Spain</td>
</tr>
<tr>
<td>Belize</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>Benin</td>
<td>Sudan</td>
</tr>
<tr>
<td>Bermuda</td>
<td>Suriname</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Svalbard and Jan Mayen</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Belgium</td>
</tr>
<tr>
<td>Bonaire Saint Eustatius and Saba</td>
<td>Germany</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Montenegro</td>
</tr>
<tr>
<td>Botswana</td>
<td>Morocco</td>
</tr>
<tr>
<td>Bouvet Island</td>
<td>Mozambique</td>
</tr>
<tr>
<td>Brazil</td>
<td>Myanmar /Burma</td>
</tr>
<tr>
<td>British Indian Ocean Territory</td>
<td>Namibia</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>Nauru</td>
</tr>
<tr>
<td>Brunei</td>
<td>Nepal</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>New Caledonia</td>
</tr>
<tr>
<td>Burundi</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Nicaragua</td>
</tr>
<tr>
<td>Cameroon</td>
<td>Niger</td>
</tr>
<tr>
<td></td>
<td>Nigeria</td>
</tr>
<tr>
<td></td>
<td>Niue</td>
</tr>
<tr>
<td></td>
<td>Norfolk Island</td>
</tr>
<tr>
<td></td>
<td>Northern Mariana Islands</td>
</tr>
<tr>
<td></td>
<td>North Korea</td>
</tr>
<tr>
<td></td>
<td>North Macedonia</td>
</tr>
<tr>
<td></td>
<td>Tokelau</td>
</tr>
<tr>
<td></td>
<td>Tonga</td>
</tr>
<tr>
<td></td>
<td>Trinidad and Tobago</td>
</tr>
<tr>
<td></td>
<td>Tunisia</td>
</tr>
</tbody>
</table>
Canada
Cape Verde
Cayman Islands
Central African Republic
Chad
Chile
China
Christmas Island
Clipperton
Cocos (Keeling) Islands
Colombia
Comoros
Congo
Cook Islands
Costa Rica
Côte d’Ivoire
Croatia
Cuba
Curaçao
Cyprus
Czechia
Lesotho
India
Indonesia
Iran
Iraq
Ireland
Isle of Man
Israel
Italy
Jamaica
Japan
Jersey
Jordan
Kazakhstan
Kenya
Kiribati
Kosovo
Kuwait
Kyrgyzstan
Laos
Latvia
Lebanon
Liberia
Lesotho
Norway
Oman
Pakistan
Palau
Palestine
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Pitcairn Islands
Poland
Portugal
Puerto Rico
Qatar
Réunion
Romania
Russia
Rwanda
Saint Barthélemy
Saint Helena Ascension and Tristan da Cunha
Zambia
Zimbabwe
Turkey
Turkmenistan
Turks and Caicos Islands
Tuvalu
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
United States Minor Outlying Islands
Uruguay
US Virgin Islands
Uzbekistan
Vanuatu
Vatican City
Venezuela
Vietnam
Wallis and Futuna
Western Sahara
Yemen
Zambia
Zimbabwe
Democratic Republic of the Congo
Saint Kitts and Nevis
Denmark
Liberia
Saint Lucia

Public consultation privacy settings

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- **Anonymous**
  Only your contribution, country of origin and the respondent type profile that you selected will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.

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

- I agree with the [personal data protection provisions](#)

If you replied that you answer on behalf of a business, please specify the type of business:

- institutional investor, asset manager
- other financial sector player (e.g. an analyst, rating agency, data and research provider)
- auditor
- other

If other, please specify:

Coalition of institutional investors promoting human rights due diligence in their engagements with portfolio companies, their own investments decisions and stewardship of the investment process, and influencing standard-setting bodies and public policy.

