# Sustainable corporate governance

2020/2137(INI) - 17/12/2020 - Text adopted by Parliament, single reading

The European Parliament approved by 347 votes to 307, with 42 abstentions, a resolution on sustainable corporate governance.

In a corporate context, a sustainability approach implies that companies take due consideration of general societal and environmental concerns, such as the rights of their employees and respect for planetary boundaries, to address the most pressing risks posed to these by their activities.

Members stressed the importance of strengthening the role of directors in pursuing the long-term interests of companies in future action at EU level and of engendering a culture within companies' governing bodies that takes into account and implements sustainable corporate governance, including both human rights and environmental protection. They found that companies with better defined environmental, social and governance practices and risk mitigation processes were better able to withstand the COVID-19 crisis. The EU and its Member States have also taken steps to ensure that the EU's environmental, social and governance policies and practices are consistent with those of the EU.

***Non-financial reporting obligations***

According to the European Green Deal, companies and financial institutions must disclose more climate and environmental data so that investors are fully informed about the sustainability of their investments.

Parliament welcomed the Commission's commitment to review the non-financial reporting Directive to this end. It reiterated its call for an enlargement of the scope of the Directive to cover all listed and non-listed large undertakings established in the EU. Non-financial reporting obligations should also apply to all third country companies operating in the internal market.

Investments and sectors often linked to illegal business activities, such as environmental crimes, illegal wildlife trade, corruption or financial crime, should be specifically targeted.

According to Members, the concept of the concept of environmental issues in the directive should be interpreted in line with the regulation establishing a taxonomy and cover all forms of pollution. Workers' issues could include the disclosure of companies' pay policies, including revealing the gender pay gap.

The EU legislative framework should ensure that the disclosures are clear, balanced, understandable, comparable among companies within a sector, verifiable and objective, and include time-bound sustainability targets. This framework should also include mandatory standards, both general and sector-specific.

Members considered that non-financial statements should be set out in the annual management report to avoid additional burdens for companies. Moreover, non-financial statements should be subject to a mandatory audit, depending on the size and field of activity of the company concerned. This would be an opportunity to address the quasi-monopoly of the 'Big Four' accountancy companies, which typically audit the largest listed companies.

***Directors' duty of care and additional measures***

Parliament stressed that in order to make corporate governance in the EU more sustainable, transparent and accountable, the Commission should, in addition to the proposals to review the non-financial reporting Directive, introduce new legislation on due diligence and directors’ duties. If due diligence obligations and directors’ duties are to be covered by a single legislative instrument, they should be clearly separated in two different parts.

Members called on the Council to adopt its general approach as soon as possible to start negotiations with Parliament on the Women on Boards Proposal. They called on the Commission to examine the possibility of revising the European Works Council Directive and establishing a new framework on employees’ information, consultation and involvement in European companies.

The Shareholders’ Rights Directive should also be amended to incentivise ‘patient’ shareholder behaviour, in particular by rewarding long-term shareholding through voting rights and tax advantages.

Parliament stressed that in the process of defining and monitoring their sustainability strategies, companies should have the duty to inform and consult relevant stakeholders. ; believes that the concept of a stakeholder should be interpreted broadly and include all persons whose rights and interests may be affected by the decisions of the company, such as employees, trade unions, local communities, indigenous peoples, citizens’ associations, shareholders, civil society and environmental organisations.