

PROF W. GEORG RINGE

NET-ZERO PLANS UNDER THE CSDD DIRECTIVE

ECGI ONLINE POLICY WORKSHOP 28-29 MARCH 2022



Article 15: Combating climate change

- 1. Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), shall adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement. This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.
- 2. Member States shall ensure that, in case climate change is or should have been identified as a principal risk for, or a principal impact of, the company's operations, the company includes emission reduction objectives in its plan.
- 3. Member States shall ensure that companies duly take into account the fulfilment of the obligations referred to in paragraphs 1 and 2 when setting variable remuneration, if variable remuneration is linked to the contribution of a director to the company's business strategy and long-term interests and sustainability.



Elements:

- Climate change, not sustainability more broadly
- Only Group 1 companies
- Adopt a plan to ensure that business model and strategy are compatible with
 - "the transition to a sustainable economy"
 - "and with the limiting of global warming to 1.5 °C in line with the Paris Agreement"
- In particular, highlight how climate change is a risk for/impact of operations



Step 2

- Some companies to include emission reduction objectives
- IF "principal risk"
- (P) targets under Paris Agreement vague

Step 3

- To be taken into account when setting variable pay with directors
- IF variable remuneration is linked to the contribution of a director to the company's business strategy AND long-term interests AND sustainability



Positive contribution

- Helps investors, e.g. pension funds
- Forces companies/directors to self-reflect
- May overcome time-inconsistency problem (Armour, Enriques & Wetzer 2021) due to preferences of political leaders and shareholders, commitment to climate change may vary over time.



Relevant? Redundant?

- Overlap with CSRD (proposed Art. 19a): to a great extent already in place



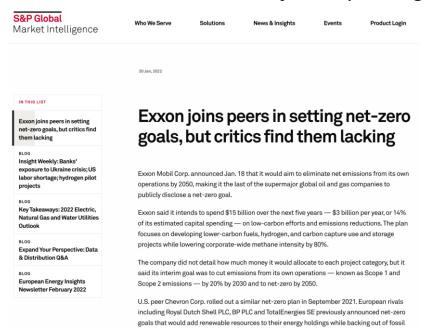
(proposed) Art. 19a CSRD: Sustainability Reporting

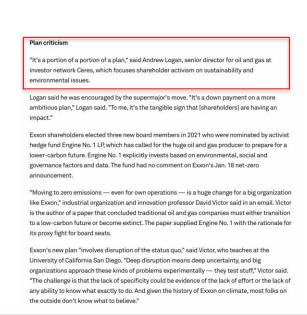
- 1. [In-scope companies] shall include in the management report information necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position.
- 2. The information referred to in paragraph 1 shall contain in particular:
- (a) a brief description of the undertaking's business model and strategy, including: [...]
- (iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement; [...]
- (e) a description of:
- (i) the due diligence process implemented with regard to sustainability matters;
- (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
- (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;



Relevant? Redundant? (2)

- Investors ask for it anyhow available through market forces
 - ESG activism and engagement -> private ordering
 - "investor-led sustainability in corporate governance"







Standardization?

Comparative advantage through standardization???

- Ensuring comparability and harmonizing substance
- Not in sight!
- No delegated act proposed etc

Instead: Focus on making net-zero plans credible and concrete



Wolf-Georg Ringe Professor of Law & Finance

Director, Institute of Law & Economics
University of Hamburg, Faculty of Law
Johnsallee 35 | 20148 Hamburg | Germany

georg.ringe@uni-hamburg.de

http://ssrn.com/author=836081