**Consultation questions**

If you are responding on behalf of a large company, please indicate how large is the company:

- Large company with 1000 or more people employed
- Large company with less than 1000 but at least 250 people employed
If you are responding on behalf of a company, is your company listed on the stock-exchange?
- Yes, in the EU
- Yes, outside the EU
- Yes, both in and outside the EU
- No

If you are responding on behalf of a company, does your company have experience in implementing due diligence systems?
- Yes, as legal obligation
- Yes, as voluntary measure
- No

If resident or established/registered in an EU Member State, do you carry out (part of) your activity in several EU Member States?
- Yes
- No

If resident or established/registered in a third country (i.e. in a country that is not a member of the European Union), please specify your country:

USA

If resident or established registered in a third country, do you carry out (part of) your activity in the EU?
- Yes
- No

If resident or established registered in a third country, are you part of the supply chain of an EU company?
- Yes
- No

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.

Please provide reasons for your answer:

The Investor Alliance for Human Rights is a coalition of more than 180 institutional investors representing an aggregate of more than USD5.4 trillion (EUR 4.4 trillion) in assets under management. Our investor members have adopted the UNGPs' human rights due diligence framework to embed and implement their responsibility to respect human rights. Investor members, apply the Human Rights Due Diligence (HRDD) framework to engagements with their portfolio companies as well as moving to integrate this framework into its institution and the full investment cycle. In addition, investors are driving for states to take on their responsibility to respect human rights under the UNGPs by putting in place legal frameworks that will enable responsible business conduct by influencing standard-setting bodies and relevant public policy to, including mandatory human rights and environmental due diligence (mHREDD). Through our engagement work with companies from around the world, as investors we see that voluntary measures on human rights, social and environmental due diligence have failed to meaningfully change the way companies address and manage their impacts and provide remedy to those they have harmed.

Companies and their directors should take environmental, social and governance issues into account given the major impacts that corporate activities have on people and planet. Increasingly, multiple stakeholders, including investors, civil society organizations, governments, international institutions, and companies are very aware of the governance gaps that exist, especially since the ongoing COVID-19 pandemic has illuminated the vulnerabilities of inequitable, non-resilient global business systems that are not sustainable.

Governance gaps cannot be filled by voluntary initiatives that create a patchwork of approaches based on different standards and practices with differing results. The way forward is to build legislative and regulatory measures that place mandatory requirements on companies to embed environmental, social and governance issues into their business models. This legal framework should create much needed accountability for the harms to people and planet ensuring access to
remedy and justice for victims of corporate harms in order to drive positive systemic changes to global business systems around the world.

Since 2011, when the UN Human Rights Council unanimously adopted the UN Guiding Principles on Business and Human Rights (UNGPs), the UNGPs have gained acceptance and become a global norm defining the inter-relationship between the state’s duty to protect, the corporate responsibility to respect and the critical importance of access to remedy for those negatively impacted by business operations. However, the uptake of the UNGPs and human rights due diligence is spotty. The Corporate Human Rights Benchmark’s report on specific sectors show the lack of integrating human rights due diligence into business decisions with the exception of a few leading companies. Other benchmark reports like KnowTheChain, Ranking Digital Rights Index and BankTrack, also conclude that the majority of companies assessed for their human rights performance, show little to no evidence of conducting human rights due diligence.

The Investor Alliance for Human Rights coordinated a statement publicly released in April 2020, “Investor Case for Mandatory Human Rights Due Diligence”, signed by 105 investors representing US$5 trillion in assets under management. Investors, as global financial actors, believe that all businesses have a responsibility to respect human rights and conduct ongoing human rights due diligence as the core requirement to fulfill their responsibility. Investors also recognize governments’ role in protecting against human rights abuses by business through effective regulatory measures, especially where there are significant gaps in human rights protections.

Investor signatories call on all governments to develop, implement, and enforce mandatory human rights due diligence requirements for companies headquartered or operating within their own jurisdictions or, where appropriate, to further strengthen these regulatory regimes where they already exist.

