EU Taxonomy & Platform

- Social Taxonomy Outreach

PLATFORM ON SUSTAINABLE FINANCE

In this presentation

Part 1: The Taxonomy & Platform on Sustainable Finance

- The taxonomy milestones, basic principles, sectors covered and terminology
- The Platform on Sustainable Finance's role, structure, tasks and main deadlines

Part 2: State of the art of a Social Taxonomy

- Proposed structure
- Pillar 1 – Respect for human rights
- Pillar 2 – Governance
- Pillar 3 – Promote Adequate living conditions for all

Part 1

THE TAXONOMY – A GENERAL OVERVIEW

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The Taxonomy is …

An "inventory" for the future

Provides clarity on what is an environmentally sustainable activity.
Provides the market and the public with the necessary confidence on environmental performance

A reporting enabler

Enables **to measure the degree of environmental future fitness** of an investment product and the share of environmentally future fit activities in a company

A transition tool

Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.

Activities not included are not necessary harmful activities

6 environmental interlinked objectives

CLIMATE CHANGE

Mitigation

Adaptation

Technical Screening Criteria
in the draft Delegated Act (dec 2020)

OTHER OBJECTIVES

Transition to a **circular economy**

Pollution prevention and control

Sustainable use and protection of **water and marine resources**

Protection and restoration of **biodiversity & ecosystems**

Technical Screening Criteria
under development

Defining an environmentally sustainable activity

- **Science-based**
- **Easy to use**

Substantially contribute

To at least one of the six environmental objectives as defined in the proposed regulation

\+

Do no significant harm (DNSH)

To any of the other five environmental objectives as defined in the proposed regulation

\+

Comply with

Minimum safeguards

Minimum Safeguards = UN Guiding Principles and OECD Guidelines

How does the Platform relate to the Taxonomy?

Platform		Taxonomy
▪ Provides recommendations on setting criteria as part of the EU Taxonomy ▪ Advises on revision of the Taxonomy Regulation under the Commission action	→	• European Commission drafts and adopts Taxonomy Delegated Acts • European Commission drafts and proposes changes to the Taxonomy Regulation’

Platform structure

Chair: Nathan Fabian (PRI)

57 members & 10 observers

Appointed members from a range of sectors, including industry, academia & civil society

Technical Working Group	Subgroup 2	Subgroup 3	Subgroup 4	Subgroup 5	Subgroup 6
Advise on technical screening criteria	Advise on Regulation review	Advise on extension of Taxonomy to significantly harmful and low impact activities	Advise on extension of Taxonomy to social objectives & functioning of Art. 18	Advise on data availability & usability of criteria	Monitoring capital flows to sustainable investments

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Next steps

April 2021

Adoption of 1st DA on climate objectives (Commission)

Q1 2021

Outreach underway (P & C)

May 2021

Report on criteria for environmental objectives 3 – 6 (P)

Q2 2021

Adoption of DA on Art. 8 TR (C)

Report on social taxonomy with consultation in Q3 and final report at the end of Q 3

Report on harmful and low impact taxonomy (P)

31 Dec 2021

Adoption of 2nd DA on remaining four objectives (C)

Report on review of the Regulation (P)

Q4 2021

Report on minimum safeguards (P)

July 2022

Report on the application of the Regulation (P)

Sep 2022

Report on updating criteria for all six environmental objectives (P)

Part 2

THE SOCIAL TAXONOMY – STATE OF THE ART

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Subgroup 4 - Mandate

i) Advise the Commission on extending the taxonomy to social objectives:

- If possible, recommend on the **structure of a social taxonomy** with **substantial contributions** and **DNSH criteria for social issues**
- Reflecting on **other objectives** linked to **business ethics**, **governance**, **anti-bribery** or **tax compliance** matters

ii) Advise the European Commission on the functioning of Article 18 of the Taxonomy Regulation (minimum safeguards)

Subgroup 4

Rapporteur:
Antje Schneeweiß
(AKI - Arbeitskreis Kirchlicher Investoren in der Evangelischen Kirche in Deutschland, EKD)

Perceived gaps in environmental Taxonomy

OBJECTIVES IN GREEN TAXONOMY	EXAMPLES OF WHAT IS MISSING
Climate Change Mitigation	**Human Rights**
Climate Change Adaptation	**Governance**
Transition to a circular economy	**Access to healthcare**
Pollution prevention and control	**Decent Employment**
Sustainable use and protection of water and marine resources	**Equality**
Protection and restoration of biodiversity & ecosystems	**Non-discrimination**

Social Taxonomy: Why?

