

## Call for feedback on the Platform on Sustainable Finance's draft report on social taxonomy

### Merits and concerns

The draft report describes the merits of a social taxonomy and potential concerns.

#### Question 1.1 Which in your view are the main merits of a social taxonomy?

Please select as many answers as you like

- supporting investment in social sustainability and a just transition
- responding to investors' demand for socially orientated investments
- addressing social and human rights risks and opportunities for investors
- strengthening the definition and measurement of social investment
- other
- none

#### Please specify to what other merit(s) you refer in your answer to question 1.1:

1000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

#### Question 1.2 Which in your view are the main concerns about a social taxonomy?

Please select as many answers as you like

- interference with national regulations and social partners' autonomy
- increasing administrative burden for companies
- other
- none

#### Please specify to what other concern(s) you refer in your answer to question 1.2:

1000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our perception is that while the EU is leading on the environmental taxonomy, many countries outside the EU now start working at least conceptually on the development of social taxonomies. There is a risk that if uncoordinated, these initiatives will produce inconsistent results that might fail to ensure a



common understanding and thus, not meet the expectations of significantly increasing capital flows into socially responsible investments. Therefore, when developing a social EU taxonomy, it is crucial:

- To **base the concepts as far as possible upon international treaties and conventions** instead of referring to standards enshrined in EU law,
- To **collaborate with other jurisdictions**, e.g. in the context of the International Platform on Sustainable Finance, in order to strive for a framework that is recognised as benchmark for socially sustainable investments at the international level.

### Structure of the social taxonomy

**The draft report suggests a structure for a social taxonomy distinguishing between a vertical and a horizontal dimension. The vertical dimension would focus on directing investments to activities that make products and services for basic human needs and for basic economic infrastructure more accessible, while the horizontal dimension would focus on human rights processes.**

**The objective linked to the vertical dimension of the social taxonomy would be to promote adequate living standards. This includes improving the accessibility of products and services for basic human needs such as water, food, housing, healthcare, education (including vocational training) as well as basic economic infrastructure including transport, Internet, clean electricity, financial inclusion.**

**The objective linked to the horizontal dimension would be to promote positive impacts and avoid and address negative impacts on affected stakeholder groups, namely by ensuring decent work, promoting consumer interests and enabling the creation of inclusive and sustainable communities.**

**Question 2. In your view, are there other objectives that should be considered in vertical or horizontal dimension?**

- Yes
- No
- Don't know / no opinion / not applicable

**Please explain your answer to question 2:**

*1000 character(s) maximum*

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members currently often use the SDGs as the reference point for defining social objectives of their investments or reporting about social relevance. Hence, we support that especially the vertical dimension of the social taxonomy shall define social objectives that are directly linked to the relevant SDGs and the underlying international conventions.

**Question 3. Which of the following activities should in your view be covered in the vertical dimension (social products and services)?**

Please select as many answers as you like



- A1 - Crop and animal production,
- A1.1 - Growing of non-perennial crops
- A1.2 - Growing of perennial crops
- A1.4 - Animal production
- A3 - Fishing and aquaculture
- C10 - Manufacture of food products
- C10.8.2 - Manufacture of cocoa, chocolate and sugar confectionery
- C10.8.3 - Processing of tea and coffee
- C10.8.6 - Manufacture of homogenised food preparations and dietetic food
- C13 - Manufacture of textiles
- C20.1.5 - Manufacture of fertilisers and nitrogen compounds
- C20.2 - Manufacture of pesticides and other agrochemical products
- C21 - Manufacture of basic pharmaceutical products and pharmaceutical Preparations
- C23.3 - Manufacture of clay building materials
- C23.5 - Manufacture of cement, lime and plaster
- C25.2.1 - Manufacture of central heating radiators and boilers
- C30.1 - Building of ships and boats
- C30.2 - Manufacture of railway locomotives and rolling stock
- C30.3 - Manufacture of air and spacecraft and related machinery
- C30.9.2 - Manufacture of bicycles and invalid carriages
- C31 - Manufacture of furniture
- C32.2 - Manufacture of musical instruments
- C32.3 - Manufacture of sports goods
- C32.5 - Manufacture of medical and dental instruments and supplies
- D35.1 - Electric power generation, transmission and distribution
- D35.3 - Steam and air conditioning supply
- E - Water supply; sewerage; waste management and remediation activities
- E36 - Water collection, treatment and supply
- E37 – Sewerage
- E38 - Waste collection, treatment and disposal activities; materials recovery
- E38.3 - Materials recovery
- E39 - Remediation activities and other waste management services
- F41 - Construction of buildings
- F42.1 - Construction of roads and railways
- F42.1.2 - Construction of railways and underground railways
- F42.2.2 - Construction of utility projects for electricity and telecommunications
- F43.3 - Building completion and finishing
- G45.2 - Maintenance and repair of motor vehicles
- G46.1.6 - Agents involved in the sale of textiles, clothing, fur, footwear and leather goods
- G46.1.7 - Agents involved in the sale of food, beverages
- G47.5.1 - Retail sale of textiles in specialised stores
- H49.1 - Passenger rail transport, interurban
- H49.2 - Freight rail transport