It is crucial that the mandatory HREDD law clarify the role of corporate directors to include oversight ensuring the quality of the implementation of human rights due and environmental diligence obligations. The information gained from HREDD must inform the strategic planning process of the company and this information is invaluable to investors in fulfilling their responsibility to respect human rights.

The focus of the legislation should be on effective prevention of human rights violations and negative impacts of business operations, with effective controls, sanctions and remedies.

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.

Please explain:

Companies should take environmental, social and governance issues into account in their own operations and value chains. This means that a clear legal framework must include supply chain mandatory human rights and environmental due diligence (mHREDD) as an integral part of the legislation. The COVID-19 pandemic has illuminated the vulnerabilities of inequitable, non-resilient global supply chains on people with tens of millions of workers being furloughed or fired, in many cases without being paid their back wages or severance pay.

The “Study on due diligence requirements through supply chain” conducted by the European Commission focuses on due diligence requirements to identify, prevent, mitigate and account for abuses of human rights, including the rights of the child and fundamental freedoms, freedom of association and collective bargaining, serious bodily injury or health risks, and environmental damage, including with respect to climate and environmental and human rights defenders. As part of the study, representatives of businesses, NGOs and governments were surveyed. The vast majority of business respondents (75.4%) indicated that any EU-level regulation would benefit business through providing a single, harmonized EU-level standard, which could create a level playing field that would benefit companies and investors alike, allowing for more efficient and predictable risk management in supply chains and investment portfolios.

The assessment of the Alliance for Corporate Transparency of the data disclosed by 1000 European companies on environmental and human rights issues shows that most companies do not collect and disclose relevant data and information. “For instance, while most companies report general policy commitments to climate change and human rights (88% and 82% respectively), a much smaller fraction report relevant and meaningful information; only 36.2% of companies report on their climate targets, and an even lower percentage report on the alignment of such target with the Paris Agreement/Science Based Target (13.9%), and consider a below 2°C scenario and relevant time horizons (~6%). Similarly, only 23% of companies report on the determination of salient human rights issues, and less than 4% report examples illustrating effective management of these issues (3.6%). Overall, reports focus on presenting general policies and commitments, but not concrete targets, outcomes of policies with respect to these targets, and specific information on risks and impacts.”

Given the number of salient issues in global supply chains, clear implementation and reporting indicators based on mHREDD, are essential for stakeholders, especially rights-holders. Salient issues include, but not limited to, modern slavery and exploitative recruitment practices, child labor, poverty wages, poor working conditions, discrimination and sexual harassment, lack of freedom of association and collective bargaining, rights to privacy and free expression.

This mandatory EU legal framework should establish a robust, enforceable due diligence standard for businesses to prevent and address their negative human rights and environmental impacts in their...
operations and global value chains. It should create much needed accountability for the harms to people and planet ensuring access to remedy and justice for victims of corporate harms in order to drive positive systemic changes to global business systems around the world.

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
- [x] 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
- [x] SMEs would have better chances to be part of EU supply chains
- [x] Other

Other, please specify:

Investors, civil society organizations and governments need more disclosure on human rights and environmental impacts and how companies address these impacts in order to make decisions that lead to long-term sustainability and the building of a corporate accountability system that integrates respect for human rights in corporate governance and throughout its value chain.

Strong mHREDD legislation would ensure a level of accountability for mitigating risks and negative impacts to people and planet. Accountability for state and non-state actors is critically important for affected people
who need the ability to hold companies accountable for adverse impacts they cause, contribute to or are directly linked to through business relations.

For example, Business & Human Rights Resource Centre, Global Witness and networks like Zero Tolerance Initiative, have tracked corporate-related abuses of human rights and environmental defenders in communities across the globe who are targeted for opposing corporate operations and projects that violate the basic human rights of entire communities. Global Witness reported that in 2018, there were three human rights defenders killed each and every week. Human rights defenders and their communities have experienced severe harm and require timely remedy.

