EU Taxonomy & Platform

- Social Taxonomy Outreach
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
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.

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Activities not included are not necessary harmful activities.
6 environmental interlinked objectives

### CLIMATE CHANGE
- Mitigation
- Adaptation

### 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 in the draft Delegated Act (Dec 2020)*

*Technical Screening Criteria under development*
Defining an environmentally sustainable activity

- Science-based
- Easy to use

Minimum Safeguards = UN Guiding Principles and OECD Guidelines
How does the Platform relate to the Taxonomy?

**Platform**
- Provides recommendations on setting criteria as part of the EU Taxonomy
- Advises on revision of the Taxonomy Regulation under the Commission action

**Taxonomy**
- 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
Advise on technical screening criteria

Subgroup 2
Advise on Regulation review

Subgroup 3
Advise on extension of Taxonomy to significantly harmful and low impact activities

Subgroup 4
Advise on extension of Taxonomy to social objectives & functioning of Art. 18

Subgroup 5
Advise on data availability & usability of criteria

Subgroup 6
Monitoring capital flows to sustainable investments
Next steps

April 2021
- Adoption of 1st DA on climate objectives (Commission)
- Outreach underway (P & C)

May 2021
- Report on criteria for environmental objectives 3 – 6 (P)

31 Dec 2021
- Adoption of 2nd DA on remaining four objectives (C)
- Report on review of the Regulation (P)

July 2022
- Report on the application of the Regulation (P)

Q1 2021
- Report on social taxonomy with consultation in Q3 and final report at the end of Q3
- Report on harmful and low impact taxonomy (P)

Q2 2021
- Adoption of DA on Art. 8 TR (C)

Q4 2021
- Report on the application of the Regulation (P)

Sep 2022
- Report on updating criteria for all six environmental objectives (P)

31 Dec 2021
- Report on minimum safeguards (P)
Part 2

THE SOCIAL TAXONOMY – STATE OF THE ART
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)
## Perceived gaps in environmental Taxonomy

<table>
<thead>
<tr>
<th>OBJECTIVES IN GREEN TAXONOMY</th>
<th>EXAMPLES OF WHAT IS MISSING</th>
</tr>
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<tbody>
<tr>
<td>Climate Change Mitigation</td>
<td>Human Rights</td>
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<tr>
<td>Climate Change Adaptation</td>
<td>Governance</td>
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<tr>
<td>Transition to a circular economy</td>
<td>Access to healthcare</td>
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<tr>
<td>Pollution prevention and control</td>
<td>Decent Employment</td>
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<tr>
<td>Sustainable use and protection of water and marine resources</td>
<td>Equality</td>
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<tr>
<td>Protection and restoration of biodiversity &amp; ecosystems</td>
<td>Non-discrimination</td>
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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

- Respect for Human Rights
  - Companies

How Business is Done

- Governance
  - Companies

What Kind of Business

- Promote Adequate Living Conditions for all
  - Sectors/Activities
Social Taxonomy: different basis

Green Taxonomy based on Science

Social: based on international norms, principles and goals

Not available for Social
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 Principles 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)
<table>
<thead>
<tr>
<th>Respecting human rights including labour rights</th>
<th>Potential objectives</th>
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</thead>
<tbody>
<tr>
<td><strong>Managing impacts</strong></td>
<td><strong>Impact on Workers</strong></td>
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<td>Policy commitment</td>
<td>Social dialogue</td>
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<td>Due diligence (including value chain / business relationship aspects)</td>
<td>Equalities and non-discrimination</td>
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<td>Stakeholder engagement</td>
<td>Decent employment and living wage</td>
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<td>Access to remedy / grievance mechanisms</td>
<td>Health and safety</td>
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<td><strong>Dimensions of potential objectives (aspects for substantial contribution/ do no significant harm)</strong></td>
<td>Skills and lifelong learning</td>
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<td>Social protections (e.g. pensions and childcare)</td>
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<td>Livelihoods</td>
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<td>Indigenous Peoples</td>
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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

- Sustainable Finance Disclosure Regulation (SFDR)
  - 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

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

- **IORP Directive**  
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)

**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

#### AAAQ Framework

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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
Social Taxonomy – gender examples

**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

- Non-discrimination
- Equal pay
- Women on boards

Some examples of gender diversity inclusion in different objectives

Building and managing a Women’s refuge