- H49.3 - Other passenger land transport
- H49.3.1 - Urban and suburban passenger land transport
- H50.1 - Sea and coastal passenger water transport
- H50.3 - Inland passenger water transport
- H51.1 - Passenger air transport
- J58.1 - Publishing of books, periodicals and other publishing activities
- J59.1 - Motion picture, video and television programme activities
- J60 - Programming and broadcasting activities
- K - Financial and insurance activities
- L68.2 - Renting and operating of own or leased real estate
- M71 - Architectural and engineering activities; technical testing and analysis
- M72.1.1 - Research and experimental development on biotechnology
- N77.1.1 - Renting and leasing of cars and light motor vehicles
- N77.2 - Renting and leasing of personal and household goods
- N78.1 - Activities of employment placement agencies
- N78.2 - Temporary employment agency activities
- N78.3 - Other human resources provision
- O84.1.2 - Regulation of the activities of providing health care, education, cultural services and other social services, excluding social security
- O84.2 - Provision of services to the community as a whole
- O84.2.4 - Public order and safety activities
- O84.2.5 - Fire service activities
- O84.3 - Compulsory social security activities
- P85.1 - Pre-primary education
- P85.2 - Primary education
- P85.2.0 - Primary education
- P85.3 - Secondary education
- P85.3.2 - Technical and vocational secondary education
- P85.4.2 - Tertiary education
- Q - Human health and social work activities
- Q86.1 - Hospital activities
- Q86.2 - Medical and dental practice activities
- Q87 - Residential care activities
- Q88 - Social work activities without accommodation
- Q88.9.1 - Child day-care activities
- Q88.9.9 - Other social work activities without accommodation n.e.c.
- R - Arts, entertainment and recreation
- R93.1.3 - Fitness facilities
- S95 - Repair of computers and personal and household goods
- S96.0.4 - Physical well-being activities
- Other

**Please specify to what other activity(ies) you refer in your answer to question 3:**

*1000 character(s) maximum*



including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

From investors' perspective, we are not yet in the position to evaluate the social contribution of specific activities. As a first step, sustainable objectives for a social taxonomy need to be defined. Assessment of which activities have the potential to make substantial contributions to these objectives can only be a second step in the process. In this regard, it is crucial to base the concepts as far as possible upon international treaties and conventions in order to strive for universally recognisable standards of social investing and thus to maximise the potential for redirecting capital flows.

**Question 4. Do you agree with the approach that the objectives in the horizontal dimension, which focusses on processes in companies such as the due diligence process for respecting human rights, would likely necessitate inclusion of criteria targeting economic entities in addition to criteria targeting economic activities?**

- Yes  
 No  
 Don't know / no opinion / not applicable

**Please explain your answer to question 4:**

*1000 character(s) maximum*

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We agree that some aspects of social sustainability by nature do not relate to specific economic activities, but become relevant at the entity level. This pertains in particular to standards for respecting and promoting employees' rights and decent employment conditions, but potentially also to other general quality standards supporting human rights and promoting responsible market practices. In this regard, the possibility to address selected sustainability goals at entity level and to develop significant contribution criteria for the company, rather than a specific economic activity, should be explored while respecting the general structure and the level of ambition of the taxonomy framework.