An important benefit of an EU due diligence duty would enable and support remedy for such human rights defenders and communities in and outside the EU, overcoming the significant challenges to date for victims to access remedy both through judicial and non-judicial mechanisms. Such legal liability provisions coupled with effective enforcement mechanisms will create an important opportunity for access to remedy for victims and affected communities.

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

Other, please specify:

The risk is that the EU due diligence duty of care would not be clearly defined. In creating a 'level playing field' that many stakeholders support, the bar may be set too low or leave room for interpretation that would undermine the goal of common standards and indicators.

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?**

<table>
<thead>
<tr>
<th>Interest</th>
<th>Relevant</th>
<th>Not relevant</th>
<th>I do not know/I do not take position</th>
</tr>
</thead>
<tbody>
<tr>
<td>the interests of shareholders</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the interests of employees</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the interests of employees in the company’s supply chain</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the interests of customers</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the interests of persons and communities affected by the operations of the company</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the interests of persons and communities affected by the company’s supply chain</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the interests of local and global natural environment, including climate</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the likely consequences of any decision in the long term (beyond 3-5 years)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>the interests of society, please specify</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>other interests, please specify</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

**the interests of society, please specify:**

Investors are focused on the long-term success and resilience of their portfolio companies. Investor want companies to be aware of the context in which they are operating and to look not at short term gains but at long term value creation and longevity of the company’s business by internalizing external costs placed on society. Investors recognize that in order for companies to thrive, they need take into account numerous societal and environmental interests and risks. In particular, based on the UNGPs, companies must give special attention to potential and actual adverse impacts on people made vulnerable by a range of social and economic systems, including, but not limited to, children, women, ethnic minorities, Indigenous peoples, migrant workers, human rights defenders and people in conflict zones.

How a company performs on identifying and addressing adverse impacts on people and planet plays a major role in developing a human rights-centered sustainability approach that leads to long-term success and a resiliency as a company. Leading companies view each stakeholder as adding value to the company and therefore put in place policies and practices that create partnerships with stakeholders, not one-off transactions that don't add value.
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?

<table>
<thead>
<tr>
<th></th>
<th>I strongly agree</th>
<th>I agree to some extent</th>
<th>I disagree to some extent</th>
<th>I strongly disagree</th>
<th>I do not know</th>
<th>I do not take position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of the company’s stakeholders and their interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management of the risks for the company in relation to stakeholders and their interests, including on the long run</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification of the opportunities arising from promoting stakeholders’ interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please explain:

The duty of care for company directors should in principle cover the identification of the company's stakeholders and their interests, management of the risks, and identifying opportunities that arise from promoting stakeholders' interests. However, many companies do not have protocols in place for identifying their impacts on people and planet and related risks. There is a lack of clarity on how directors address stakeholder’s interests. The legislation should clarify how stakeholders' interests should be considered.

In the United States, the Business Roundtable, an association of chief executive officers of major corporations, made a public statement on the Purpose of a Corporation (August 2019). 181 CEOs committed to lead their companies for the benefit of all stakeholders, customers, employees, suppliers, communities and shareholders. This statement revised a 1978 statement on the Principles of Corporate Governance that stated that corporations exist principally to serve shareholders. Jamie Dimon, Chair and CEO of JP Morgan Chase & Company, said: “Major employers are investing in their workers, and communities because they know it is the only way to be successful over the long term.” This signals an important shift that sends a signal to the market and to society, though implementation of this commitment is still very much a work in progress.

The shift to stakeholder primacy is good for rights-holders who have experienced harm from corporate operations and supply chain relationships, and also good for companies that build a broader base of value which provides long-term social, environmental and financial stability.

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

Please explain:

It is important to include in the director's duty of care the requirement to integrate environmental and social sustainability into corporate strategy and make resources available to management to set specific, verifiable, time-bound targets and plans to achieve goals on environmental and human rights risks. Special attention should be paid to salient and severe impacts on people and planet, and the examination of the company's business model, operations and supply chain.

