

September 6, 2021

Feedback on the Platform on Sustainable Finance's draft report on social taxonomy - Questionnaire

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

- **none**

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

If it were possible to construct a universal and objective social taxonomy this would be very useful in helping investors to channel funds into areas which are more socially sustainable than others. However, the social dimension is inherently subjective in nature, depends on its context and invariably involves a trade-off between different social and/or environmental and economic objectives. Consequently, setting up a standardized EU-sanctioned social taxonomy or rating system would at best not be meaningful and at worst lead to a misallocation of resources. Minimum standards, such as those expressed in various UN and OECD instruments, on the other hand, are quite useful. However, these are generally already encoded in national legislation, to some extent also at EU-level, and information about companies' adherence to such standards are normally readily available to investors, at least within the EU. The added value of introducing another such set of minimum standards through the social taxonomy is thus questionable.

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**

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

In addition, stimulating investments to fulfil certain social aims without considering the full social (and economic) impact, risk leading to a misallocation of resources counterproductive to a socially sustainable development. See also our separate overall comments to the report.

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**

Please explain your answer to question 2:

In order to fulfill its purpose of steering investments towards more socially sustainable activities, the aim of any social taxonomy must reasonably be to help to correctly identify the total social impact of an economic activity. Since the proposed structure would only focus on certain types of social impact, it would not be able to show that the overall effect is positive (or negative). This is obvious in the vertical dimension, but since it excludes the inherently positive social effects (job creation, tax payments etc), this is also true for the horizontal dimension. Consequently, we do not believe that the proposed structure will fulfil the intended purpose of a social taxonomy.

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

- Other

The main social contribution of business activity is to fulfill people's needs for products and services, create jobs and through investment, innovation and taxes contribute to social and economic progress. When trying to gauge which investments have the most positive social effects, the overall social impact must be taken into consideration. If not, it would be a misallocation of resources ultimately leading to a worse social outcome. It is not always that a social investment, benefitting a certain disadvantaged group, is better for society, or even for that disadvantaged group, than a commercial investment providing more jobs, taxes or other important social benefits. It will depend on the circumstances in each case and is not necessarily a function of the particular product or service. Consequently, distinguishing between different products and services as more or less socially beneficial may be counterproductive and should be avoided.

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?

- Don't know / no opinion / not applicable

The whole logic behind due diligence guidelines and rules is to put processes in place which will contribute to a better outcome. Insofar as these processes are to be set up within economic entities, it is necessary for the criteria to target these economic entities. However, as such guidelines exist - in several countries as binding rules and there is an upcoming proposal for EU-legislation in this area – it is difficult to see what added value duplicating these criteria in a social taxonomy would bring.

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

- Other

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

As pointed out under question 2, it would make little sense to a priori define certain sectors of the economy as harmful. One would have to look at the overall social impact for each company or economic activity in order to come to such a conclusion. And although it would seem obvious that certain types of products in themselves are harmful (e.g. weapons), they may contribute to desirable outcomes (e.g. security). In fact, if the overall social impact unequivocally, under all circumstances, would be negative, it would seem more effective to

prohibit such activity rather than disincentivize investments therein through a 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?*

- **No**

Please explain your answer to question 6:

What would constitute the social objectives or the right balance between short and long-term, cash and equity compensation of executive remuneration cannot be commonly agreed since it depends on each company's business model, size and specific situation. Consequently, this is not suitable for a standardized, one-size-fit-all tool such as a social taxonomy. Furthermore, if included in a regulation, it would have a negative impact on established property (ownership) rights and disrupt a long-standing and fine-tuned balance in national corporate governance systems.

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*

- **Other**

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

None of the governance topics above should be covered. As discussed more in detail in the enclosed comments, we do not believe that governance should be included in a social taxonomy. Corporate governance is predominately an EU member state issue, and should remain so. Creating an EU-wide taxonomy standard on corporate governance on top of fragmented national rules will not only be highly controversial but disproportionate and potentially counterproductive to the aims of any social taxonomy.

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?*

- **Don't know / no opinion / not applicable**

Please explain your answer to question 8:

We do not believe that the taxonomy should be extended to social objectives for the reasons indicated above and in the enclosed comments. However, should a social taxonomy be established it needs to be a stand-alone system based on minimum agreed standards rather than building on the environmental taxonomy.

General expectation from the social taxonomy

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

As pointed out in the enclosed comments, we do not see the added value of a social taxonomy. Even if the risks outlined in the answers above and in our comments could be mitigated or avoided, it would still result in more administrative burden for companies in general, affecting competitiveness and making it harder for especially SMEs to get needed investment.

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.

See enclosure