### Harmful activities

**The report envisages harmful activities as those which are fundamentally and under all circumstances opposed to the objectives suggested in this proposal for a social taxonomy. There would be two sources on which this rationale can be build: internationally agreed conventions, e.g. on certain kinds of weapons & detrimental effects of certain activities, for example on health.**

**Question 5. Based on these assumptions, would you consider certain of the following activities as 'socially harmful'?**

Please select as many answers as you like

- A1.1.5 - Growing of tobacco  
 B5 - Mining of coal and lignite



- B7 - Mining of metal or iron ores
- B9 - Mining support service activities
- B9.1 - Support activities for petroleum and natural gas extraction
- C10.8.1 - Manufacture of sugar
- C10.8.2 - Manufacture of cocoa, chocolate and sugar confectionery
- C10.8.3 - Processing of tea and coffee
- C11.0.1 - Distilling, rectifying and blending of spirits
- C11.0.2 - Manufacture of wine from grape
- C11.0.5 - Manufacture of beer
- C11.0.7 - Manufacture of soft drinks;
- C12 - Manufacture of tobacco products
- C13 - Manufacture of textiles
- C15.2 - Manufacture of footwear
- C20.2 - Manufacture of pesticides and other agrochemical products
- C25.4 - Manufacture of weapons and ammunition
- C25.4.0 - Manufacture of weapons and ammunition
- C30.4 - Manufacture of military fighting vehicles
- G46.1.6 - Agents involved in the sale of textiles, clothing, fur, footwear and leather goods
- G46.3.5 - Wholesale of tobacco products
- G46.3.6 - Wholesale of sugar and chocolate and sugar confectionery
- G46.4.2 - Wholesale of clothing and footwear
- G47.1.1 - Retail sale tobacco predominating
- N80.1 - Private security activities
- O84.2.2 - Defence activities
- Other

**Please specify to what other activity(ies) you refer in your answer to question 5:**

*1000 character(s) maximum*

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Stipulation of activities that shall be deemed socially harmful under all circumstances must be carefully considered. **Only activities that are in any event harmful to consumers and communities should fall under this category.** This should include activities of **growing, manufacturing and selling tobacco** as well as **gambling and betting activities** (O.92.71) that are missing in the list. We would also suggest **adding production and distribution of controversial weapons** (ABC weapons, landmines and cluster ammunition), while deleting general manufacturing of weapons and ammunition that is so far necessary in most countries for defence purposes.

For other activities, the assessment should be more differentiated. For instance, production of clothes or cocoa becomes problematic due to the inhumane working conditions prevalent today in Asia or Latin America, but can be practiced in better circumstances. These sectors should not be stigmatised as generally harmful under the social taxonomy.



## Governance objectives

**Question 6. Sustainability linked remuneration is already widely applied in sustainable investment. In your view, would executive remuneration linked to environmental and social factors in line with companies' own targets, therefore also be a suitable criterion in a social classification tool such as the social taxonomy?**

- Yes  
 No  
 Don't know / no opinion / not applicable

**Please explain your answer to question 6:**

*1000 character(s) maximum*

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We support the idea of linking a certain share of variable remuneration to non-financial performance and agree that the relevant metrics and targets should be stipulated at company level. It is important that both the share of variable remuneration and the choice of relevant non-financial KPIs are consistent with the business activities of companies. This should include for instance reduction of carbon emissions if these pose a material risk to a company's business activities, e.g. in case it belongs to a highly emitting sector. In the context of the EU sustainable corporate governance initiative, we have recommended that companies be required to integrate company or sector-specific ESG indicators in the short-term and long-term variable remuneration and reflect the approach in the remuneration policy to be submitted for a vote by the general meeting.