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

Please provide an explanation or comment:

It is difficult to define what balancing the interests of all stakeholders means, especially when it is easier to quantify shareholder interests, and less so the interests of all other stakeholders which contributes to the short-term approach that makes long-term decisions less likely. The duty of care for corporate directors should center on ensuring that the company implements an effective, ongoing human rights due diligence to identify and address severe impacts on people and planet linked to the company's business model; and ensure a strategy and targets are in place to effectively address those impacts identified through the due diligence process for each stakeholder.

There needs to be a recognition at the board and senior management level that companies are dependent on workers and communities in which they operate for labor, for infrastructure and need to obtain a 'social
license to operate’ over the long-term. This recognition leads to practices that respect the human rights for workers and the communities from which they come. The legislation should make clear that shareholder primacy is not a long-term workable model, and that board members should be obligated to treat workers, communities and other stakeholders on an equal footing with shareholders.

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 Investor Alliance for Human Rights has members from 18 countries, including countries in the European Union, and strongly advocate for the embedding of the UNGPs and human rights due diligence into company policies and practice which includes engaging stakeholders and rights-holders impacted by corporate operations and their business relationships. The risk to including stakeholder interests in ‘directors’ duty of care’ is not the inclusion but there must be clear definitions and accountability so that the implementation of the duty is effective in building value for each stakeholder, not just shareholders and the company.

How could these possible risks be mitigated? Please explain.

The duty of care definition needs to be based on the primary objective of ensuring long-term sustainability of the company, taking into account the impact on people and the environment, and consideration of all stakeholders’ interests through a sustained process that engages stakeholders in every step of the due diligence process and meaningful remedy.

Where directors widely integrate stakeholder interest into their decisions already today, did this gather support from shareholders as well? Please explain.

There is a growing number of investors that are engaging their portfolio companies on how they incorporate stakeholder interests in their strategic planning. The Investor Alliance coordinated an Investor Statement signed by 206 investors representing US$5.7 trillion in total assets under management, calling on companies to disclose their human rights performance by conducting human rights due diligence including stakeholder engagement. These investors support company engagements with stakeholders’ and right-holders’ interest, as well as stronger public policy in this regard. Increasingly investors see the integration of stakeholder interest as a key indicator of the long-term health of the company.

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

Please explain:

A strategic focus on sustainability risks, impacts and opportunities is central to the long-term survival of companies. This approach is essential to a company meeting its obligations, commitments and targets related to the Sustainable Development Goals, the Paris Agreement and the EU’s Green New Deal, as well as the UNGPs. Addressing the human rights and sustainability challenges will likely require a company to make changes in its business model, which means that it needs to consider the risks and opportunities as part of its overall corporate strategy and not create sustainability departments that exist in a silo separate from the strategic business planning process.

Enforcement of directors’ duty of care

Today, enforcement of directors’ duty of care is largely limited to possible intervention by the board of directors, the supervisory board (where such a separate board exists) and the general meeting of shareholders. This has arguably contributed to a narrow understanding of the duty of care according to which directors are required to act predominantly in the short-term financial interests of shareholders. In addition, currently, action to enforce directors’ duties is rare in all Member States.

Question 11. Are you aware of cases where certain stakeholders or groups (such as shareholders representing a certain percentage of voting rights, employees, civil society organisations or others) acted to enforce the directors’ duty of care on behalf of the company? How many cases? In which Member States? Which stakeholders? What was the outcome?

Please describe examples:

This is an area for comprehensive mapping of shareholder actions across the EU.

Question 12. What was the effect of such enforcement rights/actions? Did it give rise to case law/ was it followed by other cases? If not, why?

Please describe:

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

Please explain your answer:

Directors of a company may cause harm to the company or create significant risks over time. In this case, the Board or shareholders could act on the breach of the duty of care. Company employees have a strong stake in the company's success and should be able to bring action against a director or directors for breach of duty.

