Inclusion of the financial sector in the scope of the EU Corporate Sustainability Due Diligence Directive (CSDDD) is key to us as responsible investors

Open letter from Nordic investors to the Danish and Swedish governments in the context of the trilogue negotiations on the EU Corporate Sustainability Due Diligence Directive (CSDDD).

The adoption of the CSDDD is expected to strengthen responsible business conduct practices in global value chains and pave the way for a more sustainable and people centric economy. The signatories of this letter welcome this Directive as an important element in a broader EU regulatory ecosystem which aims to incentivize companies as well as financial institutions to adequately integrate considerations of adverse impacts on people and the environment in their decision making.

We note that a critical topic in the ongoing trilogue negotiations on the final text of the Directive is the extent to which financial actors and activities (lending, insurance, investment) should be in scope. The signatories are committed to responsible investment and to effectively integrating long term sustainability considerations when assessing our impacts on people and planet as well as financial risks to our companies. Key to this ambition is the practice of sustainability due diligence. We are therefore confident that the financial sector should be included in the CSDDD and note that:

- Many investors such as ourselves already commit resources to the implementation of due diligence processes in accordance with international standards such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises and sector specific guidance such as the OECD guidance for the financial sector. Carving out the financial sector or parts of the financial sector such as institutional investors from the scope of the Directive, as proposed by some negotiating parties, would run counter to the international consensus that all businesses – financial and non-financial – have responsibilities to avoid and address adverse impacts on human rights and the environment. It might also inadvertently undermine existing and future implementation of due diligence in the sector by sending the message that environmental and social due diligence is simply not expected of financial institutions or expected only of some. Institutional investors, for example, are key to driving sustainability in the wider economy. Our own sustainability due diligence practices embedded across the investment lifecycle demonstrate that we can play an important role influencing the conduct of our investees and placing sustainability considerations on their agenda alongside with financial considerations.

- The EU Action Plan on Sustainable Finance sets an expectation that financial institutions should play a central role in the just transition to a green economy. Market incentives and disclosure regimes have been key to the regulatory approach taken so far. The Corporate Sustainability Reporting Disclosure (CSRD), the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation all expect financial institutions to document and disclose the positive and
negative impacts on people and the environment associated with their own activities and business relationships. The existing regulations require financial institutions to disclose information on their sustainability due diligence rather than to implement such due diligence processes. By creating an obligation of conduct to undertake sustainability due diligence, the CSDDD can complement these regulations and supports financial institutions to build robust internal systems and procedures, which are foundational to meaningful disclosures. The due diligence requirement must follow a risk-based approach, cover the full value chain, and be tailored to the specificities of financial institutions and activities. Above all, the due diligence requirements must align with the UNGPs and the OECD Guidelines.

- Financial institutions are uniquely placed to drive positive sustainability outcomes in the real economy and therefore contribute to the effectiveness of the CSDDD. For example, the undersigned investors are connected to thousands of businesses in the global economy, which gives us unique visibility into sector-wide human rights and environmental risks and the opportunity to drive progress at scale, especially when making use of collective leverage. The Directive should harness the force of finance and help those of us already committed to scale the impact of our efforts.

We, the signatories of this letter, call on the Danish and Swedish governments to play a proactive role in the trilogue negotiations and advocate for the inclusion of all the financial sector (banks, insurers, investors) in the CSDDD. Leaving this decision at the discretion of each Member State would pose serious limitations to its effectiveness. For the Directive to be impactful, it should seek to level the playing field for all participants in the global economy and be consistent with authoritative international standards, which already expect financial institutions to conduct ongoing due diligence across all business activities.

**SIGNATORIES**

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