

Excluding the financial sector and sustainability incentives for managers from the CS3D undermines the Green Deal

The European Parliament Committee on Legal Affairs plans to adopt its negotiating position on the Corporate Sustainability Due Diligence Directive (CS3D) on 13 March and will decide on key aspects of the proposal in the coming weeks. The Economy for the Common Good movement (ECG) calls on MEPs to vote for the inclusion of the financial sector and for incentives that ensure managers promote the common good.

Hamburg | Work on the CS3D is in full swing in the European Parliament. Most associated committees have adopted their reports on 24 and 25 January and in the leading Committee on Legal Affairs (JURI), the drafting process of compromise amendments has started. In the run-up to the vote in the JURI Committee, planned for 13 March, some political parties push to exclude financial undertakings from the proposal's scope and reject the idea of linking managers' remuneration to a companies' sustainability performance – a step that according to the ECG would fundamentally counteract the EU's regulatory efforts to achieve a more sustainable and social financial and economic system.

The financial sector should be included in the scope

While the European Commission wants to include the financial sector in the scope of the CS3D, the Council is heading in the opposite direction and seeks to leave financial undertakings out. And in the European Parliament, the die is not yet cast: The positions adopted in January by several committees include the financial sector, but some MEPs are trying to push the entire sector out of the scope. In light of the crucial role the financial sector plays in the transition to a sustainable economy, we cannot allow such efforts to be fruitful.

Francisco Álvarez, former director of the Paris Stock Exchange, former president of the European Association of Regional Stock Exchanges and spokesperson of the Economy for the Common Good says: "How can it be out? Cutting out the financial sector relating to sustainability aspects and the responsibilities of financial managers in particular, is like saying we don't need gasoline to run the majority of the existing engines. 'Sustainable finance' is a strategic hotspot of the current EU policy –to exclude the finance sector would undermine the foundations of the Green Deal, the Sustainable Finance Action Plan, and the Taxonomy. The year 2022 will go down in history as the year in which number five and six of the nine planetary boundaries were crossed. The time for lazy compromises is over."

Remuneration of managers should be linked to companies' sustainability performance

Another debate with a lot at stake concerns the remuneration of managers. Here, too, the Council and parts of the Parliament are trying to change the Commission's proposal to link the variable remuneration of managers to climate protection measures and reduction targets. The ECG calls on MEPs to vote for linking managers' remuneration to a company's sustainability performance. Álvarez: "Let's face it. Sustainability until now is often seen as a threat to managers' bonuses. We need a substantial change of mindset. Incentivisation for the right goals is key."

Ceiling for remuneration of bankers

According to the European Banking Authority (EBA), in 2021, the most recent investigated year, the number of high earners in the banking sector receiving a remuneration of more than EUR 1 million increased from 1,383 in 2020 to 1,957 – that is an increase of 41.5%.¹ This development contradicts the recommendations that we can verify reading the annual reports from 2018 published by the International Monetary Fund's (IMF), the Worldwide Bank Association, the FED, and the European Central Bank regarding the necessary contention of the salaries, in order to avoid inflation

The ECG movement proposes that, in a first step, managerial salaries should be capped at EUR 1 million. "One million euros per year is approximately 40 times a potential minimum wage of 2,000 euros per month in high-income countries. Earnings that exceed this threshold, should be taxed with 100%", argues Álvarez in order to prevent society from breaking apart. And "1 million euros should only be available for top earners who prove that they do good to society and the planet." A better world needs both: the same weight of the sustainability performance in the variable part of the remuneration as the financial performance; and an absolute ceiling of manager incomes – in order to prevent the breaking apart of society.

¹<https://www.eba.europa.eu/eba-observed-significant-increase-number-high-earners-across-eu-banks-2021>

About the Economy for the Common Good

The Economy for the Common Good advocates a more ethical economic model, in which the wellbeing of people and the environment become the ultimate goal of business. The worldwide movement exists since 2010 and is based on the ideas of the Austrian writer Christian Felber. Currently the movement consists of over 11,000 supporters, more than 4,000 activists in more than 170 local chapters and 40 associations. Over 1,200 businesses, towns and organisations have completed the Common Good Balance Sheet. Worldwide nearly 60 municipalities and 200 universities are actively involved in spreading the idea of the Economy for the Common Good. On 29 September 2018 the International Federation was founded and consists of 10 national associations.

Further Information: www.ecogood.org

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