In addition, the legislation needs to define the duty of care as including oversight over the company's due diligence process and outcomes, which means that affected stakeholders harmed by the directors' decision, should be able to bring action against those directors that caused the harm, by commission or omission.

Question 13a: In case you consider that stakeholders should be involved in the enforcement of the duty of care, please explain which stakeholders should play a role in your view and how.

Each stakeholder harmed by a decision or omission, including: employees of the firm; business partners in the value chain, supply chain workers; affected communities, consumers. Special attention should be paid to a process for those experiencing the harm caused by corporations to bring grievances forward without fear of retaliation.

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.

Yes, we agree with this definition. Two points of clarification: 1) due diligence is inherently risk-based, but the legislation should make clear that mHREDD focuses on the risk to people, the risk to rights-holders, which is different than risk to the business enterprise. In many cases, the risk to people increases the risk to the business, its reputation, lawsuits, consumer boycotts and civil society campaigns. A clear example involves a global mining enterprise in Peru where the surrounding community was negatively impacted by children getting sick from drinking polluted water, and other environmental damage cause by the mine
impacting the local economy. This led to community protests when the company wanted to expand production. End result: community actions shut down the mine and the global company lost $5 billion.

2) The ‘due diligence duty’ of care should include the requirement that companies are obliged to effectively identify and assess any actual or potential adverse human rights and environmental impacts, to address and mitigate such impacts, as well as a duty to actively engage in the remediation of adverse impacts where a company causes or contributes to the harm or where its operations, products or services are directly linked to the harm through business relationships.

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?

**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.

**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 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?

Question 15e: If you ticked option 3) in Question 15, and with a view to creating legal certainty, clarity and ensuring a level playing field, what substantial requirements regarding human rights, social and environmental performance (e.g. prohibited conducts, requirement of achieving a certain performance/target by a certain date for specific environmental issues, where relevant, etc.) should be set at EU level with respect to the issues mentioned in 15c?

Question 15f: If you ticked option 4) in question 15, which sectors do you think the EU should focus on?

Question 15g: If you ticked option 5) in question 15, which themes do you think the EU should focus on?

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[16] 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

Please explain your choice, if necessary

All companies, including financial institutions, whatever their size should be included in the scope of the law. The UNGP state that all companies have the responsibility to respect human rights. Based on experience SMEs, while having the same responsibilities, do not have the same capacity. The most effective way to enhance SMEs embedding due diligence is to support the building of their capacity through training, guidelines that assist in the implementation process and dedicated support and tools designed to take SMEs to a deeper level of understanding and application of the mHREDD law.

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

Question 17a: What link should be required to make these companies subject to those obligations and how (e.g. what activities should be in the EU, could it be linked to certain turnover generated in the EU, other)? Please specify.

Third country business enterprises that place products or provide services within the EU market should be subject to the same obligations as those businesses established in the EU. Without this obligation, the creation of a ‘level playing field’, supported by companies, investors and other stakeholders, would be undermined.
Question 17b: Please also explain what kind of obligations could be imposed on these companies and how they would be enforced.

The obligations for third party companies must be based on respect for human rights and the environment, in their operations, subsidiaries, and business relations in global value chains. These companies must be liable in the case of any human rights and environmental harm. Under the law, governments need to set up strong, effective enforcement mechanisms to ensure businesses obey the mHREDD law.

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

Please explain:

There are a number of measures that could accompany EU due diligence: include respect for human rights and environmental provisions in EU trade agreements; and utilize the EU public procurement of products and services to leverage incentives and sanctions to enforce mHREDD and expand the level playing field.

