

Brussels, October 16, 2023

Subject: Ensuring effective financial sector inclusion in the Corporate Sustainability Due Diligence Directive

Dear Commissioner Reynders,
Dear Commissioner Breton,
Dear Commissioner McGuinness,

As civil society representatives working and focused on the outcomes of the Corporate Sustainability Due Diligence Directive (CSDDD), we are closely following this week's ongoing discussions in the European Council's Working Party on Company Law. As Member States advance their collective position on the CSDDD, we call on your political leadership to help encourage a compromise that **supports meaningful due diligence obligations for the financial sector**. Capturing financial institutions' core activities in the CSDDD, including lending, investing, and insurance, will help them efficiently identify and manage their financial risks, bring their activities in line with the expectations of their clients and beneficiaries, and ensure a level playing-field for sustainable due diligence across the EU.

The European Commission considered financial institutions in its own impact assessment for the proposed legislation, acknowledging that undue "short-term pressures on corporations from the financial sector" lead companies to prioritise near-term interests over sustainability and long-term prosperity.ⁱ Financial institutions must be able to identify whether their assets, the companies they support, or the services they provide will negatively impact people or the planet and take measures to prevent and mitigate that impact.

The CSDDD will support and enable responsible investment and financing practices. It will help financiers assess how their holdings and counterparties are managing sustainability impacts. Due diligence is an important and necessary part of a responsible investor's toolkit, supporting sustainability assessments, risk analysis and investee-engagement. Many investors are already undertaking sustainability due diligence as a fundamental component of their risk management activities and **have publicly stated their support of the CSDDD.**ⁱⁱ


The CSDDD also provides an unprecedented opportunity to fill the regulatory gap in the EU's Action Plan on Financing Sustainable Growth and the European Green Deal. These plans seek to integrate sustainability issues into financial risk management, but existing measures largely focus on disclosure and voluntary adherence. These measures alone will not lead to the transformational behavioural changes needed for the financial sector to address sustainability challenges.

Lastly, for **the CSDDD to align with international business and human rights frameworks it must include all financial institutions in scope.** Exempting key financial activities runs counter to the UN High Commissioner for Human Rights' and the UN Working Group on Business and Human Rights' positions.ⁱⁱⁱ The Working Group recently warned against carve outs for specific sectors. It stated that "*all financial institutions, of every type, have the same responsibility to respect human rights, and creating carveouts or presumptions for the financial sector in the draft Corporate Sustainability Due Diligence Directive would be inconsistent with international standards on business and human rights*".^{iv}

Financial institutions have an unparalleled ability to influence companies and incentivise positive corporate behaviour - and they want to be part of the solution. As Member States finalise their joint position on the file, we call on you to support a way forward that - by including the financial sector - will **help financial institutions better manage their risks and enable a level playing field for sustainable due diligence across the EU.**

Sincerely,

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Chief Executive Officer
ShareAction



Ester Asin
Director
WWF, European Policy Office



Johan Frijns
Executive Director
BankTrack



Jurei Yada
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ⁱ European Commission, 'Inception Impact Assessment', 30 July 2020, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance_en, p. 5

ⁱⁱ Principles for Responsible Investment, 'Case Studies' <https://shorturl.at/krzRW>; Eurosif News, Joint statement of support by responsible investors' organisations for the Corporate Sustainability Due Diligence Directive (CSDDD), 24 Nov. 2022, <https://shorturl.at/bAGHP>

ⁱⁱⁱ Office of the High Commissioner for Human Rights, 'Financial Sector', <https://www.ohchr.org/en/business-and-human-rights/financial-sector>; United Nations Working Group on Business and Human Rights, 'Financial Sector and the European Union Corporate Sustainability Due Diligence Directive Statement', 12 July 2023, [Statement-Financial-Sector-WG-business-12July2023.pdf](https://www.ohchr.org/en/business-and-human-rights/financial-sector/Statement-Financial-Sector-WG-business-12July2023.pdf) (ohchr.org)

^{iv} UN Working Group on Business and Human Rights, 12 July 2023