Key rationale

- Social objectives acknowledged as key element of sustainable investing by HLEG
- Need for socially inclusive measures to accompany green transition and create decent and quality jobs → investments in "just transition"
- Investors are increasingly looking for social investment opportunities; a pandemic-driven surge in social bonds demonstrates market demand
- Social pressure to change; absence of considerations of social issues carries special risks for investors
- Just as for green transition, lack of definitions and a standardized classification system is an obstacle to steering the capital towards socially sustainable activities

Social Taxonomy: Ideas for a Structure

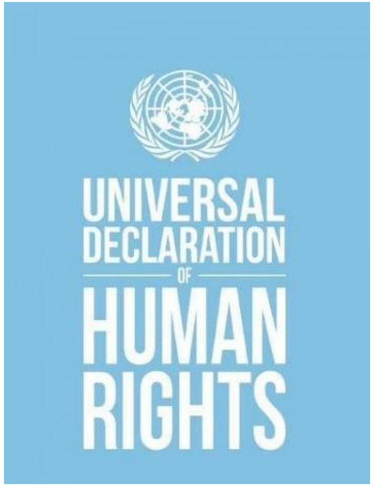
How Business is Done	How Business is Done	What Kind of Business
Respect for Human Rights	**Governance**	**Promote Adequate Living Conditions for all**
Companies	Companies	Sectors/Activities

Social Taxonomy: different basis

Green Taxonomy based on

Science

Not available for Social



Social:
based on international norms principles and goals

Social Taxonomy Ideas for Objectives

Respect for Human Rights

- Managing Impact
- Impact on Workers
- Impact on Consumers
- Impact on Communities

Governance

- Good Corporate Governance*
- Anti-Corruption
- Transparent and Non-Aggressive Tax Planning

Promote Adequate Living Conditions for all

- Fulfilment of basic human needs
- Access to essential economic services/ infrastructure
- Creation of decent employment
- Peaceful and inclusive societies

*including responsible lobbying

Pillar 1 – Respect for human rights – the why

- Internationally recognised human rights as a globally applicable reference point
- Involvement in human rights abuse by businesses still widespread
- Businesses have the responsibility to respect human rights (UN Guiding Prinicples on Business and Human Rights)
- Investors and businesses increasingly active on human rights
- Human rights key to delivering on SDGs and Paris Agreement & Respect for human rights as a transformational agenda

"Business enterprises may undertake other commitments or activities to support and promote human rights, which may contribute to the enjoyment of rights. But this does not offset a failure to respect human rights throughout their operations."

UNGPs

Pillar 1 – Respect for human rights – the relationship with article 18

- Respect for human rights covered in Taxonomy Regulation Article 18
  - “The minimum safeguards referred to in point (c) of Article 3 shall be **procedures implemented by an undertaking that is carrying out an economic activity** to ensure the alignment with the **OECD Guidelines for Multinational Enterprises** and **the UN Guiding Principles on Business and Human Rights**, including the principles and rights set out in the eight fundamental conventions identified in the **Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work** and **the International Bill of Human Rights**. “
- Identifying what fits where & potential differences between including as objectives versus safeguards

Pillar 1 – Respect for human rights – substantial ideas (I)

Respect for Human Rights

- Managing Impact
- Impact on Workers
- Impact on Consumers
- Impact on Communities

Pillar 1 – Respect for human rights – substantial ideas (II)

Respecting human rights including labour rights

Potential objectives

Managing impacts	Impact on Workers	Impact on Consumers	Impact on Communities
Policy commitment	Social dialogue	Enhanced product and services safety and quality	Livelihoods
Due diligence (including value chain / business relationship aspects)	Equalities and non-discrimination	Privacy and cybersecurity by design and default	Indigenous Peoples
Stakeholder engagement	Decent employment And living wage	Responsible marketing	Land (ownership, etc)
Access to remedy / grievance mechanisms	Health and safety	Fair contracts	Vulnerable groups
	Skills and lifelong learning	Fair and accountable use of automated decision making	
	Social protections (e.g. pensions and childcare)	Smooth customer support	

Dimensions of potential objectives (aspects for substantial contribution/ do no significant harm)

Examples / non-exhaustive

Pillar 1 – Respect for human rights – challenges and opportunities

Evolving regulatory landscape

Within the taxonomy
(interplay between ‘green’ and ‘social’ etc)

Outside of the taxonomy
(Sustainable corporate governance reform, Non-Financial Reporting Directive, Sustainable Finance Disclosure Regulation)

Data

Quantitative /qualitative aspects

Data quality and reliance on corporate self-reporting

Structural / design issues

Inheriting concept from existing taxonomy

Dovetailing existing taxonomy design with human rights & business standards

Pillar 2: Governance
- Why it needs to be part of the EU Taxonomy

- Art. 20 of the Taxonomy Regulation specifies that:
  the Platform shall (j) advise the Commission on **addressing other sustainability objectives**, including social objectives