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

Please provide explanation:

In order to address the gaps that currently exist in voluntary approaches to human right due diligence, companies must be liable for human rights and environmental adverse impacts in their global value chains and within their operations and business relationship as well as failure to carry out adequate mHREDD itself.
Key components of enforcement include access to justice and liability and should function in the first instance to prevent harms from occurring. In cases where there are violations of human rights and environmental standards effective remedies should be available for ALL victims, including human rights defenders and communities, trade union organizations and migrant workers, Indigenous peoples and those experiencing gender violence.

Judicial enforcement, with liability and compensation in case of harm, should be available to affected stakeholders, not only within the EU, but also to ensure the possibility of access to justice in the member state where the company is established or where it conducts business activities. There needs to be the opportunity to submit claims by those who have been the victims of abuse against companies that are established or conduct activities or have a link with a member state in that state's jurisdiction. Without this provision, enforcement will be narrow in scope and make remedy difficult for those harmed.

In addition, companies need to also be liable for their failure to carry out adequate mHREDD itself. Merely carrying out activities associated with due diligence should not automatically absolve a company from liability for causing, contributing to or failing to prevent human rights abuses or environmental harm. For example, the use of social auditing or certification schemes, or memberships in multi-stakeholder or sectoral initiatives or dialogues should not be recognized as proof of due diligence, nor absolve a company from liability for harm.

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

In case you answered yes, please indicate what type of difficulties you have encountered or have information about:

If you encountered difficulties, how and in which context do you consider they could (should) be addressed?

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

Please explain.

Stakeholder engagement is central to the creation of value for a company. It creates clear opportunities for stakeholder participation with the company in the design and implementation of corporate strategies, business activities and projects that impact and affect such stakeholders. The first step to mHREDD, is the identification and assessment of human rights risks, including the severity of risks, and which stakeholders and rightsholders are likely to be impacted. Stakeholder engagement enables businesses to understand perspectives of those who may be affected by their decisions and operations. Superficial stakeholder engagement approaches are transactional and become a tick box exercise that produces little or no value for the company or the stakeholder. Where mechanisms exist companies should integrate them into corporate strategy. Partnership is a better model for sustained value creation.

An example of this partnership approach was implemented when a global apparel company, Gap, Inc., faced the reality that children had been trafficked from a rural area in India to its apparel supplier factory’s subcontractor near Delhi. When the issue was exposed in the press the company designed a comprehensive remediation plan that included partnerships with the supplier factory workers, the government’s ministry of management, a country-wide association of informal workers, trade unions, grass-roots civil society organizations and the United Nations Organization on Drugs & Crime. While this approach helped to build an effective remedy and a change in policies and practices, it also led to the company integrating a deeper level of ongoing engagement with key stakeholders, not just to fix what was broken, but to help prevent future harm.

Question 20b: If you agree, which stakeholders should be represented? Please explain.

All affected by the corporate operations and its value chain need to be represented, especially those traditionally neglected, including worker-driven organizations that focus on due diligence from the ground up; trade unions and those persons and communities most affected by adverse-salient and severe-impacts.
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)

<table>
<thead>
<tr>
<th></th>
<th>Is best practice</th>
<th>Should be promoted at EU level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory body</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Stakeholder general meeting</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Complaint mechanism as part of due diligence</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Other, please specify</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

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)
<table>
<thead>
<tr>
<th><strong>Making compulsory the inclusion of sustainability metrics linked, for example, to the company’s sustainability targets or performance in the variable remuneration</strong></th>
<th>⭐⭐⭐⭐⭐</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mandatory proportion of variable remuneration linked to non-financial performance criteria</strong></td>
<td>⭐⭐⭐⭐</td>
</tr>
<tr>
<td><strong>Requirement to include carbon emission reductions, where applicable, in the lists of sustainability factors affecting directors’ variable remuneration</strong></td>
<td>⭐⭐⭐⭐⭐</td>
</tr>
<tr>
<td><strong>Taking into account workforce remuneration and related policies when setting director remuneration</strong></td>
<td>⭐⭐⭐⭐</td>
</tr>
<tr>
<td><strong>Other option, please specify</strong></td>
<td>⭐⭐⭐⭐</td>
</tr>
<tr>
<td><strong>None of these options should be pursued, please explain</strong></td>
<td>⭐⭐⭐</td>
</tr>
</tbody>
</table>

**Please explain:**

Currently, financial incentives are a major influence on director behavior. Given that the value of a company accrues by engaging all stakeholders and given that the current system leads to short-termism, it is important to include sustainability metrics and goals and performance on implementation of mHREDD as a part of the calculation of director remuneration.

