

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

Link to consultation: <https://ec.europa.eu/eusurvey/runner/social-taxonomy-report-2021>

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

- ✓ 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 (please specify - box)
- none

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

The social taxonomy should help to reorient capital market into investments with social objectives and to reach the Sustainable developments goals (SDGs). In particular it should address and overcome the risks associated to the misuses of the social factoring (e"S"g factoring) into sustainable investments. The social objectives are essential to drive green transition and zero carbon emissions with the respect and safeguard of human rights, local communities, inclusiveness, workers conditions and citizens' rights.

Question 1.2. Which in your view are the main concerns about a social taxonomy? (tick all boxes)

- interference with national regulations and social partners' autonomy
- increasing administrative burden for companies
- other (please specify – box)
- ✓ none

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

N/A

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
- No opinion

Please explain your answer to question 2:

including spaces and line breaks, i.e. stricter than the MS Word characters counting method. 1000 character(s) maximum.

BETTER FINANCE welcomes the horizontal and vertical dimensions represented in the objectives of the taxonomy. Furthermore, we would like to suggest expanding the horizontal dimension based on the promotion of gender equality which should not be based only on gender pay gap but also on freedom of expression, assembly etc.

Question 3.

Which of the following activities should in your view be covered in the vertical dimension (social products and services)? (tick all relevant boxes)

- 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
- ✓ **I58.1 - Publishing of books, periodicals and other publishing activities**
- J59.1 - Motion picture, video and television programme activities
- ✓ **I60 - 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:

(please specify) including spaces and line breaks, i.e. stricter than the MS Word characters counting method. 1000 character(s) maximum

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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:

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.
1000 character(s) maximum

We consider that the objectives in the horizontal dimension focusing on companies' process at entity level is preferable compared to the economic activities level. Economic activities from same entity could differ in terms of benefits and positive impact on social aspects. Therefore, the target should be the economic entity instead of the economic activity. In this context, it important to align these objectives with the OECD due diligence guidance for responsible business conduct¹ and the OECD guidelines for multinational enterprises.²

¹ <https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm>

² <https://www.oecd.org/corporate/mne/>

Question 5. 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.

Based on these assumptions, would you consider certain of the following activities as 'socially harmful'? (tick all relevant boxes)

- ✓ **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 topic(s) you refer in your answer to question 5: including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

1000 character(s) maximum

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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
- No opinion – please explain your choice

Please explain your answer to question 6:

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.
1000 character(s) maximum

We would like to point out that there are numerous rules already in place (binding through law or non-binding through codes or guidelines from supervisors or investors) that companies need to take into account when setting the remuneration of their executives. We would like to draw the EC's attention to the fact that past discussions on the "reward for failure" were drivers for the SRD II and led to a review of the directors' pay systems in Europe. For instance, in Germany most companies put their directors' pay systems on the agenda asking shareholders to vote on the system and structure and on the report. These systems show a strong change in the variable part of the pay, now focusing more on long-term incentives and on non-financial key performance indicators to encourage the sustainability aspects at companies.

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 (tick all relevant boxes):

- ✓ **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:

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

1000 character(s) maximum

Question 8: 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.

Which model for extending the taxonomy to social objectives do you prefer model 1 or model 2?

- MODEL 1
- ✓ **MODEL 2**
- no opinion

Please explain your choice.

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

1000 character(s) maximum

BETTER FINANCE believes that the best approach is the model 2. It will ensure better standards and criteria in order for ESG factoring into sustainable investments.

Question 9: What do you expect from a social taxonomy?

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

5000 character(s) maximum

BETTER FINANCE has strongly supported the initiative to create a social taxonomy to complement the ongoing work on the Taxonomy regulation.

Lack of standardisation prevent to orient investments with social objectives and reduce comparability among similar investments. In addition, factoring of ESG criteria into sustainable investments requires the standardisation of the 3 dimensions not only the environmental side in order to allow retail investors to compare and choose the rights investment. Compared to environmental and climate data, company can easily provide data on gender pay gap, ethnicity, workers conditions etc. Therefore, the main issue is not the lack of data but the need for a common understanding of how and what to measure social criteria.

The social taxonomy needs to:

- help investors with social goals to choose among investments with social objectives
- eliminate the misuse of social factoring into sustainable investments misleading retail investors by providing a clear taxonomy with social characteristics
- clarify what is an investment with social objectives
- allow retail investors to compare ESG investments or socially responsible investments (SRI)



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