**Question 7. The report envisages governance objectives and analyses a certain number of governance topics. Please select the governance topics which in your view should be covered:**

Please select as many answers as you like

- Sustainability competencies in the highest governance body  
 Diversity of the highest governance body (gender, skillset, experience, background), including employee participation.  
 Transparent and non-aggressive tax planning  
 Diversity in senior management (gender, skillset, experience, background)  
 Executive remuneration linked to environmental and social factors in line with companies' own targets  
 Anti-bribery and anti-corruption  
 Responsible auditing  
 Responsible lobbying and political engagement  
 Other

**Please specify to what other governance topic(s) you refer in your answer to question 7:**

*1000 character(s) maximum*

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

## Models for linking an environmental and a social taxonomy

The report suggests two models for linking an environmental and a social taxonomy:

- **Model 1:** The social and an environmental taxonomy would only be related through social and environmental minimum safeguards with governance safeguards being valid for both. The [UN guiding principles](#) would serve as minimum safeguards for the environmental part, while the environmental part of the [OECD guidelines](#) would serve as environmental minimum safeguards for the social part. The downside would be thin social and environmental criteria in the respective other part of the taxonomy
- **Model 2:** There would be one taxonomy with a list of social and environmental objectives and DNSH criteria. It would essentially be one system with the same detailed 'do no significant harm' criteria for the social and environmental objectives. The downside would be that there would be fewer activities that would meet both social and environmental 'do no significant harm' criteria

**Question 8. Which model for extending the taxonomy to social objectives do you prefer?**

- Model 1  
 Model 2  
 Don't know / no opinion / not applicable

**Please explain your answer to question 8:**

*1000 character(s) maximum*

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We have a **clear preference for model 1** that appears more pragmatic and feasible in the short to medium term. In view of the huge complexity of the environmental taxonomy that is likely to rise with the envisaged introduction of further sub-levels of environmental performance, it is key to avoid major system changes in order not to discourage financial market participant to actively engage with the taxonomy. In addition, we agree that under model 2, it would be much more difficult to find activities that meet both environmental and social DNSH criteria. As a result, redirection of capital to sustainable activities would be only possible on a lower scale.

Model 1 should be based on the principle of equivalence of the environmental and social taxonomies. Both facets of sustainability are equally important and should be put on an equal footing from policy perspective, while providing investors with the opportunity to focus on their own individual preferences for positive contribution.



## General expectation from the social taxonomy

### Question 9. What do you expect from a social taxonomy?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members encounter great interest from investors to invest in a socially responsible manner and to contribute to the social SDGs. However, there is currently no universally recognised concept for socially oriented investing that would allow them to exploit this potential on a large scale.

Against this background, a social taxonomy should:

- Provide for a **universally valid benchmark for social investments** by defining social sustainability objectives and essential characteristics of investments that would qualify as socially sustainable. This would provide an important guidance for both, institutional and retail investors and make it easier to take informed investment decisions. At the same time, it would help to redirect capital flows to those activities and projects that make significant contribution to the promotion of social standards.
- Be based **as far as possible upon international treaties and conventions** instead of referring to standards enshrined in EU law in order to evolve as a global standard for social investing. In this regard, it is essential that the Platform and subsequently the EU Commission seek to **collaborate with other jurisdictions**, e.g. in the context of the International Platform on Sustainable Finance. The ultimate goal should be to develop a social taxonomy that is recognised as benchmark for socially sustainable investments at the international level.

It is also important that a social taxonomy provides a **counterbalance to the environmental taxonomy** and reduces the current focus on environmental sustainability issues in favour of a **more holistic ESG approach**. The ongoing Covid 19 pandemic demonstrates clearly that investments in projects catering for social needs cannot be neglected. The envisaged transition to a net-zero and climate-resilient economy will result in fundamental changes to business operations of companies that will very likely entail several challenges in social terms. The social taxonomy should help to emphasize the social impact of such changes and reduce the risk of an unjust transition for workers and communities.

The environmental taxonomy entails **enormous complexity for applicants**, i.e. companies and investors. There is the risk that with the introduction of a social taxonomy, this complexity will be further increased and the taxonomy framework will become barely operational for small and medium-size market participants. Especially the **level of detail of the DNSH test should be reduced** under both taxonomy framework. The current approach to the DNSH assessment under the environmental taxonomy has failed the practice test, since it is impossible to apply the DNSH criteria without corresponding disclosure by issuers. Even in future, however, data for the DNSH assessment can be expected only for EU companies or some non-EU issuers active in the EU markets under the proposed CSRD regime. Without such data and with only a limited possibility to use estimates, the taxonomy will not be able to exploit its potential for steering investments towards sustainable activities.

## Additional information



**Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.**

**The maximum file size is 1 MB.**

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