**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:

Over the last few years, investors have filed shareholder resolutions with portfolio companies calling for the inclusion of board members who have expertise on environmental, human rights and labor issues, given the importance of creating effective oversight in these arenas. Good governance going forward will increasingly hinge on knowledge, experience and approaches of directors beyond the paradigm focused on narrow financial and business expertise. With the passage of the mHREDD law boards will be required to oversee the company’s strategic plan that must focus on human rights and environmental due diligence to prevent adverse impacts. It will be important to have a board member well versed in building trust with stakeholders.

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?

During the COVID-19 pandemic, there are many examples of US companies receiving federal funds to help a company continue to pay employees, but funds were used for share buybacks. It is essential to restrict buybacks and to incentivize companies to invest in long-term sustainable business models that fulfill their human rights and environmental obligations under the new law.

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:

Section V: Impacts of possible measures

Question 25: Impact of the spelling out of the content of directors’ duty of care and of the due diligence duty on the company

Please estimate the impacts of a possible spelling out of the content of directors’ duty of care as well as a due diligence duty compared to the current situation. In your understanding and own assessment, to what extent will the impacts/effects increase on a scale from 0-10? In addition, please quantify/estimate in quantitative terms (ideally as percentage of annual revenues) the increase of costs and benefits, if possible, in particular if your company already complies with such possible requirements.
| Administrative costs including costs related to new staff required to deal with new obligations | Non-binding guidance. Rating 0-10 | Introduction of these duties in binding law, cost and benefits linked to setting up/ improving external impacts' identification and mitigation processes Rating 0 (lowest impact)-10 (highest impact) and quantitative data | Introduction of these duties in binding law, annual cost linked to the fulfilment of possible requirements aligned with science based targets (such as for example climate neutrality by 2050, net zero biodiversity loss, etc.) and possible reorganisation of supply chains Rating 0 (lowest impact)-10 (highest impact) and quantitative data |
| Litigation costs | | | |
| Other costs including potential indirect costs linked to higher prices in the supply chain, costs liked to drawbacks as explained in question 3, other than administrative and litigation costs, etc. Please specify. | | | |
| Better performance stemming from increased employee loyalty, better employee performance, resource efficiency | | | |
| Competitiveness advantages stemming from new customers, customer loyalty, sustainable technologies or other opportunities |  |
| Better risk management and resilience |  |
| Innovation and improved productivity |  |
| Better environmental and social performance and more reliable reporting attracting investors |  |
| Other impact, please specify |  |
Please explain:

Question 26: Estimation of impacts on stakeholders and the environment
A clarified duty of care and the due diligence duty would be expected to have positive impacts on stakeholders and the environment, including in the supply chain. According to your own understanding and assessment, if your company complies with such requirements or conducts due diligence already, please quantify / estimate in quantitative terms the positive or negative impact annually since the introduction of the policy, by using examples such as:
- Improvements on health and safety of workers in the supply chain, such as reduction of the number of accidents at work, other improvement on working conditions, better wages, eradicating child labour, etc.
- Benefits for the environment through more efficient use of resources, recycling of waste, reduction in greenhouse gas emissions, reduced pollution, reduction in the use of hazardous material, etc.
- Improvements in the respect of human rights, including those of local communities along the supply chain
- Positive/negative impact on consumers
- Positive/negative impact on trade
- Positive/negative impact on the economy (EU/third country).

Contact
just-cleg@ec.europa.eu