- Translated into the mandate for SG4:
  (i) explore extending the taxonomy to social objectives in light of Article 26(2) point (a) calling on the Commission to publish a report describing the provisions that would be required to extend the scope of this Regulation beyond environmentally sustainable economic activities **to cover other sustainability objectives**, such as social objectives (‘social taxonomy’)

Subgroup 2: Governance
- Incorporated in other legislative texts

- <u>Sustainable Finance Disclosure Regulation (SFDR)</u>
  - Regulation (EU) 2019/2088 definitions:
  - *Sustainability Risk*: an environmental, social or **governance event or condition** that, if it occurs, could cause a negative material impact on the value of the investment
  - *Sustainable Investment*: provides that the investee companies follow **good governance practices (**in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance) and the precautionary principle of 'do no significant harm' is ensured, so that neither the environmental nor the social objective is significantly harmed

Subgroup 2: Governance
- Incorporated in other legislative texts

- <u>Benchmark Regulation</u>

Benchmarks should not significantly harm other environmental, social and **governance** (ESG) objectives

- <u>IORP Directive</u>

Under Directive (EU) 2016/2341 investment decisions and risk assessments by IORPs are to take into account environmental, social and **governance risks**

Subgroup 2: Governance
- Incorporated in other legislative texts and initiatives

➢ Non-financial reporting Directive (NFRD)

Under Directive 2014/95/EU, large companies have to publish reports on the policies they implement in relation to

- environmental protection (governance is also part of TCFD recommendations)
- social responsibility and treatment of employees
- respect for human rights
- anti-corruption and bribery
- diversity on company boards (in terms of age, gender, educational and professional background)

Will be revised in 2021!

Subgroup 2: Governance
- Ways to incorporate in the EU Taxonomy?

- Integrate governance objectives into an overall green/social taxonomy?
  -> "do no significant harm" criterion?
  -> are there areas where a company can make a substantial contribution?

- Use governance objectives as input to our mandate to "advise the European Commission on the functioning of Article 18" (minimum safeguards)?
  -> Governance (OECD Guidelines for MNEs etc.) could serve as minimum standards (safeguards)

Subgroup 2: Governance
- 2021 processes we need more clarity on for next steps

- ✓ **Renewed Sustainable Finance Strategy** might aim at embedding a culture of sustainable corporate governance in the private sector

- ✓ **Revision of NFRD** and potential creation of **Non-Financial Reporting Standards** by EFRAG – report in Feb 2021

- ✓ **Sustainable Corporate Governance Initiative** – consultation closed 8 Feb 2021

Pillar 3 – Promote Adequate Living Conditions - Reason why

- **In addition to respecting all human rights, some businesses can promote** the right to an adequate standard of living including through related goods and services
- **The right to an adequate standard of living is fundamental human right.** It is part of the Universal Declaration of Human Rights that was accepted by the General Assembly of the UN on Dec 10, 1948 (article 25)
- **Everyone has the right to a standard of living** adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services
- **Social cohesion that is key for society stability and economic growth** implies also measures of distributive justice for disadvantaged and vulnerable groups
- **The principle of availability, accessibility, acceptability and quality is key** to the development of criteria for a substantial contribution in this cluster

Pillar 3 - Promote Adequate Living Conditions - Potential objectives

Fulfilment of Basic Human Needs

Availability, Accessibility, Acceptability Quality (AAAQ)

AAAQ Water and Food	**AAAQ Healthcare**	**AAAQ Housing**	**AAAQ Education**

Creation of decent employment	**Essential Economic Infrastructure**	**Peaceful and inclusive societies**

Pillar 3 – The Concept of Availability, Accessibility, Acceptability and Quality (AAAQ)

AAAQ Framework

Availability
Functioning facilities in sufficient quantities

Accessibility
Non-discrimination
Physically accessible
Economically accessible
Information accessibility

Acceptability
Culturally acceptable
Sensitivity to marginalized groups

Quality
Safe and scientifically approved

Social Taxonomy and the SDGs

A social taxonomy makes it possible to identify investments in these activities as sustainable

Questions and Answers

THE SOCIAL TAXONOMY – STATE OF THE ART

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Social Taxonomy – gender examples

Respect for Human Rights

- Managing Impact
- Impact on Workers
  - Equal pay
- Impact on Consumers
  - Non-discrimination
- Impact on Communities

Governance

- Good Corporate Governance
  - Women on boards
- Anti-Corruption
- Transparent and Non-Aggressive Tax Planning

Promote Adequate Living Conditions for all

- Fulfilment of basic human needs
- Access to essential economic services/ infrastructure
- Creation of decent employment
- Peaceful and inclusive societies
  - Building and managing a Womens´ refuge

Some examples of gender diversity inclusion in different objectives

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